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)

Consolidated Financial Statements

For the year ended 31 December 2010

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

	Note	2010 $m	2009 $m
Trading fees and trading tariff	5	**2,843**	2,586
Stock Exchange listing fees	6	**945**	728
Clearing and settlement fees		**1,569**	1,425
Depository, custody and nominee services fees		**612**	563
Market data fees		**670**	695
Other revenue	7	**455**	417
REVENUE		**7,094**	6,414
Losses on disposal of financial assets measured at amortised cost		**(4)**	-
Other investment income		**480**	624
Interest rebates to Participants		**(4)**	(3)
Net investment income	8	**472**	621
	4	**7,566**	7,035
OPERATING EXPENSES			
Staff costs and related expenses	9	**892**	794
Information technology and computer maintenance expenses	10	**265**	246
Premises expenses		**210**	219
Product marketing and promotion expenses		**15**	13
Legal and professional fees		**16**	13
Depreciation		**107**	101
Other operating expenses	11	**107**	107
	4	**1,612**	1,493
PROFIT BEFORE TAXATION	4/12	**5,954**	5,542
TAXATION	15(a)	**(917)**	(838)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	37	**5,037**	4,704
DIVIDENDS	16	**4,520**	4,226
Earnings per share			
Basic	17(a)	**$4.68**	$4.38
Diluted	17(b)	**$4.67**	$4.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

	2010 **$m**	2009 $m
Profit attributable to shareholders	**5,037**	4,704
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value up to maturity	**-**	(113)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	-	(3)
Deferred tax on available-for-sale financial assets	**-**	19
Other comprehensive income attributable to shareholders, net of tax	**-**	(97)
Total comprehensive income attributable to shareholders	**5,037**	4,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2010			As restated At 31 Dec 2009			As restated At 1 Jan 2009		
		Current	**Non-current**	**Total**	Current	Non-current	Total	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
ASSETS										
Cash and cash equivalents	18	**19,361**	**-**	**19,361**	14,738	-	14,738	27,784	-	27,784
Financial assets at fair value through profit or loss		**-**	**-**	**-**	-	-	-	3,020	-	3,020
Financial assets measured at fair value through profit or loss	19	**9,949**	**1,241**	**11,190**	12,466	1,559	14,025	-	-	-
Available-for-sale financial assets		**-**	**-**	**-**	-	-	-	19,394	-	19,394
Financial assets at amortised cost		**-**	**-**	**-**	-	-	-	3,664	47	3,711
Financial assets measured at amortised cost	20(a)	**7,021**	**783**	**7,804**	4,157	768	4,925	-	-	-
Accounts receivable, prepayments and deposits	21	**9,203**	**3**	**9,206**	11,334	3	11,337	8,535	3	8,538
Fixed assets	22(a)	**-**	**295**	**295**	-	303	303	-	370	370
Lease premium for land	23	**-**	**25**	**25**	-	-	-	-	-	-
Deferred tax assets	30(e)	**-**	**3**	**3**	-	4	4	-	5	5
Total assets		**45,534**	**2,350**	**47,884**	42,695	2,637	45,332	62,397	425	62,822
LIABILITIES AND EQUITY										
Liabilities										
Margin deposits from Clearing Participants on derivatives contracts	24	**22,702**	**-**	**22,702**	20,243	-	20,243	41,840	-	41,840
Cash collateral from HKSCC Clearing Participants	25	**3,594**	**-**	**3,594**	3,432	-	3,432	3,600	-	3,600
Accounts payable, accruals and other liabilities	26	**9,946**	**-**	**9,946**	11,827	-	11,827	8,894	-	8,894
Deferred revenue		**473**	**-**	**473**	424	-	424	393	-	393
Taxation payable		**320**	**-**	**320**	261	-	261	141	-	141
Other financial liabilities	27	**58**	**-**	**58**	42	-	42	118	-	118
Participants' contributions to Clearing House Funds	28	**2,039**	**-**	**2,039**	723	276	999	198	252	450
Provisions	29(a)	**28**	**29**	**57**	33	26	59	36	25	61
Deferred tax liabilities	30(e)	**-**	**18**	**18**	-	18	18	-	31	31
Total liabilities		**39,160**	**47**	**39,207**	36,985	320	37,305	55,220	308	55,528
Equity										
Share capital	32			**1,078**			1,076			1,075
Share premium	32			**416**			376			347
Shares held for Share Award Scheme	32			**(219)**			(52)			(65)
Employee share-based compensation reserve	33			**56**			43			47
Investment revaluation reserve	34			**-**			-			97
Designated reserves	28, 35			**580**			563			552
Retained earnings	37			**6,766**			6,021			5,241
Shareholders' funds				**8,677**			8,027			7,294
Total liabilities and equity				**47,884**			45,332			62,822
Net current assets				**6,374**			5,710			7,177
Total assets less current liabilities				**8,724**			8,347			7,602

Approved by the Board of Directors on 2 March 2011

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2010			As restated At 31 Dec 2009			As restated At 1 Jan 2009		
		Current	**Non-current**	**Total**	Current	Non-current	Total	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
ASSETS										
Cash and cash equivalents	18	**45**	**-**	**45**	27	-	27	32	-	32
Available-for-sale financial assets		**-**	**-**	**-**	-	-	-	8	-	8
Financial assets at amortised cost		**-**	**-**	**-**	-	-	-	142	1	143
Financial assets measured at amortised cost	20(b)	**84**	**15**	**99**	93	10	103	-	-	-
Accounts receivable, prepayments and deposits	21	**15**	**3**	**18**	15	3	18	17	3	20
Amounts due from subsidiaries	31(b)	**3,684**	**-**	**3,684**	2,798	-	2,798	1,839	-	1,839
Fixed assets	22(b)	**-**	**29**	**29**	-	28	28	-	23	23
Investments in subsidiaries	31(a)	**-**	**4,157**	**4,157**	-	4,157	4,157	-	4,157	4,157
Deferred tax assets	30(e)	**-**	**2**	**2**	-	4	4	-	4	4
Total assets		**3,828**	**4,206**	**8,034**	2,933	4,202	7,135	2,038	4,188	6,226
LIABILITIES AND EQUITY										
Liabilities										
Accounts payable, accruals and other liabilities	26	**201**	**-**	**201**	181	-	181	175	-	175
Amounts due to subsidiaries	31(b)	**2,030**	**-**	**2,030**	484	-	484	32	-	32
Taxation payable		**19**	**-**	**19**	18	-	18	24	-	24
Other financial liabilities	27	**11**	**-**	**11**	11	-	11	11	-	11
Provisions	29(b)	**28**	**1**	**29**	33	1	34	35	1	36
Total liabilities		**2,289**	**1**	**2,290**	727	1	728	277	1	278
Equity										
Share capital	32			**1,078**			1,076			1,075
Share premium	32			**416**			376			347
Shares held for Share Award Scheme	32			**(219)**			(52)			(65)
Employee share-based compensation reserve	33			**56**			43			47
Merger reserve	36			**2,997**			2,997			2,997
Retained earnings	37			**1,416**			1,967			1,547
Shareholders' funds				**5,744**			6,407			5,948
Total liabilities and equity				**8,034**			7,135			6,226
Net current assets				**1,539**			2,206			1,761
Total assets less current liabilities				**5,745**			6,408			5,949

Approved by the Board of Directors on 2 March 2011

Ronald Joseph ARCULLI
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

	Share capital, share premium and shares held for Share Award Scheme (note 32) $m	Employee share-based compensation reserve (note 33) $m	Other comprehensive income: Investment revaluation reserve (note 34) $m	Designated reserves (note 35) $m	Retained earnings (note 37) $m	Total equity $m
At 1 Jan 2009	1,357	47	97	552	5,241	7,294
Profit attributable to shareholders	-	-	-	-	4,704	4,704
Other comprehensive income attributable to shareholders	-	-	(97)	-	-	(97)
Total comprehensive income attributable to shareholders	-	-	(97)	-	4,704	4,607
2008 final dividend at $1.80 per share	-	-	-	-	(1,935)	(1,935)
2009 interim dividend at $1.84 per share	-	-	-	-	(1,978)	(1,978)
Unclaimed dividends forfeited	-	-	-	-	4	4
Shares issued under employee share option schemes	23	-	-	-	-	23
Shares purchased for Share Award Scheme	(9)	-	-	-	-	(9)
Vesting of shares of Share Award Scheme	22	(18)	-	-	(4)	-
Employee share-based compensation benefits	-	21	-	-	-	21
Transfer of reserves	7	(7)	-	11	(11)	-
At 31 Dec 2009	1,400	43	-	563	6,021	8,027
At 1 Jan 2010	**1,400**	**43**	**-**	**563**	**6,021**	**8,027**
Profit attributable to shareholders	**-**	**-**	**-**	**-**	**5,037**	**5,037**
Other comprehensive income attributable to shareholders	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income 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 dividends forfeited	**-**	**-**	**-**	**-**	**16**	**16**
Shares issued under employee share option schemes	**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**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2010** **$m**	As restated 2009 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	38	**4,986**	4,542
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(80)**	(48)
Net proceeds from sales of fixed assets		**1**	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		**(928)**	(237)
Payments for purchases of available-for-sale financial assets		**-**	(465)
Net proceeds from sales or maturity of available-for-sale financial assets		**-**	3,013
Payments for purchases of financial assets measured at amortised cost (excluding bank deposits)		**(387)**	(1,285)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding bank deposits)		**726**	-
Payments for purchases of financial assets measured at fair value through profit or loss		**(53)**	(1,752)
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		**575**	-
Interest received from available-for-sale financial assets		**-**	188
Interest received from financial assets measured at amortised cost (excluding bank deposits)		**25**	1
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss		**199**	80
Net cash inflow/(outflow) from investing activities		**52**	(504)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**34**	23
Purchases of shares for Share Award Scheme		**(188)**	(9)
Dividends paid		**(4,258)**	(3,889)
Net cash outflow from financing activities		**(4,412)**	(3,875)
Net increase in cash and cash equivalents		**626**	163
Cash and cash equivalents at 1 Jan, as previously reported		**4,751**	4,756
Effect of change in accounting policy of cash collateral		**(3,432)**	(3,600)
Cash and cash equivalents at 31 Dec	18	**1,945**	1,319
Analysis of cash and cash equivalents			
Cash at bank and in hand		**1,402**	617
Time deposits with original maturities within three months		**543**	702
Cash and cash equivalents at 31 Dec	18	**1,945**	1,319

NOTES TO THE CONSOLIDATED ACCOUNTS

(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 accounts were approved for issue by the Board of Directors (Board) on 2 March 2011.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated accounts 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 accounts 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 accounts are disclosed in note 3.

Early adoption of new / revised HKFRSs

In the fourth quarter of 2010, the Group early adopted all new/revised HKFRSs issued up to 31 December 2010 which were pertinent to its operations where early adoption is permitted. The applicable HKFRSs are set out below:

HKFRS 9: Financial Instruments (as amended in 2010)
Improvements to HKFRSs (2010)

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new / revised HKFRSs (continued)

HKFRS 9 (as amended in 2010) has been expanded to include the requirements with respect to derecognition of financial assets and financial liabilities (which have been taken from HKAS 39 without amendment) and classification and measurement of financial liabilities. The early adoption of the amended HKFRS 9 did not have any financial impact to the Group as the Group did not have any financial liabilities that were affected by the changes in classification and measurement requirements and there were no changes in the derecognition of financial assets and financial liabilities.

The Improvements to HKFRSs (2010) comprise a number of minor and non-urgent amendments to a range of HKFRSs. Of these, only the amendments to HKFRS 7: Financial Instruments: Disclosures are pertinent to the Group's operations.

HKFRS 7 is amended to clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The early adoption of the amendment did not have any financial impact to the Group as it only affects certain disclosure of financial instruments held by the Group. The amendments have been applied retrospectively.

Change in accounting policy for cash and cash equivalents of cash collateral

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 Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC). In prior years, cash collateral received from HKSCC Participants was included as part of the cash and cash equivalents of the Group for the purpose of the consolidated statement of cash flows. The comparative figures have been restated to conform with the revised presentation.

Change in accounting policy for HKEx Employees' Share Award Scheme

In prior years, contributions made to The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), a controlled special purpose entity, were carried as an asset and disclosed as Contributions to HKEx Employee Share Trust in HKEx's statement of financial position. During the year, the Group has reassessed the relationship between HKEx and the HKEx Employee Share Trust. As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administrating and holding HKEx shares for the Share Award Scheme (note 33(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. Accordingly, the Group considers that it is appropriate to include the assets and liabilities of HKEx Employee Share Trust in HKEx's statement of financial position from 2010 onwards, and to present as a deduction in equity the HKEx shares held by the Employee Share Trust as Shares held for Share Award Scheme. This change has been applied retrospectively and comparative figures have been restated to reflect such change.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Change in presentation of statements of financial position

In previous years, the Group and HKEx presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statements of financial position. From 2010 onwards, the Group and HKEx decided to present their assets and liabilities in order of liquidity in the statements of financial position as it provides information that better reflects the manner in which the assets and liabilities are managed in the business operations of the Group, particularly following the changes made on adopting HKFRS 9, and is thus more relevant.

The comparative figures have been restated to conform with the revised presentation. There is no financial impact to the Group and HKEx.

Change in units of presentation of accounts

In previous years, the consolidated accounts were presented in Hong Kong dollars (HKD), rounded to the nearest thousand. From 2010 onwards, the Group and HKEx decided to present the consolidated accounts in HKD, rounded to the nearest million, as it simplifies the accounts and provides a better view on material items.

Effects of HKFRSs issued after 31 December 2010 and up to the date of approval of the consolidated accounts

Subsequent to 31 December 2010 and up to the date of approval of these consolidated accounts, the HKICPA has issued certain revised HKFRSs but they are not applicable to the Group's operations.

(c) Consolidation

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

Subsidiaries and controlled special purpose entities 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 accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. The assets and liabilities of the controlled special purpose entity, 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. All material intra-group transactions 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) Revenue and other income recognition

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

2. Principal Accounting Policies (continued)

(d) Revenue and other income recognition (continued)

(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.

(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.

(e) 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 income statement as part of other income.

(f) 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.

(g) 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 HKEx shares (Awarded Shares) granted under the employees' share award scheme (Share Award Scheme), the estimated fair value of the options granted and the cost of Awarded Shares are recognised as employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the vesting periods (note 33(b)(i) and note 33(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)

(g) 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.

(h) 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.

(i) 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.

(j) 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

2. Principal Accounting Policies (continued)

(j) 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.

(k) 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 fixed assets during the construction period.

(l) 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.

(m) Margin Funds

Margin Funds are established by cash received or receivable from The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC) Clearing Participants for covering their open positions in derivatives contracts (note 24(a)).

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)

(n) Clearing House Funds

The Clearing House Funds are established under the Clearing House Rules (note 28(a)).

Clearing Participants' contributions to Clearing House Funds are treated as non-current liabilities in the consolidated statement of financial position with the exception of those amounts which are refundable to Participants within twelve months and are included as current liabilities. Non-cash collateral of the Clearing House Funds (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is not recognised on the consolidated statement of financial position.

(o) Derivative financial instruments

Derivatives, which may include forward foreign exchange contracts, 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.

(p) Financial assets

(i) Classification

<u>For financial assets held on or after 31 December 2009</u>

Following the adoption of HKFRS 9 on 31 December 2009, investments and other financial assets of the Group held on or after 31 December 2009 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.

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

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(i) Classification (continued)

For financial assets held on or after 31 December 2009 (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 are classified in their entirety as measured at fair value through profit or loss where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they 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.

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.

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Investments and other financial assets of the Group which were held on 1 January 2009 or derecognised prior to 31 December 2009 were classified under the following categories:

Financial assets at fair value through profit or loss

This category comprised financial assets held for trading and financial assets designated as fair value through profit or loss at inception if the designation related to financial instruments containing one or more embedded derivatives that significantly modified the cash flows arising from those financial instruments.

Securities or bank deposits with embedded derivatives whose economic characteristics and risks were not closely related to the host investments were designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprised financial assets which were non-derivatives and were designated as available-for-sale financial assets or not classified under other investment categories.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(i) Classification (continued)

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009 (continued)

Loans and receivables

Loans and receivables, which comprised bank deposits, trade and accounts receivable, deposits and other assets, were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and the Group had no intention of trading the loans or receivables.

Financial assets were classified as current assets unless the investments were expected to mature after twelve months at the end of the reporting period and, in which case, they were included in non-current assets. For equities or mutual funds, which had no maturity date, they were included in current assets as they were 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 and financial assets 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 not carried at fair value through profit or loss 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 and disposal, interest income and dividend income

For financial assets held on or after 31 December 2009

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. Upon disposal, the differences between the net sale proceeds and the carrying values are included in profit or loss.
- 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 is disclosed separately as dividend income.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

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

For financial assets held on or after 31 December 2009 (continued)

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. Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in profit or loss.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Financial assets at fair value through profit or loss

- Same as financial assets measured at fair value through profit or loss held on or after 31 December 2009.

Available-for-sale financial assets

- Available-for-sale financial assets were investments carried at fair value. Gains and losses (including transaction costs on acquisition) arising from changes in fair value were recognised in other comprehensive income and transferred to investment revaluation reserve. When an asset was sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments recognised in other comprehensive income and retained in the investment revaluation reserve were reclassified from investment revaluation reserve to profit or loss as a reclassification adjustment.
- Interest income was recognised in profit or loss using the effective interest method and disclosed as interest income.

Loans and receivables

- Same as financial assets measured at amortised cost held on or after 31 December 2009.

(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.

2. Principal Accounting Policies (continued)

(p) Financial assets (continued)

(vi) Impairment

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.

<u>For financial assets held on or after 31 December 2009</u>

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

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)

(p) Financial assets (continued)

(vi) Impairment (continued)

For financial assets held on or after 31 December 2009 (continued)

Financial assets measured at amortised cost (continued)

As soon as a receivable becomes impaired, the Group may continue to allow the debtor or obligor concerned to participate in its markets but no further accounts receivable is recognised on 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.

For financial assets held on 1 January 2009 or financial assets derecognised prior to 31 December 2009

Available-for-sale financial assets

If there was objective evidence that an impairment loss on available-for-sale financial assets had been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss) was reclassified from investment revaluation reserve to profit or loss.

Loans and receivables

- Same as financial assets measured at amortised cost held on or after 31 December 2009.

(q) 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 amount determined in accordance with HKAS 37 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.

2. Principal Accounting Policies (continued)

(r) 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.

(s) 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 accounts. 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 with the exception of deferred tax related to transactions recognised in other comprehensive income (such as fair value re-measurement of available-for-sale financial assets).

(t) 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.

(u) 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.

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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2. Principal Accounting Policies (continued)

(v) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts 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.

(w) 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 Clearing Participants of HKSCC.

(x) Shares held for Share Award Scheme

Where the HKEx Employee Share Trust purchases HKEx shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares recognised are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for shares purchased with contributions paid to the HKEx Employee Share Trust, and decrease in retained earnings for shares purchased through reinvesting dividends received on the vested Awarded Shares.

(y) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-makers (note 4). Information relating to segment assets and liabilities are not disclosed as such information is not regularly reported to the chief operating decision-makers.

(z) Dividends

Dividends disclosed in note 16 to the consolidated accounts 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 Group's accounts 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 accounts 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. Significant 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 2010, the Group had tax losses carried forward amounting to $318 million (31 December 2009: $315 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 $52 million (2009: $52 million).

(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 2010, the debt instruments that were measured at amortised cost held by the Group amounted to $950 million (31 December 2009: $1,296 million). If one percent of the amount of such debt instruments was impaired, the Group's profit would decrease by $10 million (2009: $13 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 2010, 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, Level 1 defined in HKFRS 7) amounted to $10,797 million (31 December 2009: $13,752 million). If the fair value of such financial assets decreased by one percent, the Group's profit would decrease by $108 million (2009: $138 million).

4. Operating Segments

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

The Group has four reportable segments 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, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 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.

The **Market Data** (formerly Information Services) 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:

4. Operating Segments (continued)

	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**

	2009				
	Cash Market $m	Derivatives Market $m	Clearing Business $m	Market Data $m	Group $m
Income from external customers	2,905	704	2,110	695	6,414
Net investment income	129	339	152	1	621
	3,034	1,043	2,262	696	7,035
Operating expenses					
Direct costs	602	157	322	50	1,131
Indirect costs	175	51	111	25	362
	777	208	433	75	1,493
Reportable segment profit before taxation	2,257	835	1,829	621	5,542
Interest income	23	239	29	-	291
Interest rebates to Participants	-	(3)	-	-	(3)
Depreciation	(48)	(10)	(40)	(3)	(101)
Other material non-cash items:					
Employee share-based compensation expenses	(12)	(2)	(5)	(2)	(21)
Reversal of provision for impairment losses	1	-	-	-	1
Additions to non-current assets other than financial assets and deferred tax assets	7	23	4	1	35

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 2010 $m	At 31 Dec 2009 $m
Hong Kong	**322**	305
China	**1**	1
	323	306

(c) Information about major customers

In 2010 and 2009, 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

	2010 $m	2009 $m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**2,030**	1,834
Derivatives contracts traded on the Derivatives Market	**813**	752
	2,843	2,586

6. Stock Exchange Listing Fees

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

	2010				2009			
	Equity				Equity			
	Main Board	GEM	CBBCs, DWs & others	Total	Main Board	GEM	CBBCs, DWs & others	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Stock Exchange Listing Fees								
Annual listing fees	**374**	**24**	**2**	**400**	336	24	2	362
Initial and subsequent issue listing fees	**96**	**7**	**436**	**539**	68	3	290	361
Other listing fees	**5**	**1**	**-**	**6**	5	-	-	5
Total	**475**	**32**	**438**	**945**	409	27	292	728
Costs of Listing Function								
Direct costs	**236**	**51**	**18**	**305**	229	49	16	294
Indirect costs	**44**	**8**	**13**	**65**	37	6	10	53
Total costs	**280**	**59**	**31**	**370**	266	55	26	347
Contribution to Cash Market Segment Profit before Taxation	**195**	**(27)**	**407**	**575**	143	(28)	266	381

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 and 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

	2010 $m	2009 $m
Network, terminal user, dataline and software sub-license fees	**345**	321
Participants' subscription and application fees	**34**	35
Brokerage on direct IPO allotments	**27**	16
Trading booth user fees	**15**	15
Sales of Trading Rights	**11**	10
Miscellaneous revenue	**23**	20
	455	417

8. Net Investment Income

	2010 $m	2009 $m
Interest income		
Available-for-sale financial assets		
- listed securities	-	7
- unlisted securities	-	162
	-	169
Loans and receivables		
- bank deposits	-	81
Financial assets measured at amortised cost		
- bank deposits	**115**	30
- listed securities	**4**	-
- unlisted securities	**18**	11
	137	41
Gross interest income	**137**	291
Interest rebates to Participants	**(4)**	(3)
Net interest income	**133**	288
Net fair value gains and interest income on financial assets at fair value through profit or loss		
On designation		
- exchange differences	-	2
Held for trading		
- listed securities	-	61
- unlisted securities	-	10
- exchange differences	-	90
	-	161
	-	163
Net fair value gains and interest income on financial assets mandatorily measured at fair value through profit or loss		
- listed securities	**90**	128
- unlisted securities	**223**	130
- bank deposits with embedded derivatives	**15**	1
- exchange differences	**123**	48
	451	307
Net fair value losses on financial liabilities mandatorily measured at fair value through profit or loss		
- listed securities	**(6)**	(3)
- exchange differences	**(108)**	(137)
	(114)	(140)
Losses on disposal of unlisted financial assets measured at amortised cost	**(4)**	-
Others	**6**	3
Net investment income	**472**	621

9. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2010 $m	2009 $m
Salaries and other short-term employee benefits	**793**	711
Employee share-based compensation benefits (note 33)	**36**	21
Termination benefits	**-**	1
Retirement benefit costs (note (a)):		
- ORSO Plan	**62**	61
- MPF Scheme	**1**	-
	892	794

(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).

10. Information Technology and Computer Maintenance Expenses

	2010 $m	2009 $m
Costs of services and goods:		
- consumed by the Group	**143**	141
- directly consumed by Participants	**122**	105
	265	246

11. Other Operating Expenses

	2010 **$m**	2009 $m
Insurance	**4**	4
Financial data subscription fees	**6**	5
Custodian and fund management fees	**11**	11
Bank charges	**15**	13
Repair and maintenance expenses	**11**	10
License fees	**16**	15
Communication expenses	**6**	5
Overseas travel expenses	**7**	4
Contribution to Financial Reporting Council	**4**	3
Other miscellaneous expenses	**27**	37
	107	107

12. Profit before Taxation

	2010 **$m**	2009 $m
Profit before taxation is stated after (charging)/crediting:		
Auditor's remuneration		
- audit fees	**(3)**	(3)
Operating lease rentals		
- land and buildings	**(168)**	(174)
- computer systems and equipment	**(6)**	(6)
Exchange gains/(losses) on financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss and financial assets measured at fair value through profit or loss)	**1**	(1)

13. Directors' Emoluments

All Directors, including two Executive Directors, received emoluments during the years ended 31 December 2010 and 31 December 2009. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2010 **$'000**	2009 $'000
Executive Directors:		
Salaries and other short-term employee benefits	**11,877**	7,859
Performance bonus	**8,054**	7,800
Retirement benefit costs	**903**	975
	20,834	16,634
Employee share-based compensation benefits (note (a))	**2,754**	461
	23,588	17,095
Non-executive Directors:		
Fees	**5,318**	4,650
	28,906	21,745

(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:

	2010 **Number of Directors**	2009 Number of Directors
$1 – $500,000	**9**	14
$500,001 – $1,000,000	**3**	1
$5,000,001 – $5,500,000	**1**	-
$17,000,001 – $17,500,000	**-**	1
$18,000,001 – $18,500,000	**1**	-
	14	16

13. 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 2010 and 2009 are set out below:

	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 (iv))	**-**	**314**	**4,537**	**-**	**39**	**4,890**	**208**	**5,098**
Laura M Cha	**393**	**-**	**-**	**-**	**-**	**393**	**-**	**393**
Ignatius T C Chan (note (v))	**397**	**-**	**-**	**-**	**-**	**397**	**-**	**397**
Moses M C Cheng	**405**	**-**	**-**	**-**	**-**	**405**	**-**	**405**
Marvin K T Cheung	**397**	**-**	**-**	**-**	**-**	**397**	**-**	**397**
Stephen C C Hui (note (v))	**400**	**-**	**-**	**-**	**-**	**400**	**-**	**400**
Bill C P Kwok	**460**	**-**	**-**	**-**	**-**	**460**	**-**	**460**
Vincent K H Lee	**528**	**-**	**-**	**-**	**-**	**528**	**-**	**528**
Michael T H Lee (note (v))	**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**

	2009							
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	550	-	-	-	-	550	-	550
Paul M Y Chow (note (iv))	-	7,800	59	7,800	975	16,634	461	17,095
Laura M Cha	363	-	-	-	-	363	-	363
Ignatius T C Chan (note (v))	262	-	-	-	-	262	-	262
Moses M C Cheng	400	-	-	-	-	400	-	400
Marvin K T Cheung	350	-	-	-	-	350	-	350
Henry H L Fan (note (vi))	75	-	-	-	-	75	-	75
Fong Hup (note (vi))	100	-	-	-	-	100	-	100
Stephen C C Hui (note (v))	262	-	-	-	-	262	-	262
Bill C P Kwok	350	-	-	-	-	350	-	350
Vincent K H Lee	450	-	-	-	-	450	-	450
Michael T H Lee (note (v))	262	-	-	-	-	262	-	262
Christine K W Loh (note (vi))	88	-	-	-	-	88	-	88
John E Strickland	350	-	-	-	-	350	-	350
John M M Williamson	438	-	-	-	-	438	-	438
Oscar S H Wong	350	-	-	-	-	350	-	350
Total	4,650	7,800	59	7,800	975	21,284	461	21,745

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 16 January 2010. The emoluments for 2010 included accumulated annual leave entitlement paid in January 2010.

(v) Appointment effective 23 April 2009

(vi) Retired on 23 April 2009

14. Five Top-paid Employees

One (2009: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 13. Details of the emoluments of the other four (2009: four) top-paid employees were as follows:

	2010 $'000	2009 $'000
Salaries and other short-term employee benefits	**17,620**	17,216
Performance bonus	**12,462**	7,827
Retirement benefit costs	**2,165**	2,122
	32,247	27,165
Employee share-based compensation benefits (note (a))	**5,099**	3,445
	37,346	30,610

(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 (2009: four) employees, including share-based compensation benefits, were within the following bands:

	2010 Number of employees	2009 Number of employees
$6,000,001 – $6,500,000	**1**	2
$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**	-
	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.

15. Taxation

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

	2010 **$m**	2009 $m
Provision for Hong Kong Profits Tax at 16.5 per cent (2009: 16.5 per cent)	**918**	837
Overprovision in respect of prior years	**(2)**	(6)
	916	831
Deferred taxation (note 30(a))	**1**	7
	917	838

(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 (2009: 16.5 per cent) as follows:

	2010 **$m**	2009 $m
Profit before taxation	**5,954**	5,542
Calculated at a taxation rate of 16.5 per cent (2009: 16.5 per cent)	**982**	914
Income not subject to taxation	**(72)**	(88)
Expenses not deductible for taxation purposes	**4**	3
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**5**	15
Overprovision of Hong Kong Profits Tax in respect of prior years	**(2)**	(6)
Taxation charge	**917**	838

16. Dividends

	2010 $m	2009 $m
Interim dividend paid:		
$1.89 (2009: $1.84) per share	**2,037**	1,980
Less: Dividend for shares held by Share Award Scheme	**(3)**	(2)
	2,034	1,978
Final dividend proposed (notes (a) and (b)):		
$2.31 (2009: $2.09) per share based on issued share capital at 31 Dec	**2,490**	2,249
Less: Dividend for shares held by Share Award Scheme at 31 Dec	**(4)**	(1)
	2,486	2,248
	4,520	4,226

(a) Actual 2009 final dividend paid was $2,251 million (after eliminating $1 million paid for shares held by the Share Award Scheme), of which $3 million was paid for shares issued for employee share options exercised after 31 December 2009.

(b) The final dividend proposed after 31 December has not been recognised as a liability at 31 December.

(c) The 2010 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.

17. Earnings Per Share

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

(a) Basic earnings per share

	2010	2009
Profit attributable to shareholders ($m)	**5,037**	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in ’000)	**1,076,404**	1,074,704
Basic earnings per share ($)	**4.68**	4.38

(b) Diluted earnings per share

	2010	2009
Profit attributable to shareholders ($m)	**5,037**	4,704
Weighted average number of shares in issue less shares held for Share Award Scheme (in ’000)	**1,076,404**	1,074,704
Effect of employee share options (in ’000)	**1,743**	3,246
Effect of Awarded Shares (in ’000)	**916**	903
Weighted average number of shares for the purpose of calculating diluted earnings per share (in ’000)	**1,079,063**	1,078,853
Diluted earnings per share ($)	**4.67**	4.36

18. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Cash and cash equivalents:				
- Clearing House Funds (note 28)	**2,155**	1,280	**-**	-
- Margin Funds (note 24)	**12,418**	8,707	**-**	-
- Cash collateral (note 25)	**2,843**	3,432	**-**	-
(note a)	**17,416**	13,419	**-**	-
- Corporate Funds	**1,945**	1,319	**45**	27
	19,361	14,738	**45**	27

(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.

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

	Group			
	At 31 Dec 2010			
	Clearing House Funds (note 28) $m	**Margin Funds (note 24) $m**	**Corporate Funds $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 45(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**

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

	Group			
	At 31 Dec 2009			
	Clearing House Funds (note 28) $m	Margin Funds (note 24) $m	Corporate Funds $m	Total $m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
- listed in Hong Kong	-	-	23	23
- listed outside Hong Kong	-	-	157	157
	-	-	180	180
Debt securities:				
- listed in Hong Kong	-	-	68	68
- listed outside Hong Kong	130	290	1,866	2,286
- unlisted	280	6,557	2,455	9,292
	410	6,847	4,389	11,646
Mutual funds:				
- listed outside Hong Kong	-	-	75	75
Derivative financial instruments:				
- equity index futures contracts, listed outside Hong Kong (note (b))	-	-	1	1
- forward foreign exchange contracts (note 45(b))	-	-	17	17
	-	-	18	18
Bank deposits with embedded derivatives	-	1,826	280	2,106
	410	8,673	4,942	14,025
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	410	8,673	3,383	12,466
More than twelve months	-	-	1,559	1,559
	410	8,673	4,942	14,025

(a) Included financial assets maturing after twelve months of $359 million (31 December 2009: $410 million) and $5,137 million (31 December 2009: $5,975 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 45(b)).

(b) The total notional value of the equity index futures contracts outstanding at 31 December 2009 was $35 million.

20. Financial Assets Measured at Amortised Cost

(a) Group

	At 31 Dec 2010				
	Clearing House Funds (note 28) $m	**Margin Funds (note 24) $m**	**Cash collateral (note 25) $m**	**Corporate Funds $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**

	At 31 Dec 2009			
	Clearing House Funds (note 28) $m	Margin Funds (note 24) $m	Corporate Funds $m	Total $m
Debt securities:				
- listed outside Hong Kong (note (i))	-	-	200	200
- unlisted	-	-	1,096	1,096
	-	-	1,296	1,296
Time deposits with original maturities over three months	51	2,854	674	3,579
Other financial assets	-	-	50	50
	51	2,854	2,020	4,925
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (ii))	51	2,854	1,252	4,157
More than twelve months	-	-	768	768
	51	2,854	2,020	4,925

(i) The total market value of the listed debt securities at 31 December 2010 was $203 million (31 December 2009: $198 million).

(ii) Included time deposits maturing after twelve months of $2 million (31 December 2009: $2 million) and $Nil (31 December 2009: $954 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 45(b)).

20. Financial Assets Measured at Amortised Cost (continued)

(b) HKEx

	Corporate Funds	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Unlisted debt securities	**91**	72
Time deposits with original maturities over three months	**7**	29
Other financial assets	**1**	2
	99	103

21. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Receivable from Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**8,283**	10,476	**-**	-
- transaction levy, stamp duty and fees receivable	**514**	517	**-**	-
- others	**194**	188	**-**	-
Other receivables, prepayments and deposits	**373**	320	**18**	18
Less : Provision for impairment losses of receivables (note (b))	**(158)**	(164)	**-**	-
	9,206	11,337	**18**	18

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

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

	Group	
	2010 $m	2009 $m
At 1 Jan	**164**	168
Reversal of provision for impairment losses of receivables under other operating expenses	**(4)**	(2)
Receivables written off during the year as uncollectible	**(2)**	(2)
At 31 Dec	**158**	164

(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.

22. 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	Leasehold improvements, furniture, equipment and motor vehicles $m	Total $m
Cost:						
At 1 Jan 2009	70	16	1,388	364	310	2,148
Additions	-	-	6	10	19	35
Disposals	-	-	(133)	(155)	(44)	(332)
At 31 Dec 2009	70	16	1,261	219	285	1,851
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**
Accumulated depreciation and impairment:						
At 1 Jan 2009	9	10	1,177	339	243	1,778
Depreciation	-	1	60	14	26	101
Impairment loss under other operating expenses	-	-	-	-	1	1
Disposals	-	-	(133)	(155)	(44)	(332)
At 31 Dec 2009	9	11	1,104	198	226	1,548
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**
Net book value:						
At 31 Dec 2010	**60**	**25**	**148**	**25**	**37**	**295**
At 31 Dec 2009	61	5	157	21	59	303
At 1 Jan 2009	61	6	211	25	67	370

(i) The amount of expenditures recognised as fixed assets in the course of its construction was $24 million at 31 December 2010 (31 December 2009: $Nil), of which $21 million (31 December 2009: $Nil) was included under "leasehold buildings" and $3 million (31 December 2009: $Nil) was included under "leasehold improvements" respectively.

22. 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 2009	66	35	101
Additions	8	8	16
Disposals	(14)	(2)	(16)
At 31 Dec 2009	60	41	101
At 1 Jan 2010	**60**	**41**	**101**
Additions	**8**	**7**	**15**
Disposals	**(3)**	**(2)**	**(5)**
At 31 Dec 2010	**65**	**46**	**111**
Accumulated depreciation:			
At 1 Jan 2009	59	19	78
Depreciation	4	7	11
Disposals	(14)	(2)	(16)
At 31 Dec 2009	49	24	73
At 1 Jan 2010	**49**	**24**	**73**
Depreciation	**5**	**9**	**14**
Disposals	**(3)**	**(2)**	**(5)**
At 31 Dec 2010	**51**	**31**	**82**
Net book value:			
At 31 Dec 2010	**14**	**15**	**29**
At 31 Dec 2009	11	17	28
At 1 Jan 2009	7	16	23

23. Lease Premium for Land

	Group 2010 $m	Group 2009 $m
Net book value at 1 Jan	**-**	-
Additions	**26**	-
Amortisation capitalised	**(1)**	-
Net book value at 31 Dec	**25**	-

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

24. Margin Deposits from Clearing Participants on Derivatives Contracts

	Group At 31 Dec 2010 $m	Group At 31 Dec 2009 $m
Margin deposits from Clearing Participants comprised (note (b)):		
SEOCH Clearing Participants' margin deposits	**3,528**	2,567
HKCC Clearing Participants' margin deposits	**19,174**	17,676
	22,702	20,243
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 18)	**12,418**	8,707
Financial assets measured at fair value through profit or loss (note 19)	**5,954**	8,673
Financial assets measured at amortised cost (note 20(a))	**4,323**	2,854
Margin receivable from Clearing Participants	**7**	9
	22,702	20,243

(a) Margin Funds are established by cash received or receivable from SEOCH and HKCC Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants when they close out their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses for this specific purpose and cannot be used by the Group to finance any other activities. The funds are invested in financial assets to manage the liquidity requirements of the Margin Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required and are therefore classified as current assets.

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

25. Cash Collateral from HKSCC Clearing Participants

	Group	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Cash collateral from HKSCC Clearing Participants (note (b))	**3,594**	3,432
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 18)	**2,843**	3,432
Financial assets measured at amortised cost (note 20(a))	**751**	-
	3,594	3,432

(a) Cash collateral was received from HKSCC Clearing Participants to cover 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.

Cash collateral is invested in bank deposits to earn investment income. They will be liquidated whenever liquid funds are required and are therefore classified as current assets.

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

26. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Payable to Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**8,283**	10,477	**-**	-
- others	**808**	519	**-**	-
Transaction levy payable to the SFC	**95**	125	**-**	-
Unclaimed dividends (note (b))	**313**	307	**124**	113
Stamp duty payable to the Collector of Stamp Revenue	**214**	205	**-**	-
Other payables, accruals and deposits received	**233**	194	**77**	68
	9,946	11,827	**201**	181

(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 HKSCC Nominees Limited 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, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $16 million (2009: $4 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 37).

(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.

27. Other Financial Liabilities

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Financial liabilities of Clearing House Funds (note 28)	**25**	20	**-**	-
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	**13**	2	**-**	-
Financial guarantee contracts (note (b))	**20**	20	**11**	11
	33	22	**11**	11
	58	42	**11**	11

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

	Group	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Held for trading		
Derivative financial instruments:		
- forward foreign exchange contracts (note 45(b))	**13**	2

(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 40(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 40(b)(i)). The amount was eliminated on consolidation.

28. Clearing House Funds

	Group	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
The Clearing House Funds were attributable to:		
Clearing Participants' contributions (note (b)) :		
Due within twelve months	**2,039**	723
Due after twelve months (note (c))	**-**	276
	2,039	999
Designated reserves (note (d) and note 35)	**580**	563
	2,619	1,562
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 18)	**2,155**	1,280
Financial assets measured at fair value through profit or loss (note 19)	**359**	410
Financial assets measured at amortised cost (note 20(a))	**130**	51
	2,644	1,741
Less: Other financial liabilities of Clearing House Funds (note 27)	**(25)**	(20)
	2,619	1,721
Provision for loss arising from closing-out losses of defaulting Participants (note (e))	**-**	(159)
	2,619	1,562
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	**224**	219
SEOCH Reserve Fund	**967**	583
HKCC Reserve Fund	**1,428**	760
	2,619	1,562

(a) The Clearing House Funds are established under the Clearing House Rules. Assets contributed by Clearing Participants and the Group and 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 the CCASS. The funds are for the stated specific purposes only and cannot be used to finance any other activities of the Group. These funds are therefore held in segregated accounts of the respective clearing houses. The funds are invested in financial assets to manage the liquidity requirements of the Clearing House Funds and earn investment income. The financial assets will be liquidated whenever liquid funds are required and are therefore classified as current assets.

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

(c) Following a clearing house rule amendment in 2010, Participants' contributions to the HKCC Reserve Fund have been changed from non-current liabilities to current liabilities as the requirement for an HKCC Participant to give twelve months' prior written notice to terminate its participantship was removed in 2010.

28. Clearing House Funds (continued)

(d) 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.

(e) In December 2008, losses totalling $161 million were incurred by the clearing houses on the default of Clearing Participants. The HKEx Board resolved that the losses (less the contribution of the defaulting participants to the Clearing House Funds) would be borne wholly by the Group and no part of the loss was allocated to any other Clearing Participants. A provision for this loss was made in the accounts of HKSCC and HKCC at the time. During the year, funds were transferred from the Clearing House Funds to the clearing houses to settle the losses incurred by the clearing houses.

29. Provisions

(a) Group

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2010	**26**	**33**	**59**
Provision for the year	**3**	**42**	**45**
Amount used during the year	**-**	**(39)**	**(39)**
Amount paid during the year	**-**	**(8)**	**(8)**
At 31 Dec 2010	**29**	**28**	**57**

(b) HKEx

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2010	**1**	**33**	**34**
Provision for the year	**-**	**42**	**42**
Amount used during the year	**-**	**(39)**	**(39)**
Amount paid during the year	**-**	**(8)**	**(8)**
At 31 Dec 2010	**1**	**28**	**29**

(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 five 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.

30. 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 (2009: 16.5 per cent).

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

	Group		HKEx	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m
At 1 Jan	**14**	26	**(4)**	(4)
Charged to income statement (note 15(a))	**1**	7	**2**	-
Credited to other comprehensive income (note (b))	**-**	(19)	**-**	-
At 31 Dec (note (e))	**15**	14	**(2)**	(4)

(b) The deferred taxation relating to each component of other comprehensive income credited to other comprehensive income during the year was as follows:

	Group	
	2010 **$m**	2009 $m
Available-for-sale financial assets (note 34)	**-**	(19)

(c) 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 $318 million at 31 December 2010 (31 December 2009: $315 million) that may be carried forward for offsetting against future taxable income indefinitely.

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

	Group									
	Accelerated tax depreciation		**Tax losses**		**Revaluation of available-for-sale financial assets**		**Employee benefits**		**Total**	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m	**2010** **$m**	2009 $m	**2010** **$m**	2009 $m	**2010** **$m**	2009 $m
At 1 Jan	**23**	33	**(3)**	(20)	**-**	19	**(6)**	(6)	**14**	26
Charged / (credited) to income statement	**1**	(10)	**(1)**	17	**-**	-	**1**	-	**1**	7
Credited to other comprehensive income	**-**	-	**-**	-	**-**	(19)	**-**	-	**-**	(19)
At 31 Dec	**24**	23	**(4)**	(3)	**-**	-	**(5)**	(6)	**15**	14

	HKEx					
	Accelerated tax depreciation		**Employee benefits**		**Total**	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m	**2010** **$m**	2009 $m
At 1 Jan	**2**	2	**(6)**	(6)	**(4)**	(4)
Charged to income statement	**1**	-	**1**	-	**2**	-
At 31 Dec	**3**	2	**(5)**	(6)	**(2)**	(4)

30. Deferred Taxation (continued)

(e) 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 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Net deferred tax assets	**(3)**	(4)	**(2)**	(4)
Net deferred tax liabilities	**18**	18	**-**	-
	15	14	**(2)**	(4)

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

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

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Investments in unlisted shares, at cost	**4,146**	4,146
Financial guarantee granted to a subsidiary (note 27(b)(ii))	**11**	11
	4,157	4,157

(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 2010 and 2009.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2010, 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%

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

(c) Particulars of subsidiaries (continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
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	Sale 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%

(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 33(c))

As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administrating and holding HKEx shares for the Share Award Scheme (note 33(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 Trust are included in HKEx's statement of financial position from 2010 onwards 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.

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

	HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $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 2009	1,073,940	1,075	347	(65)	1,357
Shares issued under employee share option schemes (note (a))	1,304	1	22	-	23
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 33)	-	-	7	-	7
Shares purchased for Share Award Scheme (note (b))	(90)	-	-	(9)	(9)
Vesting of shares of Share Award Scheme (note (c))	361	-	-	22	22
At 31 Dec 2009	1,075,515	1,076	376	(52)	1,400
At 1 Jan 2010	**1,075,515**	**1,076**	**376**	**(52)**	**1,400**
Shares issued under employee share option schemes (note (a))	**1,902**	**2**	**32**	**-**	**34**
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 33)	**-**	**-**	**8**	**-**	**8**
Shares purchased for Share Award Scheme (note (b))	**(1,298)**	**-**	**-**	**(188)**	**(188)**
Vesting of shares of Share Award Scheme (note (c))	**317**	**-**	**-**	**21**	**21**
At 31 Dec 2010	**1,076,436**	**1,078**	**416**	**(219)**	**1,275**

(a) During the year, employee share options granted under the Pre-Listing Share Option Scheme (Pre-Listing Scheme) and the Post-Listing Scheme were exercised to subscribe for 1,902,000 shares (2009: 1,304,000 shares) in HKEx at a consideration of $34 million (2009: $23 million), of which $2 million (2009: $1 million) was credited to share capital and $32 million (2009: $22 million) was credited to the share premium account.

(b) During the year, the Share Award Scheme (note 33(c)) acquired 1,297,400 HKEx shares (2009: 89,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was $188 million (2009: $9 million), of which $184 million (2009: $5 million) were related to purchases of Awarded Shares and $4 million (2009: $4 million) were related to purchases of shares arising from re-investing dividends received on Awarded Shares.

(c) During the year, the Share Award Scheme transferred 317,172 HKEx shares (2009: 360,749 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 $21 million (2009: $22 million).

33. Employee Share–based Compensation Reserve

	Group and HKEx	
	2010 **$m**	2009 $m
At 1 Jan	**43**	47
Employee share-based compensation benefits (note (a) and note 9)	**36**	21
Transfer to share premium upon exercise of employee share options (note 32)	**(8)**	(7)
Vesting of shares of Share Award Scheme	**(15)**	(18)
At 31 Dec	**56**	43

(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 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.

33. 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:

	2010		2009	
	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**	6.88	130
Exercised	**6.88**	**(114)**	6.88	(16)
Outstanding at 31 Dec	**-**	**-**	6.88	114
Post-Listing Scheme				
Outstanding at 1 Jan	**18.43**	**3,243**	18.30	4,556
Exercised	**18.54**	**(1,788)**	17.96	(1,288)
Forfeited	**-**	**-**	19.25	(25)
Outstanding at 31 Dec	**18.28**	**1,455**	18.43	3,243
Total	**18.28**	**1,455**	18.03	3,357

At 31 December 2010, all outstanding options (31 December 2009: 2,201,500) were vested and exercisable at a weighted average exercise price of $18.28 (31 December 2009: $17.40) per share.

Options exercised in 2010 resulted in 1,902,000 shares (2009: 1,304,000 shares) being issued at a weighted price of $17.85 per share (2009: $17.82 per share). The weighted average closing share price on the dates on which the options were exercised was $132.16 (2009: $97.90) per share.

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

	At 31 Dec 2010		At 31 Dec 2009	
	Remaining contractual life	**Number of shares issuable under options granted '000**	Remaining contractual life	Number of shares issuable under options granted '000
Exercise price				
$6.88	**-**	**-**	0.41 year	114
$16.96	**3.24 years**	**470**	4.24 years	1,020
$15.91	**3.37 years**	**100**	4.37 years	100
$19.25	**4.07 years**	**885**	5.07 years	2,123
	3.75 years	**1,455**	4.64 years	3,357

33. 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.

Following the Board's decision to award shares to eligible employees, the Awarded Shares are purchased from the market and the cost debited to Shares held for Share Award Scheme.

The cost of the Awarded Shares 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.

Dividends payable on the Awarded Shares held in the Scheme are applied to acquire further shares (dividend shares) from the market and the payment 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, an amount equivalent to the cost of the Awarded Shares and the dividend applied towards acquisition of any dividend shares is credited to Shares held for Share Award Scheme, with a corresponding debit to employee share-based compensation reserve and to retained earnings respectively.

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.

33. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(i) (continued)

Details of the Awarded Shares awarded during 2009 and 2010 are set out below:

Date of approval by Board	Date of award	Awarded Sum $m	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
10 Dec 2008	3 Feb 2009	5	59,900	59,900	81.96	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	89	720,100	720,054 [1]	123.29	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	1	6,900	6,900	121.88	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	3	21,000	21,000	120.32	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91	518,100	518,039 [1]	176.75	14 Dec 2012 – 14 Dec 2013

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

Details of the Awarded Shares vested during 2009 and 2010 are as follows:

Date of award	Average fair value per share $	2010 Number of Awarded Shares vested	2010 Cost of related Awarded Shares $m	2009 Number of Awarded Shares vested	2009 Cost of related Awarded Shares $m
19 Dec 2005	31.20	**181,875**	**6**	217,550	7
15 Jan 2007	72.28	**54,673** [2]	**4**	65,423 [2]	5
7 Jun 2007	81.33	**1,750**	**< 1**	1,750	< 1
17 Jul 2007	102.29	**1,375**	**< 1**	1,375	< 1
4 Feb 2008	163.72	**30,755**	**5**	36,312	6
7 Apr 2008	144.18	**4,200** [3]	**< 1**	-	-
		274,628	**15**	322,410	18

[2] 5,764 (2009: 2,882) of the shares vested were for the former Chief Executive of HKEx

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

During the year ended 31 December 2010, 31,300 HKEx shares (2009: 29,800 shares) were acquired by the Scheme through reinvesting dividends received at a total cost (including related transaction costs) of $4 million (2009: $4 million), of which 26,392 shares (2009: 26,878 shares) were subsequently allocated to awardees.

During the year ended 31 December 2010, 42,544 HKEx shares (2009: 38,339 shares) (including 951 shares (2009: 303 shares) for the former Chief Executive of HKEx) at a cost of $6 million (2009: $4 million) acquired from reinvesting dividends received were vested and transferred to the employees at nil consideration.

33. Employee Share–based Compensation Reserve (continued)

(c) Awarded Shares (continued)

(ii) Movements in the number of Awarded Shares awarded and shares acquired through reinvesting dividends received were as follows:

	2010 Number of shares awarded/allocated	2009 Number of shares awarded/allocated
Outstanding at 1 Jan	**574,408**	876,813
Awarded[1]	**1,265,993**	59,900
Forfeited	**(123,086)**	(26,288)
Vested	**(274,628)**	(322,410)
Dividends reinvested:		
- allocated to awardees	**26,392**	26,878
- allocated to awardees but subsequently forfeited	**(10,533)**	(2,146)
- vested	**(42,544)**	(38,339)
Outstanding at 31 Dec	**1,416,002**	574,408

[1] Average fair value per share was $145.11 (2009: $81.96)

(iii) The remaining vesting periods of the Awarded Shares awarded and shares acquired through reinvesting dividends received outstanding at 31 December were as follows:

	At 31 Dec 2010		At 31 Dec 2009	
	Remaining vesting period	**Number of shares awarded/ allocated outstanding**	Remaining vesting period	Number of shares awarded/ allocated outstanding
Fair value				
$31.20	-	-	0.97 year	217,550
$72.28	**0.95 year**	**46,470**	0.95 year to 1.95 years	122,904
$81.33	-	-	0.29 year to 2.29 years	5,250
$102.29	**0.47 year to 1.47 years**	**2,750**	0.47 year to 2.47 years	4,125
$163.72	**0.95 year to 1.95 years**	**59,817**	0.95 year to 2.95 years	104,974
$144.18	-	-	1.13 years to 3.13 years	4,200
$81.96	**0.00 year to 3.00 years**	**59,900**	1.00 year to 4.00 years	59,900
$123.29	**1.37 years to 2.37 years**	**672,306**	N/A	-
$121.88	**1.44 years to 2.44 years**	**6,900**	N/A	-
$120.32	**1.50 years to 2.50 years**	**21,000**	N/A	-
$176.75	**1.95 years to 2.95 years**	**518,039**	N/A	-
Dividends reinvested	**0.00 year to 3.00 years**	**28,820**	0.29 year to 4.00 years	55,505
		1,416,002		574,408

(iv) At 31 December 2010, 239,991 forfeited or unallocated shares (31 December 2009: 101,357 shares) were held by the Scheme and would be allocated to awardees in future.

34. Investment Revaluation Reserve

	Group 2009 $m
At 1 Jan	97
Change in fair value of available-for-sale financial assets up to maturity	(113)
Gains on available-for-sale financial assets reclassified to profit or loss on disposal	(3)
Deferred tax for available-for-sale financial assets (note 30(b))	19
At 31 Dec	-

35. Designated Reserves

Clearing House Funds reserves (note 28(d))

	Group			
	HKSCC Guarantee Fund reserve $m	**SEOCH Reserve Fund reserve** $m	**HKCC Reserve Fund reserve** $m	**Total** $m
At 1 Jan 2009	119	107	326	552
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings (note 37)	3	2	6	11
At 31 Dec 2009	122	109	332	563
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 37)	**3**	**2**	**12**	**17**
At 31 Dec 2010	**125**	**111**	**344**	**580**

36. Merger Reserve

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.

37. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2010	2009	**2010**	As restated 2009
	$m	$m	**$m**	$m
At 1 Jan	**6,021**	5,241	**1,967**	1,547
Profit attributable to shareholders (notes (a))	**5,037**	4,704	**3,724**	4,333
Transfer to Clearing House Funds reserves (note 35)	**(17)**	(11)	**-**	-
Dividends:				
2009/2008 final dividend	**(2,251)**	(1,935)	**(2,251)**	(1,935)
2010/2009 interim dividend	**(2,034)**	(1,978)	**(2,034)**	(1,978)
Unclaimed dividends forfeited (note 26(b))	**16**	4	**16**	4
Vesting of shares of Share Award Scheme	**(6)**	(4)	**(6)**	(4)
At 31 Dec	**6,766**	6,021	**1,416**	1,967
Representing:				
Retained earnings	**4,280**	3,773	**(1,070)**	(281)
Proposed dividend	**2,486**	2,248	**2,486**	2,248
At 31 Dec	**6,766**	6,021	**1,416**	1,967

(a) Profit attributable to shareholders included a profit of $3,724 million, of which $3,688 million was dividends from subsidiaries (2009: $4,333 million, of which $4,309 million was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) In February 2011, HKEx received dividends of $4,427 million from its subsidiaries which were paid out of the subsidiaries' prior year retained earnings and 2010 profits.

38. Notes to the Consolidated Statement of Cash Flows

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

	2010 $m	As restated 2009 $m
Profit before taxation	**5,954**	5,542
Adjustments for:		
Net interest income	**(133)**	(288)
Dividend income	**(5)**	(2)
Net fair value gains and interest income on financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	**(337)**	(330)
Losses on disposal of financial assets measured at amortised cost of Corporate Funds	**4**	-
Depreciation	**107**	101
Employee share-based compensation benefits	**36**	21
Gain on disposal of fixed assets	**(1)**	-
Reversal of provision for impairment losses of receivables	**(4)**	(2)
Provision for impairment losses of fixed assets	**-**	1
Changes in provisions	**(5)**	(2)
Net (increase)/decrease in Margin Fund financial assets	**(2,447)**	21,508
Net increase/(decrease) in Margin Fund financial liabilities	**2,459**	(21,597)
Net increase in Clearing House Fund financial assets	**(901)**	(506)
Net increase in Clearing House Fund financial liabilities	**1,045**	497
Net (increase)/decrease in financial assets of cash collateral	**(162)**	168
Net increase/(decrease) in cash collateral received from HKSCC Clearing Participants	**162**	(168)
Net increase in financial assets measured at fair value through profit or loss, and financial assets and financial liabilities at fair value through profit or loss	**(455)**	(42)
Decrease/(increase) in accounts receivable, prepayments and deposits	**2,133**	(2,809)
(Decrease)/increase in other current liabilities	**(1,833)**	2,940
Net cash inflow from operations	**5,617**	5,032
Dividends received	**5**	2
Interest received from bank deposits	**115**	111
Interest received from financial assets measured at fair value through profit or loss and financial assets at fair value through profit or loss	**110**	111
Interest paid	**(4)**	(3)
Hong Kong Profits Tax paid	**(857)**	(711)
Net cash inflow from operating activities	**4,986**	4,542

39. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Contracted but not provided for	**149**	1	**-**	1
Authorised but not contracted for	**1,926**	65	**22**	26
	2,075	66	**22**	27

The commitments in respect of capital expenditures of the Group mainly related to the upgrade and enhancement of trading and clearing systems and, at 31 December 2010, the construction of a new data centre in Tseung Kwan O with hosting service capabilities and other new business initiatives.

In order to provide room for the Group's new strategic initiatives such as hosting services, the planned total floor area of the data centre was increased from the initial plan of 13,300 square metres to about 31,400 square metres, and the total estimated costs were increased from $0.7 billion to about $1.8 billion, of which $0.8 billion relates to the hosting services. The data centre is scheduled to be completed in 2013. At 31 December 2010, $26 million has been spent as lease premium for land and $24 million had been incurred for the construction of the new data centre and hosting services.

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

	Group		HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Land and buildings				
- within one year	**160**	173	**2**	1
- in the second to fifth years	**303**	170	**1**	-
	463	343	**3**	1
Computer systems, software and equipment				
- within one year	**6**	5	**4**	3
	469	348	**7**	4

At 31 December 2010, in respect of computer systems, software and equipment, the leases would mature within one year (2009: one year) and 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 two contributions of $4 million each were made in January 2010 and January 2011 respectively. The contributions shall be increased by 5 per cent per annum starting from 2012.

40. Contingent Liabilities

At 31 December 2010, 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 2009: $72 million). Up to 31 December 2010, 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 27(b)(i)). In the unlikely event that all of its 484 trading Participants covered by the indemnity at 31 December 2010 (31 December 2009: 462) defaulted, the maximum contingent liability of the Group under the indemnity would amount to $97 million (31 December 2009: $92 million).

(iii) The Group and HKEx are currently being served a number of legal claims by certain independent parties. The Group and HKEx received legal advice and do not anticipate any material liabilities arising from the legal claims.

(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 27(b)(ii)).

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

41. Future Operating Lease Arrangements

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

	Group	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Land and buildings		
- within one year	**1**	1
- in the second to fifth years	**-**	1
	1	2
Trading booths and related facilities		
- within one year	**13**	15
- in the second to fifth years	**-**	13
	13	28
Total	**14**	30

42. 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; (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.

(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	
	2010	2009
	$m	$m
Dividend income	**3,688**	4,309
Management fees and equipment rental fees charged	**481**	381
Expenses recharged	**932**	926

(ii) Key management personnel compensation

	Group		**HKEx**	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Salaries and other short-term employee benefits	**87**	82	**72**	67
Employee share-based compensation benefits	**10**	7	**8**	5
Retirement benefit costs	**6**	7	**5**	5
	103	96	**85**	77

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

(b) Material related party transactions (continued)

(iii) Balances with related parties

	HKEx	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m
Amounts due from subsidiaries (note 31(b))	**3,684**	2,798
Amounts due to subsidiaries (note 31(b))	**(2,030)**	(484)
Financial guarantee granted to a subsidiary (maximum amount guaranteed) (note 40(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 9(a)).

The retirement benefit costs charged to the consolidated income statement 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 2010 was less than $1 million (31 December 2009: less than $1 million) and no contribution to the ORSO Plan was outstanding at 31 December 2010 and 31 December 2009.

(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.

43. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2010 and 31 December 2009.

44. 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 future 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. At 31 December 2010, the Group had set aside $3,100 million of shareholders' funds (31 December 2009: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

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 2010 was $8,097 million (31 December 2009: $7,464 million).

45. 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.

Funds available for investment comprise four main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds, Margin Funds and cash collateral received (which exclude non-cash collateral and contributions receivable 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.

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 and Administration Division 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.

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

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:

45. 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.

45. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2009		
	Foreign currency	Gross open position $m	Economic hedges $m	Net open position $m
Financial assets/(financial liabilities)				
Cash and cash equivalents[1]	AUD	1	-	1
	CAD	1	-	1
	EUR	3	-	3
	GBP	1	-	1
	JPY	545	(541)	4
	RMB	1	-	1
	SGD	1	-	1
	USD	784	(31)	753
Financial assets measured at fair value through profit or loss[2]	AUD	145	(119)	26
	CAD	9	-	9
	CHF	6	-	6
	EUR	384	(321)	63
	GBP	129	(100)	29
	JPY	31	-	31
	RMB	18	-	18
	USD	2,378	(357)	2,021
Financial assets measured at amortised cost	RMB	1	-	1
	USD	220	-	220
Margin deposits from Clearing Participants on derivatives contracts[1]	JPY	(541)	541	-
	USD	(31)	31	-
Accounts payable, accruals and other liabilities	RMB	(2)	-	(2)
	USD	(39)	-	(39)
Non-financial assets/(non-financial liabilities)				
Net non-financial liabilities	USD	(8)	-	(8)
Total net open positions for the Group	AUD			27
	CAD			10
	CHF			6
	EUR			66
	GBP			30
	JPY			35
	RMB			18
	SGD			1
	USD			2,947
				3,140

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.

45. 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 2010 $m**	At 31 Dec 2009 $m
Financial assets/(financial liabilities)			
Cash and cash equivalents	RMB	**1**	1
Financial assets measured at amortised cost	RMB	**1**	1
Accounts payable and other liabilities	RMB	**(3)**	(2)
	USD	**(18)**	(11)
Total net open positions for HKEx	RMB	**1**	-
	USD	**18**	11
		19	11

(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.

(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 respective fund under management (Clearing House Funds, Margin Funds, cash collateral and Corporate Funds).

45. 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 during the year and at 31 December were as follows:

	Group					
	2010			2009		
	Average $m	**Highest $m**	**Lowest $m**	Average $m	Highest $m	Lowest $m
Foreign exchange risk	**5**	**8**	**4**	10	15	5
Equity price risk	**15**	**21**	**11**	21	32	10
Interest rate risk	**28**	**56**	**15**	48	66	28
Total VaR	**31**	**56**	**20**	49	70	31

	HKEx					
	2010			2009		
	Average $m	**Highest $m**	**Lowest $m**	Average $m	Highest $m	Lowest $m
Interest rate risk	**< 1**	**< 1**	**< 1**	< 1	< 1	< 1
Total VaR	**< 1**	**< 1**	**< 1**	< 1	< 1	< 1

	Group		**HKEx**	
	At 31 Dec 2010 $m	At 31 Dec 2009 $m	**At 31 Dec 2010 $m**	At 31 Dec 2009 $m
Foreign exchange risk	**8**	5	**-**	-
Equity price risk	**21**	17	**-**	-
Interest rate risk	**22**	55	**< 1**	< 1
Total VaR	**31**	54	**< 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. Moreover, in respect of the highest and lowest VaRs during the year, the highest and lowest VaRs in each market did not necessarily occur on the same day.

45. Financial Risk Management (continued)

(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.

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;
- other financial assets are allocated based on their contractual maturity dates.

	Group				
	At 31 Dec 2010				
	Up to 1 month[1]	>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	**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**

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group				
	At 31 Dec 2009				
	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	14,738	-	-	-	14,738
Financial assets measured at fair value through profit or loss	14,025	-	-	-	14,025
Financial assets measured at amortised cost	4,876	-	-	49	4,925
Accounts receivable and deposits[2]	11,271	48	-	-	11,319
	44,910	48	-	49	45,007

[1] Amounts included $7,474 million (31 December 2009: $9,618 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 $18 million (31 December 2009: $18 million).

	HKEx				
	At 31 Dec 2010				
	Up to 1 month[3] $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	**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**

	HKEx				
	At 31 Dec 2009				
	Up to 1 month[3] $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	27	-	-	-	27
Financial assets measured at amortised cost	101	-	-	2	103
Amounts due from subsidiaries	2,798	-	-	-	2,798
	2,926	-	-	2	2,928

[3] Amounts included $14 million (31 December 2009: $8 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 (31 December 2009: $18 million).

In addition, banking facilities have been put in place for contingency purposes. During the year, $4,000 million of committed banking facilities which provide for same day borrowing in HKD and/or RMB have been obtained to further enhance the liquidity of the Group and its clearing houses. The Group's total available banking facilities amounted to $13,010 million at 31 December 2010 (31 December 2009: $9,050 million), which include these $4,000 million of committed banking facilities and $9,000 million (31 December 2009: $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.

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group				
	At 31 Dec 2010				
	Up to 1 month $m	**>1 month to 3 months $m**	**>3 months to 1 year $m**	**>1 year to 5 years $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 40(a)(ii))	**97**	**-**	**-**	**-**	**97**
Participants' contributions to Clearing House Funds	**1,575**	**418**	**46**	**-**	**2,039**
Total	**37,829**	**422**	**152**	**-**	**38,403**

	Group				
	At 31 Dec 2009				
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	Total $m
Margin deposits from Clearing Participants on derivatives contracts	20,243	-	-	-	20,243
Cash collateral from HKSCC Clearing Participants	3,432	-	-	-	3,432
Accounts payable, accruals and other liabilities	11,719	3	104	1	11,827
Other financial liabilities:					
Other financial liabilities of Clearing House Funds	20	-	-	-	20
Other financial liabilities of Corporate Funds:					
Financial guarantee contract (maximum amount guaranteed) (note 40(a)(ii))	92	-	-	-	92
Participants' contributions to Clearing House Funds	547	124	52	276	999
Total	36,053	127	156	277	36,613

45. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	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 40(b)(i))	**50**	**-**	**-**	**50**
Total	**2,274**	**3**	**4**	**2,281**

	HKEx At 31 Dec 2009 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	175	2	4	181
Amounts due to subsidiaries	484	-	-	484
Other financial liabilities:				
Other financial liabilities of Corporate Funds:				
Financial guarantee contract (maximum amount guaranteed) (note 40(b)(i))	50	-	-	50
Total	709	2	4	715

At 31 December 2010, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $3,749 million (31 December 2009: $3,405 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 2010 Up to 1 month $m	At 31 Dec 2010 >1 month to 3 months $m	At 31 Dec 2010 Total $m	At 31 Dec 2009 Up to 1 month $m	At 31 Dec 2009 >1 month to 3 months $m	At 31 Dec 2009 Total $m
Forward foreign exchange contracts						
- outflows	**2,373**	**1,376**	**3,749**	2,048	1,342	3,390
- inflows	**2,371**	**1,378**	**3,749**	2,050	1,355	3,405

45. 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 2010, 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 Aa2 (31 December 2009: 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. 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 accounts.

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. After the default of Lehman Brothers Securities Asia Limited in September 2008, HKSCC has implemented measures permitted under the CCASS Rules to require 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 another 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. As of 31 December 2010, bank guarantees of $1,832 million (31 December 2009: $2,003 million) were accepted for such purpose.

In addition to the above, the Group had set aside $3,100 million of shareholders' funds (31 December 2009: $3,100 million) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

45. 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 2010		At 31 Dec 2009	
	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 40(a)(ii))	**(20)**	**97**	(20)	92

	HKEx			
	At 31 Dec 2010		At 31 Dec 2009	
	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 40(b)(i))	**(11)**	**50**	(11)	50

(iv) Collateral held for mitigating credit risk

Certain debtors were required to place cash deposits and bank guarantees 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 2010		At 31 Dec 2009	
	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	**9,188**	**2,482**	11,319	2,000

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

45. 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 only relate to receivables) 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 2010 $m	At 31 Dec 2009 $m
Up to six months	**324**	295

No financial assets of HKEx were past due at 31 December 2010 and 31 December 2009.

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

At 31 December 2010, receivables of the Group amounting to $158 million (31 December 2009: $164 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(p)(vi).

No financial assets of HKEx were impaired at 31 December 2010 and 31 December 2009.

(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 2010, the amount of doubtful deferred revenue amounted to $62 million (31 December 2009: $45 million).

At 31 December 2010 and 31 December 2009, HKEx did not have any doubtful deferred revenue.

45. Financial Risk Management (continued)

(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.

	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**

45. 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 2009		
	Level 1 $m	Level 2 $m	Total $m
Assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	180	-	180
- debt securities	-	11,646	11,646
- mutual funds	75	-	75
- equity index futures contracts	1	-	1
- forward foreign exchange contracts	17	-	17
- bank deposits with embedded derivatives	-	2,106	2,106
	273	13,752	14,025
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	2	-	2
	2	-	2

During 2010 and 2009, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Level 1 and Level 2.

(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.

45. 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 (continued)

	Group			
	At 31 Dec 2010		At 31 Dec 2009	
	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]	**950**	**958**	1,296	1,294
- other financial assets maturing over one year[2]	**213**	**212**	1,100	1,088
Financial liabilities				
Financial guarantee contract[3]	**20**	**42**	20	45
Participants' contributions to Clearing House Funds included in non-current liabilities[2]	**-**	**-**	276	274

	HKEx			
	At 31 Dec 2010		At 31 Dec 2009	
	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]	**91**	**91**	72	72
- other financial assets maturing over one year[2]	**1**	**1**	2	2
Financial liabilities				
Financial guarantee contract[3]	**11**	**22**	11	24

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 0.65 per cent to 1.01 per cent at 31 December 2010 (31 December 2009: 0.62 per cent to 1.42 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 2.85 per cent at 31 December 2010 (31 December 2009: 2.58 per cent).

BOARD OF DIRECTORS

As at 2 March 2011, the Board comprises 12 Independent Non-executive Directors, namely Mr Ronald Joseph ARCULLI (Chairman), Mrs CHA May-Lung, Laura, Mr CHAN Tze Ching, Ignatius, Dr CHENG Mo Chi, Moses, 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.