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

2012 Annual Report

Stock Code: 388

This is a time for us to explore promising new horizons.
As we allow ourselves a brief glance back to reflect upon past achievements,
we find ourselves on the precipice of a very exciting new era.

We continue to embrace change. Developing businesses beyond our equity
and equity derivatives capabilities will reinforce us with new strengths,
as well as open up new prospects as we enter into mutually beneficial partnerships.

And as China continues to grow from strength to strength, with confidence
and increasing expertise, we are perfectly poised to ride the wave of progress
with our partners across the border.

As we capitalise on the internationalisation of the Renminbi, we play a pivotal role
in building strong connections between China and the world.

With our distinguished track record, sound infrastructure and commitment
to build a global, vertically-integrated multi-asset class exchange,
HKEx is ready to embrace the future with optimism.

Contents

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

FINANCIAL HIGHLIGHTS

	2012	2011	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange ($bn)	**53.9**	69.7	(23%)
Average daily number of derivatives contracts traded on the Futures Exchange	**259,556**	269,525	(4%)
Average daily number of stock options contracts traded on the Stock Exchange	**228,438**	302,750	(25%)

	2012 $m	As restated 2011 $m	Change
RESULTS			
Revenue and other income	**7,211**	7,855	(8%)
Operating expenses (excluding depreciation and amortisation)	**1,957**	1,733	13%
EBITDA [1]	**5,254**	6,122	(14%)
Depreciation and amortisation	**(158)**	(90)	76%
Costs relating to acquisition of LME Group	**(138)**	–	N/A
Finance costs	**(55)**	–	N/A
Fair value loss on derivative component of convertible bonds	**(55)**	–	N/A
Share of loss of a joint venture	**(3)**	–	N/A
Profit before taxation	**4,845**	6,032	(20%)
Taxation	**(761)**	(939)	(19%)
Profit attributable to shareholders	**4,084**	5,093	(20%)
Basic earnings per share	**$3.75**	$4.71	(20%)
Diluted earnings per share	**$3.74**	$4.70	(20%)
Interim dividend per share	**$1.85**	$2.16	(14%)
Final dividend per share	**$1.46**	$2.09	(30%)
	$3.31	$4.25	(22%)
Dividend payout ratio	**90%**	90%	–

	2012	2011	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($m)	**17,764**	9,159	94%
Total assets [2] ($m)	**80,837**	54,028	50%
Net assets per share [3] ($)	**15.48**	8.50	82%

Notes:

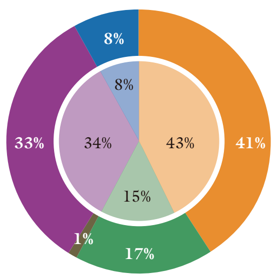
1 For the purpose of this Annual Report, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and other non-recurring costs arising from the acquisition of the LME Group.

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

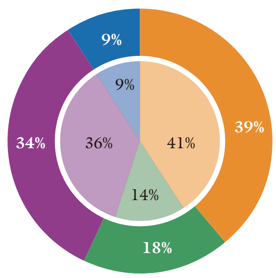
3 Based on 1,147,408,233 shares as at 31 December 2012, being 1,149,808,087 shares issued and fully paid less 2,399,854 shares held for the Share Award Scheme (2011: 1,077,670,473 shares, being 1,079,906,640 shares issued and fully paid less 2,236,167 shares held for the Share Award Scheme). The increase in net assets per share was attributable to the issue of 65,705,000 HKEx shares at $118 per share in December 2012.

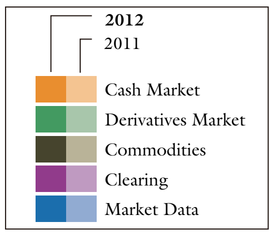
BY BUSINESS SEGMENT *

Revenue and Other Income



Reportable Segment Profit before Taxation





* The above business segments exclude Corporate Items. Details are set out in note 4 to the consolidated financial statements of this Annual Report.

With its vertically integrated model, the Group has maintained diverse and stable source of revenue from its business segments.

HIGHLIGHTS OF THE YEAR

Corporate News

27 April

The Chief Executive of the HKSAR approved the appointment of Mr C K Chow as HKEx's Chairman

7-8 June

Hosted the Exchange Technology Forum, which focused on the impact of technology on the day-to-day business of exchanges

30 October

The CESC, a joint venture of HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, officially began operations

6 December

HKEx completed its acquisition of the LME Group

7 December

The GFIS, HKEx's market data unit in the mainland of China, began operations

Market Infrastructure

13 February

Launched the Hosting Services Founding Members Programme

5 March

Implemented the second phase of the new trading hours

28 March

Launched "HKEx Orion", a transformative programme of technology initiatives

29 October

Completed the first phase of the migration of major market systems to the TKO Data Centre

Products and Services

14 February

Hong Kong's first RMB ETF, Hang Seng RMB Gold ETF, was listed on SEHK

20 February

Introduced HSI Volatility Index Futures

30 March

Began cross-listing benchmark equity index derivatives under the BRICS Exchanges Alliance

3 July

RMB-denominated sovereign bonds issued by the Ministry of Finance of the PRC were listed on SEHK for the first time

17 July

The ChinaAMC CSI 300 Index ETF, the first RQFII A-share ETF, was listed on SEHK

17 September

Launched RMB Currency Futures, the world's first exchange-traded deliverable RMB futures

12 October

The Harvest MSCI China A Index ETF became the first Dual Counter (HKD and RMB) security listed on SEHK

29 October

Hopewell Highway Infrastructure Limited became the first Hong Kong-listed company with Dual Counter equity securities by listing on SEHK the first RMB-traded equity securities outside the mainland of China

28 November

ETFS Physical Platinum ETF and ETFS Physical Silver ETF became the first platinum and silver ETFs listed on SEHK

10 December

The CESC launched its CES China 120 Index

Regulatory Framework

11 March

Published consultation conclusions on proposed clearing houses' risk management reform measures

27 July

Published a guide aimed at enhancing the regulation of listed structured products market

Published a consultation paper on a trading halts proposal

31 August

Published consultation conclusions on a proposed environmental, social and governance reporting guide

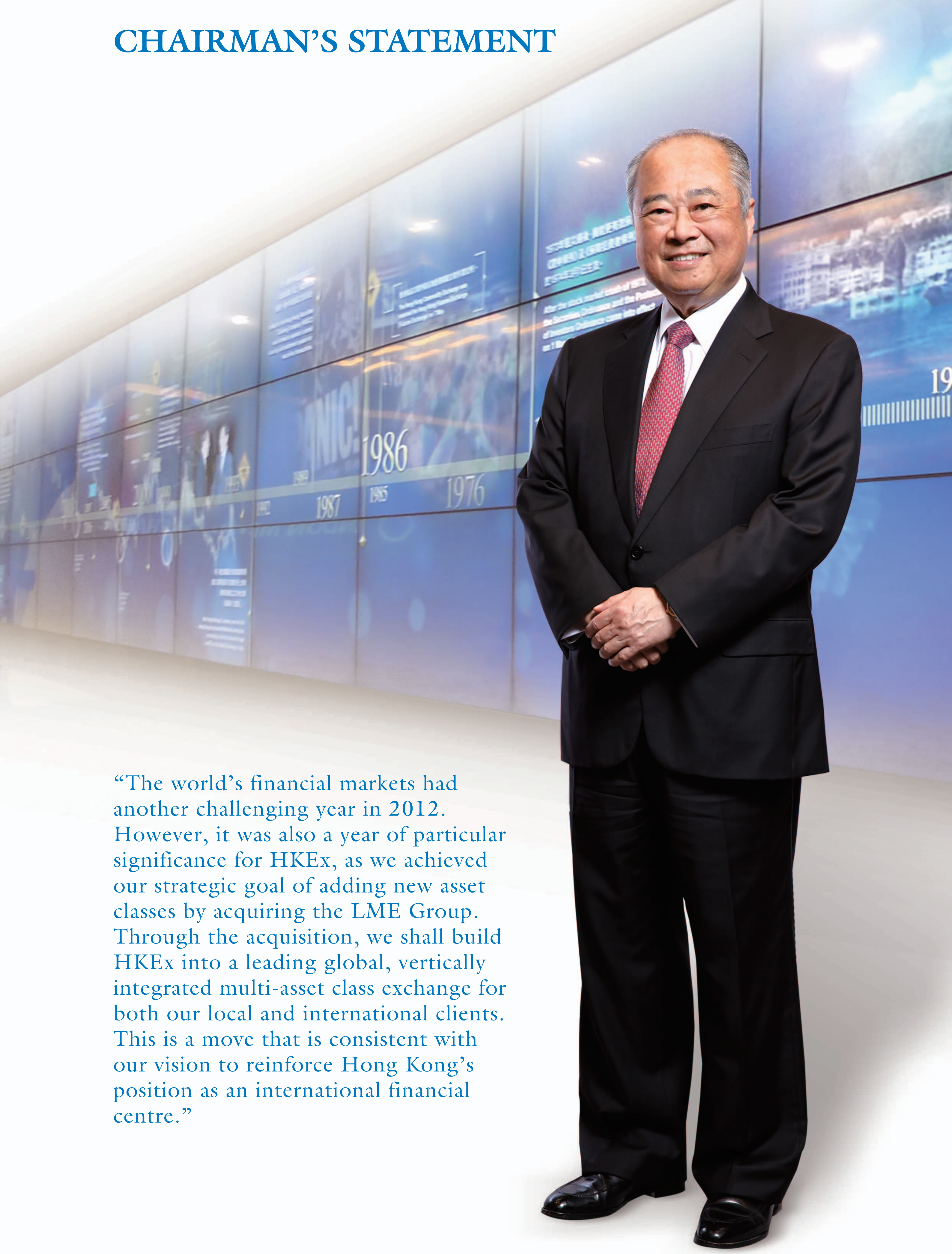
30 November

Published consultation conclusions on proposed rule changes consequential on the statutory backing of listed companies' continuing obligation to disclose inside information

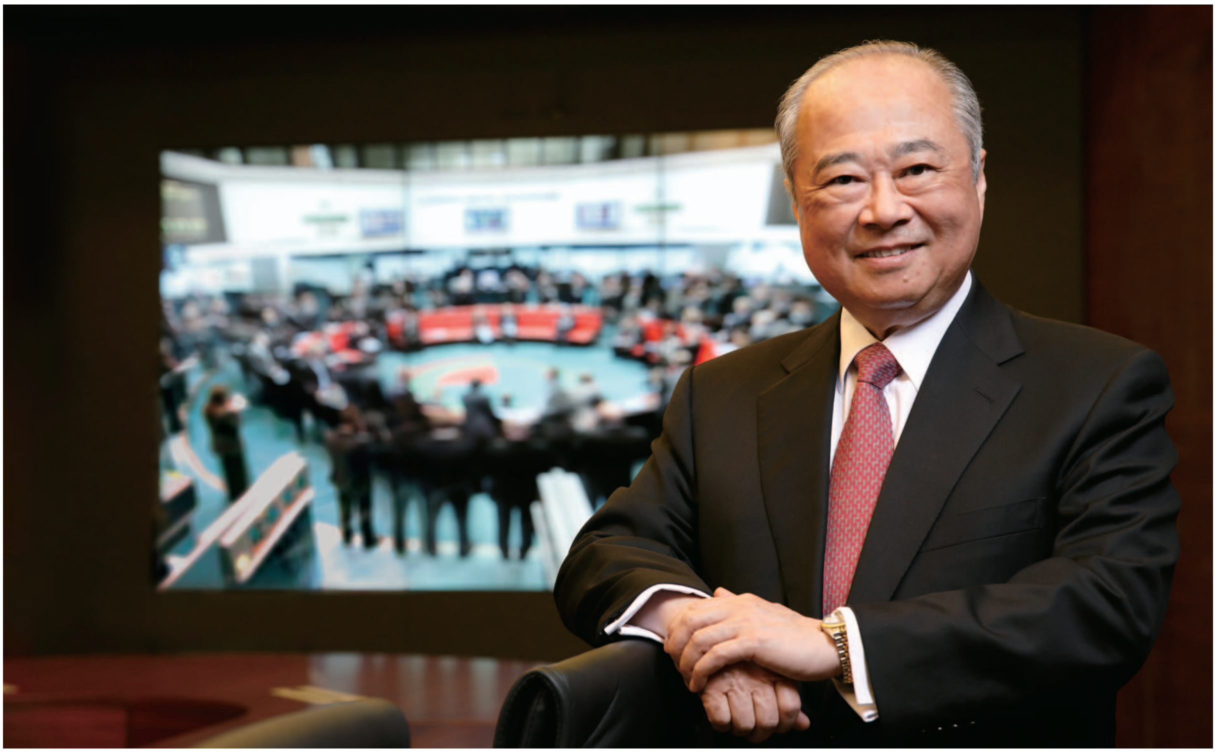
13 December

Published consultation conclusions on board diversity proposals

CHAIRMAN'S STATEMENT



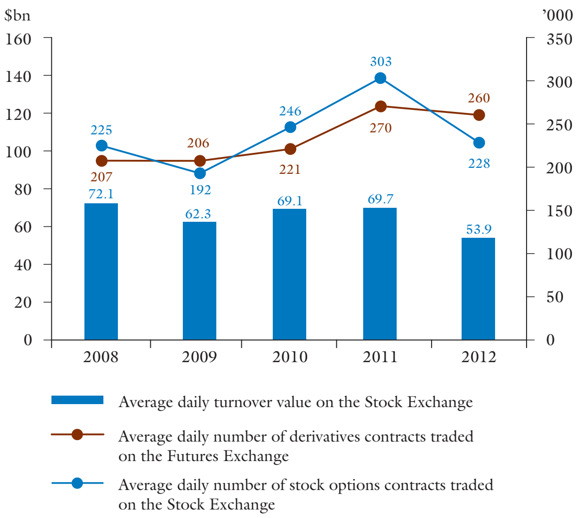
"The world's financial markets had another challenging year in 2012. However, it was also a year of particular significance for HKEx, as we achieved our strategic goal of adding new asset classes by acquiring the LME Group. Through the acquisition, we shall build HKEx into a leading global, vertically integrated multi-asset class exchange for both our local and international clients. This is a move that is consistent with our vision to reinforce Hong Kong's position as an international financial centre."



HKEx Group's Performance

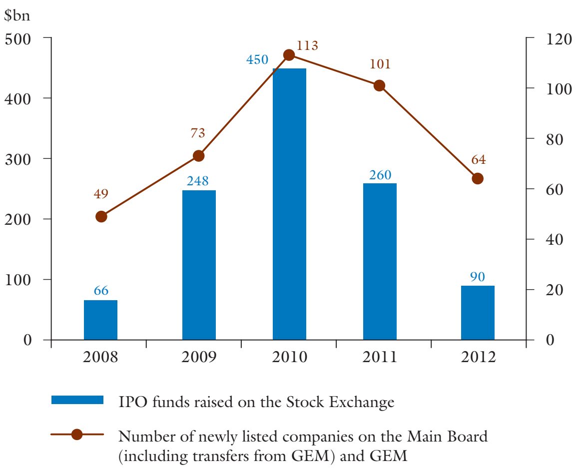
The exchange sector's post-financial crisis slowdown continued in 2012, as Europe's financial problems, subpar economies in Japan and the US, and slower growth in the mainland of China dampened market sentiment. Although activities in our markets improved in the latter part of the year after central banks of major economies injected more liquidity into their respective financial systems, annual turnover in our markets was down from the previous year. New listings and IPO fundraising also declined. As a result, the Group's profit attributable to shareholders in 2012 was about $4.1 billion, a decline of 20 per cent from a year ago. Consistent with the Company's practice of paying 90 per cent of its profit attributable to shareholders as dividends, the Board is recommending a final dividend of $1.46 per share for the year ended 31 December 2012. If the recommendation is approved by Shareholders, the full-year dividend per share for 2012 will be $3.31, down 22 per cent from the previous year.

Key market statistics



Note: Figures have been rounded.

IPO funds raised and newly listed companies



Acquisition of LME Group

Our acquisition of the LME Group was a significant milestone for the Company. It has given us new capabilities and positioned us to broaden our ties with the mainland of China. The offer decision was made after considering a series of factors, amongst them, the establishment of HKEx's presence in commodities market, which is a sector that offers growing opportunities. We will work closely with our LME colleagues to expand LME's current business, move into new areas, and develop its untapped potential. To partly fund the acquisition, we issued convertible bonds of US$500 million and had a share placement of over $7.7 billion. The overwhelming responses to both issues were a clear testimony of investors' unwavering confidence in HKEx.

"We are pleased to see that LME produced another record year in 2012 with trading volumes increased almost 10 per cent. In addition, LME was awarded Commodity Exchange of the Year in the 2012 Commodity Business Awards and its LMEswaps contracts, launched in January 2012, received New Contract of the Year (Metals category) in the 2012 FOW International Awards."

The acquisition of the LME Group was completed in the final month of the period covered by our previous strategic plan of 2010-2012. Details of other achievements under the plan are set out in the Chief Executive's Review, Business Review, and Financial Review sections of this Annual Report. The new 3-year plan for 2013-2015 is set out in the HKEx Group Strategic Plan 2013-2015 section of this Annual Report.

Other Major Developments

Investing and Building for the Future

We also invested and built for the future in other key areas in 2012. Apart from the introduction of 4 HKD-denominated benchmark equity index futures of the other member exchanges of the BRICS alliance, which enable investors to get exposure to the BRICS markets through HKEx, HSI and/or H-shares Index futures were cross-listed on each of the BRICS exchanges.

New products/services in 2012/2013

- AHFT
- BRICS Futures
- Hosting Services
- HSI Volatility Index Futures
- RMB Currency Futures
- Mainland Market Data Hub
- OTC clearing services

Our TKO Data Centre and the Hosting Services began operations in the fourth quarter of 2012, which are part of the HKEx Orion, a $3 billion-investment programme designed to strengthen our markets and Hong Kong's position as a leading international financial centre. The GFIS, an indirect wholly-owned subsidiary of the Company, also officially commenced operations in Shanghai.

We expect to open a market data hub in Shanghai in the third quarter of 2013 that will give Mainland information vendors direct access to our real-time market data. The CESC, a joint venture we established with the stock exchanges in Shanghai and Shenzhen in 2012, launched its first index, an index to track the performance of shares in the mainland of China and Hong Kong, on 10 December. Regarding OTC Clear, we formed a strong team and completed much of the preparatory work with a view towards opening for business in the first half of 2013.

RMB Products

The range of RMB products in our markets expanded in 2012 as more issuers used our listing facilities for RMB products. In our securities market, we saw more RMB bond listings, including the first by the Central Government's Ministry of Finance, as well as the first RMB ETF and RMB equity security listings. In our derivatives market, we introduced RMB Currency Futures, the world's first exchange-traded deliverable RMB futures. RMB products constitute an important part of our strategy to take advantage of opportunities from the internationalisation of the RMB and outward investment from the mainland of China.

RMB-related products/services launched in 2012

- Dual Counter ETFs that trade in both RMB and HKD
- RMB Currency Futures
- RMB-traded gold ETF
- RMB-traded equity securities

Quality Market

In 2012 and early 2013, various legislative amendments and regulatory measures were introduced to keep our regulatory regime in line with international standards and strengthen Hong Kong's position as a premier capital formation centre. We welcomed the enactment of the legislation that provides statutory backing to listed corporations' continuing obligation to disclose inside information which took effect on 1 January 2013, and we made corresponding Listing Rule changes. We are committed to ensure that our disclosure regime is in line with international best practices to protect investors' interest. The Environmental, Social and Governance Reporting Guide as a recommended practice under the Listing Rules became effective on 1 January 2013; HKEx's 2012 CSR reporting is in compliance with the Guide while adopting the Global Reporting Initiative, or GRI, G3.1 Sustainability Reporting Guidelines. To support the inclusion of board diversity in the Listing Rules' Corporate Governance Code and Corporate Governance Report from 1 September 2013, HKEx has early adopted a Board Diversity Policy and made the recommended disclosure in this Annual Report. As a director of the World Federation of Exchanges, I shall work closely with other member exchanges to promote market integrity and standards as well as global financial stability and growth.

- Enactment of the Securities and Futures (Amendment) Ordinance 2012 for the statutory regime to disclose inside information
- Consultation conclusions on the regulation of IPO sponsors published by SFC
- Implementation of HKEx's clearing house risk management reform measures
- Guide on enhancing regulation of the listed structured products market published by HKEx

Corporate Social Responsibility

CSR is a high priority for the Company so it is encouraging that we continue to be included in the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series, the Dow Jones Sustainability Asia Pacific Index, and the STOXX® Global ESG Leaders Indices. Our 2012 CSR Report, which underscores our approach and commitment to act responsibly and contribute positively to the community and the environment, will be available on the HKEx website in mid-March 2013. In particular, we continued to raise a significant amount of donations for The Community Chest of Hong Kong through the Stock Code Balloting for Charity Scheme. Moreover, in striving for environmental excellence, we took more targeted actions to reduce the environmental impact of our TKO Data Centre with the aim of completing the final Leadership in Energy and Environmental Design, or LEED, certification for the data centre, and to further improve our office waste management practices in order to achieve "Class of Excellence" Wastewi$e Label under the Hong Kong Awards for Environmental Excellence in 2013.

Acknowledgments

I would like to take this opportunity to thank my fellow Board and Committee members for their hard work and contributions throughout the year.

On behalf of the Board, I would like to express our sincere gratitude to the Directors who retired after the conclusion of the 2012 AGM, the Honourable Mrs Laura Cha and Dr Moses Cheng, for their invaluable advice to the Company over their 6 years of service. I would also like to extend special appreciation and acknowledgment to Mr Ronald Arculli, who will retire after the conclusion of the 2013 AGM. Mr Arculli's dedication and many contributions throughout his 7 years' service on the Board have been major factors in the Company's success and laid a solid foundation for future growth.

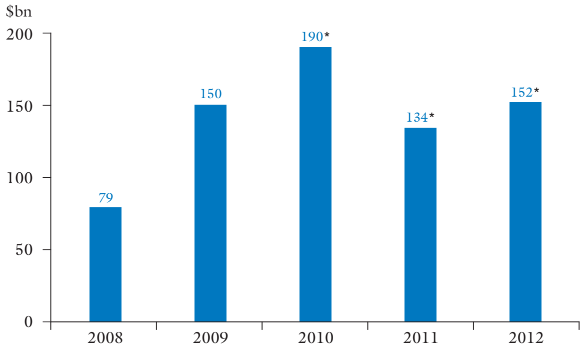
Our progress towards our strategic goals over the past year would not have been possible without the untiring efforts of our management team and staff. On behalf of the Board, I would like to thank Mr Charles Li and all of our employees for their dedication and commitment. The Board has renewed the contract with Mr Li as HKEx's Chief Executive for a further term of 3 years. We look forward to working with Mr Li to realise the full benefit of the strategic initiatives that are being put into place.

I would also like to thank all of our stakeholders, in particular our Shareholders, for their ongoing support, trust, and confidence.

Outlook

The quantitative easing policies implemented in the key financial markets including Europe, Japan and the US, would help improve market sentiment. Nonetheless, the low interest rates and expansion of money supply could cause higher inflation than desired. The effectiveness of these easing policies on improving the performance of the global economies is yet to be proven. Hong Kong would however continue to benefit from the progress of the mainland China's economy in 2013.

HKEx's market capitalisation (as at 31 December)



* Ranked first among the world's listed exchanges

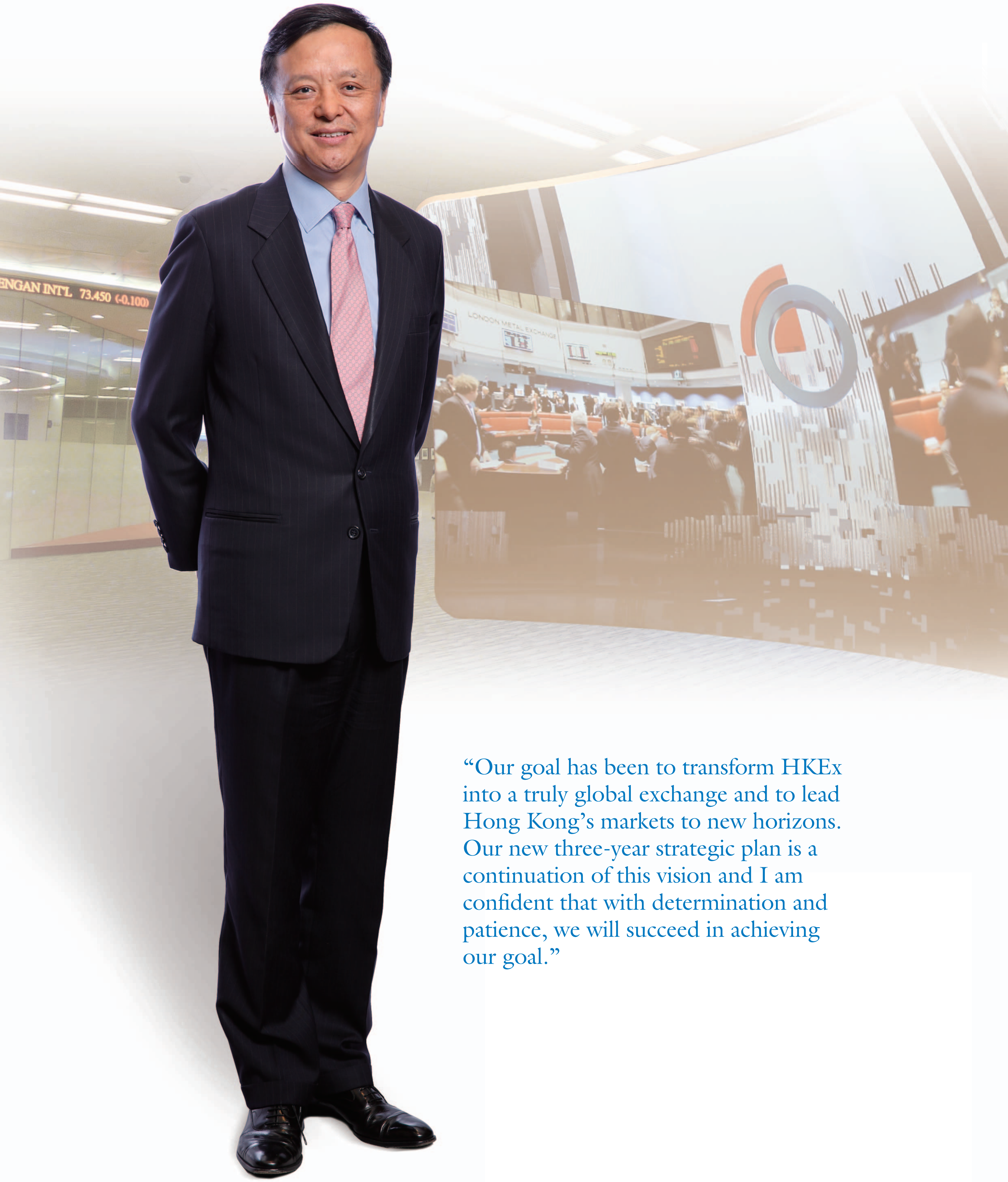
Note: Figures have been rounded. Source: Reuters

Our markets experienced increased turnover at the end of last year and the beginning of this year, and we saw renewed investor interest in IPOs. While the global economic outlook remains challenging, we believe we are well positioned to weather any storms that might come our way.

CHOW Chung Kong
Chairman

Hong Kong, 27 February 2013

CHIEF EXECUTIVE'S REVIEW



"Our goal has been to transform HKEx into a truly global exchange and to lead Hong Kong's markets to new horizons. Our new three-year strategic plan is a continuation of this vision and I am confident that with determination and patience, we will succeed in achieving our goal."

The year 2012 was a landmark year for HKEx. During the 12-month period, we completed our acquisition of the LME Group and fundamentally changed our business profile as well as the landscape in our markets. We strengthened our core business by implementing several critical market structure reforms and completing the construction of our TKO Data Centre, increasing our competitiveness and putting us on par in those areas with our international peers. We saw RMB products flourishing on our platforms, reflecting the RMB capabilities we have built in the last few years, and reinforcing Hong Kong's position as the premier offshore RMB centre. Nevertheless, we are still far from achieving all of our goals. The road to building HKEx into a leading vertically-integrated multi-asset class exchange is long. We have crystallised our vision and mission and embarked on our journey. Now we must focus on reaching our destination.

Market Performance

Our markets experienced a "down year" in 2012, both in terms of funds raised and turnover. That was mostly in line with other major markets around the world and was largely due to uncertainty about the health of the global economy and investors' decreased appetite for risk.

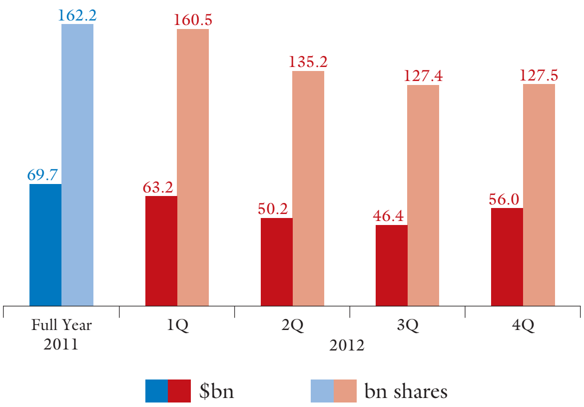
In the primary market, IPOs raised $90 billion, a 65 per cent decrease from 2011. Sixty-two companies were newly listed on our market, compared to 89 in 2011 [1]. We continued to attract international issuers, with 3 companies from overseas listing in Hong Kong, raising a total of $6.3 billion through their IPOs.

In the secondary market, the year started relatively strong, with Cash Market average daily turnover (ADT) of $63.2 billion in the first quarter, but trading activity gradually decreased, reaching a 2012 low of $46.4 billion in the third quarter. The year ended with a fourth quarter ADT of $56.0 billion.

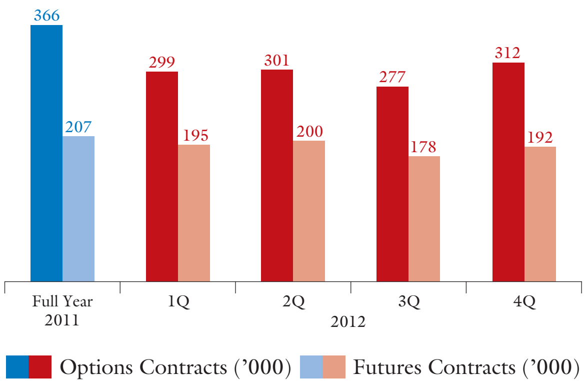
Turnover in the Derivatives Market was 119,802,638 contracts, a decrease of about 15 per cent from 2011, and open interest at year-end was 5,317,952 contracts, down from 5,936,798 at the previous year-end. Derivatives turnover was the second highest ever.

1 Excluding the transfer of 12 and 2 GEM companies to the Main Board in 2011 and 2012 respectively

Average daily turnover on Cash Market



Average daily number of contracts traded on Derivatives Market



Business Development Review

In 2012, we continued to invest in our future. In addition to completing the $17.3 billion acquisition of the LME Group, we strengthened our core businesses and ensured our operations remained reliable. Below is a recap of the business developments in the year.

Strengthening Core Businesses

In our strategy over the last decade, we have been focused on being China's offshore capital formation centre, and we have successfully built our core businesses around equity and equity derivatives. These core businesses contributed more than 50 per cent of our revenues in 2012.

In primary listing, we have continued a high level of marketing activities focused on potential issuers from the mainland of China as well as other regions and countries. We have also continued to review our Listing Rules to enhance the level of corporate governance in Hong Kong. In 2012, we consulted the market on possible Listing Rule changes related to statutory backing of listed companies' continuing obligation to disclose inside information, a model for new trading halts in the Cash Market, and proposed amendments to the Corporate Governance Code to promote board diversity. We also worked with the SFC closely on the regulation of IPO sponsors.

In the secondary market, we pushed through a number of market structure reforms designed to increase the efficiency and resilience of our markets as well as to enhance our overall competitiveness globally. These efforts included:

- implementing the second phase of our new trading hours to align the opening of our securities market with that of the Mainland market;
- implementing clearing house risk management reforms, which was a major reform and will significantly improve the robustness of our risk management and lay a foundation for future business growth; and
- preparing the market for AHFT, a measure that will enhance our global competitiveness, prepare us for the development of new asset classes and more RMB products, and provide incremental business opportunities to our Participants.

To increase our cross-market collaboration, we kicked off the first phase of the BRICS Exchanges Alliance in March 2012 by cross-listing benchmark equity index derivatives on the boards of each of the other alliance members. This is the first step of the initiative to expand our product offerings and give investors in Asian time zones easier access to the dynamic BRICS markets.

Developing RMB Capability, RMB Products and Cross-border Products

In our strategy over the past 3 years, we have focused on the unprecedented opportunity of China gradually opening up its capital account and promoting RMB internationalisation. Accordingly, we strongly support Hong Kong's efforts to position itself as China's offshore RMB centre and are contributing by building RMB capability and developing diversified RMB products.

Several of our initiatives began to bear fruit in 2012, when we witnessed remarkable growth of RMB products in terms of both quantity and diversity. These included: 4 RQFII A-share ETFs, the first RMB-traded equity security outside of the mainland of China and our RMB Currency Futures contract. The infrastructure supporting issuance and trading of RMB products – the Dual Counter model and the TSF – has been operating smoothly. We have also streamlined the registration process for TSF Participants. As our RMB business continues to grow, we expect the importance of this infrastructure will further unfold.

Our joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the CESC, officially opened for business in October 2012. The CESC's first index, the cross-border CES China 120 Index, was launched in December 2012 and there are more indices and index-related products to come in 2013. We see many possibilities for the CESC as it develops and grows.

Expanding into New Asset Classes

In addition to the above developments, 2012 was marked by our ground-breaking acquisition of the LME Group, which has enabled us to leap frog into commodities, a new asset class for us and one that would have been very hard for us to enter on our own. Throughout the intensive bidding process, we were very fortunate to have the full support of Shareholders, the Board, and an internal team that worked tirelessly on the project. The acquisition was completed on 6 December 2012 and the Day-1 transition was completed smoothly. We will continue to implement our integration plan in the selected areas where we believe maximum synergy can be achieved. In addition, we are moving ahead with an expansion strategy for LME in the Asian time zones. Details of our LME strategy are set out under Commodities Strategy in the HKEx Group Strategic Plan 2013-2015 section of this Annual Report.

Apart from commodities, we have identified FIC as the other asset classes with substantial growth potential for us. A breakthrough for us in FIC will be the opening of OTC Clear, our new OTC clearing house. I am glad to report that we are making good progress on system development and the Founding Member programme, and we expect OTC Clear will begin operation in the first half of 2013, subject to the SFC's approval.

Platform Infrastructure Upgrade

To support the continuing growth of our core businesses and to prepare for future business expansion, we have made sizable and long-due investments in our platform infrastructure. We completed a number of key projects in 2012, including the following three:

- **TKO Data Centre:** The construction of the TKO Data Centre was completed and an occupancy permit was obtained in August 2012. Relocation of the IT office to the new building and the first phase of data centre migration both went smoothly. We hosted the grand opening of the TKO Data Centre on 31 January 2013.

- **Hosting Services:** Our Hosting Services business was launched in December 2012 with 60 subscribers including our EPs, IVs and other service providers. The service will be extended to support the Derivatives Market trading and low-latency direct connections to the OMD in 2013.

- **HKEx Orion Programme:** The first part of HKEx Orion, migration of network circuits for the Cash Market to SDNet/2, was completed in July 2012. The OMD project has started and is progressing well towards rollout for the Cash Market in 2013 and the Derivatives Market in 2014.

Reorganisation

In light of the above business development and the Strategic Plan 2013-2015, we have implemented an internal reorganisation to better align our resources with our strategic objectives. Since the reorganisation, the Group has been structured along 6 verticals. The Listing and Regulatory Affairs vertical encompasses the Listing, legal and other regulatory functions; the Global Markets vertical oversees trading, market data, and other related functions across asset classes; the Global Clearing vertical comprises all of our clearing business, including equity clearing, OTC Clear and the new LME Clear; and other verticals include Information Technology, Corporate Services and Finance. I believe we will achieve higher operating efficiency under the new structure.

Strategy Going Forward

Looking ahead, the ever-changing macroeconomic environment and the evolution of the world's financial markets will continue to present both interesting opportunities and new challenges for HKEx.

A dominating theme of the strategic plan we just published for 2013 to 2015 is mutual market access. As China accelerates the opening of its capital, financial and commodity markets, we will experience a seismic shift of capital flow, making China to transform from an importer of capital to an exporter of capital. As it has successfully done in the past 20 years, Hong Kong can once again play the key role of bringing Chinese and international markets together, by inviting Chinese domestic investors to come to Hong Kong as well as by facilitating easier access for international investors into the domestic Mainland markets where they are still largely restricted. Not only Hong Kong has the capability to play this part, it will also benefit tremendously from facilitating this mutual market access.

While the opportunities for Hong Kong and HKEx are phenomenal, the challenges are also great. At the macro level, the global economy is still affected by easing monetary policy in Europe and the US, which has led to relatively abundant liquidity in the financial markets. Containing risk while maintaining growth is a fine balance and not easy to strike. Therefore, we will continue to exercise caution in investment and other expenditure in 2013, and give priority to projects that are the most important to our current strategic plan. At the micro level, we need to bridge the differences across markets and explore feasible models for building connectivity, including trading and clearing infrastructure, market structure, and risk management.

We set out a goal to transform HKEx into a truly global exchange and to lead Hong Kong's markets to new horizons. Our new three-year strategic plan is a continuation of this vision and I am confident that with determination and patience, we will succeed in achieving our goal.

Appreciation

I am very grateful for all of the HKEx staff whose hard work made the Company's smooth operations and landmark LME transaction in 2012 possible. I would like to take this opportunity to welcome new colleagues Messrs David Graham (Chief Regulatory Officer) and Henry Ingrouille (Chief Operating Officer), and to thank those who left us in 2012 or are about to depart to pursue other opportunities, including Messrs Stephen Marzo (former Chief Financial Officer), Kevin King (Head of Risk Management) and Mark Dickens (Head of Listing), Ms Sylvia Hoosen (Head of Human Resources), and Ms Yang Qiumei (Head of Mainland Development), for their contributions. I would also like to welcome the LME staff to the one big family of the Group. A "marriage" of two companies is rarely easy and I greatly appreciate LME staff 's trust and understanding during the integration process. I look forward to working with them closely in the years to come.

I must thank our market participants and other stakeholders for their continuing support. We appreciate their submissions during our consultations and their comments when we seek their views informally.

Last but not least, I would like to thank my fellow Directors on the Board for their tremendous trust and support. Looking back, 2012 proved to be a demanding year for each and every member of the Board due to the intense bidding process for the LME Group, which resulted in the biggest purchase and investment decision in HKEx's history. Throughout the process, our Board provided the vision, courage, and determination that were needed to take us to the next level of our development. I am personally indebted to the Board for its trust in keeping me at the helm of the ship for the next 3 years. I can only repay that trust by continuing to do my utmost to serve the Company.

LI Xiaojia, Charles
Director and Chief Executive

Hong Kong, 27 February 2013

HKEx GROUP STRATEGIC PLAN 2013-2015

Overview

Our Strategic Plan 2013-2015 builds upon the growth-oriented strategy of the past 3 years and aims to take the Group into a new phase of transformational development in the next 3 years.

Mission

We aim to be the global exchange of choice for our China clients and our international clients seeking China exposure.

Vision

With the continuing growth of HKEx's core business as a foundation and with the successful acquisition of the LME Group as a catalyst, our vision is to build HKEx into a leading global vertically-integrated multi-asset class exchange and prepare ourselves for the managed but accelerating opening of China's capital account.

Highlights

Our plan has 2 key components: business strategy, and platform and infrastructure strategy.

In terms of business strategy, we will seek to build out a horizontally integrated business across the following asset classes:

- Cash Equity: Continue to grow this core business line by seeking additional China and international listings and by expanding access products such as ETFs particularly in RMB; continue our efforts to achieve a breakthrough in mutual market access via partnership with Mainland counterparties;
- Equity Derivatives: Build on our existing business by offering new products and providing new services by ourselves or in partnership with others;
- FIC: This is largely new and will be mainly driven by RMB internationalisation and global regulatory changes; and
- Commodities: Leverage the acquisition of the LME Group to build an extensive commodities platform.

Within each asset class, we also seek to achieve vertical integration from products through trading to clearing.

In terms of platform and infrastructure strategy we will seek to consolidate and further modernise our currently diverse trading and clearing platforms, and to build greater connectivity with local, Mainland and international market communities.

Background

Recap of Strategic Plan 2010-2012

The 2010-2012 Strategic Plan aimed to enhance our global competitiveness and capture opportunities from the continuing opening of Mainland market. It had 3 main themes:

- **Core Strategy:** These initiatives aimed to strengthen our existing business by enhancing efficiency and improving the market structure. Key achievements included: being ranked the world's number one IPO market by funds raised in 2010 and 2011, streamlining the listing process, successfully implementing new trading hours, and strengthening risk management capital adequacy.

- **Extension Strategy:** Under this strategy, our objective was to build a platform for higher performance. We achieved key components of this strategy, including: the introduction of AMS/3.8, the completion of the TKO Data Centre, and the offering of Hosting Services.

- **Expansion Strategy:** This prepared us to enter new asset classes and geographies. Key milestones achieved included: offering RMB products, establishing the BRICS Exchanges alliance and the Mainland equity derivatives joint venture, the CESC, launching our new clearing house for OTC derivatives, and crucially, successfully acquiring the LME Group.

Historical Trend of Our Development

We view the Group's development as a story in 3 chapters.

- **Chapter One:** This chapter is the listing of Mainland enterprises in Hong Kong to raise capital from international investors. This chapter is continuing but is relatively mature.

- **Chapter Two:** Anticipating the continued relaxation of Mainland capital controls, in this chapter we attract Mainland investors by providing an array of RMB-denominated products that will give them currency neutrality. We expect the growing presence of Mainland investors over time to increase the level of trading in our market and attract a wider range of international companies to list in Hong Kong. Chapter Two has already commenced and is gradually building, driven by the pace of the capital account opening.

- **Chapter Three:** We have at the same time begun Chapter Three, in which we attract a broader range of Mainland and international players to deal on the Group's trading and clearing platforms, not only in equity but extending into fixed income, currency and commodities. Our acquisition of the LME Group is a key catalyst for this Chapter and, by accelerating RMB internationalisation and Mainland capital account opening, could in turn further facilitate the development of Chapter Two.

Strategic Outlook

Continuing Mainland Opening

Looking at the next 3 years, we remain confident in the structural opportunities arising from the opening of the Mainland economy. Historically, since the mid-1990s, our growth has been fuelled by the Mainland's economic growth and its increasing utilisation of Hong Kong's equity capital markets. As the Mainland's growth continues to evolve, we expect the Mainland's needs to shift increasingly from capital formation to investment diversification and risk management across all asset classes, reflecting the country's transformation from an importer of capital to an exporter of capital. A presence in multiple asset classes will position us to serve the Mainland economy across a broad front during this evolution.

Commodities as a Breakthrough

We view commodities as the asset class most likely to see a breakthrough in this transformation. This is because of the Mainland's continuing structural demand for raw materials, its extensive experience in the international trade of commodities and the growing need to reform its existing capital control regime which is increasingly constraining the further development of Mainland commodity markets. LME will spearhead the Group's efforts in this asset class. We will respond to emerging opportunities, and seek to extend the resultant benefits across other asset classes. In this process we expect to deepen our relationships with the Mainland exchanges and clearing houses, moving towards partnership and eventually mutual market access.

In order to support business development flowing from the above opportunities, as well as to forestall any competitive threats, we will continue to invest in infrastructure and technology. We will aim to deliver a highly competitive suite of systems and platforms across our business lines. We will also ensure that our market microstructure adapts to evolving market conditions.

Business Strategy

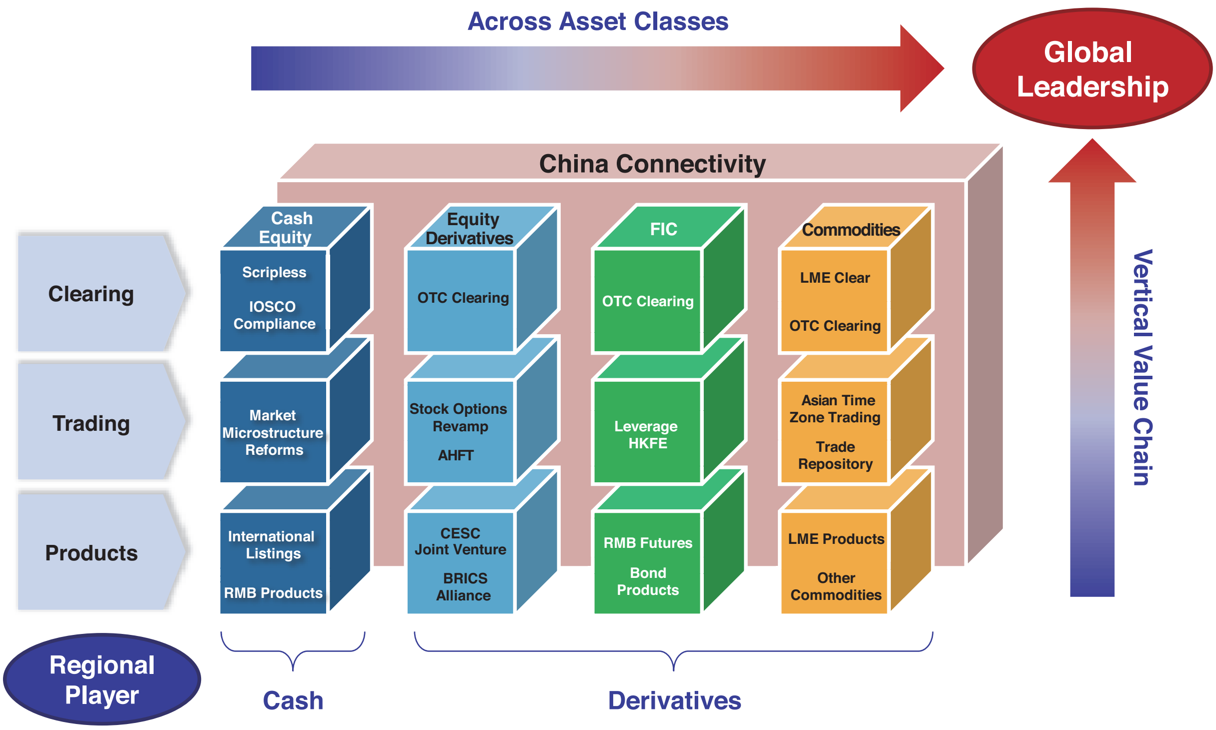
Our business strategic concept encompasses 2 dimensions of integration: horizontal integration across asset classes, and vertical integration through the value chain.

In the horizontal dimension, we have identified 4 asset classes: cash equity, equity derivatives, FIC, and commodities. We will seek to build upon our existing core asset classes of cash equity and equity derivatives, and expand into new asset classes by using commodities as a catalyst, leveraging RMB internationalisation, and seeking mutual access across the Hong Kong and Mainland markets. Our cross asset class strategy will reap the benefits of synergy and link contiguous market communities.

Within each asset class, we also aspire to offer services along the value chain, from products through trading to clearing. We believe this vertical integration strategy, with an emphasis on clearing, will allow us to achieve the maximum degree of synergy, defend our existing businesses, and gain entry to new businesses that require clearing services and to new relations with the mainland of China.

Throughout our horizontal asset classes and vertical business segments, we seek to build the critical connectivity with the Mainland's markets in order to benefit from the accelerated opening of its capital account.

The above concept and the initiatives under each asset class (as detailed in the rest of this section) are shown in the diagram below:



Cash Equity Strategy

Our cash equity business is relatively mature, but we believe this segment could undergo structural uplift in velocity and trading volumes as and when Mainland investors are progressively permitted to invest offshore. Our cash equity strategy is to better position us to take advantage of the expected lowering of Mainland capital account barriers.

In terms of products, as a continuation of our Chapter One strategy, we will continue seeking to attract Mainland-related issuers, positioning as their primary offshore capital formation centre. Recent developments such as B share to H share conversion and the easing of offshore listings by Mainland regulation are expected to provide renewed impetus. At the same time, to prepare for the increasing participation of Mainland investors, we will continue to reach out to international issuers and enlarge our RMB product suite. We will further develop our ETF segment as this is a potential facilitator of RMB internationalisation and mutual access with Mainland markets.

In terms of trading and clearing, we will seek further improvement in our secondary market microstructure, implement the scripless market, and ensure our clearing houses' compliance with evolving international standards. We will also explore, together with Mainland counterparties, the feasible model for mutual market access, which, as we view, will be a significant catalyst for the structural change in Hong Kong's capital market and will position us as an interface between the international and Mainland market environments.

Equity Derivatives Strategy

In our equity derivatives strategy, we aim to offer an extensive product suite across Hong Kong and Mainland underlying securities. Leveraging the CESC, we will roll out a range of cross-market and A share-related products, including indices and derivatives. Our BRICS Exchanges alliance will also develop a range of international benchmarks.

To reap the benefit of new and existing products, at the trading level we will seek to improve volumes by launching a revamp of our stock options market, and introducing AHFT.

At the clearing level, through our OTC clearing house we will seek to tap a new asset class – OTC equity derivatives on Hong Kong, Mainland and regional underlyings. We will again seek to improve connectivity with the Mainland market via partnership and other means.

Fixed Income and Currency Strategy

The FIC asset class is largely new to HKEx. New factors such as international regulation mandating the shift to central counterparty clearing of OTC derivatives, and RMB internationalisation, offer us an opportunity to enter this asset class.

We have a two-fold strategy. The first initiative is the launch of on-exchange RMB futures. Although trading at first will be slow, reflecting the low volatility of the RMB exchange rate, it should pick up as RMB internationalisation proceeds. We will also continue to explore other product opportunities, such as bond index products and RQFII ETFs on bonds, where appropriate in partnership or cooperation with others.

Secondly, leveraging emerging regulatory requirements, our OTC derivatives clearing house will provide clearing services, initially for interest rate swaps and non-deliverable forwards in RMB and other appropriate currencies. This initiative can be extended to other FIC products, and will lead over time to new revenue streams. It will also bring in new bank-related participant groups to whom we can provide other products and services.

Commodities Strategy

Building on the deep liquid markets of LME, we will expand the existing business by lowering barriers for Asian particularly Mainland investors to access the LME market. Key initiatives include: facilitating easier cross-border access, developing Asian time zone trading and clearing, offering RMB clearing services, and extending LME's warehouse network into the mainland of China.

On the other hand, we will leverage the base metal platform and our proximity to the mainland of China as the largest global consumer of commodities to extend into other metals and commodities. By achieving this, we expect to build a broader commodities derivatives business.

We will also seek to realise the untapped potential in the business through commercialisation and modernisation. Key initiatives include enhancing the electronic trading platform and infrastructure, and expanding contract types.

To support the above initiatives, we will initially build a London-based clearing house to achieve self-clearing for base metals and extend this to enable Asian time zone clearing, RMB clearing, and clearing of other products relevant to Asian markets. We will also extend further along the value chain to provide OTC clearing and trade repository services for commodity derivatives.

Platform and Infrastructure Strategy

The Group inherited a collection of different platforms, reflecting the history of its formation through merger. These platforms differ by application – from market data distribution to trading, clearing, risk management and depository – and by asset class. They vary greatly in terms of functionality, capacity and performance level, and some have support dependency on external parties. The aim over time is to develop next-generation platforms that fully meet global standards and converge onto a single technology platform for each application across asset classes. At the same time, in-house support capability will be strengthened through source code licensing arrangements and knowledge transfer with third-party platform vendors where applicable. However, given the life-cycle of the Group's platforms and market impact during transition, this process of consolidation and strengthening will take place over time.

The Group's TKO Data Centre will continue to play a key role in improving connectivity – not just within the Hong Kong market, but between the international environment and the mainland of China, and between the London and Hong Kong. The connectivity will be leveraged to facilitate implementation of the Mainland Market Data Hub in Shanghai for more efficient distribution of market data generated in Hong Kong and London to Mainland-based investors.

With TKO Data Centre facilities, consolidated trading and clearing platforms and improved connectivity with the mainland of China and internationally, the Group will be positioned to support business diversification and growth across asset classes.

Conclusion

Building upon the strong foundation established under the previous strategic plan, over the coming 3 years we aim to consolidate recent investments, fill out HKEx's capabilities as a vertically-integrated multi-asset class exchange of global reach, and begin to harvest the fruit of these efforts.

In our equity business, we expect to deepen Hong Kong's role as a leading listing market for Mainland and international companies and prepare ourselves for the greater participation of Mainland investors. In equity derivatives, we expect to establish new benchmarks with Mainland and international underlyings and leverage them for trading and clearing. In FIC, we expect to establish a solid base of business and participant community around our on-exchange RMB-related and OTC clearing initiatives. And in commodities we aim to enhance the existing LME business and make significant progress in the China dimension. These four pillars of achievements would transform HKEx into a comprehensive platform and consolidate its leading position among world exchanges.

Key Initiatives

We have identified the following key initiatives under Strategic Plan 2013-2015:

Business Strategy
Cash Equity (1) Improve framework for and continue to attract international listings (2) Further improve quality of listing (3) Develop critical mass of products trading in RMB (4) Improve Cash Market microstructure (5) Implement scripless market (6) Explore feasible model for mutual market access via partnership with Mainland counterparties
Equity Derivatives (1) Leveraging the CESC joint venture, introduce further A share-related products (2) Launch stock options revamp (3) Introduce AHFT (4) Launch Phase 2 of the BRICS alliance (5) Explore potential to clear OTC equity derivatives
Fixed Income and Currency (1) Launch and establish OTC clearing business (2) Build out RMB derivatives and bond-related product suite (3) Explore other potential opportunities to enter the FIC space
Commodities (1) Establish LME clearing house in London (2) Introduce Asian time-zone price-discovery and clearing (3) Launch OTC commodity derivatives trade repository and clearing (4) Expand Mainland participant base (5) Seek to establish LME-licensed warehouse network in China (6) Explore potential to extend LME's product suite into Hong Kong market
Platform and Infrastructure Strategy
(1) Fully establish the TKO Data Centre operation and hosting business (2) Implement Genium platform for equity derivatives trading, clearing and risk management (3) Develop and roll out the OMD system (4) Implement necessary infrastructure to facilitate connection of market platforms and corporate systems between Hong Kong and London (5) Fully establish Mainland Market Data Hub (6) Develop and roll out the OCG system (7) Define requirements for and commence development of the OTP system, initially to support cash trading as replacement of AMS (8) Conduct feasibility study for and commence implementation of Next Generation Clearing and Risk Management Systems

BOARD AND COMMITTEES

Board

INEDs

CHOW Chung Kong *[1] (Chairman)
Ronald Joseph ARCULLI *[2] GBM, GBS, JP (ex-Chairman)
CHA May-Lung, Laura *[3] GBS, JP
CHAN Tze Ching, Ignatius [4] BBS, JP
CHENG Mo Chi, Moses *[3] GBS, JP
Timothy George FRESHWATER *[5]
John Barrie HARRISON *
HUI Chiu Chung, Stephen * JP
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael * JP
John Estmond STRICKLAND GBS, JP
John Mackay McCulloch WILLIAMSON [4]
WONG Sai Hung, Oscar

Executive Director

LI Xiaojia, Charles [6] (Chief Executive)

Company Secretary

MAU Kam Shing, Joseph

Committees

Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius [7]
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON [7]

Environmental, Social and Governance Committee

CHOW Chung Kong [8] (Chairman)
Ronald Joseph ARCULLI [9] (ex-Chairman)
CHA May-Lung, Laura [3]
John Barrie HARRISON
LEE Tze Hau, Michael
LI Xiaojia, Charles

Executive Committee

CHOW Chung Kong [8] (Chairman)
Ronald Joseph ARCULLI [3] (ex-Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON [7]

Notes:

- * Government Appointed Director
- ** Appointed by the Financial Secretary
- Δ Established under Section 65 of the SFO
- 1 Appointed as Director effective 23 April 2012 and as Chairman effective 27 April 2012
- 2 Ceased chairmanship and re-appointed as Director effective 23 April 2012
- 3 Retired on 23 April 2012
- 4 Re-elected on 23 April 2012
- 5 Appointment effective 23 April 2012
- 6 Contract renewed effective 16 October 2012
- 7 Re-appointment effective 24 April 2012
- 8 Appointment effective 27 April 2012 by virtue of being HKEx's Chairman

Investment Advisory Committee

John Estmond STRICKLAND (Chairman)
WONG Sai Hung, Oscar (Deputy Chairman)
HUI Chiu Chung, Stephen
LEE Tze Hau, Michael
LUI Yin Tat, David

Nomination Committee

CHOW Chung Kong [10] (Chairman)
Ronald Joseph ARCULLI [3] (ex-Chairman)
CHAN Tze Ching, Ignatius [7]
CHENG Mo Chi, Moses [3]
Timothy George FRESHWATER [10]
John Estmond STRICKLAND
WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius [10] (Chairman)
CHA May-Lung, Laura [3] (ex-Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael
WONG Sai Hung, Oscar

Remuneration Committee

CHOW Chung Kong [10] (Chairman)
Ronald Joseph ARCULLI [9] (ex-Chairman)
CHA May-Lung, Laura [3]
CHENG Mo Chi, Moses [3]
Timothy George FRESHWATER [10]
John Barrie HARRISON
John Mackay McCulloch WILLIAMSON [7]

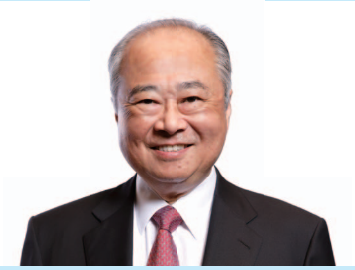
Risk Management Committee [Δ]

CHOW Chung Kong [8] (Chairman)
Ronald Joseph ARCULLI [3] (ex-Chairman)
CHAN Ngai Hang **
HE Guangbei ** [11]
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond ** [12]
LEE Tze Hau, Michael
LIU Swee Long, Michael **
LUI Kei Kwong, Keith ** [13]

9 Ceased chairmanship effective 23 April 2012 and re-appointed as member effective 24 April 2012
10 Appointment effective 24 April 2012
11 Appointment effective 20 January 2012 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited
12 By virtue of being the HKMA's Executive Director (Monetary Management) effective 20 January 2012 (formerly ad personam)
13 By virtue of being the SFC's Executive Director (Supervision of Markets) effective 20 January 2012 (formerly ad personam)

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors



CHOW Chung Kong

Chairman, INED
Aged 62

Director since 23 April 2012
Chairman since 27 April 2012
Term of office: 23 April 2012 (appointed) to 2014 AGM

Other positions held within the Group	**HKEx** – chairman of Environmental, Social and Governance Committee, Executive Committee, Nomination Committee, Remuneration Committee and Risk Management Committee **SEHK** – chairman of Listing Appeals Committee and member of Listing Nominating Committee **LME** – independent non-executive director [1], chairman of Remuneration Committee and member of Nomination Committee [2] **LMEH** – independent non-executive director [1]
Other major offices	**AIA Group Limited** * – independent non-executive director (2010~) **Anglo American plc** (listed on the London Stock Exchange and Johannesburg Stock Exchange) – independent non-executive director (2008~) **The Hong Kong General Chamber of Commerce** – chairman (2012~) **The Hong Kong Jockey Club** – steward (2011~) **World Federation of Exchanges** – director (2012~) [3]
Past offices	**Brambles Industries plc** – chief executive (2001-2003) **GKN plc** – chief executive (1997-2001) **MTR Corporation Limited** * – chief executive officer (2003-2011)
Public service [4]	**Commission on Strategic Development** – non-official member (2013~) [5] **Economic Development Commission** – non-official member and convenor of Working Group on Transportation (2013~) [6] **Executive Council of the HKSAR** – non-official member (2012~) **Hong Kong Trade Development Council** – council member (2012~) [7] **ICAC** – chairman of Advisory Committee on Corruption (2013~) [8] **The Standing Committee on Directorate Salaries and Conditions of Service** – member (2007~) **The Standing Committee on Judicial Salaries and Conditions of Service** – member (2010~)
Qualifications	**Chartered Engineer** (The Institution of Chemical Engineers, UK) **Bachelor of Science (Chemical Engineering)** (University of Wisconsin, US) **Master of Science (Chemical Engineering)** (University of California, US) **Master of Business Administration** (The Chinese University of Hong Kong) **Honorary Doctor of Engineering** (The University of Bath, UK) **Honorary Fellow** (The Chinese University of Hong Kong, The Hong Kong Institution of Engineers, and The Institution of Engineering and Technology) **Fellow** (City & Guilds of London Institute, Hong Kong Academy of Engineering Sciences, The Chartered Institute of Logistics and Transport in Hong Kong, The Institution of Chemical Engineers, and The Royal Academy of Engineering)

* Currently listed on the Stock Exchange
1 Appointment effective 6 December 2012
2 Appointments effective 13 December 2012
3 Appointment effective 15 October 2012
4 Appointment as a member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System ceased effective 1 July 2012. The change was officially announced by the Government on 17 August 2012.
5 Appointment effective 18 January 2013
6 Appointments effective 17 January 2013
7 Appointment effective 24 May 2012
8 Appointment effective 1 January 2013

LI Xiaojia, Charles

Executive Director, Chief Executive
Aged 51

Joined on 16 October 2009

Chief Executive since 16 January 2010
Ex-officio member of the Board
Term of office: renewed up to 15 October 2015

Other positions held within the Group	**HKEx** – member of Environmental, Social and Governance Committee, and Executive Committee **SEHK** – member of Listing Committee and GEM Listing Committee **HKCC, HKFE, HKSCC, SEHK** and **SEOCH** – chairman **LME** – member of Nomination Committee, Remuneration Committee and Special Committee [1] **HKEx's certain subsidiaries** – director
Other major office	**China Entrepreneurs Forum** – director (2005~)
Past offices	**Brown & Wood, New York** – associate (1993-1994) **China Vanke Co Ltd** (listed on the Shenzhen Stock Exchange) – independent non-executive director (2008-2010) **Davis Polk & Wardwell, New York** – associate (1991-1993) **J.P. Morgan China** – chairman (2003-2009) **Merrill Lynch China** (1994-2003: president (1999-2003)) **Shanghai Pudong Development Bank Co Ltd** (listed on the Shanghai Stock Exchange) – independent non-executive director (2008-2010)
Public Service	**Consulting Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen** – member (2012~)
Qualifications	**Bachelor of Arts in English Literature** (Xiamen University, China) **Master of Arts in Journalism** (University of Alabama, US) **Juris Doctor** (Columbia University, US)

1 Appointments effective 13 December 2012

Ronald Joseph ARCULLI
GBM, GBS, JP

INED
Aged 74

Director since 26 April 2006
Term of office: 23 April 2012 (re-appointed) to 2013 AGM

Other positions held within the Group	**HKEx** – member of Environmental, Social and Governance Committee, and Remuneration Committee **SEHK** – member of Listing Nominating Committee
Other major [1] offices	**Hang Lung Properties Limited** * – independent non-executive director (1980~) **HKR International Limited** * – non-executive director (1989~) **Hutchison Harbour Ring Limited** * – non-executive director (2001~) **King & Wood Mallesons** – partner/senior partner (2005~) **Power Assets Holdings Limited** * – non-executive director (1997~) **SCMP Group Limited** * – independent non-executive director (1996~) **Sino Hotels (Holdings) Limited** * – non-executive director (1994~) **Sino Land Company Limited** * – non-executive director (1981~) **Tsim Sha Tsui Properties Limited** * – non-executive director (1994~)
Past offices	**Arculli and Associates** – senior partner (2000-2005) **HKEx** – chairman (2006-2012) **Sun Hung Kai Securities Limited** – executive director (1974-1975) **Woo Kwan Lee & Lo** – partner (retired in 2000)
Public service	**Health and Medical Development Advisory Committee** – vice-chairman (2005~) **The Hong Kong Award for Young People** – honorary president (2010~) **West Kowloon Cultural District Authority** – board member (2008~)
Qualifications	**Barrister** and **Solicitor** (Hong Kong, England & Wales and Victoria of Australia) **Doctor of Laws honoris causa** (The Hong Kong University of Science and Technology) **Honorary Doctor of Social Science** (City University of Hong Kong) **Honorary fellow** (HKIoD) **Fellow** (The Hong Kong Management Association)

* Currently listed on the Stock Exchange
1 Appointments as the chairman and director of the World Federation of Exchanges ceased effective 15 October 2012

CHAN Tze Ching, Ignatius
BBS, JP

INED

Aged 56

Director since 23 April 2009

Term of office: 23 April 2012 (re-elected) to 2015 AGM

Other positions held within the Group	**HKEx** – chairman of Panel Member Nomination Committee, member of Audit Committee and Nomination Committee, and deputy chairman of Clearing Consultative Panel **HKSCC** – member of Disciplinary Appeals Committee
Other major offices	**CVC Capital Partners Limited** – senior adviser (2010~) **Larry Jewelry International Company Limited** * – independent non-executive director (2012~) [1] **Mongolian Mining Corporation** * – independent non-executive director (2010~) **Rizal Commercial Banking Corporation** (listed on The Philippine Stock Exchange, Inc.) – non-executive director (2011~) **The Bank of East Asia, Limited** * – senior adviser (2009~)
Past offices	**Bank of China (Hong Kong) Limited** – deputy chief executive (2008) **Citigroup** (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))
Public service [2]	**Greater Pearl River Delta Business Council** – member (2008~) **Investor Education Centre** (established by the SFC) – member of Executive Committee (2012~) [3]
Qualifications	**Bachelor of Business Administration** and **Master of Business Administration** (University of Hawaii, US) **Certified Public Accountant** (American Institute of Certified Public Accountants)

* Currently listed on the Stock Exchange
1 Appointment effective 28 November 2012
2 Appointment as the chairman of the Travel Industry Compensation Fund Management Board ceased effective 15 October 2012
3 Appointment effective 19 October 2012

Timothy George FRESHWATER

INED

Aged 68

Director since 23 April 2012

Term of office: 23 April 2012 (appointed) to 2014 AGM

Other positions held within the Group	**HKEx** – member of Nomination Committee and Remuneration Committee
Other major offices	**Aquarius Platinum Limited** (listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange) – independent non-executive director (2006~) **Chong Hing Bank Limited** * – independent non-executive director (1997~) **COSCO Pacific Limited** * – independent non-executive director (2005~) **Goldman Sachs (Asia) LLC** – advisory director (2012~) **Grosvenor Asia Pacific Limited** – non-executive chairman (2008~) **Savills plc** (listed on the London Stock Exchange) – independent non-executive director (2012~) **Swire Pacific Limited** * – independent non-executive director (2008~)
Past offices	**Goldman Sachs (Asia) LLC** (2001-2012: director (2001-2012); vice chairman (2005-2012); and chairman, corporate finance (2001-2004)) **HKEx** – INED (2000-2006) **Jardine Fleming** (1996-2000: chairman (1999-2000)) **Slaughter and May** (1967-1996: head of worldwide corporate practice (1993-1996) and partner (1975-1996))
Qualifications	**Solicitor** (Hong Kong, and England & Wales) **Bachelor of Laws** and **Master of Arts** (University of Cambridge, UK)

* Currently listed on the Stock Exchange

John Barrie HARRISON

INED
Aged 56

Director since 20 April 2011
Term of office: 20 April 2011 (appointed) to 2013 AGM

Other positions held within the Group	**HKEx** – chairman of Audit Committee, and member of Environmental, Social and Governance Committee, and Remuneration Committee **LME** – independent non-executive director [1], chairman of Audit and Risk Committee, and member of Remuneration Committee [2]
Other major offices	**AIA Group Limited** * – independent non-executive director (2011~) **AustralianSuper Pty Ltd** – member of Asian Advisory Committee (2012~) **BW Group Ltd** – independent non-executive director (2010~)
Past offices	**KPMG** (1977-2010: deputy chairman of KPMG International (2008-2010), chairman of KPMG's Asia Pacific region and chairman of KPMG China and Hong Kong (2003-2009), and partner of KPMG Hong Kong (1987-2009))
Qualifications	**Bachelor of Science (Mathematics)** (Durham University, UK) **Fellow** (Institute of Chartered Accountants in England & Wales) **Member** (HKICPA)

* Currently listed on the Stock Exchange
1 Appointment effective 6 December 2012
2 Appointments effective 13 December 2012

HUI Chiu Chung, Stephen
JP

INED
Aged 65

Director since 23 April 2009
Term of office: 20 April 2011 (re-appointed) to 2013 AGM

Other positions held within the Group	**HKEx** – member of Investment Advisory Committee and deputy chairman of Cash Market Consultative Panel **SEHK** – member of Disciplinary Appeals Committee
Other major offices	**China South City Holdings Limited** * – independent non-executive director (2011~) **Chun Wo Development Holdings Limited** * – independent non-executive director (2006~) **Frasers Property (China) Limited** * – independent non-executive director (2004~) **Lifestyle International Holdings Limited** * – independent non-executive director (2005~) **Luk Fook Financial Services Limited** – chairman and chief executive officer (2011~) **Luk Fook Holdings (International) Limited** * – non-executive director (1997~) **Zhuhai Holdings Investment Group Limited** * [1] – independent non-executive director (1998~)
Past offices	**HKSCC** – director (1992-1996 and 1997-2000) **OSK Holdings Hong Kong Limited** – vice-chairman (2011) and chief executive officer (2005-2011) **SEHK** – member of Listing Committee and GEM Listing Committee (2003-2009), and second vice-chairman (1995-1996 and 1997-2000) and member (1991-1996) of Council **UOB Kay Hian (Asia) Limited** – managing director (2002-2005)
Public service	**Travel Industry Council of Hong Kong** – member of Appeal Board (2007~) **Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference** – member (2006~)
Qualifications	**Fellow** (HKIoD and HKSI)

* Currently listed on the Stock Exchange
1 Formerly known as Jiuzhou Development Company Limited

KWOK Chi Piu, Bill
JP

INED
Aged 60

Director since 3 April 2000
Term of office: 20 April 2011 (re-elected) to 2014 AGM

Other positions held within the Group	**HKEx** – member of Audit Committee, Executive Committee, Panel Member Nomination Committee and Risk Management Committee, and chairman of Derivatives Market Consultative Panel **HKFE** – chairman of Disciplinary Appeals Committee
Other major offices	**HSBC Private Bank (Suisse) SA** – non-executive director (2006~) **Wing On Company International Limited** * – non-executive director (1992~) **Wing On International Holdings Limited** – executive director (1991~) **Wocom Holdings Limited** – managing director (1992~)
Past offices	**Bloomberg L.P.** – member of Asia Pacific Advisory Board (2006-2010) **HKFE** – director (1991-2000) and vice-chairman (1997-2000)
Public service	**SFC** – member of Committee on Real Estate Investment Trusts (2011~)
Qualifications	**Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, US) **Doctor of Philosophy (Biochemistry)** (University of Chicago, US) **Fellow** (HKSI)

* Currently listed on the Stock Exchange

LEE Kwan Ho, Vincent Marshall
Officer of the Order of the Crown (Belgium)

INED
Aged 57

Director since 3 April 2000
Term of office: 20 April 2011 (re-elected) to 2014 AGM

Other positions held within the Group	**HKEx** – deputy chairman of Audit Committee, member of Executive Committee and Panel Member Nomination Committee, and chairman of Cash Market Consultative Panel **SEHK** – chairman of Disciplinary Appeals Committee
Other major offices	**Kingway Brewery Holdings Limited** * – independent non-executive director (2009~) **Tung Tai Group of Companies** – chairman (2010~)
Past offices	**Coopers and Lybrand, Los Angeles & Boston** – certified public accountant (1978-1981) **HSBC group, Hong Kong & Vancouver** – senior banker (1981-1990) **Tung Tai Group of Companies** – managing director (1990-2010)
Public service	**Correctional Services Children's Education Trust Committee** – member (2011~) **Financial Services Development Council** – non-official member (2013~) [1] **Sir Murray MacLehose Trust Fund Investment Advisory Committee** – chairman (2012~) [2]
Qualifications	**Bachelor of Science in Accounting and International Finance (Magna Cum Laude)** (University of Southern California, US) **Master of Economics** (London School of Economics and Political Science, UK) **Certified Public Accountant** (State of California, US) **Fellow** (HKICPA)

* Currently listed on the Stock Exchange
1 Appointment effective 17 January 2013
2 Appointment effective 1 December 2012

LEE Tze Hau, Michael
JP

INED
Aged 51

Director since 23 April 2009
Term of office: 20 April 2011 (re-appointed) to 2013 AGM

Other positions held within the Group	**HKEx** – member of Environmental, Social and Governance Committee, Investment Advisory Committee, Panel Member Nomination Committee and Risk Management Committee, and deputy chairman of Derivatives Market Consultative Panel **HKFE** – member of Disciplinary Appeals Committee
Other major offices	**Chen Hsong Holdings Limited** * – independent non-executive director (2008~) **Hysan Development Company Limited** * – non-executive director (2010~) **MAP Capital Limited** – managing director (2007~) **The Hong Kong Jockey Club** – steward (2006~) **Trinity Limited** * – independent non-executive director (2008~)
Past offices	**Asia Strategic Investment Management Limited** – managing director (1995-2002) **Hysan Development Company Limited** * – managing director (2003-2007), chief operating officer (2002-2003) and non-executive director (1990-2002) **Lloyd George Management** – executive director (1992-1995) **SEHK** – member of Listing Committee (2004-2007) and GEM Listing Committee (2006-2007) **Tai Ping Carpets International Limited** * – independent non-executive director (1998-2010)
Public service [1]	**Beat Drugs Fund Association** – member of Investment Sub-committee (2008~) **Council of the Queen Elizabeth Foundation for the Mentally Handicapped** – member (2009~) **Hong Kong Committee for Pacific Economic Cooperation** – member (2008~) **Police Children's Education Trust Management Committee** – member (2008~) and chairman (2012~) **Police Education and Welfare Trust Management Committee** – member (2008~) and chairman (2012~)
Qualifications	**Bachelor of Arts** (Bowdoin College, US) **Master of Business Administration** (Boston University, US)

* Currently listed on the Stock Exchange

1 Appointment as a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service ceased effective 1 January 2013

John Estmond STRICKLAND
GBS, JP

INED
Aged 73

Director since 3 April 2000 **
Term of office: 22 April 2010 (re-elected) to 2013 AGM

Other positions held within the Group	**HKEx** – chairman of Investment Advisory Committee and member of Nomination Committee **SEHK** – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee
Other major offices	**Esquel Holdings Inc** – non-executive director (2001~) **Octopus Holdings Limited** – non-executive chairman (2011~)
Past offices	**HSBC, Hong Kong & London** (1971-1998 and 1966-1969) **Integrated Distribution Services Group Limited** – non-executive director (2004-2010) **The Hongkong and Shanghai Banking Corporation Limited** – chairman (1996-1998)
Public service	**Financial Reporting Council** – member (2012~) [1] **Hong Kong Internet Registration Corporation Limited** – non-executive director (2008~) and non-executive chairman (2009~)
Qualifications	**Degree in Physics** (Jesus College, University of Cambridge, UK) **Honorary Doctorate in Business Administration** (City University of Hong Kong) **Honorary Doctorate in Technology** (The Hong Kong Polytechnic University) **Distinguished fellow** (Hong Kong Computer Society) **Honorary fellow** (The Hong Kong Institute of Bankers) **Honorary university fellowship** (The University of Hong Kong) **Fellow** (The Hong Kong Management Association)

** Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board from 8 July 1999. Mr Strickland is currently an Elected Director.

1 Appointment effective 1 December 2012

John Mackay McCulloch WILLIAMSON

INED
Aged 54

Director since 18 June 2008
Term of office: 23 April 2012 (re-elected) to 2015 AGM

Other positions held within the Group	**HKEx** – member of Audit Committee, Executive Committee and Remuneration Committee
Other major offices	**SAIL Advisors Limited** – chief executive officer (2011~) **Search Investment Group Limited** – senior managing director (2012~) and chief financial officer (2007~)
Past offices	**HKEx** – member of Clearing Consultative Panel (2000-2007) **Morgan Stanley Dean Witter Asia Limited** – managing director, and head of infrastructure and operational risk (1998-2007) **NatWest Investment Services, London** – managing director (1992-1994) **NatWest Securities Asia Holdings Limited** – chief operating officer (1994-1998) **Search Investment Group Limited** – managing director (2007-2011)
Qualifications	**Bachelor of Arts (Accountancy & Computer Science)** (Heriot-Watt University, UK) **Chartered Accountant** (The Institute of Chartered Accountants of Scotland) **Fellow** (Chartered Institute for Securities and Investment, UK and HKSI)

WONG Sai Hung, Oscar

INED
Aged 57

Director since 15 April 2003
Term of office: 22 April 2010 (re-elected) to 2013 AGM

Other positions held within the Group	**HKEx** – deputy chairman of Investment Advisory Committee, member of Nomination Committee and Panel Member Nomination Committee, and chairman of Clearing Consultative Panel **HKSCC** – chairman of Disciplinary Appeals Committee
Other major offices	**ARN Investment Sicav** (listed on the Luxembourg Stock Exchange) – non-executive director (2010~) **China Bio-Med Regeneration Technology Limited** * – executive director [1] and chairman (2012~)
Past offices	**ARN Asian Enterprise Fund Limited** [2] (formerly listed on the Irish Stock Exchange) – non-executive director (2006-2012) [3] **BOCI-Prudential Asset Management Limited** – chief executive officer (2001-2005) **China Bio-Med Regeneration Technology Limited** * – non-executive director (2008-2012) [1] and vice-chairman (2009-2012) **ICBC (Asia) Investment Management Company Limited** – business adviser (2012), and chief executive and executive director (2008-2011) **INVESCO Asia Limited** – deputy chief executive (1998) **Prudential Portfolio Managers Asia** – regional managing director (1999-2000)
Public service	**Hong Kong Housing Authority** – member of Finance Committee (2008~)
Qualifications	**Higher Diploma in Business Studies (Marketing)** (The Hong Kong Polytechnic University)

* Currently listed on the Stock Exchange
1 Re-designated from non-executive director to executive director effective 23 August 2012
2 Delisted from the Irish Stock Exchange effective 22 June 2012, and is in members' voluntary liquidation
3 Appointment ceased effective 31 August 2012

Company Secretary

MAU Kam Shing, Joseph

Company Secretary and Head of Secretarial Services
Aged 54

Joined in June 2000

Past offices	**Hysan Development Company Limited** – company secretary (1988-2000) **Impala Pacific Corporation Limited** – financial controller and company secretary (1986-1988) **Deloitte Haskins & Sells** – audit senior (1981-1984)
Qualifications	**Master of Science (Business Administration)** (The University of Bath, UK) **Master of Laws in Corporate and Financial Laws** (The University of Hong Kong) **Fellow** (The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators, and Association of Chartered Certified Accountants) **Associate** (HKICPA, and Institute of Chartered Accountants in England & Wales)

Senior Management

Martin ABBOTT

Co-head of Global Markets (effective 7 January 2013)
Aged 52

Joined LME in October 2006

Other positions held within the Group	**HKEx Investment (UK) Limited** – chairman **LME** – chief executive, chairman of Executive Committee and Trustee Committee, and member of Charity Committee and Enforcement Committee
Other major offices	**LCH.Clearnet Group Limited** – non-executive director (2008~) **LCH.Clearnet Limited** – non-executive director (2008~)
Past offices	**Metal Bulletin publishing group** – president and publisher of New York based AMM LLC, and publisher and editor-in-chief of metals, minerals and mining division of London's Metal Bulletin PLC (2001-2006); joint editor (1984-1988) **Amalgamated Metal Trading Inc** – president (1998-2000) **Sogemin Metals** – president of Sogemin Metals Inc (1996-1997) and associate director of marketing (London) (1993-1996) **LME** – director of marketing (1990-1993)
Qualifications	**Bachelor of Laws** (The University of Leicester, UK)

Mark Francis DICKENS
JP

Head of Listing [1]
Aged 60

Joined in January 2009

Past offices	**Value Partners Limited** – chief risk officer (2007-2008) **HT Capital Management Limited** – adviser (2007) **HKEx** – member of Risk Management Committee (2003-2005) **SFC** – executive director of supervision of markets division (1999-2005), executive director of enforcement division (1997-1999), and senior director, assistant director and member of panel on takeovers and mergers of corporate finance division (1991-1996) **Australian Securities Commission and its predecessor, National Companies and Securities Commission** – several senior positions including national managing director, and senior director of market supervision division (1987-1991)
Public service	**SFC** – member of Advisory Committee (2009~) **Standing Committee on Company Law Reform** – member (2010~)
Qualifications	**Bachelor of Economics** and **Bachelor of Laws** (The Australian National University) **Solicitor**, **Attorney** and **Proctor** (Supreme Court of New South Wales, Australia) **Barrister** and **Solicitor** (Supreme Court of the Australian Capital Territory, the High Court of Australia and the Supreme Court of Victoria, Australia)

1 Mr Dickens will retire on 1 March 2013.

David GRAHAM

Chief Regulatory Officer and Head of Listing (Designate) [1]
Aged 54

Joined in January 2013

Other positions held within the Group	**LME** – chairman of Enforcement Committee, and member of Arbitration Committee, Audit and Risk Committee, and Special Committee
Past offices	**Nomura** – global head of legal and general counsel, wholesale division (2011-2013) **UBS** (2004-2011: global/co-global general counsel (UBS Investment Bank) (2008-2011), group general counsel (Europe, Middle East and Africa) (2009-2011), and general counsel (Asia Pacific) (2004-2008)) **Morgan Stanley** – general counsel, Asia ex-Japan (2001-2004) **Freshfields Bruckhaus Deringer LLP** (1982-2001: partner (1991-2001))
Public service	**UK Takeover Panel** – member of the Code Committee (2012~)
Qualifications	**Master of Arts in Jurisprudence** (The University of Oxford, UK) **Solicitor** (Hong Kong, and England & Wales)

1 Mr Graham will succeed Mr Mark Dickens, the current Head of Listing, upon Mr Dickens' retirement on 1 March 2013.

Gerald Dale GREINER

Head of Global Clearing
(effective 7 January 2013)
Aged 56

Joined in May 2004

Other positions held within the Group	**HKSCC** – chief executive, and member of Risk Management Committee
Past offices	**SEHK** – chief executive (2007-2013), and member of Compensation Committee (2008-2013) **HKFE** – chief executive (2004-2013) **HKEx** – Chief Operating Officer (2007-2013), Deputy Chief Operating Officer and Head of Exchange Division (2004-2007) **SFC** – senior director of supervision of markets division (1989-2004) **US Securities and Exchange Commission** – various senior executive positions (1984-1989)
Qualifications	**Bachelor of Science in Economics** (Allegheny College, US) **Juris Doctor** (University of Toledo College of Law, US)

James Henry Carre INGROUILLE

Chief Operating Officer
(effective 4 January 2013)
Aged 42

Joined in July 2012

Past offices	**HKEx** – Chief Administrative Officer (2012-2013) **Morgan Stanley** (1994-1997, 1999-2012: managing director (2006-2012); global head of collateral management (2008-2011)) **Bankers Trust Company (Hong Kong)** – Asia head, network management (1997-1999) **London Stock Exchange** – international relations analyst (1992-1994)
Qualifications	**Bachelor of Science in Computational Linguistics** and **Modern Languages** (University of Manchester, UK)

Romnesh LAMBA

Co-head of Global Markets
(effective 7 January 2013)
Aged 49

Joined in February 2010

Other positions held within the Group	**SEHK** – chief executive, and member of Compensation Committee **HKFE** – chief executive **LME** – member of Enforcement Committee, Special Committee, and Trustee Committee
Past offices	**HKEx** – Head of Market Development (2010-2013) **J.P. Morgan (Hong Kong)** – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010) **Merrill Lynch (Asia Pacific)** (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006)) **Indosuez W.I. Carr Securities (Hong Kong)** – head of equity capital markets and director, investment banking (1997-2000)
Qualifications	**Bachelor of Science in Economics (Magna Cum Laude)** and **Master of Business Administration (Distinction)** (The Wharton School, University of Pennsylvania, US)

LAW Man Wai, Henry

Chief Communications Officer
(effective 7 January 2013)
Aged 58

Joined in January 1988

Past offices	**HKEx** – Head of Corporate Communications (2000-2013) **SEHK** – Head of Corporate Communications (1988-2000) **Ogilvy and Mather Public Relations (Hong Kong) Limited** – senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988) **Michael Stevenson Limited** – advertising and public relations executive (1974-1982)

Diarmuid O'HEGARTY

Deputy Chief Executive, LME
Aged 51

Joined LME in 1998

Other positions held within the Group	**LME** – executive director of Regulation and Compliance, and member of Executive Committee and Trustee Committee
Other major office	**Federation of European Securities Exchanges** – director (2006~)
Past offices	**LME** – general counsel and head of enforcement (1998-2004) **The Securities and Futures Authority of the UK** – deputy director and head of legal (1994-1998) **Richards Butler** – solicitor (1990-1994) **Cawley Sheerin Wynne** – solicitor (1989-1990)
Qualifications	**Bachelor of Arts in History** (Trinity College Dublin, Ireland) **Solicitor** (England & Wales, and Ireland)

WONG Oi Ming, Christine

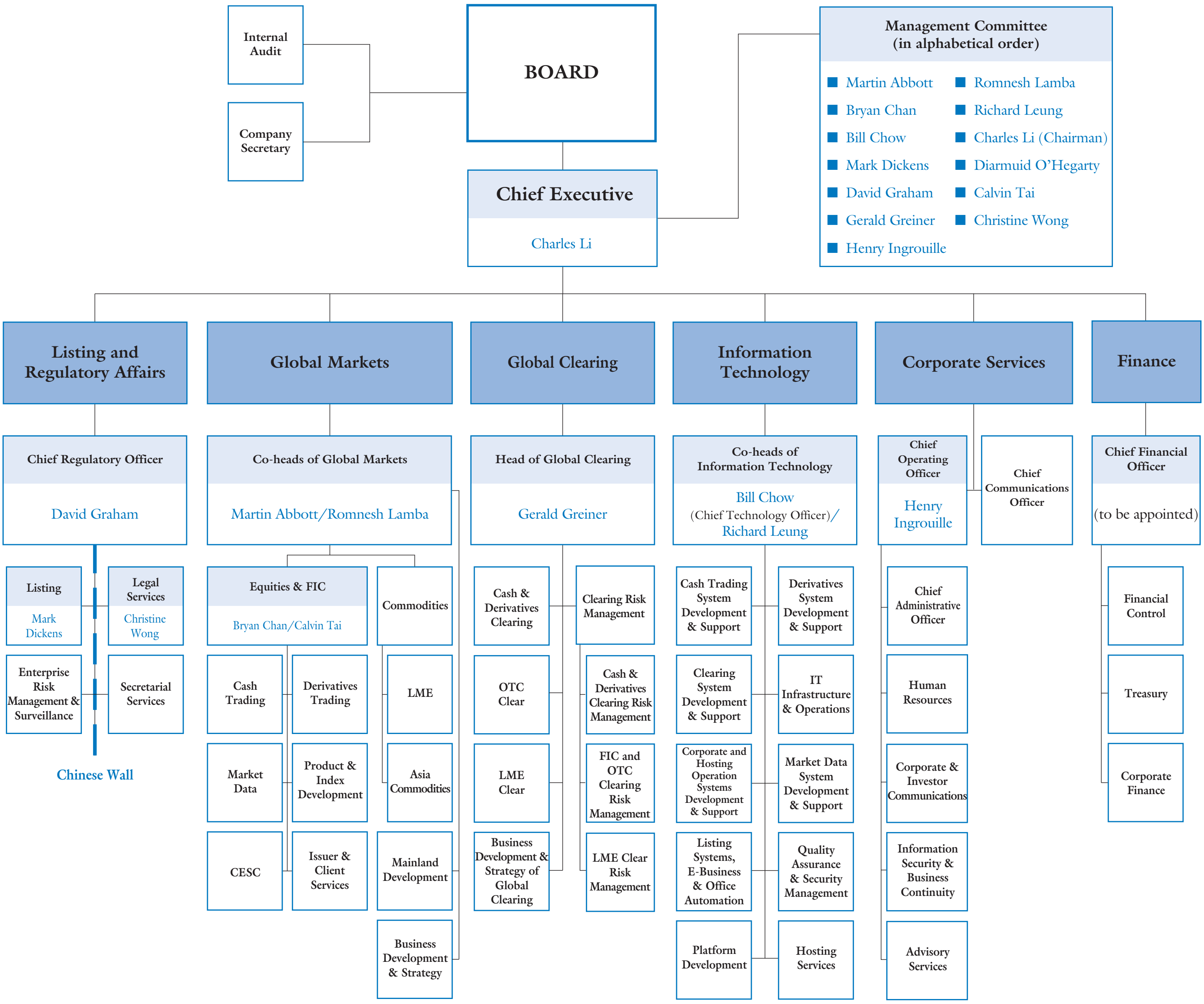
Chief Counsel and
Head of Legal Services
Aged 50

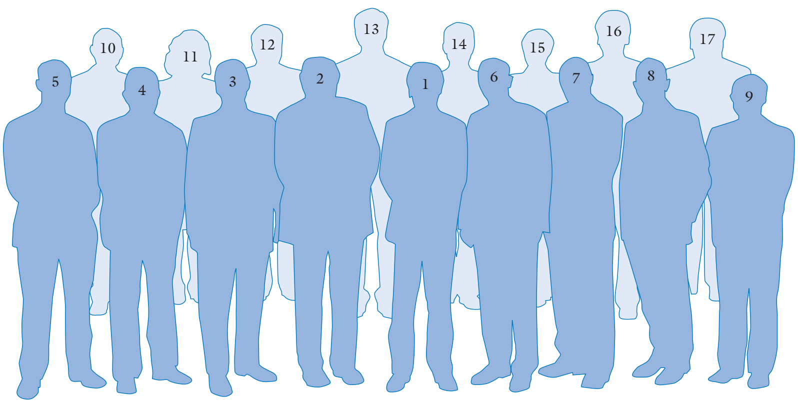
Joined in June 2010

Past offices	**Linklaters** – consultant (2001-2010) **SFC** (1995-2001: senior director (2000-2001) and director (1997-2000) of corporate finance) **Freshfields Bruckhaus Deringer LLP** – associate (1992-1995)
Qualifications	**Bachelor of Laws** (The University of Hong Kong) **Solicitor** (Hong Kong, and England & Wales)

Messrs Martin Abbott, David Graham, Gerald Greiner, Henry Ingrouille and Romnesh Lamba also hold position as a director in certain HKEx's subsidiaries.

ORGANISATION CHART





1 Charles Li
2 Gerald Greiner
3 Martin Abbott
4 Mark Dickens
5 Henry Ingrouille
6 Romnesh Lamba
7 David Graham
8 Diarmuid O'Hegarty
9 Bill Chow
10 Pont Chiu
11 Christine Wong
12 Richard Leung
13 Calvin Tai
14 Bryan Chan
15 Yang Qiumei
16 Joseph Mau
17 Henry Law

BUSINESS REVIEW

Major Achievements (2012) and Key Initiatives (2013)

Listing and Regulatory Affairs › Listing

2012

- Published consultation papers on the following topics:
  - trading halts;
  - amendments to the Listing Rules consequential on the statutory backing to continuing obligation to disclose inside information; and
  - board diversity
- Published consultation conclusions on the following topics:
  - Environmental, Social and Governance Reporting Guide;
  - amendments to the Listing Rules consequential on the statutory backing to continuing obligation to disclose inside information; and
  - board diversity
- Issued a guide on connected transaction Rules
- Issued a guide on enhancing regulation of the listed structured products market
- Published guidance on listing of business trusts and stapled securities
- Pursued simplification of listing documents and procedures
- Worked with the SFC on a revised Joint Policy Statement regarding the listing of overseas companies and other related guidance
- Reviewed and promoted Hong Kong Depositary Receipt regime
- Continued developing closer regulatory cooperation with other exchanges

2013

- Publish consultation conclusions on trading halts
- Publish consultation on further review of the connected transaction Rules
- Pursue further simplification of listing documents and procedures
- Publish a revised Joint Policy Statement regarding the listing of overseas companies and other related guidance
- Review disclosure requirements of Appendix 16 to the Main Board Listing Rules with reference to International Financial Reporting Standards/HKFRSs
- Review operation of Chapter 18 of the Main Board Listing Rules (Mineral Companies)
- Amendments to Listing Rules and procedures to complement the SFC's reform of the sponsor regime

Listing and Regulatory Affairs › Enterprise Risk Management and Surveillance

2012

- Obtained the Board's approval for enhancements of the HKEx Market Contingency Plan Framework
- Reported significant risks to the Senior Management Committee, the Risk Management Committee and the Board based on the HKEx Enterprise Risk Management (ERM) Framework
- Enhanced management reports on bank guarantee collateral
- Developed and implemented the Counterparty Risk Ranking Methodology to enhance monitoring of EPs and CPs
- Developed and implemented Securities Markets Automated Research, Training & Surveillance (SMARTS) resilience for enhancing SMARTS backup arrangement

2013

- Refine the HKEx ERM Framework to enable business functions in assessing and managing risks from new HKEx business activities and environment
- Enhance Large Open Position system to support HKEx's new products
- Review Counterparty Risk Ranking Methodology for ranking EPs and CPs
- Enhance SMARTS surveillance system to synchronise with the OMD and HKEx new products development

Global Markets › Cash and Derivatives Trading

2012

- Implemented Phase 2 changes to the trading hours in the Cash Market and Derivatives Market
- Revised selection criteria for designated securities eligible for short selling
- Implemented trade reporting requirements for automated trading services (ATS) transactions
- Facilitated launch of 35 new ETFs traded on the Exchange with a wide range of underlying assets
- Organised training courses related to AMS/3
- Organised and participated in 20 ETF related events to promote the ETF market
- Prepared systems for introduction of AHFT
- Introduced Dynamic Price Banding mechanism for spot Mini-HSI Futures
- Introduced HSI Volatility Index Futures
- Introduced BRICS futures under the BRICS Exchanges Alliance
- Organised Continuous Professional Training (CPT) courses on HKATS operations and trading procedures
- Held briefing sessions and seminars on derivatives organised under joint promotion programme with EPs

2013

- Work with EPs to facilitate launch of the OCG for the Cash Market
- Continue promoting the ETF market to retail investors, institutional investors, and intermediaries
- Define the functional requirements for the OTP for the Cash Market
- Introduce AHFT
- Extend Dynamic Price Banding mechanism to spot HSI Futures and spot H-shares Index Futures
- Implement business initiatives under the Stock Options Revamp project
- Conduct CPT courses jointly with the HKSI on HKEx's products and services
- Organise training courses and briefings related to HKEx's products and services for EPs

Global Markets › RMB Business

2012

- Facilitated launch of 4 RQFII A-share ETFs traded on the Exchange
- Established the Dual Counter model for RQFII A-share ETFs as well as for equity
- Admitted 6 RMB-traded securities (1 equity security, 4 ETFs, and 1 REIT) into the TSF
- Facilitated launch of 3 RMB-traded DWs traded on the Exchange
- Introduced RMB Currency Futures based on USD/CNH currency pair
- Completed system readiness for trading and clearing of RMB-traded futures and options
- Expanded coverage of the TSF beyond RMB-traded shares to RMB-traded equity-related ETFs and REITs
- Streamlined the registration process for TSF Participants
- Further enhanced IT infrastructure and functionalities to support RMB products

2013

- Facilitate launch of more RQFII A-share ETFs
- Introduce options and futures based on RQFII A-shares ETFs
- Explore diversification of RMB currency futures
- Continue working with CPs and other market participants in their preparation for RMB derivatives business

Global Markets › LME

2012

- Launched LMEswaps contracts
- Introduced the Exchange User Fee
- Launched live forward price curve
- Admitted the first Chinese member
- Continued engagement on behalf of the members with governmental bodies
- Broadened education and outreach efforts in Asia and the Indian Sub-Continent
- Held inaugural LME Week Asia
- Continued CSR activities with the Tower Hamlets Education Business Partnership

2013

- Develop products and services relevant to Asia
- Realise Asian expansion strategy in commodities
- Continue to refine existing products and services
- Develop OTC bullion clearing service
- Develop and build a trade repository
- Ensure European Market Infrastructure Regulation (EMIR) readiness for LME, LCH.Clearnet Limited, and LME Clear
- Continue to engage with stakeholders through the existing committee structure and via consultations
- Continue to engage with global and regulatory bodies in ongoing regulatory discussions

Global Markets › Market Data

2012

- Rolled out the end-user licence agreement for the Cash Market data products
- Introduced commercial package for non-display usage of the Cash and Derivatives Market data
- Incorporated the GFIS for the launch of the Mainland Market Data Hub (MMDH) in Shanghai
- Enriched historical data products
- Promoted the Basic Market Price Service to the Mainland and other markets
- Promoted market data business in the mainland of China

2013

- Roll out a suite of market data product feeds for the Cash Market after the launch of the OMD
- Launch and promote the MMDH in Shanghai
- Implement commercial package for non-display usage of the Cash and Derivatives Market data
- Review reference data products
- Continue promoting market data business in the mainland of China

Global Markets › CESC

2012

- Signed joint venture agreement with Shanghai Stock Exchange and the Shenzhen Stock Exchange, which led to the establishment of the CESC
- Launched CES China 120 Index (CES120), the first index in the new CESC Cross Border Index Series

2013

- Develop sub-indices including a pure A-shares index and a Hong Kong Mainland index based on CES120 constituents
- Introduce other cross-border indices under CESC Cross Border Index Series
- Introduce CESC Cross Border Index Series products such as futures and options

Global Markets › Product and Index Development

2012

- Promoted the BRICS Exchanges Alliance initiative and BRICS futures to investors and other market participants
- Worked with other BRICS alliance members to build liquidity in BRICS futures
- Worked with other BRICS alliance members to complete a request for proposals to develop a composite index comprising listings from members' markets

2013

- Work with other BRICS alliance members to expand second phase initiatives in developing a set of composite indices across asset classes representing markets in Brazil, Russia, India, China, and South Africa
- Expand CNH currency product series
- Initiate new product development in fixed income, currency and derivatives based on indices

Global Markets › Mainland Development

2012

- Signed an MOU with the Ministry of Finance of the PRC on listing and trading of RMB-denominated sovereign bonds
- Signed MOUs on cooperation and exchange of information with 7 Mainland counterparts and authorities
- Organised 4 Hong Kong exchange programmes for CSRC

2013

- Sign MOUs with other relevant entities in line with HKEx's Mainland strategy
- Continue organising Hong Kong exchange programmes tailored to the professional needs of relevant Mainland authorities as appropriate

Global Markets › Issuer and Client Services

2012

- Organised 23 seminars and conferences and participated in over 60 conferences in Hong Kong, the mainland of China and overseas to promote listing in Hong Kong
- Conducted 55 trips to the mainland of China and 18 trips to overseas markets to meet potential applicants for a listing in Hong Kong
- Co-organised and participated in listing promotion activities for mining and energy companies and other companies
- Conducted over 130 meetings with provincial governments as well as the PRC Central Government regulators and authorities
- Conducted approximately 1,000 meetings with prospects and influencers, and worked closely with influencers to identify and pursue major upcoming IPOs

2013

- Continue listing promotion activities in Hong Kong, the mainland of China and selected overseas markets to help attract quality companies to list in Hong Kong
- Continue promoting RMB fundraising opportunities at HKEx
- Continue promoting HKEx's strength as a listing centre for Mainland and overseas mining and energy companies with business nexus with the mainland of China
- Continue collaborating with government units and associations to host promotional events locally and internationally
- Continue identifying industry-specific potential issuers
- Continue promoting HKEx's products and services to listed companies, other market participants and potential issuers

Global Clearing › Cash and Derivatives Clearing

2012

- Enhanced the processing of SIs to settle in any eligible currency (ie, HKD, RMB or USD) in CCASS
- Standardised the money settlement arrangements with all Settlement Banks of HKCC
- Admitted new equity securities of an international issuer from Japan into CCASS
- Admitted Dual Counter RMB-traded equity securities of an issuer into CCASS
- Admitted 35 new ETFs (including 4 RQFII A-share Dual Counter ETFs), 6,056 new CBBCs, 5,886 new DWs (including 3 DWs traded in RMB), 21 bonds (including 6 RMB-traded bonds issued by the Ministry of Finance of the PRC and 1 iBond issued by the Government) into CCASS
- Enhanced DCASS for the introduction of AHFT

2013

- Continue supporting the SFC's preparation of subsidiary legislation for a scripless securities market in Hong Kong
- Continue working on clearing and settlement arrangements to facilitate the listing of international issuers in Hong Kong
- Perform self-assessment of observance of principles for financial market infrastructures issued by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO)

Global Clearing › OTC Clear

2012

- Worked with the Government and regulators to introduce interim legislative measures to enable voluntary clearing of OTC derivatives in Hong Kong
- Incorporated OTC Clear to operate the OTC derivatives clearing business
- Drafted and consulted with the market on the rules and procedures of OTC Clear
- Completed system development for new OTC clearing platform and prepared for testing with clearing members
- Marketed OTC clearing services to banks and licensed corporations and supported their on-boarding
- Discussed with a group of banks to offer them minority stakes in OTC Clear

2013

- Finalise approval from the SFC for OTC Clear to be a recognised clearing house
- Introduce OTC clearing services, initially on interest rate swaps and non-deliverable forwards, and expand product coverage
- Introduce client clearing services
- Enhance collateral management service
- Seek recognition as an approved clearing house in the European Union and the US

Global Clearing › LME Clear

2012

- Established the LME Clear Programme and commenced the platform system implementation work
- Conducted regular meetings with Member Working Groups to collect comments on legal, operations and IT development
- Designed LME Clear's business process model and appointed key suppliers and partners for the LME Clear Programme
- Conducted regular briefings for members and independent software vendors

2013

- Complete business and risk policies, secure payment system, collateral management functionality, and detailed default management rules and procedures
- Deliver core clearing and risk technology platforms and start functional and member testing
- Implement required corporate governance arrangements for LME Clear
- Submit central counterparty authorisation application to the UK and European regulatory authorities

Global Clearing › Clearing Risk Management

2012

- Published consultation conclusions on proposed Clearing House Risk Management Reform Measures and implemented the following measures:
  - introduced a standard margin system and a Dynamic Guarantee Fund at HKSCC;
  - revised certain price movement assumptions in clearing houses' stress testing;
  - revised counterparty default assumption in stress testing;
  - revised collateral assumptions at HKCC and SEOCH; and
  - introduced various means of financial support to reduce impact of risk management reform on CPs
- Enhanced risk management monitoring and control of concentration, country and affiliation risks of bank guarantors with affiliates that are CPs, General CPs, bank facility providers, designated banks, settlement banks, structured product issuers, and/or structured product guarantors
- Implemented Counterparty Risk Ranking Methodology and applied it to all HKSCC, HKCC, and SEOCH CPs
- Initiated daily calculations of multiple scenarios of clearing house liquidity stress testing as part of ongoing liquidity planning strategic development
- Delivered risk management measures to support:
  - Phase 2 changes to trading hours in the Cash and Derivatives Markets;
  - clearing of RMB-traded products;
  - listing of international issuers in Hong Kong;
  - introduction of BRICS futures; and
  - launch of AHFT
- Achieved the following as part of risk management framework development for OTC clearing business:
  - established prudential risk management policies which are denoted in rules and procedures of OTC Clear;
  - implemented a robust risk modelling infrastructure reviewed and validated by a qualified third party; and
  - developed and back-tested a margin/pricing model reviewed by independent third party for compliance with international standards (CPSS-IOSCO's principles and requirements of The Financial Services Authority of the UK)

2013

- Conduct detailed assessment on degree of observance of counterparty risk management related standards specified in principles for financial market infrastructures issued by CPSS and IOSCO and develop action plans to close any significant gaps identified
- Implement post-launch enhancements to the HKSCC margin and Dynamic Guarantee Fund systems for better reporting capability and operational flexibility
- Collaborate with HKEx's Treasury to enhance emergency liquidity management planning of clearing houses to achieve desired level of observance of new industry standards applicable to liquidity risk
- Review and develop a portfolio margining policy applicable to HKCC and SEOCH
- Continue delivering appropriate risk management support and solutions to facilitate successful delivery of HKEx's new products and services
- Prepare on-boarding and market rehearsal activities for potential clearing members before launch of OTC clearing services
- Assess addition of asset classes to expand OTC clearing services

Information Technology › HKEx Orion Programme

2012

- Migrated the Cash Market trading network to SDNet/2
- Achieved technical readiness of the OMD for the Cash Market for initial customer testing and finalised requirements of the OMD for the Derivatives Market
- Developed the OMD for launch of the MMDH
- Commenced development of the OCG allowing increased efficiency for EPs' access to the Cash Market
- Held briefings and technical seminars on the OCG and BSS vendor exhibitions for EPs and/or system vendors
- Completed a proof-of-concept exercise for the OTP
- Commenced migration of HKATS/DCASS to the Genium INET

2013

- Complete migration of network circuits for EPs and IVs of the Derivatives Market and the Cash Clearing to SDNet/2
- Launch the OMD for the Cash Market and prepare for introduction of the OMD to the Derivatives Market
- Launch the MMDH for distribution of the Cash Market data in the mainland of China
- Launch the OCG for the Cash Market
- Commence development of the OTP for the Cash Market
- Complete migration of HKATS/DCASS to the Genium INET

Information Technology › Hosting Services

2012

- Developed commercial offerings and introduced them to potential market users through information sessions and trade conferences
- Launched the Hosting Services to provide support for the Cash Market trading

2013

- Continue promoting the Hosting Services business to the market
- Roll out the Hosting Services for the Derivatives Market trading

Information Technology › Other IT initiatives

2012

- Commenced a programme to implement various security enhancement initiatives as recommended in an IT security risk and infrastructure review completed in 2012
- Completed relocation of IT office and primary data centre for the Cash Market to the TKO Data Centre
- Upgraded capacity of HKATS to cope with growth of options business
- Launched HKEx Mobile and HKEx Group website

2013

- Continue proceeding with IT security enhancement programme
- Complete relocation of data centres for the Derivatives Market and the Cash Clearing to the TKO Data Centre

Listing and Regulatory Affairs

Listing

Review of Listing Rules

After taking into account the market comments collected from a public consultation, the Corporate Governance Code was revised with effect from 1 April 2012. New Code provisions were introduced, including, inter alia, the requirement of publishing updated lists of directors with their roles and functions identified, and the terms of reference of issuers' nomination, remuneration, and audit committees. A vast majority of issuers had adopted the new Code provisions before the effective date.

Proposals on Listing Rules amendments made in 2012 and proposals under review in 2013 are set out in the following tables.

Proposals made in 2012	Consultation Paper *	Consultation Conclusions *	Effective date of changes (if any)
• Trading Halts – to allow publication of price sensitive information announcements during trading hours subject to a short halt in trading in shares of the issuer	Jul 2012	Feb 2013 (tentatively)	Subject to consultation conclusions
• Rule Changes Consequential on the Enactment of the Securities and Futures (Amendment) Ordinance 2012 to Provide Statutory Backing to Listed Corporations' Continuing Obligation to Disclose Inside Information	Aug 2012	Nov 2012	1 Jan 2013
• Board Diversity – to include a Code provision requiring an issuer to adopt a policy concerning board diversity and to disclose the policy or a summary of the policy in its corporate governance report	Sept 2012	Dec 2012	1 Sept 2013

* All the consultation papers and conclusions are available on the HKEx website.

Proposals under review in 2013

- Consultation on further review of the connected transaction Rules
- Work with the SFC to issue a revised Joint Policy Statement regarding the listing of overseas companies and other related guidance
- Further simplification of listing documents and procedures
- Review operation of Chapter 18 of the Main Board Listing Rules (Mineral Companies)
- Review disclosure requirements of Appendix 16 to the Main Board Listing Rules with reference to International Financial Reporting Standards/HKFRSs
- Amendments to the Listing Rules and procedures to complement the SFC's reform of the sponsor regime

Environmental, Social and Governance Reporting Guide

The consultation conclusions on the Environmental, Social and Governance Reporting Guide (ESG Guide) were published in August 2012 after a 4-month consultation. The ESG Guide was introduced as a recommended practice applicable to issuers with financial year ended after 31 December 2012. Subject to further consultation, HKEx plans to raise the obligation level of some requirements to "comply or explain" by 2015.

Throughout 2012, HKEx provided talks and seminars, and participated in conferences organised by professional bodies and industry groups to explain the ESG Guide to interested parties.

Guide on Enhancing Regulation of Listed Structured Products Market

In July 2012, HKEx published the Guide on Enhancing Regulation of the Listed Structured Products Market, which embraces a number of regulatory enhancement measures focusing on: (i) the enhancement of issuers' internal controls and the standardisation of listing documents; (ii) the improvement of liquidity provision standards; and (iii) the management of issuers' credit risks.

The Guide was introduced to foster higher standards across structured products issuers and liquidity providers with the ultimate objective of strengthening protection for investors and promoting the healthy long-term development of the listed structured products market in Hong Kong.

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Exchange in processing new listings, and monitoring issuers' compliance with an aim of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Statistics of IPO work

	2012	2011
• Number of listing applications vetted	**205** [1]	286
• Number of first comment letters issued to new listing applicants	**111** [2]	212
– Average time (in calendar days) between receipt of application and issuance of first comment letter	**15**	16
• Number of applications brought to the Listing Committees (or their delegates) for decisions	**83**	147
– Number of applications reviewed by the Listing Committees (or their delegates) within 120 calendar days	**27**	85
– Number of applications reviewed by the Listing Committees (or their delegates) within more than 180 calendar days	**26**	17
• Number of applications to which approval was granted in principle	**84** [3]	167
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications to which responses were made	**106**	165
– Average response time (in calendar days)	**6**	7
• Number of listing applications for transfer of listing from GEM to the Main Board accepted	**10**	14

Notes:

1 141 were new applications and 64 applications were brought forward from 2011.
2 The number was smaller than the total number of new applications accepted because a number of cases (eg, investment vehicles seeking listing under Chapter 20 of the Main Board Listing Rules and transfer of listing from GEM to the Main Board) required no comments from the Listing and proceeded to the approval process directly. Including transfers of listing from GEM to the Main Board, the number of first comment letters issued was 114 and the average number of days taken was 15.
3 As at the end of 2012, 15 approved applications had not yet been listed, and 20 approved applications lapsed during the year.

Number of IPO transactions

	2012	2011	2010	2009	2008
• New listing applications accepted	**141**	247	204	123	137
• Applications listed	**100**	112	141	93	57
– Companies listed on the Main Board under Chapter 8	**50**	75	94	64	29
– Investment vehicles listed on the Main Board	**35**	10	27	19	7
– Transfer of listing from GEM to the Main Board	**2**	12	12	4	18
– Companies listed on GEM	**12**	13	7	5	2
– Deemed new listings	**1**	2	1	1	1
• New listing applications rejected	**8**	3	2	0	1
• New listing applications withdrawn	**12**	1	9	3	8
• Applications in process as at year-end	**50**	64	39	31	27
• Active applications with approval granted but not yet listed at year-end	**15**	51	23	12	24

Number of compliance and monitoring actions

	2012	2011	2010	2009	2008
• Announcements of issuers vetted	**42,124**	32,508	32,099	27,588	20,784
– Pre-vetted	**147**	151	188	1,589	4,266
– Post-vetted [1]	**41,977**	32,357	31,911	25,999	16,518
• Circulars of issuers vetted	**1,643**	1,565	1,782	1,731	2,849
– Pre-vetted	**1,155**	1,228	1,344	1,275	2,761
– Post-vetted	**488**	337	438	456	88
• Share price and trading volume monitoring actions undertaken [2]	**3,947**	4,507	5,091	8,112	8,439
– Clarification announcements published by issuers in response to enquiries on unusual share price and/or trading volume movements	**348** [3]	360	328	840	2,627
• Enquiries raised about press reports [4]	**77**	156	221	311	536
– Clarification announcements published by issuers in response to enquiries about press reports	**27**	35	55	81	43
• Complaints handled	**604**	657	630	599	516
• Cases (including complaints) referred to Listing Enforcement Department for investigation	**35**	58	59	54	86

Notes:

1 Including clarification announcements published by issuers in response to unusual share price and/or trading volume movements in their securities

2 In 2012, monitoring actions undertaken included 694 enquiries (2011: 693) on unusual share price and trading volume movements, and the actions undertaken led to 53 resumption announcements (2011: 59) on trading suspensions addressing dissemination of unpublished price sensitive information.

3 Including 160 qualified announcements (2011: 184) and 188 standard negative announcements (2011: 176)

4 Figures cover written enquiries only. The Exchange also raised verbal enquires to issuers in relation to press reports. In 2012, there were 168 verbal enquiries and 44 of them resulted in clarification announcements published by issuers.

Post-vetted announcements

	2012	2011
Subject to detailed post-vetting *	**10,037**	9,448
Required follow-up actions by issuers (eg, clarification announcements)	**21%**	22%
Involved Listing Rules non-compliance	**14%**	15%
Required follow-up actions by the Exchange	**3%**	4%

* Representing 24 and 29 per cent of all post-vetted announcements in 2012 and 2011 respectively

Key initiatives by the Exchange in 2012 to promote issuers' self-compliance with the Listing Rules

- Published a series of listing decisions and frequently asked questions providing further guidance on Listing Rules
- Issued periodic letters to issuers on Listing Rules amendments and provided guidance on frequently asked questions about topics such as disclosure obligations and connected transactions
- Published a Plain Language Guide on connected transactions to facilitate issuers' understanding of the relevant requirements

Under the Financial Statements Review Programme, the Exchange reviews, on a sample basis, the periodic financial reports published by issuers. The 2012 review included 120 financial reports released by issuers between May 2011 and September 2012. It resulted in: (i) 4 cases that were referred to the Financial Reporting Council for its enquiry and/or investigation into issuers' possible non-compliance with accounting requirements, or auditing irregularities in the preparation of published financial statements; and (ii) 3 cases that were referred to the HKICPA for its independent enquiry and/or investigation into its members' possible non-compliance with the auditing and accounting standards issued by the HKICPA. In January 2013, the Exchange published a report of key findings and observations from its 2012 review. It was the fourth report since the programme began and is available on the HKEx website.

The Exchange encourages directors and other persons responsible for financial reporting to take note of the matters discussed in the report and to review their existing financial reporting systems to ensure that the information presented in their financial reports is: (i) specific, relevant, and material; (ii) in compliance with the disclosure requirements; and (iii) useful to users in making investment decisions.

Communication with Issuers

The Exchange has continued its programme of issuer education and market outreach to issuers and other stakeholders with a view to promoting issuers' self-compliance with the Listing Rules and facilitating mutual understanding of regulatory issues through continued dialogue. Some of the key events held in 2012 are highlighted below.

Event	Place	Purpose of event
• Seminar on simplification of listing documents	Hong Kong	To provide market practitioners with an interactive forum to familiarise them with the simplified approach for a succinct and informative listing document
• Media workshop on listed structured products market regulations	Hong Kong	To promote market awareness of HKEx's listed structured products regulatory enhancement initiatives
• 5 seminars on the new inside information disclosure regime and connected transactions	Beijing, Hong Kong, and Shanghai	To promote issuers' self-compliance with the Listing Rules and facilitate mutual understanding of regulatory issues

Operational Efficiency

The following table summarises the Exchange's service standards for monitoring and guidance actions as well as its subsequent responses to issuers' actions. It is the Exchange's objective to continue improving the transparency, quality, efficiency, and predictability of its service.

		% of cases meeting service standard	
Service for initial responses	**Service standard**	**2012**	2011
• Pre-vetting activities			
– Initial response to pre-vetted announcements	Same day	**90%**	77%
– Initial response to pre-vetted circulars (very substantial acquisition)	10 business days	**97%**	95%
– Initial response to pre-vetted circulars (other than very substantial acquisition)	5 business days	**98%**	98%
• Issuer enquiries [1]			
– Initial response to issuer's enquiries	5 business days	**93%**	96%
• Waiver applications [2]			
– Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	**95%**	93%
• Post-vetting activities			
– Initial response to post-vetted results announcements	5 business days	**98%**	99%
– Initial response to post-vetted announcements (other than results announcements)	1 business day	**100%**	96%

Notes:

1 In 2012, 435 written enquiries (2011: 393) on Listing Rules interpretations and related matters were handled.

2 In 2012, 256 waiver applications (2011: 262) from strict compliance with requirements under the Listing Rules were processed.

Long Suspension

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

	Main Board		GEM	
	2012	2011	**2012**	2011
Resumption of trading of securities during the year	**23**	10	**4**	2
Cancellation/withdrawal of listing during the year	**3**	2	**1**	0
Companies in the 3rd stage of delisting	**5**	4	**N/A**	N/A
Companies notified of the Exchange's intention to cancel their listing	**1**	0	**3**	2
Companies suspended for 3 months or more	**43**	39	**10**	11

Listing Enforcement

In the enforcement of the Listing Rules, the Exchange adopts the strategy of (i) referring cases of egregious conduct which may involve a breach of the SFO to the SFC; (ii) referring cases of suspected violations of laws and other rules and regulations to the appropriate law enforcement agencies such as the ICAC and the Commercial Crime Bureau of the Hong Kong Police; (iii) taking disciplinary actions against serious breaches of the Listing Rules; and (iv) issuing warnings or taking no action for other less serious conduct, where appropriate.

When the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and provide support to the SFC. After the SFC's completion of an investigation, the Exchange will consider if a reactivation of its investigation is required. Under this arrangement, the Exchange has suspended the investigation of 12 cases.

The Exchange will also provide other law enforcement agencies with technical advice on the application of the Listing Rules in given circumstances, and witness statements to support their prosecutions.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of the issuer. Compliance with some of the important obligations can be achieved through compliance systems and internal controls. Directors may be subject to disciplinary sanctions should they be held liable for substantive breaches of Listing Rules by the issuer. In addition, they may be subject to disciplinary sanctions should they be held liable for failing to create and maintain adequate internal controls by which compliance can be achieved.

During 2012, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions on the issuers or directors by the Listing Committees. There are currently 6 cases at different stages of the disciplinary process. The number of disciplinary hearings and review hearings increased from 10 in 2011 to 20 in 2012 (14 hearings regarding disciplinary actions were concluded in the year and 6 hearings for those disciplinary actions which remained ongoing as at year-end), resulting in the need for a heavy commitment of regulatory resources.

Number of disciplinary actions

	2012	2011	2010	2009	2008
Investigations [1, 2]	**91** [3, 4]	142	133	147	171
Public censures [5]	**8**	6	7	4	10
Public statements/criticisms [5]	**0**	3	1	4	5
Private reprimands	**4**	0	1	1	0
Warning/caution letters [6]	**20** [7]	42	27	28	68

Notes:

1 Figures cover investigations in progress carried forward from the preceding year but concluded during the year; and investigations commenced during the year.

2 The average time for completion of an investigation (at which point in time a decision as to the level of regulatory action (if any) is taken) was 10.8 months for cases in which the investigation commenced in 2011 and 2012 (5.6 months, as disclosed last year, for cases in which investigations commenced in 2010 and 2011).

3 Due to the increased complexity of the suspected breaches and parties (including individuals and corporations) involved in investigations in 2012, there were 37 outstanding cases (89 per cent of which commenced in 2012) as at the end of 2012 as compared to 31 cases (all commenced in 2011) as at the end of 2011.

4 In 2012, 1 case originating from a complaint was subject to enforcement investigation, and which might give rise, after investigation, to disciplinary proceedings.

5 Figures represent only the primary regulatory action from a disciplinary matter, and exclude any other actions taken at a lower level, eg, private reprimand in the same case.

6 The warning and caution letters were primarily delivered by the Listing in circumstances where action before the Listing Committees was not considered appropriate.

7 The reduction in the number of warning and caution letters issued in 2012 as compared to 2011 was primarily due to the fact that in 2011 the Exchange conducted investigations into a number of cases involving possible directors' securities dealings in breach of the Listing Rules, which accounted for a larger number of investigations conducted and a significant proportion of the warning or caution letters issued in 2011.

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

	2012	2011	2010	2009	2008
Executive directors	**37**	17	30	20	67
Non-executive directors	**12**	7	4	10	17
Independent non-executive directors	**17**	15	18	16	26
Total	**66***	39	52	46	110

* As at the end of 2012, a total of 51 executive directors, non-executive directors, and independent non-executive directors were subject to ongoing disciplinary action in which their cases were at various stages of the process or subject to settlement negotiations.

To further improve the efficiency of investigations, training on investigation techniques was offered to staff of the Listing in 2012. Improvements continue on the internal decision-making structures so as to enable earlier identification of serious misconduct and breaches of the Listing Rules. This helps facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process. Continued improvements have been made to enhance transparency of the disciplinary process by providing the market with increasing details in the announcements of any disciplinary actions taken. The relevant information as to the imposed public sanctions is available on the HKExnews website.

In addition, the Exchange continues to make recommendations to the Listing Committees on remedial action to correct breaches and to improve corporate governance in the future, including: (i) an obligation to retain external assistance in the creation of adequate and effective compliance structures or revisions resulting in such structures; and (ii) a requirement for directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of, and performance in, compliance matters. Proposed revisions to the procedures for the disposal of disciplinary matters were submitted to the Listing Committees for their consideration in November 2012, after which a soft consultation involving legal practitioners has been commenced. The consultation findings will be reported to the Listing Committees who will decide how and when to proceed.

Number of contested or settlement cases

	2012	2011	2010	2009	2008
Involving "Internal Control Review" direction	**4**	1	1	6	4
Involving "Retention of Compliance Adviser" direction	**7**	1	5	5	5
Involving "Training of Directors" direction	**10**	7	6	7	4

Listing Operations

During 2012, a total of 5,982 DW listing applications (2011: 7,089) and 6,090 CBBC listing applications (2011: 5,394) were processed. In addition, a total of 109 new debt securities (2011: 50), including Exchange Fund Notes and Government Bonds, were listed in 2012.

Number of DWs

	2012	2011	2010	2009	2008
Newly listed DWs	**5,886**	6,917	7,826	4,230	4,822
Further issues of DWs	**96**	172	410	204	209
Delisted DWs	**6,166**	8,038	6,045	3,874	6,294
DWs listed as at year-end	**3,747**	4,027	5,148	3,367	3,011
Percentage change in number of listed DWs	**(7%)**	(22%)	53%	12%	(33%)

Number of CBBCs

	2012	2011	2010	2009	2008
Newly listed CBBCs	**6,056**	5,334	6,541	8,072	4,231
Further issues of CBBCs	**34**	60	93	49	50
CBBC knockouts	**4,432**	4,087	4,835	5,899	2,837
Delisted CBBCs	**1,311**	1,410	2,334	1,795	211
CBBCs listed as at year-end	**1,214**	901	1,064	1,692	1,314
Percentage change in number of listed CBBCs	**35%**	(15%)	(37%)	29%	903%

The Latest Listed Company Information section, which housed a total of 1,523,305 archived issuer documents for public access free of charge as at the end of 2012, remained one of the most popular sections on the HKExnews website during 2012. The Exchange also administers the filing and publication of Disclosure of Interests (DI) notices through the HKExnews website in accordance with the SFC's requirements and specifications under Part XV of the SFO.

Primary market information statistics (Main Board and GEM)

	2012	2011	2010	2009	2008
Number of issuer news filings processed by the Exchange	**224,050** [1]	201,597	202,492	191,266	143,410
Hit rates for HKExnews website (m)	**341**	288	235	176	121
Number of searches for issuer documents (m)	**44** [2]	35	33	25	22
Number of DI filings processed by the Exchange	**49,905**	53,480	49,958	46,574	54,965
Hit rates for DI filings (m)	**168**	117	38	27	28

Notes:

1 The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control).

2 80 per cent of searches were responded to within 0.14 seconds (excluding the Internet transmission time which is beyond HKEx's control).

Enterprise Risk Management and Surveillance

Enterprise Risk Management Framework

In 2012, HKEx conducted regular reviews of all identified significant risks across the organisation based on the HKEx ERM Framework as well as identified and assessed new significant risks on different areas such as credit, liquidity, market, operational and strategic, using a common platform and standardised process. All identified significant risks were scored in terms of their potential impact and likelihood, and were reported to the Senior Management Committee (renamed and restructured as Management Committee from 7 January 2013), the Risk Management Committee and the Board with associated action plans and controls designed to mitigate the risks, where applicable, at appropriate levels.

Counterparty Surveillance

In September 2012, HKEx enhanced the monitoring of EPs and CPs by introducing a dynamic risk-based participant surveillance tool, Counterparty Risk Ranking Methodology. EPs and CPs are analysed and ranked based on a set of quantitative and qualitative factors to determine their risk level and provide a structured and proactive approach in monitoring each of them.

Number of failures to comply with financial requirements and position limits requirements

	2012 *	2011	2010	2009	2008
Financial requirements					
EPs	**5**	5	3	11	7
CPs	**8**	9	11	16	8
Position limits requirements					
Derivatives contracts	**0**	0	1	0	3
Stock options contracts	**3**	5	2	3	1

* In 2012, 3 cases involving violation of the SFO were referred to the SFC; and other cases were issued compliance advice letters.

HKEx has continued to perform due diligence check on new applications for registration as EPs, CPs, and market makers, including reviewing applicants' financial and internal control capability and their compliance with HKEx requirements on market making affiliate and corporate entity.

Number of new applications

	2012	2011	2010	2009	2008
EPs and CPs	**43**	52	38	11	21
Market makers	**28**	10	13	8	8

Market Surveillance

HKEx conducted a number of investigations on the trading activities of EPs in 2012. Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred 24 cases to SFC for further investigation of possible violations of the codes, rules and regulations made by the SFC relating to HKEx's securities and derivative markets. These cases mainly involved suspected market manipulation and false trading activities.

In 2012, HKEx developed a SMARTS resilience system to enhance its surveillance capability and business continuity in monitoring market activities on a real-time and continuous basis.

Global Markets

Cash Trading

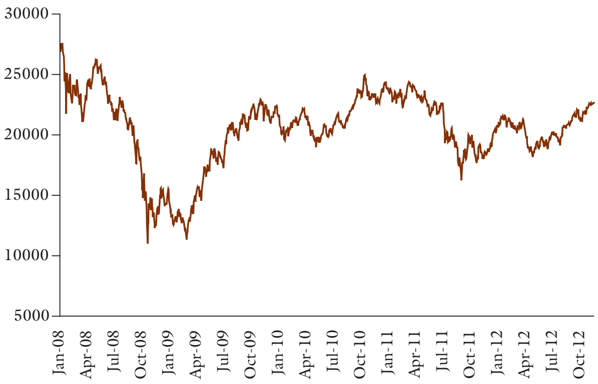
Market Performance

In 2012, 52 companies were newly listed on the Main Board (including 2 transfers from GEM), and 12 on GEM. Total capital raised, including post-listing funds, reached $305.4 billion. As at 31 December 2012, 1,368 and 179 companies were listed on the Main Board and GEM respectively with a total market capitalisation of $21,950.1 billion. In addition, there were 3,747 DWs, 1,214 CBBCs, 100 ETFs, 9 REITs, and 269 debt securities listed as at 31 December 2012. The average daily turnover value in 2012 was $53.7 billion on the Main Board and $135.8 million on GEM, a decline of 23 per cent and 47 per cent respectively as compared with 2011.

Closing indices (as at year-end)

	2012	2011	Change
HSI	22656	18434	23%
HSCEI	11436	9936	15%
Hang Seng China-affiliated Corporations Index	4531	3682	23%
S&P/HKEx LargeCap Index	27082	22252	22%
S&P/HKEx GEM Index	381	474	(20%)

HSI (01/2008 – 12/2012)



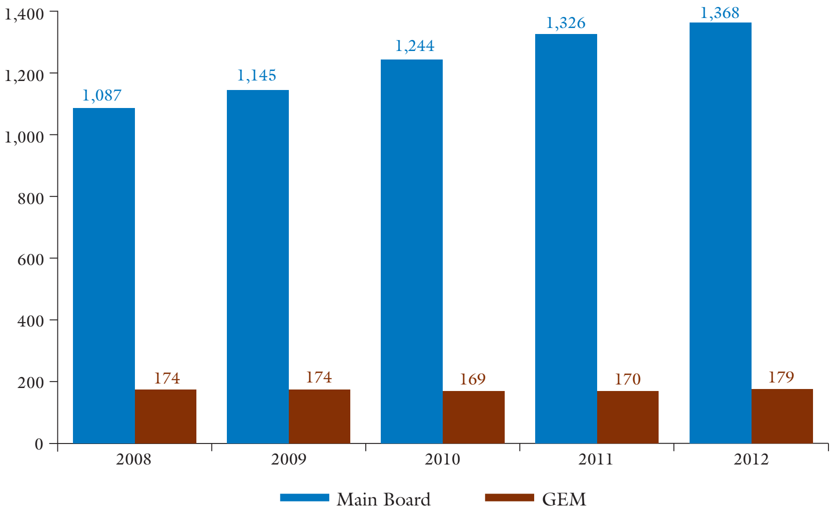
S&P/HKEx GEM Index (01/2008 – 12/2012)

Market performance of Main Board and GEM

	Main Board			GEM		
	2012	2011	Change	2012	2011	Change
IPO funds raised ($bn)	89	259	(66%)	1.1	1.3	(16%)
Market capitalisation as at year-end ($bn)	21,872	17,453	25%	78	85	(7%)
Number of listed companies as at year-end	1,368	1,326	3%	179	170	5%
Number of listed securities as at year-end	6,723	6,551	3%	180	172	5%
Total turnover value ($bn)	13,268	17,091	(22%)	34	63	(46%)
Average daily turnover value ($m)	53,715	69,476	(23%)	136	256	(47%)

Note: Figures have been rounded.

Number of listed companies (as at year-end)

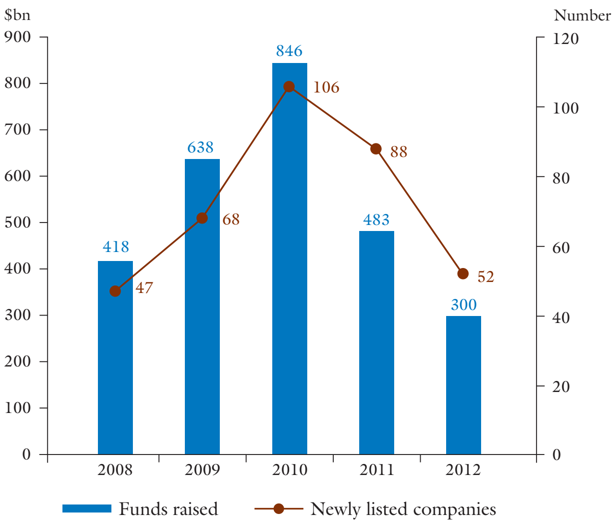


Number of listed companies by industry classification * – Main Board and GEM (as at year-end)

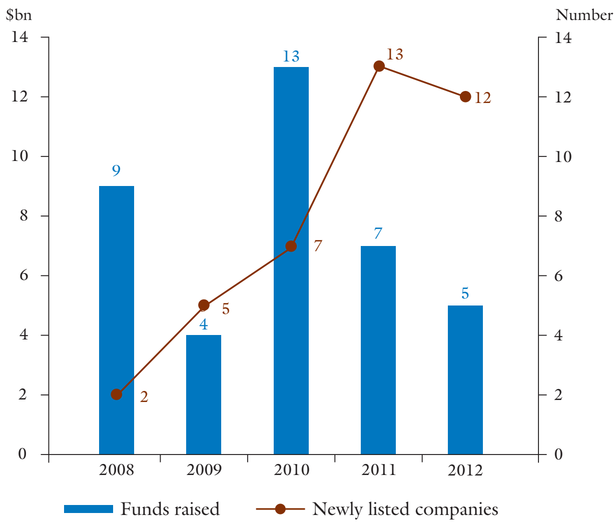
	2012	2011	2010	2009	2008
Energy	**74**	63	52	44	34
Materials	**140**	132	123	105	93
Industrial Goods	**140**	119	120	111	113
Consumer Goods	**370**	388	359	330	327
Services	**243**	230	212	209	198
Telecommunications	**18**	18	18	18	17
Utilities	**43**	43	39	32	24
Financials	**126**	117	109	102	100
Properties & Construction	**216**	203	198	191	174
IT	**163**	161	160	154	158
Conglomerates	**14**	22	23	23	23
Total	**1,547**	1,496	1,413	1,319	1,261

* According to the Hang Seng Indexes Company Limited

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

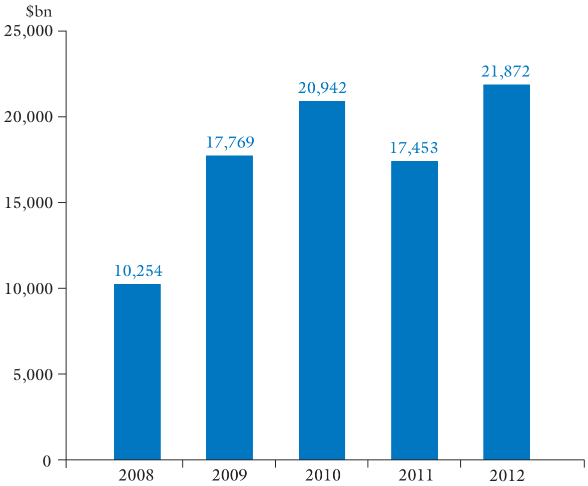


**GEM –
Total equity funds raised and number of newly listed companies**

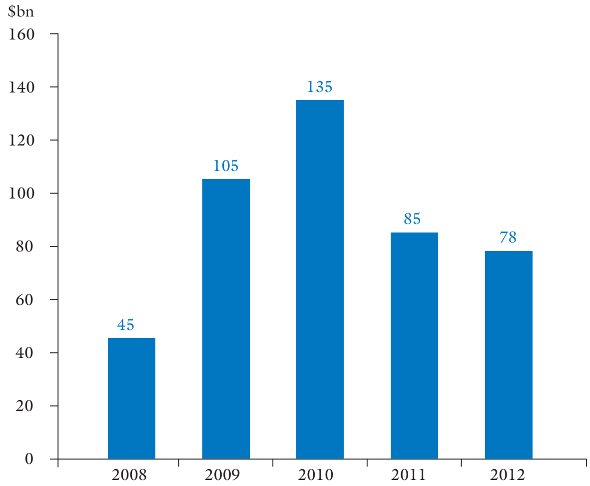


* Including the number of companies transferred from GEM
Note: Figures have been rounded.

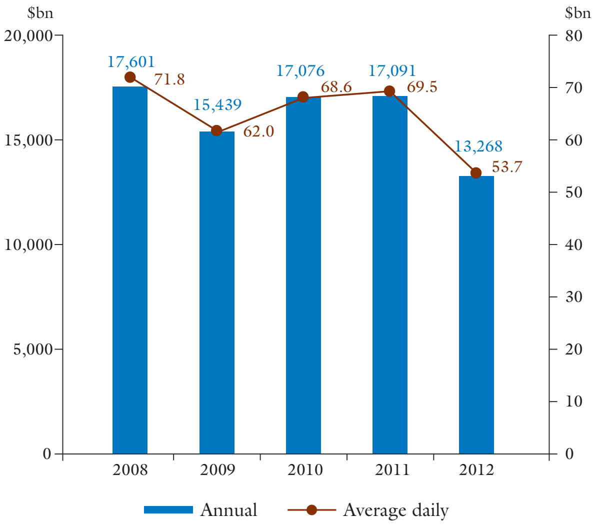
Main Board – Market capitalisation (as at year-end)



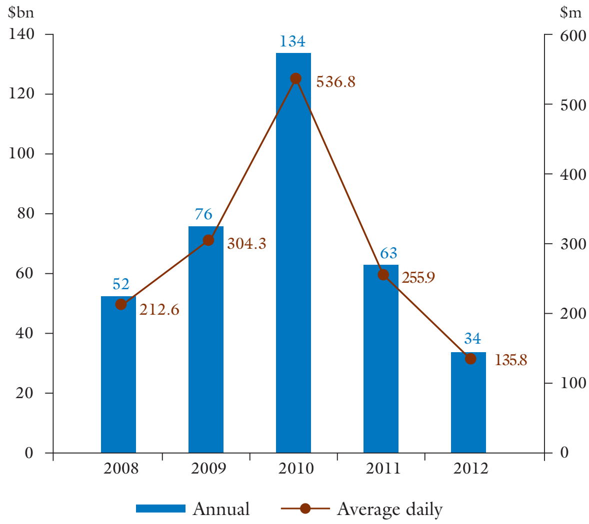
GEM – Market capitalisation (as at year-end)



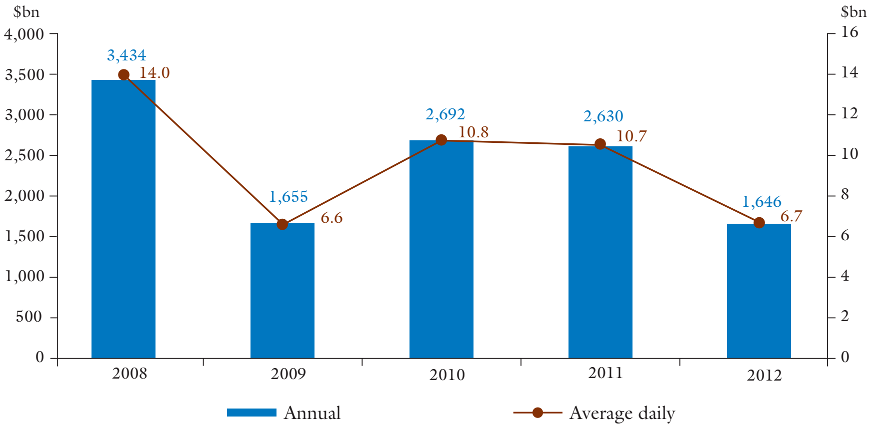
Main Board – Total annual and average daily turnover value



GEM – Total annual and average daily turnover value

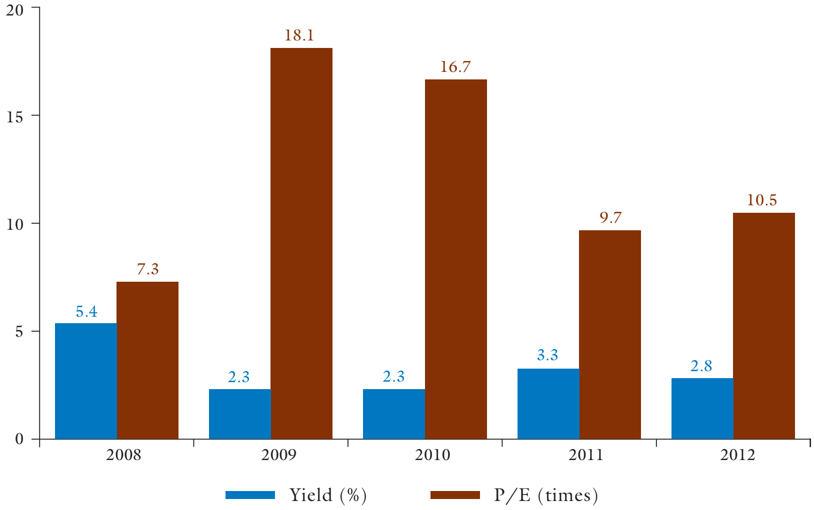


Main Board – Total annual and average daily turnover value of DWs



Note: Figures in the above diagrams have been rounded.

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



Main Board – New listings

	2012	2011	2010	2009	2008
Listed Companies *	**52**	88	106	68	47
Preference Shares	**0**	0	1	0	0
Warrants	**5,889**	6,924	7,838	4,241	4,840
Equity Warrants	**3**	7	12	11	18
DWs	**5,886**	6,917	7,826	4,230	4,822
CBBCs	**6,056**	5,334	6,541	8,072	4,231
Debt Securities	**109**	50	38	23	20
Unit Trusts and Mutual Funds	**35**	9	27	19	7

* Including the number of companies transferred from GEM

ETF Market Development

Hong Kong's ETF market had a record year in 2012 in terms of both the number of new ETF listings as well as developments in product variety and trading mechanisms.

There were 35 ETFs newly listed on the Exchange during the year (2011: 8), including the first 4 RQFII ETFs, which are all traded in both RMB and HKD counters, and the first silver and platinum ETFs. The new ETFs track a diversified range of underlying benchmarks. As at 31 December 2012, HKEx had 100 listed ETFs, 21 ETF managers, and 24 ETF market makers.

Underlying benchmark of ETF newly listed in 2012	Number
Regional markets	15
Global and regional industry sectors	7
A-share markets	4
Hong Kong market	4
Precious metals	4
Money market	1

In 2012, the total turnover of ETFs amounted to $522 billion (2011: $545 billion), accounting for 4 per cent of the total market turnover (2011: 3 per cent). There was a higher turnover of ETFs in the fourth quarter of 2012 which contributed more than 6 per cent of total market turnover during the period (2011: 3 per cent). The increase was mainly attributed to a higher turnover of 4 RQFII ETFs after their HKD counters commenced trading in the fourth quarter and increased trading in the Tracker Fund of Hong Kong.

The Group is honoured to have received the "Best Asian Exchange for Listing ETFs" award for the second consecutive year from "etfexpress", a website that covers the ETF industry.

New Trading Hours

Following a series of market simulations in February 2012 to assist EPs and IVs in verifying their readiness, the second phase of the new trading hours in the Cash and Derivatives Markets was implemented smoothly on 5 March 2012.

Trading hours in Cash Market *

Pre-opening session	09:00-09:30
Morning session	09:30-12:00
Afternoon session	13:00-16:00
Total trading hours	5.5

* For a normal trading day

Tightening of Eligibility Criteria for Designated Securities for Short Selling

As a result of the growth in the average market capitalisation of listed companies in Hong Kong and the increase in market turnover velocity in the past decade, HKEx implemented changes to the criteria for designated securities for short selling in July 2012. The new criteria are related to the minimum market capitalisation and turnover velocity, now $3 billion (previously, $1 billion) and 50 per cent (previously, 40 per cent) respectively.

Trade Reporting Requirements for Automated Trading Services Transactions

An ATS transaction is a transaction executed or concluded or entered into through "automated trading services" provided by an EP under a licence granted by the SFC for trading in listed securities. To improve the market transparency of ATS transactions, EPs with ATS operations are required, with effect from October 2012, to report their ATS transactions with an identifier into AMS/3 immediately, and in any case, within 1 minute after the conclusion of the transactions. The aggregate ATS transaction turnover value is published on the HKEx website on a monthly basis.

Derivatives Trading

Market Performance

In 2012, the turnover of H-shares-related products was noteworthy, with all-time highs in some cases. Various other contracts also reached new record levels, setting new standards for one-day volume and open interest.

	% of year-on-year increase in turnover
H-shares Index Futures	6
HSCEI Dividend Point Index Futures	248
H-shares Index Options	67

Record high volume and open interest for major derivatives in 2012

	Volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
H-shares Index Futures	27 Nov	227,986	21 Dec	260,943
Mini H-shares Index Futures	–	–	24 Apr	6,684
HSI Dividend Point Index Futures	1 Aug	3,000	28 Dec	8,024
HSCEI Dividend Point Index Futures	24 May	20,802	29 Oct	77,555
USD/CNH Futures *	14 Nov	950	14 Dec	3,850
HSI Options	–	–	27 Jun	560,087
Mini-HSI Options	18 May	13,917	29 May	32,651
H-shares Index Options	14 Sept	67,677	27 Dec	926,985
Flexible HSI Options	24 Oct	3,575	2 Nov	17,878

* Launched on 17 September 2012

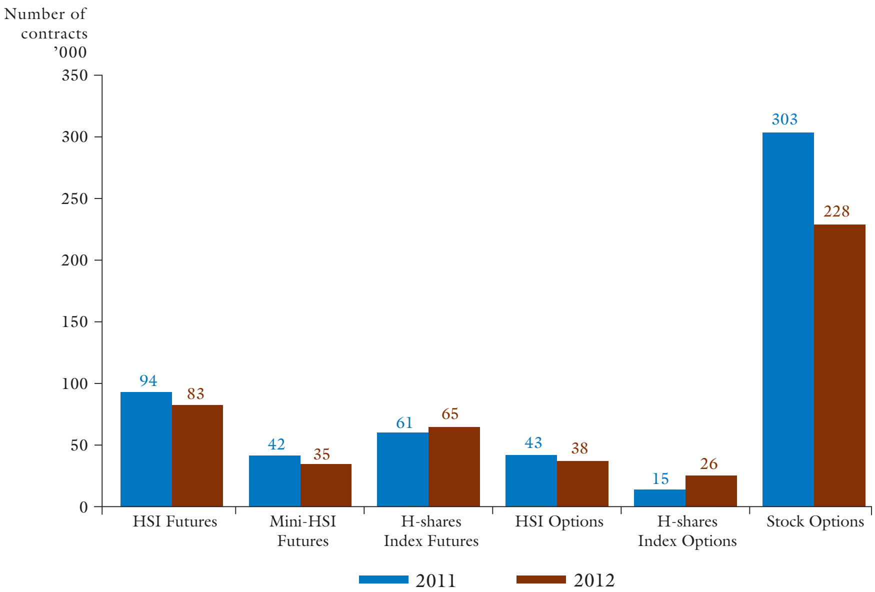
Derivatives Market statistics

	2012		2011	
	Volume	**Period-end open interest**	Volume	Period-end open interest
	Number of contracts	**Number of contracts**	Number of contracts	Number of contracts
Futures				
HSI Futures	**20,353,069**	**139,344**	23,085,833	86,409
Mini-HSI Futures	**8,545,847**	**6,638**	10,294,537	5,129
H-shares Index Futures	**15,923,813**	**181,909**	15,003,870	106,277
Mini H-shares Index Futures	**1,560,515**	**2,276**	1,845,116	1,520
HSI Dividend Point Index Futures	**20,793**	**1,969**	11,196	4,460
HSCEI Dividend Point Index Futures	**184,786**	**48,879**	53,054	34,270
HSI Volatility Index Futures [1]	**1,526**	**8**	–	–
IBOVESPA Futures [2]	**7**	**0**	–	–
MICEX Index Futures [2]	**8**	**0**	–	–
Sensex Index Futures [2]	**190**	**0**	–	–
FTSE/JSE Top40 Futures [2]	**0**	**0**	–	–
Stock Futures	**322,715**	**19,516**	444,014	11,277
1-Month HIBOR Futures	**10**	**0**	245	25
3-Month HIBOR Futures	**150**	**0**	414	24
3-Year Exchange Fund Note Futures	**0**	**0**	0	0
USD/CNH Futures [3]	**20,277**	**3,673**	–	–
Gold Futures	**2**	**0**	3,716	0
Total	**46,933,708**	**404,212**	50,741,995	249,391
Options				
HSI Options	**9,230,145**	**260,785**	10,667,426	184,402
Mini-HSI Options	**1,230,997**	**12,363**	954,414	3,873
H-shares Index Options	**6,300,889**	**589,342**	3,771,799	158,628
Flexible HSI Options	**14,183**	**9,468**	9,260	7,510
Flexible H-shares Index Options	**11,171**	**9,821**	23,510	3,500
Stock Options	**56,081,545**	**4,031,961**	74,325,068	5,329,494
Total	**72,868,930**	**4,913,740**	89,751,477	5,687,407
Total Futures and Options	**119,802,638**	**5,317,952**	140,493,472	5,936,798

Notes:

1 Launched on 20 February 2012
2 Launched on 30 March 2012
3 Launched on 17 September 2012

Average daily turnover of major derivatives



After-hours Futures Trading

In November 2012, HKATS introduced a Dynamic Price Banding mechanism for Mini-HSI Futures. This enhanced feature is aimed at mitigating risk arising from input errors by rejecting all limit buy/sell orders outside the prevailing upper/lower price band. With this system refinement in place, HKEx's trading and clearing systems are all ready for the implementation of AHFT. Simulation tests were held for EPs and CPs intending to participate in AHFT to verify the readiness of their trading and clearing activities and associated operations. With the SFC's approval of the related rule amendments, HKEx plans to introduce AHFT on 8 April 2013, under which HSI and H-shares Index Futures will be available for trading from 17:00 to 23:00 (after-hours trading) in addition to the regular trading sessions (ie, 9:15 to 12:00 and 13:00 to 16:15). Mini futures contracts and Gold Futures will be considered for inclusion in AHFT at a later stage. HKEx will arrange briefing sessions for Participants in early March 2013 to explain the trading, clearing and risk management arrangements for AHFT.

Introduction of New Futures and Options Contracts

HSI Volatility Index Futures was introduced for trading in February 2012 to provide investors with a single futures contract for hedging volatility risk in, or obtaining pure volatility exposure to, Hong Kong's stock market.

On 30 March 2012, the Futures Exchange introduced 4 HKD-denominated benchmark equity index futures – Brazil's IBOVESPA futures, Russia's MICEX Index futures, India's Sensex Index futures, and South Africa's FTSE/JSE Top40 futures. These contracts enable investors to get exposure to the BRICS markets through HKEx. Meanwhile, HSI and/or H-shares Index futures were cross-listed on each of the BRICS exchanges.

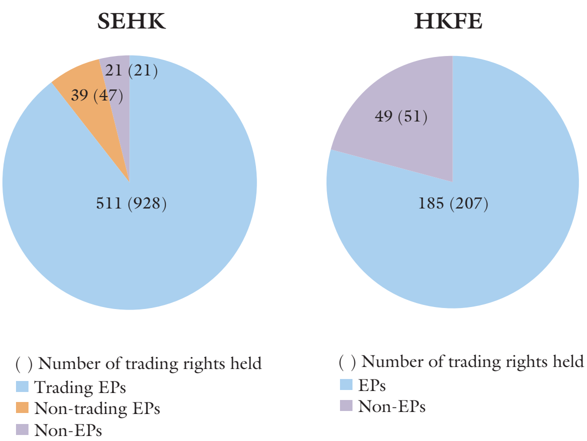
To further broaden the option classes at HKEx, 3 new stock option classes, Galaxy Entertainment Group Limited, Sands China Ltd, and Standard Chartered PLC, were introduced for trading in 2012, while stock options for the HKD-traded CSOP FTSE China A50 ETF and ChinaAMC CSI 300 Index ETF were introduced in early 2013.

Participant Services

At the end of 2012, there were 550 SEHK Participants and 185 HKFE Participants, including 22 SEHK Participants and 16 HKFE Participants admitted in 2012.

HKEx and the HKSI jointly organised 15 CPT courses on HKATS operations and trading procedures in 2012. There were also 7 training courses related to AMS/3. In addition, a total of over 6,400 people participated in 64 briefing sessions and 30 seminars on derivatives organised under HKEx's joint promotion programme with EPs.

Number of Participants/Trading Rights Holders (as at the end of 2012)



RMB Business

Introduction of RMB Products

In 2012, a number of milestones were set in HKEx's RMB product development which reinforced Hong Kong's position as a leading offshore RMB centre.

Following the Mainland's approval in April 2012 of the use of the RQFII quota to issue RMB-denominated ETFs tracking A-share indices for listing on the Exchange, 4 RQFII A-share ETFs were listed on the Exchange in 2012, and all of them are traded under the Dual Counter model (ie, HKD and RMB counters). The addition of RQFII A-share ETFs broadens HKEx's RMB product offerings and provides investors with an additional product choice of investment in A-shares. The Dual Counter model facilitates investors' trading in RMB.

RQFII A-share ETF	Benchmark index
ChinaAMC CSI 300 Index ETF	CSI 300 Index
CSOP FTSE China A50 ETF	FTSE China A50 Index
E Fund CSI 100 A-Share Index ETF	CSI 100 Index
Harvest MSCI China A Index ETF	MSCI China A Index

In October 2012, the listing of RMB-traded shares issued by Hopewell Highway Infrastructure Limited on the Exchange (in addition to its HKD-traded shares) marked the debut of the first RMB-traded equity security outside the mainland of China. In December 2012, the first DW traded in RMB was listed on the Exchange.

The RMB Currency Futures contract introduced for trading by HKEx in September 2012 is based on the currency pair, USD and CNH, and was the world's first deliverable RMB currency futures to be quoted, margined and settled in RMB. The new futures contract provides RMB users a tool for managing RMB exchange rate risk exposure. Regulatory approval of the relevant rule amendments has been obtained for the introduction of RMB-traded options on RMB-traded equity securities listed on the Exchange, and those products will be introduced when opportunities arise.

Number of RMB products traded on SEHK or HKFE as at the end of 2012

Equity security [1]	1
Debt securities	47
ETFs [2]	5
DWs	3
REIT	1
Currency Futures	1

Notes:

1 Traded under the Dual Counter model
2 Including 4 ETFs traded under the Dual Counter model

Enhancements to trading and clearing infrastructure

In 2012, HKEx further enhanced its trading and clearing infrastructure to support the launch of RMB products.

Enhancements to improve HKEx's service capability for RMB products

- the TSF suspension function to support requirements of partner banks under extreme market volatility conditions
- the automated order rejection by AMS/3 upon full consumption of the TSF funding pool
- the extension of coverage of the TSF beyond RMB-traded shares to equity-related ETFs and REITs traded in RMB
- CCASS enhancement to facilitate file uploading of multi-counter transfer instructions by Participants with high transaction volume
- CCMS enhancement to facilitate margin offset between products of different settlement currencies including RMB

The registration process for TSF Participants was streamlined in January 2013, whereby EPs which fulfil the TSF registration criteria with overall readiness may apply to be TSF Participants directly without the need to complete the mandatory system testing prescribed by HKEx. As at the end of 2012, there were 6 TSF securities and 45 TSF Participants.

LME

Market Performance

Trading volume in LME contracts rose by almost 10 per cent in 2012 coming on the back of a 22 per cent increase in 2011 and resulting in truly impressive compound growth, especially when compared with the exchange industry more generally where any increase in turnovers was a rare event during 2012. This positive outcome was mainly due to the fact that commodities and metals in particular, are essential to the growth of emerging economies, and the work done to modernise and stabilise the IT aspects of the trading infrastructure, making LME more accessible to participants.

Implementation of the Exchange User Fee

Upon the approval of a new Exchange User Fee to be charged on client contracts in December 2011, the Exchange User Fee was refined to exclude short-dated carries (anything from Tom (ie, the next business day) to 15 days inclusive), and was set at US$0.79 per lot. Implementation of the new Exchange User Fee allows LME to maintain an appropriate investment programme, to maintain its regulatory capital requirements, and to continue to grow in an increasingly competitive market. The impact on LME of the introduction of the Exchange User Fee will be kept under constant review.

Operation of LME's Approved Warehouses

In April 2012, the load out rate for the largest warehouses was doubled to 3,000 tonnes per day. As a consequence, the LME warehouse network delivered out 2.3 million tonnes of aluminium alone during 2012. Nevertheless, LME decided that a further revision to load out rates would be appropriate, requiring that in certain circumstances from 1 April 2013, an additional 500 tonnes per day of a metal other than the dominant metal in any given warehouse should be loaded out, and on top of that, up to 60 tonnes per day of nickel and tin (combined) should be loaded out. These, all amount, in some instances, to an increase in the load out rate of nearly 140 per cent since March 2012.

LME will keep the operation of the warehousing system under constant review and will continue to tune the system when such tuning is both necessary and effective.

Impact of New European Market Infrastructure Regulation

The introduction of the new EMIR regulatory environment has had a major impact on LME and its members, though the full force of the changes will not be felt until 2014/2015. Certain assumptions that were made when LME Clear was first mooted have had to be dramatically revised, and the operation of LME's core systems is impacted by the need to make trading, and particularly clearing, EMIR compliant. From LME's perspective, there will be opportunity in the EMIR-driven changes, including the potential for the construction of a trade repository. EMIR mandates that all trades, both on-exchange and OTC, must be recorded the consequent positions be aggregated so that regulators can see clearly what is happening across markets. The regulatory push to clearing, to on-exchange execution, and to the registration of OTC business should strengthen the position of LME in its markets.

Establishment of User Committee

LME members and the broader metals industry have always played a significant role in the running of LME through their participation in the operational committees. All the operational committees will continue to meet and their advice will continue to be important to the decision-making process. A User Committee has been newly created under the LME board to ensure that there remains a direct line of communication from LME's users to the board.

Number of LME members (as at the end of 2012)

Category 1	11
Category 2	27
Category 3	2
Category 4	4
Category 5	49

Introduction of New Products

In January 2012, LME introduced LMEswaps for all LME non-ferrous contracts. An LMEswap is an on-exchange contract between two parties where the cash difference between the agreed fixed price and the floating Monthly Average Settlement Price, or MASP, is financially settled at the end of the averaging period. LMEswaps are the first of their type in the world traded on-exchange and bring transparency to pre- and post-trade prices. They are designed specifically for members of the metal community who need to hedge against the monthly average price with the added security of clearing.

In response to a member consultation on LME's Closing Prices, LME on 6 February 2012 began publishing live forward prices for all metals traded in the last Ring session of the day (the afternoon Kerb) which adds further transparency to the procedures used to establish the Closing Prices. The forward curve is available for the key prompt dates and displayed on a daily basis from 16:15 by LME licensed data vendors and on the electronic wallboards in the Ring dealing area. As the prices for the forward curve change during the Kerb session, they will be amended and displayed accordingly.

Broadening Education and Outreach in Asia

LME has been broadening its education and outreach efforts in Asia amid growing interest in futures trading in the region.

In 2012, seminars were designed and run out of Asia for the purpose of providing traders, investors and industry players in the region with a greater understanding of how LME contracts can be used to manage the impact of price volatility and the regulation, pricing, hedging and delivery procedures for trading on LME.

In December 2012, visits were made to Mumbai and New Delhi as part of an educational tour of India. The sell-out tour, which consisted of day-long seminars for Indian delegates to familiarise them with metals price risk management tools, had received enormous support from the Indian industry.

Mainland Development

HKEx has continued to broaden and deepen its relationships with the Mainland authorities (at the Central Government level as well as the provincial and local levels) and market participants. It has signed MOUs with all 6 Mainland exchanges (ie, the China Financial Futures Exchange, the Dalian Commodity Exchange, the Shanghai Futures Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and the Zhengzhou Commodity Exchange). In 2012, over 130 meetings were conducted with the governments of 22 Mainland cities, including Beijing, Chongqing, Hunan, Liaoning, Nanjing, Shanghai, Sichuan, and Tianjin, as well as Central Government regulators and authorities.

MOUs signed in 2012

- at the Central Government level (on listing and trading of RMB-denominated sovereign bonds in Hong Kong)
  - Ministry of Finance of the PRC
- at provincial and local levels (on cooperation and exchange of information)
  - Financial Affairs Offices of Hebei, Heilongjiang, Shaanxi, and Shandong provinces
  - Beijing Xicheng District Government
- with Mainland counterparts (on cooperation and exchange of information)
  - China Financial Futures Exchange
  - Shanghai Futures Exchange

HKEx organises exchange programmes for the Mainland authorities to strengthen their understanding of its businesses and to forge closer working relationships. In 2012, it arranged exchange programmes for over 50 senior officials from various departments of CSRC, including Listed Company Supervision, Fund Supervision, and Futures Supervision, as well as the Enforcement Bureau. In addition, HKEx co-organised training workshops on corporate governance standards of listed issuers for about 100 senior Mainland executives. The training was in Hong Kong and the other co-organisers were The Hong Kong Polytechnic University and the Research Institute of Hong Kong and Macao Affairs Office of the State Council.

Issuer and Client Services

In line with its core strategy to generate organic growth, HKEx has continued to promote Hong Kong as a pre-eminent listing venue for Mainland and international companies seeking capital, brand awareness, Asia exposure, and a liquid secondary market. Throughout 2012, HKEx maintained a high level of marketing activity, including roadshows in the mainland of China and in many other markets around the world, to identify and meet with potential issuers. In addition, HKEx collaborated closely with the Mainland and Hong Kong governments to organise promotional activities in strategically important Mainland cities and regions to attract companies to list in Hong Kong.

In 2012, HKEx hosted over 20 events for potential issuers, ranging from large conferences to small roundtable discussions and workshops, in 10 Mainland cities and Hong Kong. HKEx also made 55 trips to different Mainland cities and 18 trips internationally to speak at listing promotion events and meet with government officials and potential issuers, including companies that are looking for a secondary listing and leading companies in a number of sectors and industries.

Major events in which HKEx participated in 2012 to promote Hong Kong as a pre-eminent listing venue

Event	Place	Target groups
• Mining Indaba	Cape Town	International mining and energy companies
• 3rd Annual Russia Investment Summit	Hong Kong	International investment community
• 5th Annual Mines & Money Hong Kong 2012	Hong Kong	Natural resources companies
• Brazil Invest	Hong Kong	Brazilian companies
• Capital Raising in Hong Kong Seminar	Kuala Lumpur	Malaysian and other South East Asian companies
• LME Week	London	Natural resources companies
• PDAC 2012	Toronto	Natural resources companies
• 6th Capital Raising & Investment Conference	Ulaanbaatar	Mongolian companies

RMB fundraising in Hong Kong remains a key focus as substantive discussions continue with potential and listed issuers as well as influential intermediaries. HKEx continued to promote RMB fundraising opportunities to listing prospects and market participants through roadshows and conferences.

Major events in which HKEx participated in 2012 to promote RMB fundraising opportunities in Hong Kong

Event	Place	Organiser(s)
• Hong Kong Business Seminars	Amsterdam & Milan	Hong Kong Trade Development Council
• 3rd ASIFMA-ISDA Offshore RMB Markets Conference	Hong Kong	Asia Securities Industry & Financial Markets Association
• Paris Europlace Financial Forum	Hong Kong	HKMA, and Banque de France
• Global Financial Centre Seminar	New York	HKMA, SFC, and InvestHK
• Think Global, Think Hong Kong	Tokyo	Hong Kong Trade Development Council

Market Data

Market Performance

As at the end of 2012, there were 158 and 87 real-time and delayed IV licences respectively (2011: 149 and 80). The licensed IVs altogether offered a total of 954 types (2011: 914) of real-time market data services.

	Number of real-time IVs	
Products subscribed	**2012**	2011
Securities market data	**146**	139
Derivatives market data	**66**	64
Issuer Information Feed Service	**12**	11
More than 1 data product group	**58**	57

End-user Licence for Market Data

In view of the positive market response to the introduction of an end-user licence for the Derivatives Market data in 2011, HKEx extended the end-user licence to cover the Cash Market data in December 2012 for licensees' internal usage of Cash Market datafeed – MDF 3.8. As at the end of 2012, there were 23 End-user Licensees (mainly EPs and market makers) for the Derivatives Market data.

Non-display Usage of Market Data

Traditionally, market data has been used mainly by people in a "display" mode on screens. With the advance of technology and the increasing popularity in automated trading in recent years, market data is increasingly being used by machines, or the so-called "non-display" mode. In response to changes in market behaviour, HKEx announced in July 2012 the introduction of a new policy for non-display usage of HKEx real-time's market data which took effect from January 2013.

Types of "non-display" usage of real-time market data

- "automated trading application" – any application that accesses HKEx's real-time market data for automatic calculation, processing, and analysis, and that application will determine the quantity, price, and timing of order execution
- "derived data (with tradable products)" – the use of real-time market data to partly or wholly derive (i) the price of a tradable product; or (ii) the value of an underlying instrument of a tradable product
- "others" – other non-display usages of real-time market data such as the use of data in risk management systems, portfolio management applications, back-office support, and creation of indices, excluding indices for tradable products and etc

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

The discount programme for Mainland users of HKEx's real-time market data has been extended until the end of 2013. More than 10,300 individual investors and 3,500 institutional investors in the mainland of China registered under the programme will continue to enjoy the discounted rates of $80 and $120 respectively for HKEx securities market data along with a free derivatives data package without price depth.

The discount programme which enables Mainland television subscribers to provide HKEx's real-time securities market data to its viewers in the mainland of China has also been extended to the end of 2013. The subscriber fee remains at a flat rate of $10,000 per month.

Mainland Market Data Hub

In view of the substantial growth of demand for Hong Kong market data in the mainland of China and the growing number of Mainland IVs offering the data, HKEx established the GFIS, a wholly-owned subsidiary of HKEx, in Shanghai in 2012 to coordinate its market data distribution in the mainland of China. As part of the HKEx Orion programme, a market data hub will be launched in Shanghai in the third quarter of 2013. Initially, it will offer securities market and index datafeed products. This initiative will strengthen HKEx's Mainland connectivity, enable Mainland investors to access HKEx's market data through a reliable, scalable, and cost-effective infrastructure, and mark HKEx's first significant technical infrastructure footprint in the mainland of China. A Founding Members Programme was launched in February 2013 to allow IVs and other interested parties to participate in the early set-up of the market data hub and joint marketing efforts with HKEx.

CESC

In October 2012, the CESC officially commenced operations in Hong Kong, just 4 months after HKEx, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange announced the signing of a joint venture agreement. It brings together the experience and expertise of the 3 exchanges and aims to contribute to the further internationalisation of China's capital markets by providing global investors with exposure to the world's second largest economy through Hong Kong. On 10 December 2012, the CESC launched CES120, the first index in the new CESC Cross Border Index Series. CES120 is disseminated to the HKEx real-time MDF IVs for their redistribution free of charge. The CESC will develop sub-indices, including a pure A-shares index and a Hong Kong Mainland index based on CES120 constituents, and plans to introduce other cross-border indices as well as index-related products in early 2013.

Constituents of CES120

- 80 most liquid and largest* stocks listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
- 40 most liquid and largest* Mainland companies listed on SEHK

* In terms of market value

Product and Index Development

The member exchanges of the BRICS alliance (comprising Brazil's BM&FBOVESPA, Russia's Moscow Exchange MICEX-RTS, India's BSE Limited, HKEx, and South Africa's JSE Limited) listed local currency versions of benchmark equity index futures and/or options of other alliance members in the first half of 2012 and provided joint product education for respective market participants in the second half of 2012. The BRICS exchanges engaged major index vendors in developing a set of new composite indices comprising of local markets from each jurisdiction. The composite indices would reflect various asset classes as the basis for new products to serve investors globally in cash and derivatives markets and a vehicle to access existing BRICS liquidity pools internationally. The BRICS exchanges alliance initiated the efforts in developing and testing product concepts and work together with the selected vender to determine the scope of the next engagement in the first quarter of 2013.

Global Clearing

Cash and Derivatives Clearing

CCASS statistics

	2012	2011	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	**775,742**	873,654	(11%)
Value of trades ($bn)	**53.9**	69.7	(23%)
Share quantity involved (bn)	**137.5**	162.2	(15%)
Average daily SIs settled by CCASS			
Number of SIs	**73,247**	83,833	(13%)
Value of SIs ($bn)	**178.5**	211.2	(15%)
Share quantity involved (bn)	**44.2**	47.8	(8%)
Average daily ISIs settled by CCASS			
Number of ISIs	**343**	469	(27%)
Value of ISIs ($m)	**227.2**	261.1	(13%)
Share quantity involved (m)	**98.7**	123.7	(20%)
Average daily settlement efficiency of CNS stock positions on due day (T+2)	**99.91%**	99.88%	–
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	**99.99%**	99.99%	–
Average daily buy-ins executed on T+3			
Number of brokers involved	**4**	6	(33%)
Number of buy-ins	**4**	7	(43%)
Value of buy-ins ($m)	**1.5**	2.4	(38%)
Shares deposited in the CCASS depository			
Number of shares (bn)	**3,663.7**	3,694.2	(1%)
Percentage of the total issued shares of the admitted securities	**70%**	70%	–
Value of shares ($bn)	**12,330.1**	9,599.9	28%
Percentage of the total market capitalisation of the admitted securities	**52%**	50%	–

Scripless Securities Market

HKEx continues to support the SFC in preparing the draft subsidiary legislation based on the operational arrangements recommended by the Scripless Securities Market Working Group. A market consultation for the enabling legislation is tentatively planned for 2013.

CCASS Service Enhancement

In May 2012, new features were introduced in CCASS to improve the SIs' operational efficiency. Participants can now opt to settle SIs in any eligible currency (HKD, RMB, and USD) instead of in the trading currency of the securities only. In addition, a new reference field was added for SI input which allows Participants to handle IPOs with better control and higher efficiency.

HKCC's Settlement Bank Arrangement

Money settlement arrangements with all Settlement Banks of HKCC were standardised in August 2012 to streamline the payment flows and to facilitate a higher level of the banks' participation in RMB settlement.

DCASS Enhancement

To prepare for the introduction of AHFT, DCASS was enhanced in November 2012 to allow CPs to support the clearing of HSI Futures, H-shares Index Futures, and Gold Futures during the after-hours trading session.

Self-assessment of Principles for Financial Market Infrastructures

In April 2012, the CPSS and the IOSCO issued the report “Principles for financial market infrastructures” (PFMI Report) which contains new international standards for payment as well as clearing and settlement systems. These standards are designed to maintain and promote global financial stability, and are applicable to financial market infrastructures including central securities depositories, securities settlement systems, and central counterparties.

In order to stay on a par with international standards, HKEx is conducting self-assessment of HKSCC, HKCC, and SEOCH observance levels against the PFMI Report’s principles in their capacities as either central counterparty, central securities depository, or securities settlement system. The assessment, through a gap analysis, is targeted to be completed in the first half of 2013, after which HKEx will develop plans for financial resources and enhancements to its systems, policies, and operations for ensuring compliance with these principles, as appropriate.

Participant Services

In 2012, there were 24,344 CCASS Participants, including 599 IPs admitted in 2012. HKEx organised 24 training courses related to CCASS or DCASS for CPs and market participants in 2012.

Number of CCASS Participants (as at the end of 2012)

Clearing Agency Participant	1
Custodian Participants	40
Direct CPs	493
General CPs	9
IPs	23,796
Stock Pledgee Participants	5

OTC Clear

In preparation for the development of a new regulatory regime for the OTC derivatives market in Hong Kong, the HKMA and the SFC are planning to introduce the legislative proposal to the Legislative Council in the first half of 2013.

With this backdrop, HKEx established OTC Clear, the clearing house for its OTC derivatives clearing business, in 2012. Feedback from discussions with potential clearing members has been positive. After incorporating market views and suggestions into the rules and procedures of OTC Clear, HKEx submitted them to the SFC for its review. Subject to the SFC’s approval of OTC Clear as a recognised clearing house, HKEx is targeting to introduce its OTC derivatives clearing services in the second quarter of 2013. Initially, the product coverage will be interest rate swaps on RMB, HKD, USD and Euro, and non-deliverable forwards for RMB, Taiwan dollar, Korean Won and Indian Rupee.

As regards the OTC clearing and settlement system, or OCASS, the system development work was largely completed in December 2012. OTC Clear is arranging for testing with clearing members in the first quarter of 2013. Before the official launch of the OTC derivatives clearing services, market rehearsals to simulate the operations in production will be conducted with clearing members.

In the last quarter of 2012, OTC Clear started promoting its OTC clearing services to individual banks and licensed corporations and working closely with them on the clearing membership applications. Discussion with a group of strategic partners on the proposal to offer them minority stakes in OTC Clear is in progress. HKEx also worked with middleware vendors to co-organise seminars and briefing sessions for market participants to raise their awareness and understanding of trade registration platforms’ services and features.

To prepare for the launch of OTC clearing services, HKEx organised various events in 2012 for potential OTC Clear clearing members. Highlights are set out below.

Event	Purpose of event
• 4 HKEx OTC clearing briefing seminars	To provide the clearing structure, operational work flows and risk management framework of the OTC derivatives clearing services, and introduce the trade affirmation services provided by middleware vendors
• HKEx OTC clearing briefing seminar – system vendors	To present OTC clearing system solutions from 5 IT vendors
• HKEx OTC clearing MarkitWire and DS Match workshop	To present the functionalities of the trade matching and trade submission platform from IT vendors
• 3 OTC Clear – web portal training workshops	To introduce the OTC Account Services Information System, or OASIS, web portal functionalities

HKEx also co-organised and/or participated in a number of events to promote its OTC clearing services to the market and the public.

LME Clear

The design and construction of LME Clear, LME's vertically integrated clearing house, continued during 2012. Implementation work for the clearing and risk management platform commenced in the third quarter, and 3 member working groups, covering legal, operations, and IT aspects, were formed in the fourth quarter. Since November 2012, regular member working group meetings on operations and IT have been held.

A high level service description and the technical specifications have been distributed to members for their readiness work. The risk management framework, detailed rulebook, and procedures are scheduled for members' consultation in the first quarter of 2013. It is expected to launch LME Clear in 2014.

Clearing Risk Management

In March 2012, HKEx published consultation conclusions on the HKEx Clearing House Risk Management Reform Measures with a view of strengthening its clearing house risk management regime. The consultation drew over 600 responses from CPs, professional and industry associations, market practitioners, and individuals. The responses were broadly supportive and the measures were successfully implemented in 2012.

The key measures were: (i) the introduction of a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) the revisions to certain price movement assumptions in the clearing houses' stress testing; (iii) the revisions to the counterparty default assumption in the stress testing; (iv) the revisions to the collateral assumptions at HKCC and SEOCH; and (v) the introduction of various means of financial support to reduce the impact of risk management reform on CPs.

For OTC clearing, to ensure the robustness of OTC Clear's risk management model and framework in line with the international standards, risk management reviews covering margin calculation, pricing, default management and guarantee fund stress testing were completed by independent third party consultants in 2012.

Information Technology

Production Systems' Stability and Reliability

During 2012, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continued to perform reliably.

IT Security Enhancements

HKEx has commenced a 2-year programme to implement various IT security enhancement initiatives following the completion of an IT security risk and infrastructure review in the first quarter of 2012. The programme involves enhancements in security technologies, people, and processes with an objective to raise IT security to a higher level of maturity. A number of key improvements were successfully completed in 2012. The target is to roll out the remaining initiatives in phases in 2013 and the first half of 2014.

New Data Centre and IT Office Consolidation

Construction of the TKO Data Centre was completed with occupancy permit obtained in August 2012. The relocation of the IT office to the new building and the first phase of data centre migration, involving the Cash Market, were conducted smoothly in October 2012. The relocation of all other primary data centres will be conducted in phases in 2013.

HKEx Orion Programme

The HKEx Orion technology initiatives programme was launched in March 2012. The programme comprises a set of projects which will progressively transform HKEx's market platforms to improve market access, connectivity, speed, and functionality.

SDNet/2 provides higher bandwidth scalability for future business growth and offers the choice of multiple network carriers for diversity and competitive pricing. The backbone infrastructure was duly implemented as part of AMS/3.8 project. The first phase migration of network circuits for EPs and IVs of the Cash Market to SDNet/2 was completed in July 2012. The migration of EP and IV network circuits for the Derivatives Market and the Cash Clearing is planned for the first quarter and second half of 2013 respectively.

The OMD is an integrated low-latency data feed adopting a common message format across all asset classes traded on the HKEx markets. The OMD will enable HKEx to: (i) offer a suite of market data product feeds with content, market depth, and bandwidth requirements tailored to suit the needs of different types of customers; and (ii) establish points of presence for market data distribution outside of Hong Kong such as in the mainland of China. Implementation work for the OMD commenced in the first quarter of 2012, and customers were given access to the planned system for the Cash Market in December 2012. Rollout for the Cash Market is scheduled for the second quarter of 2013 and that for the Derivatives Market by the first quarter of 2014.

HKEx also commenced development of the OCG for the Cash Market in the third quarter of 2012. The OCG will significantly reduce EPs' costs by offering market access without the need for any gateway equipment to be deployed in their premises as well as offering additional features such as FIX (Financial Information eXchange) support and "drop-copy". BSS vendor exhibitions were organised to facilitate EPs' selection of BSS solutions for the OCG. The OCG is tentatively targeted for launch in the fourth quarter of 2013.

For the Cash Market trading system, HKEx is preparing for the eventual replacement of AMS/3 with the OTP. The OTP is a new Cash Market trading system aimed at providing low latency, high capacity, and new business functionality. A proof-of-concept exercise was completed in 2012. The development and implementation of the project are expected to take place in 2013 and 2014 respectively.

On the Derivatives Market front, HKEx is working on the migration of HKATS/DCASS onto a new technology platform (Genium INET) to facilitate technology alignment with vendor's product roadmap, and achieve significant improvement in capacity and reduction in order latency for further development of the Derivatives Market. The Genium INET platform is targeted to be rolled out in the fourth quarter of 2013.

Hosting Services

The Hosting Services offered by HKEx provide a local area network infrastructure in the TKO Data Centre which supports users' low latency connections to HKEx's systems. Total capacity of the hosting floors can support up to 1,200 racks of server space. The initial phase, comprising 320 racks, was implemented in the fourth quarter of 2012. About one-third of the capacity has been subscribed by about 60 companies including EPs, IVs, technology vendors, and telecommunication service providers. Support for Cash Market trading through the network was launched in December 2012, with approximately 20 hosting service users trading on the infrastructure.

With an open ecosystem approach to support Hong Kong's financial markets community, HKEx's Hosting Services enable users to interact with each other efficiently and conveniently subscribe for software services, market data feeds, and managed services provided by various technology vendors and IVs. Besides, 14 financial extranets and telecommunication service providers have set up networks at the carrier-neutral data centre. Global connectivity can be supported by the Hosting Services by simple cable patching. To promote the Hosting Services to the trading community and technology vendors, HKEx organised the HKEx Hosting Services Ecosystem Founding Members Conference and the Exchange Technology Forum, and participated in the Asia Pacific Trading Summit and the Trading Architecture Asia event in 2012.

The Hosting Services will be extended to support the Derivatives Market trading and low-latency direct connection to the OMD by the third quarter of 2013.

HKEx Mobile and HKEx Group Website

HKEx Mobile (m.hkex.com.hk), a new mobile website which is compatible with most popular smartphone operating systems, was launched in April 2012 to promote greater access to up-to-date HKEx news and market information.

In December 2012, the HKEx Group website (www.hkexgroup.com) was launched to give an overview of the Group, including LME and the CESC.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and cash collateral and Clearing House Funds, totalling $46.0 billion on average in 2012 (2011: $48.2 billion).

As compared with 31 December 2011, the overall size of funds available for investment as at 31 December 2012 increased by 3 per cent or $1.4 billion to $47.1 billion (31 December 2011: $45.7 billion). Details of the asset allocation of the investments as at 31 December 2012 against those as at 31 December 2011 are set out below.

	Investment Fund Size $bn		Bonds *		Cash or Bank Deposits		Global Equities	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Corporate Funds	**7.8**	9.7	**24%**	53%	**69%**	43%	**7%**	4%
Margin Funds and cash collateral	**36.8**	34.5	**6%**	18%	**94%**	82%	**0%**	0%
Clearing House Funds	**2.5**	1.5	**0%**	19%	**100%**	81%	**0%**	0%
Total	**47.1**	45.7	**9%**	25%	**90%**	74%	**1%**	1%

* Included certain principal-guaranteed structured notes

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Margin Funds and cash collateral and Clearing House Funds. Excluding equities held under the Corporate Funds ($0.5 billion as at 31 December 2012 and $0.4 billion as at 31 December 2011), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2012 ($46.6 billion) and 31 December 2011 ($45.3 billion) were as follows:

	Investment Fund Size $bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Corporate Funds	**7.3**	9.3	**44%**	20%	**3%**	4%	**33%**	42%	**10%**	17%	**10%**	17%
Margin Funds and cash collateral	**36.8**	34.5	**22%**	19%	**10%**	24%	**62%**	52%	**3%**	4%	**3%**	1%
Clearing House Funds	**2.5**	1.5	**67%**	49%	**7%**	7%	**26%**	44%	**0%**	0%	**0%**	0%
Total	**46.6**	45.3	**28%**	20%	**9%**	19%	**56%**	50%	**4%**	6%	**3%**	5%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 December 2012, had a weighted average credit rating of Aa3 (31 December 2011: Aa3) and a weighted average maturity of 2.7 years (31 December 2011: 1.8 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2012 and 2011 was as follows:

	Average VaR $m		Highest VaR $m		Lowest VaR $m	
	2012	2011	**2012**	2011	**2012**	2011
Corporate Funds	**19.4**	23.9	**27.2**	27.5	**7.9**	17.5
Cash collateral [1]	**0.1**	0.3	**0.2**	0.3	**< 0.1**	0.1
Margin Funds [1]	**1.4**	5.1	**3.3**	7.5	**0.6**	3.2
Margin Funds and cash collateral [2]	**1.0**	N/A	**1.5**	N/A	**0.6**	N/A
Clearing House Funds	**0.1**	0.7	**0.2**	1.8	**< 0.1**	0.1

Notes:

1 Up to October 2012

2 Following the HKEx Clearing House Risk Management Reform in November 2012, HKSCC introduced margining as a measure to safeguard against exposures to future market movements. Thereafter, "Margin Funds" and "Cash collateral" are combined as "Margin Funds and cash collateral".

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 8 to the consolidated financial statements of this Annual Report.

FINANCIAL REVIEW

HKEx Group – Overview of 2012 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

	2012
Average daily turnover value on the Stock Exchange	$53.9 bn
Number of newly listed DWs	5,886
Number of newly listed CBBCs	6,056
Number of newly listed companies on Main Board	52
Number of newly listed companies on GEM	12
Number of Main Board companies at 31 Dec 2012	1,368
Number of GEM companies at 31 Dec 2012	179
Total equity funds raised on Main Board	$300.3 bn
Total equity funds raised on GEM	$5.1 bn
Total equity funds raised	$305.4 bn

Consolidated Statement of Financial Position

			At 31 Dec 2011
ASSETS			$m
Cash and cash equivalents			2,340
Cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral (Funds)	45,821	6	15,881
Financial assets			27,600
Fixed assets and lease premium for land		8	973
Other assets		9	7,234
Total assets			54,028
LIABILITIES AND EQUITY			
Liabilities			
Margin deposits and cash collateral from Participants and Participants' contributions to Clearing House Funds		10	35,472
Other liabilities		11	9,397
Total liabilities			44,869
Equity			
Share capital, share premium and reserves			2,402
Shares held for Share Award Scheme			(296)
Retained earnings			7,053
Shareholders' funds			9,159
Total liabilities and equity			54,028

Segment Profit for the Year

	Cash Market	Derivatives Market	Commodities	Clearing	Market Data	Corporate Items	Group
	2012						
	$m	$m	$m	$m	$m	$m	$m
Revenue and other income	2,824	1,183	76	2,253	563	312	7,211
Operating expenses (excluding depreciation and amortisation)	647	178	41	332	76	683	1,957
	1	2	3	4	5		
Reportable segment EBITDA	2,177	1,005	35	1,921	487	(371)	5,254
Depreciation and amortisation	(42)	(13)	(22)	(46)	(13)	(22)	(158)
Costs relating to acquisition of LME Group	–	–	–	–	–	(138)	(138)
Finance costs	–	–	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	–	–	(55)	(55)
Share of loss of a joint venture	–	(3)	–	–	–	–	(3)
Reportable segment profit before taxation	2,135	989	13	1,875	474	(641)	4,845
Taxation							(761)
Profit attributable to shareholders							4,084

Cash Flows for the Year

		2012
		$m
Net cash inflow from operating activities	12	6,491
Acquisition of LME Group, net of cash acquired		(16,754)
Payment for interest in a joint venture		(100)
Purchases of shares held for Share Award Scheme		(93)
Payments for purchases of fixed assets and intangible assets		(1,042)
Dividends paid		(3,784)
Net decrease in financial assets of Corporate Funds		2,244
Interest received from financial assets		107
Proceeds from bank loans, issue of convertible bonds and shares less transaction and financing related costs		14,621
Net increase in cash and cash equivalents		1,690
Cash and cash equivalents at 1 Jan 2012		2,340
Exchange differences on cash and cash equivalents		5
Cash and cash equivalents at 31 Dec 2012		4,035

Key Market Statistics and Business Drivers – Derivatives Market

	2012
Average daily number of derivatives contracts traded on the Futures Exchange	259,556
Average daily number of stock options contracts traded on the Stock Exchange	228,438

Consolidated Statement of Financial Position

			At 31 Dec 2012
ASSETS			$m
Cash and cash equivalents		6	4,035
Cash and cash equivalents of Funds	47,142		30,042
Financial assets			13,065
Goodwill and other intangible assets		7	18,183
Fixed assets and lease premium for land		8	1,699
Other assets		9	13,813
Total assets			80,837
LIABILITIES AND EQUITY			
Liabilities			
Margin deposits and cash collateral from Participants and Participants' contributions to Clearing House Funds		10	38,710
Other liabilities		11	24,363
Total liabilities			63,073
Equity			
Share capital, share premium and reserves			11,188
Shares held for Share Award Scheme			(305)
Retained earnings			6,881
Shareholders' funds			17,764
Total liabilities and equity			80,837

Movements in Share Capital, Share Premium and Reserves for the Year

	2012			
	Share capital and share premium $m	Employee share-based compensation reserve $m	Various other reserves $m	Total $m
At 1 Jan 2012	1,719	106	577	2,402
Shares issued upon placement of shares	7,708	–	–	7,708
Issue of shares for employee share options	2	–	–	2
Issue of shares in lieu of cash dividends	451	–	–	451
Employee share-based compensation benefits	–	105	–	105
Currency translation differences of foreign subsidiaries	–	–	189	189
Substitution of convertible bonds	–	–	409	409
Transfer from retained earnings	–	–	10	10
Vesting of shares of Share Award Scheme	–	(88)	–	(88)
Transfer	1	(1)	–	–
At 31 Dec 2012	9,881	122	1,185	11,188

Movements in Retained Earnings for the Year

	2012 $m
Profit attributable to shareholders	4,084
Dividends	(4,248)
Dividends forfeited	7
Vesting of shares of Share Award Scheme	(5)
Transfer to reserves	(10)
Net decrease in retained earnings	(172)
Retained earnings at 1 Jan 2012	7,053
Retained earnings at 31 Dec 2012	6,881
Representing:	
Retained earnings	5,206
Proposed dividend	1,675
	6,881

Notes

Profit attributable to shareholders decreased in 2012. The drop was mainly due to lower market turnover related revenues, higher operating expenses and costs arising from the acquisition of the LME Group, but partly offset by an increase in net investment income and the inclusion of the LME Group's post-acquisition profit of $19 million.

Market turnover related revenue dropped by 15 per cent, or $786 million to $4,498 million in 2012 mainly due to lower trading fees and trading tariff and clearing and settlement fees associated with the lower turnover on the Cash and Derivatives Markets.

Net investment income rose by 96 per cent, mainly due to higher net fair value gains on investments, reflecting market movements, and an increase in interest income due to improvements in bank deposit rates.

Operating expenses (excluding depreciation and amortisation) increased by 13 per cent compared to 2011 mainly due to higher staff costs and premises expenses.

Depreciation and amortisation increased by 76 per cent mainly due to the upgrade of the Cash Market trading system (AMS/3.8) and Market Data system (MDS/3.8) rolled out in December 2011 and completion of phase one of the construction of the TKO Data Centre in September 2012.

The EBITDA of the Group by operating segment during 2012 was as follows:

1 EBITDA of the Cash Market segment dropped by $534 million mainly due to the lower trading fees and trading tariff as a result of lower Cash Market turnover value.

2 EBITDA of the Derivatives Market segment increased by $61 million mainly due to an increase in net investment income, but partly offset by a decline in trading fees and trading tariff as a result of the lower number of contracts traded.

3 EBITDA of the Commodities segment for 2012 was $35 million, which was generated by the LME Group after the acquisition.

4 EBITDA of the Clearing segment fell by $411 million mainly due to a decrease in clearing and settlement fees, in tandem with the lower Cash Market turnover.

5 EBITDA of the Market Data segment decreased by $82 million as the volume of certain Cash Market data fees charged on a per quote basis dropped.

6 Comprised financial assets and cash and cash equivalents of Margin Funds and cash collateral of $36,783 million (2011: $34,585 million), Corporate Funds of $7,817 million (2011: $9,750 million), and Clearing House Funds of $2,542 million (2011: $1,486 million).

7 Goodwill and other intangible assets includes goodwill of $13,488 million arising on the acquisition of the LME Group.

8 Fixed assets and lease premium for land increased by $726 million mainly due to additions of $871 million and acquisition of the LME Group of $28 million, but was partly offset by depreciation of $134 million.

9 Other assets consisted of money obligations receivable under the CNS System of $12,733 million (2011: $6,482 million) and other receivables.

10 Represents margin deposits and cash collateral from Clearing Participants of $36,786 million (2011: $34,592 million) and Participants' contributions to Clearing House Funds of $1,924 million (2011: $880 million). Margin deposits and cash collateral from Clearing Participants at 31 December 2012 increased over the prior year due to the increase in open interest in futures contracts, partly offset by lower margin required per contract at the year end. The rise in Participants' contributions to Clearing House Funds was mainly due to the increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.

11 Other liabilities mainly represent money obligations payable under the CNS System of $12,733 million (2011: $6,482 million), borrowings of $6,615 million (2011: $Nil) and other liabilities.

12 Net cash inflow from operating activities increased by $1,218 million compared with 2011 mainly due to a decrease in financial assets measured at fair value through profit or loss and an increase in other current liabilities, but partly offset by lower profit before tax and an increase in accounts receivables, prepayments and deposits.

Overall Performance

	Note	2012 $m	2011 $m	Change
RESULTS				
Revenue and other income:				
Revenue affected by market turnover	(A)	**4,498**	5,284	(15%)
Stock Exchange listing fees	(B)	**916**	949	(3%)
Market data fees	(C)	**570**	637	(11%)
Other revenue	(D)	**448**	487	(8%)
Net investment income	(E)	**766**	390	96%
Sundry income	(F)	**13**	108	(88%)
		7,211	7,855	(8%)
Operating expenses (excluding depreciation and amortisation)	(G)	**1,957**	1,733	13%
EBITDA		**5,254**	6,122	(14%)
Depreciation and amortisation	(H)	**(158)**	(90)	76%
Costs relating to acquisition of LME Group	(I)	**(138)**	–	N/A
Finance costs	(J)	**(55)**	–	N/A
Fair value loss on derivative component of convertible bonds	(K)	**(55)**	–	N/A
Share of loss of a joint venture		**(3)**	–	N/A
Profit before taxation		**4,845**	6,032	(20%)
Taxation	(L)	**(761)**	(939)	(19%)
Profit attributable to shareholders		**4,084**	5,093	(20%)

Profit attributable to shareholders decreased to $4,084 million in 2012 against $5,093 million in 2011. The drop was mainly due to lower market turnover related revenues, higher operating expenses and costs arising from the acquisition of the LME Group, but partly offset by an increase in net investment income and the inclusion of the LME Group's post-acquisition profit of $19 million.

Macroeconomic uncertainties, including the European sovereign debt crisis, the weak global economy and the slowdown in the Mainland's economic growth, led to weaker investor confidence and lower levels of trading activity on exchanges around the globe. In Hong Kong, the average daily turnover dropped 23 per cent and 15 per cent on the Cash and Derivatives Markets respectively. As a result, market turnover related revenues dropped by 15 per cent, or $786 million, to $4,498 million in 2012 mainly due to lower trading fees and trading tariff, and clearing and settlement fees.

Net investment income rose by 96 per cent, mainly due to higher net fair value gains on investments, reflecting market movements, and an increase in interest income due to improvements in bank deposit rates.

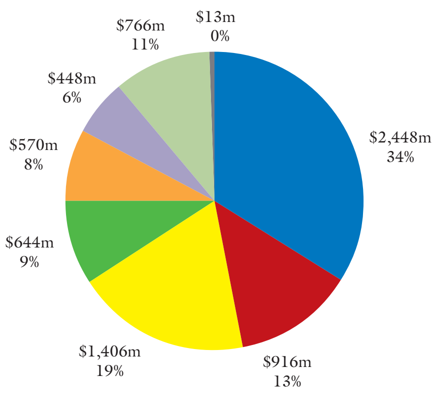
Operating expenses (excluding depreciation and amortisation) increased by 13 per cent compared to 2011 mainly due to higher staff costs and premises expenses.

The Group incurred $138 million of non-recurring costs relating to the acquisition of the LME Group, $55 million of finance costs, and $55 million of fair value loss on the derivative component of the convertible bonds issued to help fund the acquisition.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, which were in alignment with the requirements of International Financial Reporting Standards in all material respects at 31 December 2012.

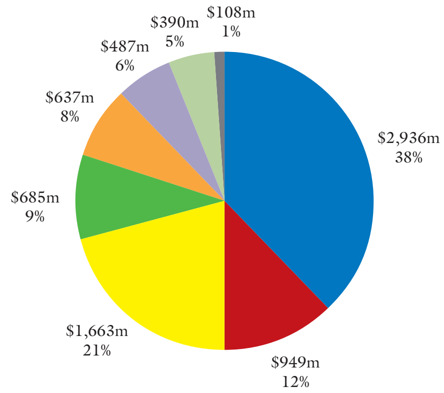
Revenue and Other Income

Analysis of 2012 Revenue and Other Income



Total Revenue and Other Income = $7,211m
(of which $76m was related to the LME Group)

Analysis of 2011 Revenue and Other Income



Total Revenue and Other Income = $7,855m

- Trading fees and trading tariff
- Stock Exchange listing fees
- Clearing and settlement fees
- Depository, custody and nominee services fees
- Market data fees
- Other revenue
- Net investment income
- Sundry income

(A) Revenue Affected by Market Turnover

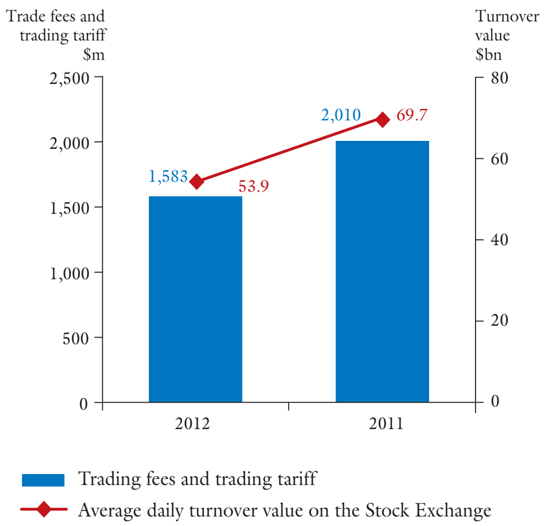
	2012 $m	2011 $m	Change
Trading fees and trading tariff	**2,448**	2,936	(17%)
Clearing and settlement fees	**1,406**	1,663	(15%)
Depository, custody and nominee services fees	**644**	685	(6%)
Total	**4,498**	5,284	(15%)

Key Market Indicators

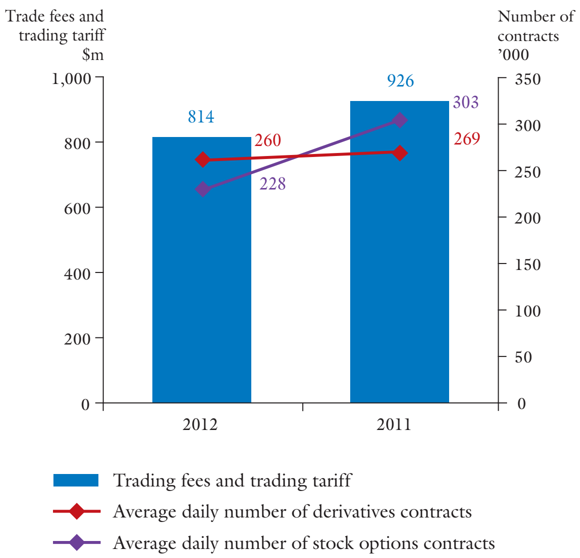
	2012	2011	Change
Average daily turnover value on the Stock Exchange ($bn)	**53.9**	69.7	(23%)
Average daily number of derivatives contracts traded on the Futures Exchange	**259,556**	269,525	(4%)
Average daily number of stock options contracts traded on the Stock Exchange	**228,438**	302,750	(25%)

Trading Fees and Trading Tariff

Cash Market



Derivatives Market



The decrease in trading fees and trading tariff from the Cash Market was mainly due to the lower average daily turnover value on the Stock Exchange.

The drop in trading fees and trading tariff from the Derivatives Market was mainly driven by the decrease in the average daily number of contracts traded.

The decline in trading fees and trading tariff was partly offset by the trading fees of the LME Group of $51 million for the period since the acquisition.

Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Cash Market transactions and are affected by the volume of SIs. In 2012, the percentage drop in clearing and settlement fees was less than the reduction in the average daily turnover value of the Cash Market compared with 2011 as a higher proportion of the value of exchange-traded transactions was subject to the minimum fee and the volume of SIs dropped by a smaller percentage.

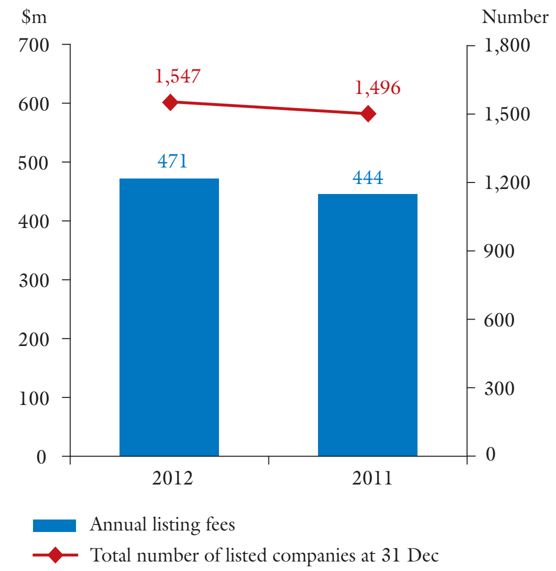
Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees and stock withdrawal fees. The fees are generally influenced by the level of Cash Market activity. For 2012, depository, custody and nominee services fees fell 6 per cent to $644 million mainly due to a drop in scrip fees and stock withdrawal fees.

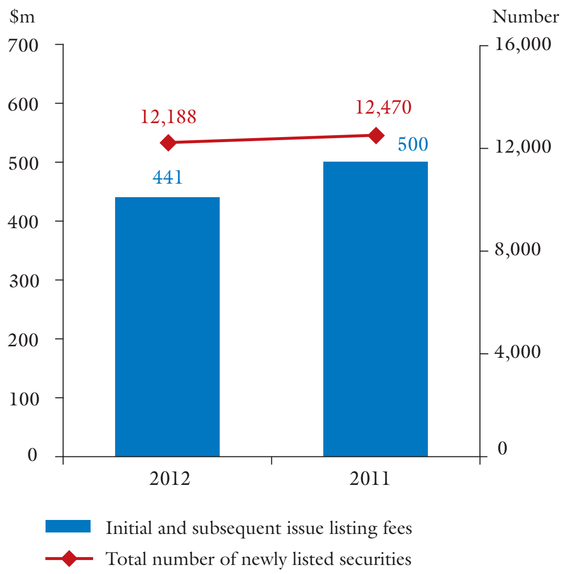
(B) Stock Exchange Listing Fees

	2012 $m	2011 $m	Change
Annual listing fees	471	444	6%
Initial and subsequent issue listing fees	441	500	(12%)
Others	4	5	(20%)
Total	916	949	(3%)

Annual Listing Fees



Initial and Subsequent Issue Listing Fees



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

Initial and subsequent issue listing fees dropped due primarily to a slowdown in IPOs and a reduction in the number of newly listed DWs.

Key Drivers for Annual Listing Fees

	At 31 Dec 2012	At 31 Dec 2011	Change
Number of companies listed on Main Board	1,368	1,326	3%
Number of companies listed on GEM	179	170	5%
Total	1,547	1,496	3%

Key Drivers for Initial and Subsequent Issue Listing Fees

	2012	2011	Change
Number of newly listed DWs	5,886	6,917	(15%)
Number of newly listed CBBCs	6,056	5,334	14%
Number of newly listed companies on Main Board *	52	88	(41%)
Number of newly listed companies on GEM	12	13	(8%)
Number of other newly listed securities on Main Board and GEM	182	118	54%
Total number of newly listed securities	12,188	12,470	(2%)

* Including 2 transfers from GEM (2011: 12 transfers from GEM)

	2012 $bn	2011 $bn	Change
Total equity funds raised on Main Board			
– IPOs	88.9	258.5	(66%)
– Post-IPO	211.4	224.4	(6%)
Total equity funds raised on GEM			
– IPOs	1.1	1.3	(15%)
– Post-IPO	4.0	6.2	(35%)
Total	305.4	490.4	(38%)

(C) Market Data Fees

	2012 $m	2011 $m	Change
Market data fees	570	637	(11%)

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

(D) Other Revenue

	2012 $m	2011 $m	Change
Network, terminal user, dataline and software sub-license fees	334	370	(10%)
Participants' subscription and application fees	36	35	3%
Brokerage on direct IPO allotments	2	23	(91%)
Trading booth user fees	11	15	(27%)
Sales of Trading Rights	19	20	(5%)
Hosting services	8	–	N/A
Commodities stock levies and warehouse listing fees	10	–	N/A
Miscellaneous revenue	28	24	17%
Total	448	487	(8%)

Network, terminal user, dataline and software sub-license fees declined mainly due to a decrease in Cash Market trading system line rental income following the migration of the Group's network services to SDNet/2 in the second half of 2012. As a result of the migration, EPs can directly contract with accredited vendors for Cash Market network line rental services instead of HKEx. There was a corresponding drop in Cash Market trading system line rental costs consumed by Participants in the same period under IT and computer maintenance expenses in section (G).

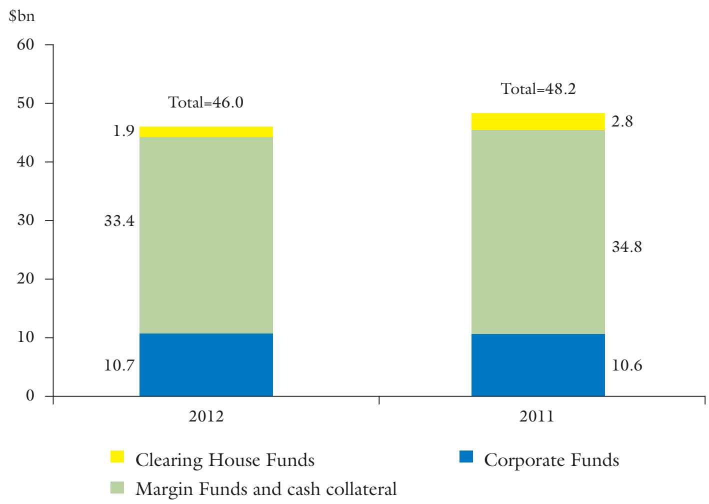
(E) Net Investment Income

	2012 $m	2011 $m	Change
Gross investment income	769	392	96%
Interest rebates to Participants	(3)	(2)	50%
Net investment income	766	390	96%

Net investment income rose 96 per cent due to an increase in net fair value gains of investments and an increase in interest income from higher bank deposit rates.

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

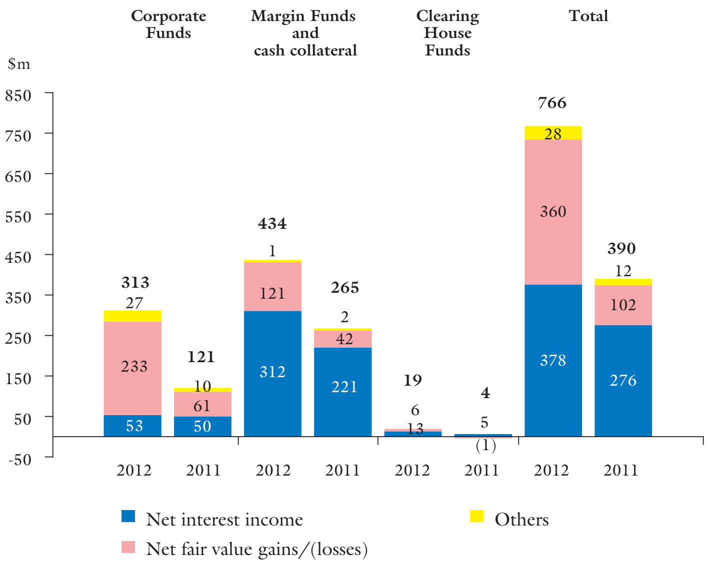
Average Amount of Funds Available for Investment



The decline in average amount of funds available for investment was mainly due to decreases in margin deposits and cash collateral from CPs, and lower Clearing House Funds in response to market fluctuations and changes in risk exposure.

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

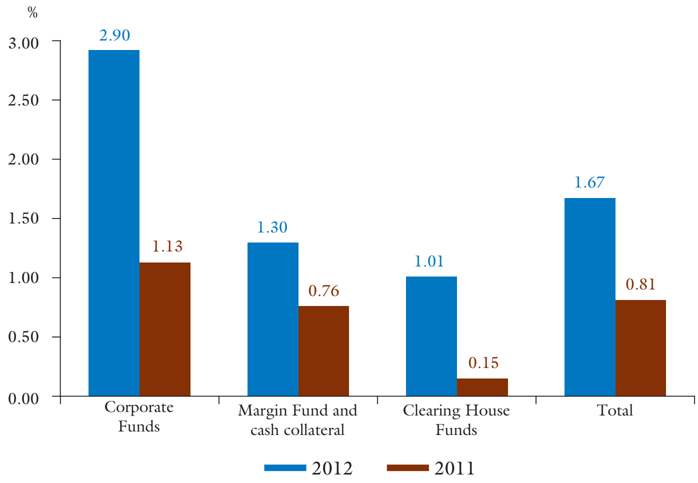
Net Investment Income by Funds



The higher net investment income was mainly due to an increase in net fair value gains and higher bank deposit rates.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants was as follows:

Annualised Net Return on Funds Available for Investment



All the funds recorded higher net returns in 2012 mainly attributable to an increase in net fair value gains on investments (including certain principal-guaranteed structured notes) and higher bank deposit rates in 2012.

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

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

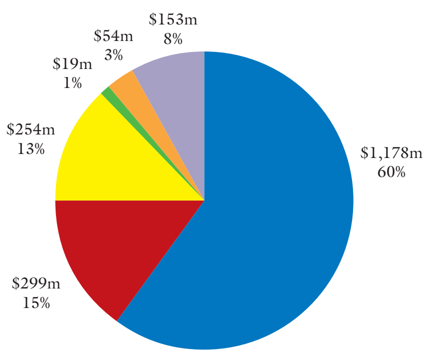
(F) Sundry Income

During 2012, the Group exercised its forfeiture right to appropriate $13 million (2011: $108 million) of cash dividends held by HKSN which had remained unclaimed for a period of more than 7 years and recognised these as sundry income.

Expenses, Other Costs and Taxation

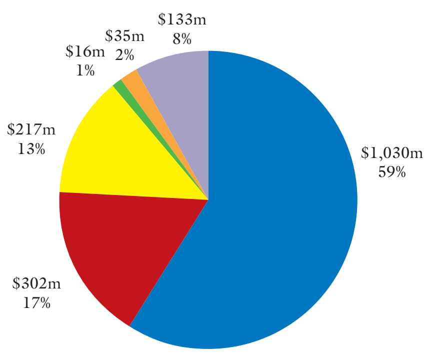
(G) Operating Expenses (excluding Depreciation and Amortisation)

Analysis of 2012 Expenses



Total expenses = $1,957m
(of which $41m was related to the LME Group)

Analysis of 2011 Expenses



Total expenses = $1,733m

- Staff costs and related expenses
- IT and computer maintenance expenses
- Premises expenses
- Product marketing and promotion expenses
- Legal and professional fees
- Other operating expenses

	2012 $m	2011 $m	Change
Staff costs and related expenses	**1,178**	1,030	14%
IT and computer maintenance expenses	**299**	302	(1%)
Premises expenses	**254**	217	17%
Product marketing and promotion expenses	**19**	16	19%
Legal and professional fees	**54**	35	54%
Other operating expenses	**153**	133	15%
Total	**1,957**	1,733	13%

Staff costs and related expenses increased by $148 million to $1,178 million, of which $4 million (2011: $Nil) was attributable to the LME Group. The rise was mainly as a result of an increase in permanent staff (excluding the LME Group) from 940 at 31 December 2011 to 1,030 at 31 December 2012 for implementing various initiatives under the Strategic Plan 2010-2012, salary adjustments to keep up with the market trend, and higher share-based compensation expenses arising from the shares granted to employees in 2011. The increase was partly offset by a reduction in performance bonus due to the Group's lower profit in 2012 compared with 2011.

For IT and computer maintenance expenses, excluding costs of services and goods directly consumed by the Participants of $122 million (2011: $146 million), the amount consumed by the Group was $177 million (2011: $156 million), of which $23 million (2011: $Nil) was related to the LME Group. The decrease in the costs of services and goods directly consumed by the Participants was mainly due to lower Cash Market trading system line rental costs in the second half of 2012 following the migration of the Group's network services to SDNet/2. Following the migration, EPs can directly contract with accredited vendors for Cash Market network line rental services instead of HKEx.

The rise in premises expenses was mainly attributable to higher rent upon the renewal of certain leases and the lease of additional office premises to accommodate the increased headcount.

(H) Depreciation and Amortisation

	2012 $m	2011 $m	Change
Depreciation and amortisation	**158**	90	76%

Depreciation and amortisation increased mainly due to the upgrade of the Cash Market trading system (AMS/3.8) and Market Data system (MDS/3.8) rolled out in December 2011, completion of phase one of the construction of the TKO Data Centre with Hosting Services capability in September 2012 (approximately $1,247 million of fixed assets with an average useful life of 17 years have commenced depreciation), depreciation and amortisation of the LME Group's fixed assets and IT systems, and amortisation of intangible assets arising from the acquisition of the LME Group.

(I) Costs relating to Acquisition of LME Group

	2012 $m	2011 $m	Change
Costs relating to acquisition of LME Group	**138**	–	N/A

During the year, the Group incurred legal and professional fees of $129 million and other costs of $9 million for the acquisition of the LME Group.

(J) Finance Costs

	2012 $m	2011 $m	Change
Finance costs	**55**	–	N/A

The finance costs were related to the convertible bonds and bank borrowing used to fund part of the consideration for the acquisition of the LME Group, and included the costs incurred for the purpose of establishing a banking facility (which was not used and subsequently cancelled) for the acquisition.

(K) Fair Value Loss on Derivative Component of Convertible Bonds

	2012 $m	2011 $m	Change
Fair value loss on derivative component of convertible bonds	55	–	N/A

On 23 October 2012, HKEx issued convertible bonds in the principal amount of US$500 million (the Bonds) for the purpose of funding the acquisition of the LME Group. The share conversion option element of the Bonds was treated as a derivative liability with subsequent changes in fair value recognised in profit or loss. The acquisition was completed on 6 December 2012 and HKEx International Limited, a wholly-owned subsidiary of HKEx, became the holding company of all LME related group companies. With effect from 17 December 2012, HKEx International Limited substituted for HKEx as the issuer and the principal obligor under the Bonds (the Substitution). The Substitution matched the proceeds of the Bonds to the primary purpose for which they were issued, the financing of the acquisition. Following the Substitution, both the number of HKEx shares and the amount of cash that would be exchanged upon conversion of the Bonds became fixed. Accordingly, the share conversion option element of the Bonds was reclassified from derivative liability to equity and will not be revalued thereafter. A fair value loss of $55 million was incurred from the date of issue of the Bonds to the date of Substitution.

Details of the Bonds are included in note 35(b) to the consolidated financial statements of this Annual Report.

(L) Taxation

	2012 $m	2011 $m	Change
Taxation	761	939	(19%)

Taxation dropped mainly due to the lower profit before taxation and higher non-taxable investment income, which were partly offset by non-deductible costs arising from the acquisition of the LME Group.

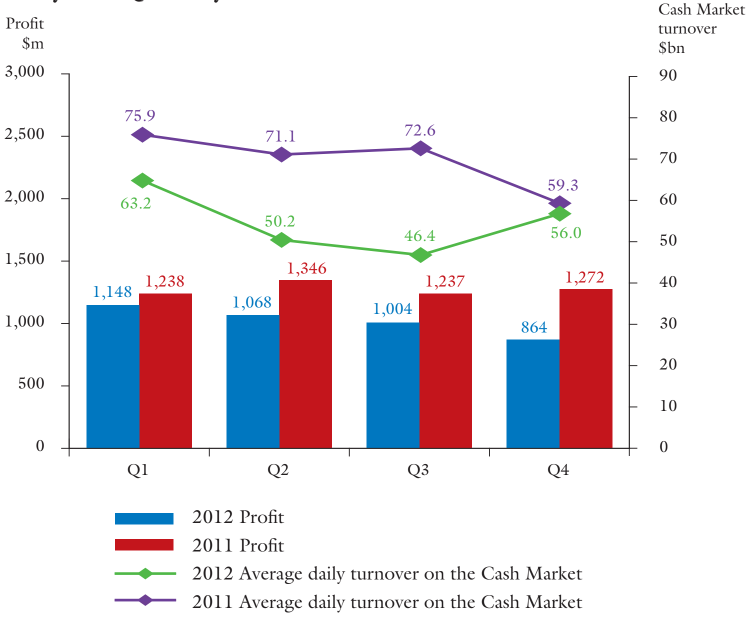
Analysis of Results by Quarter

Quarterly Results

	Q1 2012 $m	Q2 2012 $m	Q3 2012 $m	Q4 2012 $m	Total 2012 $m
Revenue and other income	1,875	1,895	1,693	1,748	7,211
Operating expenses (excluding depreciation and amortisation)	484	492	458	523	1,957
EBITDA	1,391	1,403	1,235	1,225	5,254
Depreciation and amortisation	(29)	(27)	(35)	(67)	(158)
Costs relating to acquisition of LME Group	(19)	(91)	(18)	(10)	(138)
Finance costs	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	(55)	(55)
Share of loss of a joint venture	–	–	(1)	(2)	(3)
Profit before taxation	1,343	1,285	1,181	1,036	4,845
Taxation	(195)	(217)	(177)	(172)	(761)
Profit attributable to shareholders	1,148	1,068	1,004	864	4,084

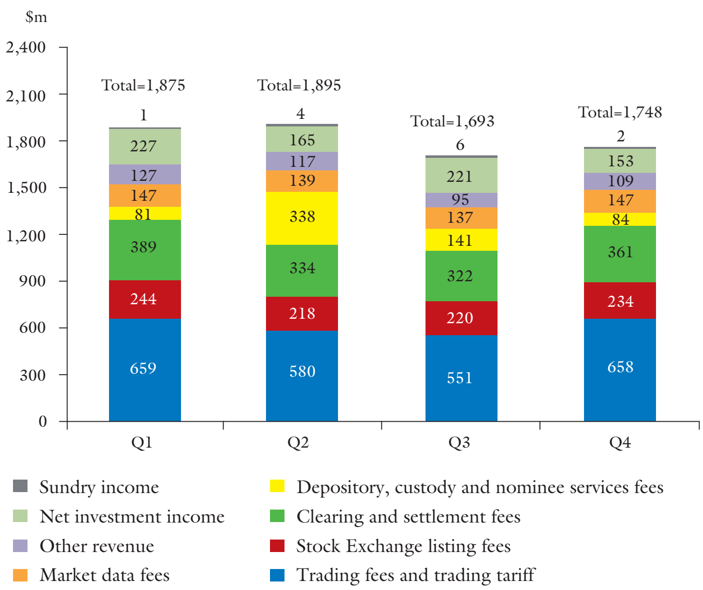
	Q1 2011 $m	Q2 2011 $m	Q3 2011 $m	Q4 2011 $m	Total 2011 $m
Profit attributable to shareholders	1,238	1,346	1,237	1,272	5,093

Analysis of Quarterly Results



Due to worries about the Eurozone sovereign debt crisis and the slowdown of the Mainland's economic growth, the Cash Market turnover was lower compared to 2011, leading to lower profit in the first three quarters of 2012. Market sentiment improved and the Cash Market turnover rebounded in the fourth quarter due to the quantitative easing policy of the US and the influx of funds into Hong Kong. The drop in profit in the fourth quarter compared to the same quarter in 2011 was mainly due to the lower Cash and Derivatives Market turnover, a drop in forfeiture of unclaimed dividends held by HKSN, and various costs arising from the acquisition of the LME Group.

Analysis of 2012 Revenue and Other Income by Quarter



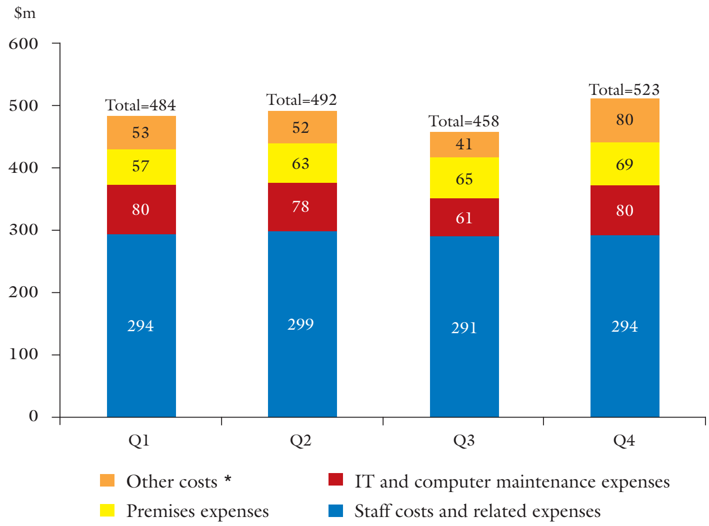
Trading fees and trading tariff and clearing and settlement fees generally moved in line with the average daily turnover on the Cash Market. Depository, custody and nominee services fees were the highest in the second quarter on account of higher scrip fee income due to seasonal factors.

The key market indicators for the income of the Group by quarter are set out below:

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total 2012
Average daily turnover value on the Stock Exchange ($bn)	63.2	50.2	46.4	56.0	53.9
Average daily number of derivatives contracts traded on the Futures Exchange	255,110	276,109	243,303	264,450	259,556
Average daily number of stock options contracts traded on the Stock Exchange	238,445	225,266	211,479	239,438	228,438
Number of newly listed DWs	1,580	1,373	1,328	1,605	5,886
Number of newly listed CBBCs	1,419	1,530	1,656	1,451	6,056
Number of newly listed companies on Main Board *	15	10	14	13	52
Number of newly listed companies on GEM	3	4	3	2	12

* Including transfers from GEM

Analysis of 2012 Operating Expenses (excluding Depreciation and Amortisation) by Quarter



* Other costs include product marketing and promotion expenses, legal and professional fees, and other operating expenses.

IT and computer maintenance expenses decreased in the third quarter of 2012 mainly due to lower Cash Market trading system line rental costs directly consumed by the Participants following the migration of the Group's network services to SDNet/2. They increased in the fourth quarter due to the inclusion of the LME Group's IT and computer maintenance expenses of $23 million.

Other costs increased in the fourth quarter mainly attributable to the operating costs of the TKO Data Centre and increases in marketing expenses and legal and professional fees.

In the fourth quarter of 2012, $41 million of operating expenses (excluding depreciation and amortisation) of the LME Group were included.

Operating Segments

An analysis of the Group's EBITDA and profit before taxation for the year by operating segment is as follows:

	2012						
	Cash Market $m	Derivatives Market $m	Commodities $m	Clearing $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	2,824	761	74	2,209	563	1	6,432
Net investment income	–	422	2	31	–	311	766
Sundry income	–	–	–	13	–	–	13
Revenue and other income	2,824	1,183	76	2,253	563	312	7,211
Operating expenses (excluding depreciation and amortisation)	647	178	41	332	76	683	1,957
Reportable segment EBITDA	2,177	1,005	35	1,921	487	(371)	5,254
Depreciation and amortisation	(42)	(13)	(22)	(46)	(13)	(22)	(158)
Costs relating to acquisition of LME Group	–	–	–	–	–	(138)	(138)
Finance costs	–	–	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	–	–	(55)	(55)
Share of loss of a joint venture	–	(3)	–	–	–	–	(3)
Reportable segment profit before taxation	2,135	989	13	1,875	474	(641)	4,845

To reflect the Group's continuing transition towards becoming a vertically and horizontally integrated multi-asset class exchange, in 2013, a new reportable segment structure will be implemented under which:

(i) The **Cash** segment will include all revenues associated with the listing, trading and market data of Cash Market products traded on the Stock Exchange (excluding derivatives such as CBBCs, DWs, warrants and stock options);

(ii) The **Equity and Financial Derivatives** segment will cover all revenues associated with derivatives traded on the Stock Exchange (ie, CBBCs, DWs, warrants and stock options) and the Futures Exchange;

(iii) The **Commodities** segment will represent the operations of the LME Group (excluding its clearing operations);

(iv) The **Clearing** segment will comprise the operations of HKSCC, SEOCH, HKCC, OTC Clear and LME Clear;

(v) The **Platform and Infrastructure** segment will include the operations of Hosting Services and other technology related services; and

(vi) **Corporate Items** comprise 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 reportable segments, finance costs and other costs not directly related to any of the reportable segments), and are not allocated to the reportable segments. Under the new segmental analysis, costs of developing new business initiatives incurred before launch (such as OTC Clear, LME Clear and Hosting Services), which were previously absorbed as support function costs under Corporate Items, will be included under the respective reportable segments.

A segmental analysis of the Group's 2012 EBITDA and profit before taxation as it would appear under the new segment structure is set out below for information:

	2012						
	Cash $m	Equity and Financial Derivatives $m	Commodities $m	Clearing $m	Platform and Infrastructure $m	Corporate Items $m	Group $m
Revenue from external customers	2,203	1,599	74	2,201	354	1	6,432
Net investment income	–	–	2	453	–	311	766
Sundry income	–	–	–	13	–	–	13
Revenue and other income	2,203	1,599	76	2,667	354	312	7,211
Operating expenses (excluding depreciation and amortisation)	472	399	37	402	171	476	1,957
Reportable segment EBITDA	1,731	1,200	39	2,265	183	(164)	5,254
Depreciation and amortisation	(38)	(30)	(22)	(47)	(11)	(10)	(158)
Costs relating to acquisition of LME Group	–	–	–	–	–	(138)	(138)
Finance costs	–	–	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	–	–	(55)	(55)
Share of loss of a joint venture	–	(3)	–	–	–	–	(3)
Reportable segment profit before taxation	1,693	1,167	17	2,218	172	(422)	4,845

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2 to the consolidated financial statements of this Annual Report.

Additional Information on LME Group's 2012 Full Year Results

On 6 December 2012, HKEx completed the acquisition of the LME Group the post-acquisition results of which between 6 December 2012 and 31 December 2012 have been consolidated in HKEx Group's 2012 full year financial results.

Key items from the unaudited consolidated financial results of the LME Group for the full 2012 financial year are shown below. These represent an aggregation of the audited financial statements of LME, the audited financial statements of LMEH, and the unaudited management accounts of LME Clear, an entity with a 30 April accounting year end that was set up to hold the future self-clearing operations of LME Group which are currently in their development phase.

	LME Group key financials [1]	
	1 Jan-31 Dec 2012 Unaudited full year results $m	6 Dec-31 Dec 2012 As consolidated by HKEx $m
Revenue and other income	976	76
Operating expenses [2] (excluding depreciation and amortisation and non-recurring items)	639	41
EBITDA from continuing operations	337	35
Non-recurring items [3]	366	–
EBITDA [4]	(29)	35

Notes:

1 Converted at an average month-end exchange rate of £1 = $12.33.
2 Of which $86 million (1 Jan-31 Dec 2012) and $4 million (6 Dec-31 Dec 2012) respectively consisted of operating expenses related to the development of LME Clear.
3 Non-recurring items incurred during the 2012 full year period included $124 million of advisory and other costs related to the sale of the LME Group to HKEx and a $242 million incentive payout to certain members of LME's management team.
4 Below the EBITDA line, $11 million of post-acquisition depreciation and amortisation of the LME Group and $11 million of amortisation of intangible assets arising from the acquisition were included in the HKEx Group's 2012 results. At 31 December 2012, the LME Group had capital commitments totalling $73 million.

LME Group's revenues in 2012 were affected by the introduction of a higher Exchange User Fee, or EUF (the trading and data capture fee charged to LME users when conducting trades on behalf of clients) from 2 July 2012. On this date, the total cost of trading one lot of eligible contracts was increased from £0.16 per lot for segregated trades and £0.07 per lot for non-segregated trades respectively to the equivalent of a flat rate of £0.50 per lot for both types of trades (re-denominated into USD). The difference between the LME Group's contract levy and data capture revenue in the first and second half of 2012 largely reflects the impact of the higher EUF received on eligible contracts:

	LME trading volume			
	1 Jan-30 Jun 2012 Unaudited million lots	1 Jul-31 Dec 2012 Unaudited million lots	1 Jan-31 Dec 2012 Unaudited million lots	Change second half vs. first half 2012
LME trading volume	79.6	80.1	159.7	1%
Eligible for EUF	33.4	32.5	65.9	(3%)
– segregated	11.5	13.8	25.3	20%
– non-segregated	21.9	18.7	40.6	(15%)
Not eligible for EUF	46.2	47.6	93.8	3%

	LME Group revenue and other income [1]			
	1 Jan-30 Jun 2012 Unaudited $m	1 Jul-31 Dec 2012 Unaudited $m	1 Jan-31 Dec 2012 Unaudited $m	Change second half vs. first half 2012
Contract levy and data capture revenue	239	408	647	71%
Eligible for EUF	42	199	241	374%
– segregated	23	84	107	265%
– non-segregated	19	115	134	505%
Not eligible for EUF	197	209	406	6%
Other revenue and other income	163	166	329	2%
Revenue and other income	402	574	976	43%

Note:

1 Converted at an average month-end exchange rate of £1 = $12.33.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Fixed Assets, Intangible Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets increased by $18,910 million to $19,858 million at 31 December 2012 (31 December 2011: $948 million). The increase was primarily due to additions of $17,786 million of intangible assets and $28 million of fixed assets attributable to the acquisition of the LME Group, additions of $1,097 million during 2012 mainly for the construction of the TKO Data Centre with Hosting Services capability, upgrade and enhancement of the Derivatives Market trading and clearing systems, and development of a clearing system for OTC derivatives.

The Group's capital expenditure commitments at 31 December 2012, including those authorised by the Board but not yet contracted for, amounted to $832 million (31 December 2011: $1,605 million) and were mainly related to the relocation of the primary data centres to the TKO Data Centre, the development of Hosting Services, a new market data system, a clearing system for OTC derivatives and commodities, and a Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market trading and clearing system. The Group has adequate resources to fund its capital expenditure commitments.

(B) Significant Financial Assets and Financial Liabilities by Funds

	At 31 Dec 2012 $m	At 31 Dec 2011 $m	Change
Financial assets			
Cash and cash equivalents	**34,077**	18,221	87%
Financial assets measured at fair value through profit or loss	**4,492**	11,349	(60%)
Financial assets measured at amortised cost	**8,573**	16,251	(47%)
Total	**47,142**	45,821	3%

The Group's financial assets at 31 December 2012 comprised financial assets of the Corporate Funds, Margin Funds and cash collateral, and Clearing House Funds. The amounts attributable to the respective funds were as follows:

	At 31 Dec 2012 $m	At 31 Dec 2011 $m	Change
Corporate Funds	**7,817**	9,750	(20%)
Margin Funds and cash collateral *	**36,783**	34,585	6%
Clearing House Funds	**2,542**	1,486	71%
Total	**47,142**	45,821	3%

* Excluding margin receivable from CPs

	At 31 Dec 2012 $m	At 31 Dec 2011 $m	Change
Financial liabilities			
Margin deposits and cash collateral from CPs	**36,786**	34,592	6%
Participants' contributions to Clearing House Funds	**1,924**	880	119%
Total	**38,710**	35,472	9%

Financial assets of Corporate Funds at 31 December 2012 decreased as compared to those at 31 December 2011 mainly due to the payment for the acquisition of the LME Group, dividends paid during the year, and payment for the purchases of fixed assets and intangible assets. The decrease was partly offset by proceeds from bank borrowings, issuance of convertible bonds and shares, and profit before tax for the year.

The increase in financial assets of Margin Funds and cash collateral, and margin deposits and cash collateral from CPs at 31 December 2012 against those at 31 December 2011 was mainly due to an increase in open interest in futures contracts but partly offset by lower margin required per contract at the year end.

The increase in financial assets of Clearing House Funds and Participants' contributions to Clearing House Funds at 31 December 2012 against those at 31 December 2011 was mainly due to an increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.

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

Acquisition of LME Group

On 6 December 2012, the Group completed the acquisition of the entire issued ordinary share capital of LMEH at a total cash consideration of £1,388 million ($17,298 million). The LME Group operates a leading exchange for the trading of base metals forward and options contracts in the UK.

Joint Venture with Shanghai Stock Exchange and Shenzhen Stock Exchange

On 28 June 2012, HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange entered into a tripartite agreement to establish a joint venture with an aim of developing financial products and related services. On 16 August 2012, the CESC, a limited company, was incorporated in Hong Kong for such purpose.

Save for those disclosed in this Annual Report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the year. Apart from those disclosed under capital commitments in Section (A), there is no committed plan for other material investments or additions of capital assets as of the date of this Annual Report.

(D) Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities

	At 31 Dec 2012 $m	At 31 Dec 2011 $m	Change
CNS money obligations receivable	12,733	6,482	96%
Other receivables from Participants	591	506	17%
Other accounts receivable, prepayments and deposits	531	405	31%
Less: provision for impairment losses of receivables	(159)	(160)	(1%)
Total accounts receivable, prepayments and deposits	13,696	7,233	89%
CNS money obligations payable	12,733	6,482	96%
Other payables to Participants	1,317	1,027	28%
Stamp duty payable to the Collector of Stamp Revenue	255	146	75%
Other accounts payable, accruals and other liabilities	1,533	801	91%
Total accounts payable, accruals and other liabilities	15,838	8,456	87%

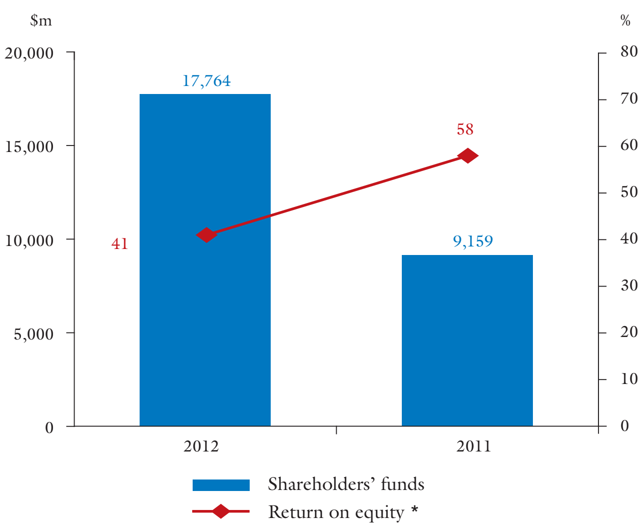
The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2012 mainly comprised CNS money obligations receivable and payable, and other receivables from and payables to EPs and CPs.

The increase in CNS money obligations receivable and payable was mainly due to the last trading day in 2012 not being a settlement day when the Stock Exchange was only opened for trading for half a day. Accordingly, the amounts outstanding at 31 December 2012 represented unsettled transactions for two trading days whereas the amounts at 31 December 2011 comprised one day of unsettled trades.

(E) Shareholders' Funds and Return on Equity

Shareholders' funds at 31 December 2012 increased by $8,605 million to $17,764 million (31 December 2011: $9,159 million). The increase was mainly attributable to a share placement of $7,708 million (net of related transaction costs) to fund part of the consideration for the acquisition of the LME Group, plus $442 million of shares issued in lieu of cash dividends, $409 million of convertible bond reserve and $189 million of exchange reserve. The was partly offset by a $162 million decrease in retained earnings (before transfer to designated reserves which also form part of shareholders' equity).

Shareholders' Funds and Return on Equity



Return on equity dropped in 2012 mainly due to lower profit and a $7,708 million of share placement in December 2012 to fund part of the consideration for the acquisition of the LME Group.

* Based on average month-end shareholders' funds for the year

Liquidity, Financial Resources and Gearing

Working capital fell by $2,399 million to $5,240 million at 31 December 2012 (31 December 2011: $7,639 million). The decrease was mainly due to the intangible and fixed assets and non-current financial assets net of associated deferred tax liabilities of $16,954 million arising from the acquisition of the LME Group, the 2011 final dividend and the 2012 interim dividend (net of scrip dividend) of $3,806 million, other increases in fixed assets and intangible assets of $900 million and other decreases in working capital of $7 million, which were partly offset by the increases in bank loans, convertible bonds and proceeds from issuance of shares upon placement (net of transaction costs) totalling $14,732 million, profit generated during the year of $4,084 million, and a drop in non-current financial assets of $452 million.

In 2012, the Group took out a bank loan of US$400 million and issued US$500 million of convertible bonds with an annual coupon of 0.5 per cent that mature in 2017 to finance the acquisition of the LME Group.

At 31 December 2012, the Group had borrowings of $3,100 million from a bank (31 December 2011: $Nil) and $3,515 million from convertible bonds issued (31 December 2011: $Nil), and a gearing ratio of 15 per cent (31 December 2011: zero per cent). The calculation of gearing ratio is detailed in note 52 to the consolidated financial statements of this Annual Report.

In addition, banking facilities have been put in place for contingency purposes. At 31 December 2012, the Group's total available banking facilities for its daily operations amounted to $16,010 million (31 December 2011: $13,010 million), which included $7,000 million (31 December 2011: $4,000 million) of committed banking facilities and $9,000 million (31 December 2011: $9,000 million) of repurchase facilities.

The Group also put in place foreign exchange facilities for the TSF to support the trading of RMB stocks. At 31 December 2012, the total amount of such facilities was RMB17,000 million (31 December 2011: RMB Nil).

At 31 December 2012, 92 per cent (31 December 2011: 98 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD.

Charges on Assets

None of the Group's assets was pledged at 31 December 2012 or 31 December 2011.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 53(a)(i) – Foreign exchange risk management to the consolidated financial statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 47 to the consolidated financial statements of this Annual Report.

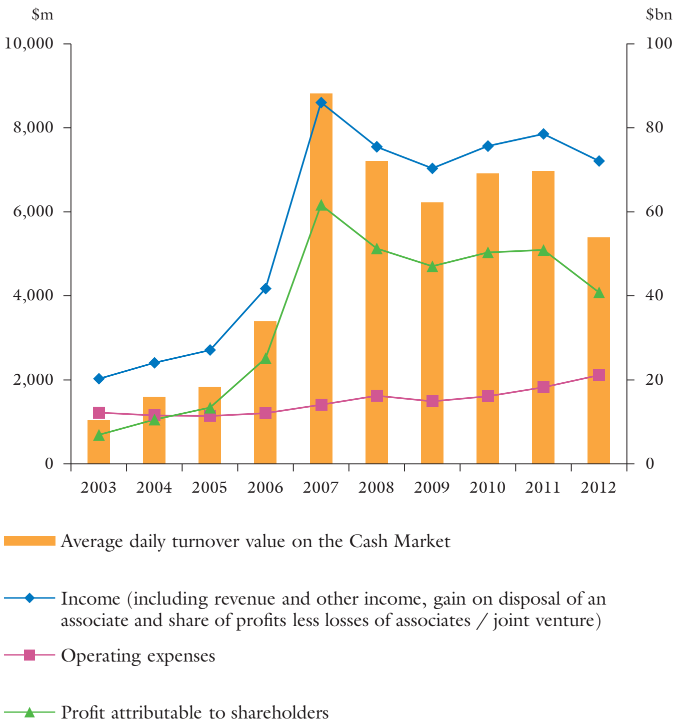
10-YEAR FINANCIAL STATISTICS

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
KEY MARKET STATISTICS										
Average daily turnover value on the Stock Exchange ($bn)	**53.9**	69.7	69.1	62.3	72.1	88.1	33.9	18.3	16.0	10.4
Average daily number of derivatives contracts traded on the Futures Exchange	**259,556**	269,525	221,487	206,458	207,052	171,440	100,318	68,157	56,752	41,889
Average daily number of stock options contracts traded on the Stock Exchange	**228,438**	302,750	246,474	191,676	225,074	187,686	73,390	35,385	22,720	17,122
RESULTS ($m)										
Revenue and other income	**7,211**	7,855	7,566	7,035	7,549	8,390	4,147	2,694	2,394	2,020
Operating expenses	**2,115**	1,823	1,612	1,493	1,621	1,412	1,211	1,145	1,156	1,224
	5,096	6,032	5,954	5,542	5,928	6,978	2,936	1,549	1,238	796
Costs relating to acquisition of LME Group	**(138)**	–	–	–	–	–	–	–	–	–
Finance costs	**(55)**	–	–	–	–	–	–	–	–	–
Fair value loss on derivative component of convertible bonds	**(55)**	–	–	–	–	–	–	–	–	–
Gain on disposal of an associate	**–**	–	–	–	–	206	–	–	–	–
Share of profits less losses of associates/joint venture	**(3)**	–	–	–	–	6	27	18	13	9
Profit before taxation	**4,845**	6,032	5,954	5,542	5,928	7,190	2,963	1,567	1,251	805
Taxation	**(761)**	(939)	(917)	(838)	(799)	(1,021)	(445)	(227)	(194)	(112)
Profit attributable to shareholders	**4,084**	5,093	5,037	4,704	5,129	6,169	2,518	1,340	1,057	693
Dividend per share ($)										
– Interim and final dividends	**3.31**	4.25	4.20	3.93	4.29	5.19	2.13	1.13	0.90	0.60
– Special dividends	**–**	–	–	–	–	–	–	–	–	1.68
	3.31	4.25	4.20	3.93	4.29	5.19	2.13	1.13	0.90	2.28
Basic earnings per share [1] ($)	**3.75**	4.71	4.66	4.36	4.76	5.76	2.36	1.26	1.00	0.66
CONSOLIDATED STATEMENT OF FINANCIAL POSITION ($m)										
Non-current assets	**20,260**	1,580	2,350	2,637	425	884	454	1,710	2,839	3,059
Current assets	**60,577**	52,448	45,534	42,695	62,397	87,070	40,207	21,236	18,629	16,772
Current liabilities	**(55,337)**	(44,809)	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)	(17,168)	(13,922)
Net current assets	**5,240**	7,639	6,374	5,710	7,177	7,797	5,073	2,900	1,461	2,850
Total assets less current liabilities	**25,500**	9,219	8,724	8,347	7,602	8,681	5,527	4,610	4,300	5,909
Non-current liabilities	**(7,736)**	(60)	(47)	(320)	(308)	(305)	(270)	(273)	(269)	(296)
Shareholders' funds	**17,764**	9,159	8,677	8,027	7,294	8,376	5,257	4,337	4,031	5,613
Net assets per share [2] ($)	**15.48**	8.50	8.06	7.46	6.79	7.83	4.94	4.08	3.81	5.35
FINANCIAL RATIOS										
Dividend payout ratio [3]	**90%**	90%	90%	90%	90%	90%	90%	90%	90%	91%
Cost to income ratio [4]	**29%**	23%	21%	21%	21%	16%	29%	42%	48%	60%
Pre-tax profit margin [4]	**67%**	77%	79%	79%	79%	84%	71%	58%	52%	40%
Return on equity [5]	**41%**	58%	63%	64%	67%	96%	54%	33%	25%	13%
Current ratio	**1.1**	1.2	1.2	1.2	1.1	1.1	1.1	1.2	1.1	1.2

Notes:

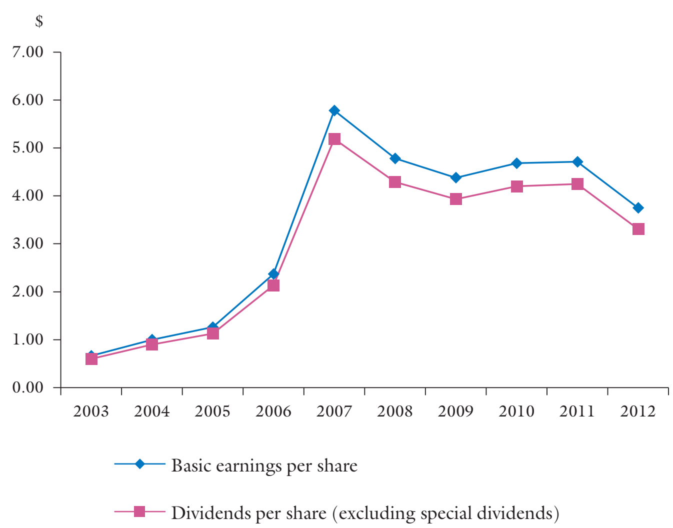
1 Certain prior year figures have been restated as a result of the shares issued upon placement at a discount in December 2012.
2 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
3 The calculation of dividend payout ratio does not take into account special dividends.
4 For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates/joint venture.
5 Based on average month-end shareholders' funds for the year

Income, Operating Expenses and Profit



Profit attributable to shareholders started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat and the subsequent increased hope of a revival in the Hong Kong economy. Thereafter, activity in the Cash and Derivatives Markets continued to gather momentum, in particular in 2006 when shares from various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Mainland's Qualified Domestic Institutional Investor scheme, and the Mainland's proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals, which culminated in record high turnover in the Cash and Derivatives Markets. In 2008 and 2009, the activity in the Cash Market dropped as market sentiment was stricken by the global economic downturn and stock prices tumbled following the financial tsunami which started in the fourth quarter of 2008. Investor sentiment began to recover in 2010 and considerable growth in market turnover was recorded in the fourth quarter due to ample liquidity and continuing economic growth on the mainland of China and in other parts of Asia. Due to worries over the Eurozone sovereign debt crisis and economic uncertainty in the second half of 2011, market activities slowed down particularly in the fourth quarter. Market sentiment remained subdued in 2012 until the fourth quarter with further quantitative easing in the US and an influx of funds into Hong Kong. Operating expenses have increased due to the implementation of various strategic initiatives but have been moderated by stringent cost controls. As a result, profit attributable to shareholders was predominantly affected by the level of income.

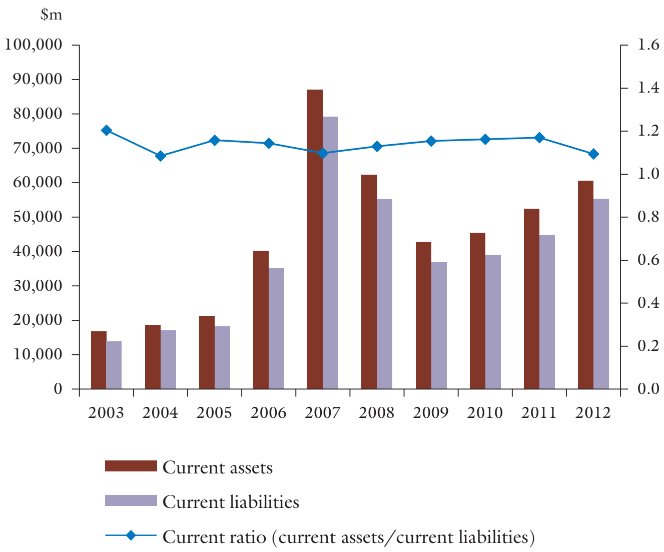
Basic Earnings and Dividends per Share



As there were no significant changes in the issued share capital until December 2012, earnings per share followed the same trend as profit attributable to shareholders.

In 2002, the Board adopted a policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent. Since then, dividends per share have moved in line with earnings per share.

Current Assets, Current Liabilities and Current Ratio



Current assets and current liabilities were directly affected by the CNS money obligations receivable and payable under the T+2 settlement cycle and the Margin Funds and cash collateral. Therefore, the amounts generally followed the level of activity in the Cash and Derivatives Markets.

Net Assets per Share and Return on Equity

* Based on average month-end shareholders' funds for the year

Net assets per share had been increasing steadily due to profits retained until a special dividend of $1.68 per share was paid in May 2004. Thereafter, net assets per share resumed rising as a result of increasing profits in successive years up to 2007. Net assets per share dropped in 2008 as total dividends paid (which were based on the higher profit in the second half of 2007 and the first half of 2008) were higher than the profit for the year. Net assets per share have been rising again since 2009 as the total dividends paid during 2009 to 2011 were lower than the profit for the corresponding years. Net assets per share increased significantly in 2012 mainly due to a $7,708 million share placement (at $118 per share) in December 2012.

The return on equity generally moved in line with profit attributable to shareholders. The sharp increase in the return on equity in 2004 was due to the special dividend paid in May 2004. The decline in 2008 and 2009 was due to a drop in profit caused by the financial tsunami. In 2010 and 2011, return on equity declined mainly attributable to the increase in equity due to profits retained. In 2012, return on equity fell significantly mainly due to the lower profit for the year and the share placement in December 2012.

CORPORATE GOVERNANCE REPORT

HKEx recognises the importance of a robust governance framework to drive its strategic priorities for long-term sustainable shareholder value in a manner consistent with its public responsibilities as an exchange controller. HKEx is always mindful of its wider obligations towards other stakeholders, such as market participants, the investing public, and the community as a whole, and remains committed to conducting its business in a fair, transparent, and ethical way by adopting the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organisation.

An explanation of how the principles of the Corporate Governance Code were put into practice during the year under review is set out below and in the Audit Committee Report, the Environmental, Social and Governance Committee Report, and the Remuneration Committee Report of this Annual Report. Further insight into HKEx's corporate governance structure and practices is available in the Corporate Governance section of the HKEx website.

Compliance with Corporate Governance Code

Throughout the year ended 31 December 2012, HKEx complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code (applicable to financial reports covering a period after 1 April 2012) and the former Code on Corporate Governance Practices, with the exceptions of Code Provisions A.4.1 and A.4.2 as addressed below.

Code Provision A.4.1 (Re-election of non-executive directors)
The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. They are normally appointed for a term of approximately 2 years and on expiration of their terms they shall retire and be eligible for re-appointment pursuant to Article 93(5) of HKEx's Articles.
Code Provision A.4.2 (Retirement by rotation of directors)
• The term of office of HKEx's Chief Executive in his capacity as a Director shall, pursuant to Article 90(4) of HKEx's Articles, be coterminous with his employment with HKEx, and he is not subject to retirement by rotation. • HKEx's Chief Executive is appointed under an employment contract for a fixed term, normally not more than 3 years, with no automatic renewal provision, and shall be eligible for re-appointment. Pursuant to Articles 111(1) and (3) of HKEx's Articles, his appointment has to be approved by the Board and is subject to the SFC's approval under Section 70 of the SFO.

In addition, to demonstrate HKEx's continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy in February 2013 to comply with a new Code Provision on board diversity which will be effective from September 2013. The Policy is available on the HKEx website.

Strategic Plans

The year 2012 not only marked the final and critical implementation phase of the HKEx Strategic Plan 2010-2012 but also was the beginning of a new strategic plan for the coming 3 years. Being accountable for the Group's overall direction in pursuit of its strategic priorities and public responsibilities, the Board plays an active role in the strategic development and planning process.

Board process to review and develop strategic plans

One-day offsite Board meeting in January 2012
• Initiated by HKEx's Chief Executive • Participation by Directors, HKEx's senior executives, and external guest speakers • Issues discussed: (i) an update on implementation of the HKEx Strategy Plan 2010-2012; and (ii) key initiatives undertaken in 2012

One-day offsite Board meeting in November 2012
• Initiated by HKEx's Chief Executive • Participation by Directors, senior executives of HKEx and LME, and external guest speakers • Issues discussed: (i) strategic foundations set and accomplishments realised during the past 3 years; and (ii) strategic options available under the current operating environment and challenges in the coming years
Board meeting in December 2012
HKEx's Chief Executive presented the HKEx Group Strategic Plan 2013-2015 to the Board for its consideration and approval

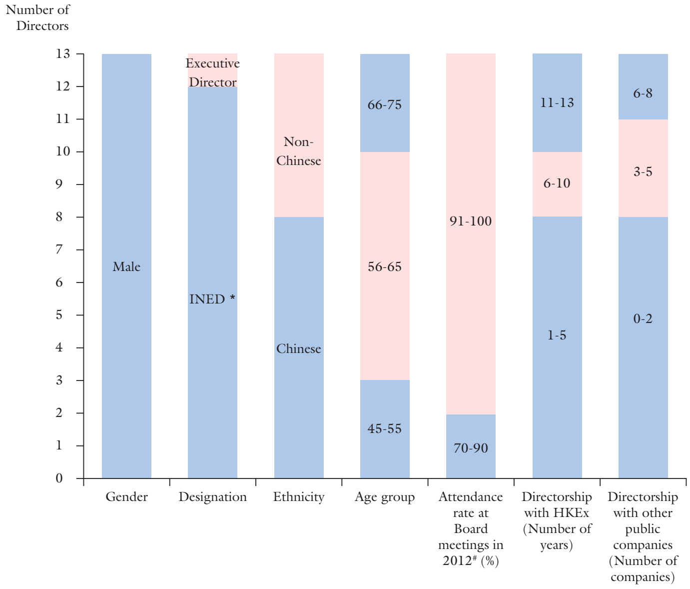
Details of the strategic plan for 2013-2015 are set out in the HKEx Group Strategic Plan 2013-2015 section of this Annual Report, and are available on the HKEx website, while the work done in 2012 under the 2010-2012 Strategic Plan is reported in the Business Review and Financial Review sections of this Annual Report.

The Board

Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO. It currently comprises 13 members with professional background and/or extensive expertise in the Group's business.

The names of the current Directors and their biographies (including their roles, functions, and respective terms of office at HKEx as well as their skills and experience) are set out in the Board of Directors and Senior Management section of this Annual Report, and are available on the HKEx website.



* 6 Government Appointed Directors and 6 Elected Directors
# Including 2 offsite meetings

Appointment and Election of Directors

Changes in Directors during 2012
• In April 2012, the Government announced the appointment of Messrs C K Chow and Tim Freshwater as Directors for a term of approximately 2 years from the close of the 2012 AGM until the conclusion of the AGM to be held in 2014, and the re-appointment of Mr Ronald Arculli as a Director for a term of approximately 1 year from the close of the 2012 AGM until the conclusion of the 2013 AGM. • Mrs Laura Cha and Dr Moses Cheng retired from the Board after the conclusion of the 2012 AGM. • At the 2012 AGM, Messrs Ignatius Chan and John Williamson were re-elected as Directors by Shareholders for a term of approximately 3 years from 23 April 2012 until the conclusion of the AGM to be held in 2015.

There are 6 Directors whose service terms will expire at the conclusion of the 2013 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. Regarding the nomination of candidates as Elected Directors, details are set out on page 100 of this Annual Report. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as practicable.

Directors retire in 2013

Elected Directors
• John Strickland • Oscar Wong
Government Appointed Directors
• Ronald Arculli • John Harrison • Stephen Hui • Michael Lee

Chairman and Chief Executive

The roles of HKEx's Chairman and Chief Executive are complementary, but importantly, they are distinct and separate with a clear division of responsibilities. Their respective responsibilities are set out in the Corporate Governance section of the HKEx website.

C K Chow
Chairman
(INED)

- Provides leadership to the Board
- Ensures effectiveness of the Board
- Fosters better relationships between Directors

- Promotes integrity and probity
- Ensures effective stakeholder communication

Charles Li
Chief Executive
(ex-officio Board member)

- Develops strategies for the Board's approval
- Executes the strategies agreed by the Board
- Leads the management of the Group's operations

Changes in Chairman in 2012
• Pursuant to Article 111(2) of HKEx's Articles, Mr Ronald Arculli who has served as HKEx's Chairman for 6 consecutive years is ineligible for re-appointment as Chairman and his chairmanship ceased after the conclusion of the 2012 AGM.
• The Board on 24 April 2012 appointed Mr C K Chow as HKEx's Chairman for a term to be coterminous with his directorship with HKEx. Pursuant to Section 69 of the SFO, the Chief Executive of the HKSAR approved his appointment which took effect on 27 April 2012.
Re-appointment of Chief Executive in 2012
• In September 2012, the Board approved the renewal of the employment contract of Mr Charles Li as HKEx's Chief Executive for a further 3-year term from 16 October 2012 to 15 October 2015 and the SFC approved his re-appointment pursuant to Section 70 of the SFO.

Roles and Responsibilities

The Board believes that good governance emanates from an effective board which sets HKEx's overall strategic direction, reviews its operational and financial performance, and provides oversight to ensure that a sound system of internal control and risk management is in place.

The responsibilities for the development and implementation of the Group's strategies and the day-to-day management issues are delegated to Board committees and the management. The Board has a formal schedule of matters reserved for its own decisions, as defined in its terms of reference, which are available on the HKEx website.

Key non-routine matters addressed by the Board during 2012
• Revamp of the Stock Options market
• Establishment of the OTC derivatives clearing house
• Establishment of the joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange
• Revisions to the HKEx Escalation and Incident Reporting Policy and HKEx Market Contingency Plan
• Consultation Conclusions on HKEx Clearing House Risk Management Reform Measures
• Implementation of the HKEx Orion programme
• Implementation of the external consultant's recommendations on IT security risk and infrastructure
• Acquisition of the LME Group and post-acquisition integration
• Conversion of LME from a company limited by guarantee to an unlimited liability company with a share capital
• Issue and substitution of convertible bonds
• Share placement
• HKEx Group Strategic Plan 2013-2015
• 2013 Annual Operating Plan and Budget
• Review of the Board's standing agenda
• Renewal of the employment contract of HKEx's Chief Executive
• Amendments to the HKEx Investment Policy, Restrictions and Guidelines
• Revisions to the Expense Approval Guide
• Amendments to the HKEx Continuous Disclosure and Communication Policy
• Non-executive Directors' remuneration for 2012/2013
• Remuneration proposal for 2012/2013

Independence of Non-executive Directors

HKEx has been steered by a Board with a majority of INEDs since its listing, with HKEx's Chief Executive being the only executive Director on the Board. To ensure that the Board has a strong independent element, assessments of Non-executive Directors' independence are carried out upon appointment, annually, and at any other time where the circumstances warrant reconsideration.

Assessments of Non-executive Directors' independence for 2012

Assessment upon Director's appointment
Messrs C K Chow and Tim Freshwater, the Non-executive Directors newly appointed in April 2012, confirmed in writing to the SFC respectively upon their appointment – • their independence having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules; and • they have no past or present financial or other interest in the Group's business and no connection with any of HKEx's connected persons (as defined in the Main Board Listing Rules).
Annual assessment
On 31 January 2013, the Nomination Committee held a meeting to assess the annual confirmation of independence received from each of the INEDs having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules. • As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence. • Particular review was applied in assessing the continued independence of the Government Appointed Directors since one of them is an Executive Councillor and the Government is a Minority Controller of HKEx. • Consideration was given to the independence of Dr Bill Kwok and Messrs Vincent Lee and John Strickland who have served on the Board for more than 12 years, and the independence of Mr Oscar Wong who has served for more than 9 years. • Mr Ronald Arculli is a senior partner of King & Wood Mallesons (formerly known as King & Wood), Hong Kong Office. During the year ended 31 December 2012, King & Wood Mallesons, Australia Office (K&W-AO) and King & Wood Mallesons, Shanghai Office (K&W-SO) respectively provided legal services to the Group, details of which were set out below. (i) HKEx appointed K&W-AO as its Australia legal counsel to advise on certain listing related matters concerning Australian sanctions laws; and (ii) a wholly-owned HKEx's subsidiary, appointed K&W-SO as its PRC legal counsel to advise on the legal issues relating to the establishment of a wholly-owned subsidiary in Shanghai and the scope of business under its business licence. The legal fees paid to K&W-AO and K&W-SO for the year ended 31 December 2012 amounted to a total of $348,801.19. Taking into account that both K&W-AO and K&W-SO were selected under a quotation process conducted solely by management, and that the services provided by them were on normal commercial terms and in the ordinary course of the Group's business, the Nomination Committee affirmed that Mr Arculli remained independent. • In addition, the Nomination Committee affirmed that all INEDs continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.
Ongoing assessment
• Each INED is required to inform HKEx as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2012. • All Directors do not have any financial, business, family, or other material/relevant relationships with each other. In particular, there are none between HKEx's Chairman and Chief Executive. • Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections of this report.

Induction and Development

All new Directors participate in an induction programme which, taking into account their previous experience and background, is designed to further their knowledge and understanding of the Group's culture and operations as well as their associated role and responsibilities. An induction programme was held for Messrs C K Chow and Tim Freshwater who joined the Board in April 2012.

Induction programme for new Directors held in April 2012

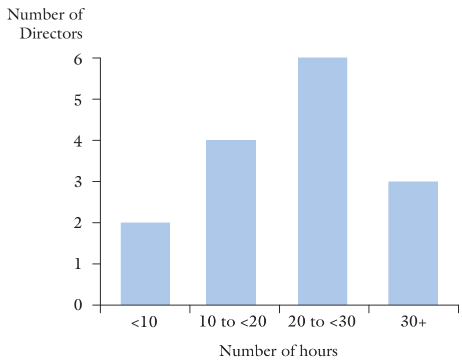
Key matters covered	Facilitated by
• HKEx's roles and group structure, governance structure, Board procedures, Director's responsibilities, CSR strategy and management	Company Secretary
• HKEx's business (Secondary Markets and Listing)	Chief Operating Officer and Head of Listing
• Financial overview and reporting	Deputy Chief Financial Officer
• Organisational structure and management	Head of Human Resources
• 2012 key initiatives	Head of Market Development

Every Board member receives a copy of the Director's Handbook upon joining the Board. The guide contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct, and information on other key governance issues. The Director's Handbook is reviewed and updated regularly. The latest version of February 2013 is available on the HKEx website.

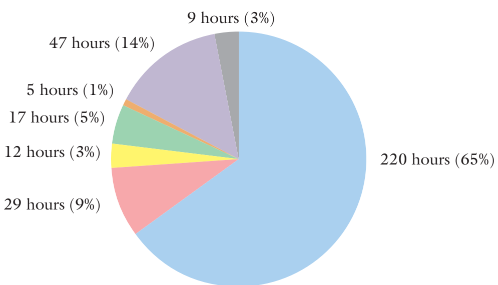
Development and training of Directors is an ongoing process so that they can perform their duties appropriately. The Company Secretary regularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses at the Company's expense.

Since January 2012, all Directors have been required to provide the Company with their training records on a quarterly basis, and such records have been maintained by the Company Secretary for regular review by the ESG Committee. Save for Mrs Laura Cha and Dr Moses Cheng, who attended about 8 hours of training during their service term up to 23 April 2012, each Director received more than 15 hours of training in 2012. The training records of the Directors were reviewed by the ESG Committee in February 2013.

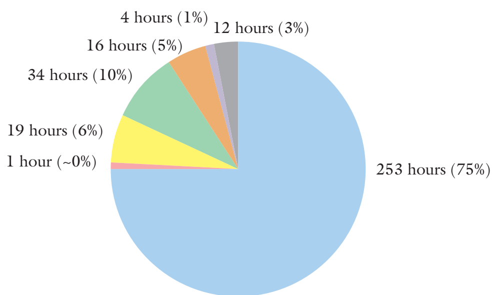
Training for Directors in 2012*



Analysis of Directors' training in 2012 by training topic*



Analysis of Directors' training in 2012 by training organiser*



Total hours of training: 339

HKEx's strategy/business; Director's duties/governance practices; Economy/financial markets and products; Induction programme; Risk management; Legislative/regulatory compliance; Others

HKEx; Universities; Accounting/legal firms; Financial services institutions; Professional bodies/industry associations; Government/regulatory bodies; Others

* Including Mrs Laura Cha and Dr Moses Cheng who retired from the Board on 23 April 2012

Board Process

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. Apart from attending the scheduled meetings which were fixed before the beginning of 2012, all Directors used their best endeavours to attend ad-hoc meetings, even on short notice, or participate by audio and video link.

Key features of Board process in 2012/2013

- In 2012, a total of 15 Board meetings (comprising 2 one-day offsite meetings, 12 scheduled meetings and 1 ad-hoc meeting) were held.
- In addition, 1 written resolution was passed by the Board in 2012 for the appointment of members of the Cash Market Consultative Panel to fill casual vacancies.
- During 2012, all Directors committed significant additional time to the Company for the acquisition of the LME Group, and 3 of the Board meetings were held mainly for the issues in connection with the acquisition.
- Following the acquisition of the LME Group, the Board has scheduled a meeting to be held in the UK in October 2013 tentatively to gain further insight into LME's operations.
- To supplement the formal Board meetings, the Chairman had regular gatherings with Directors, and occasionally without the presence of HKEx's Chief Executive, to consider issues in an informal setting.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense. No such advice was sought during 2012.
- As part of the commitment to best practices, all Directors were provided with tablet computer in February 2013 for access to Board papers via a dedicated application. The new arrangement ensures fast, timely and securely provision of information to Directors whilst at the same time reducing the environmental impact of Board meetings.
- Directors' and Officers' liability insurance has been arranged. The terms and extent of the cover was reviewed and renewed before the end of 2012 to cover LME's directors and officers. In 2012, no claims under the insurance policy were made.
- To safeguard their independence, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from voting. In 2012, no Director withdrew from a meeting due to a potential conflict of interest.

Attendance record of Directors and Committee Members in 2012

	2012 AGM	Board [1]	Audit Committee	Environmental, Social and Governance Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
Number of meetings	1	15	4	2	10	5	2	1	8	9
Total duration (approximate number of hours)	2	56	8	2	7	6	1	1	9	7
INEDs										
C K Chow (Chairman) [2]		10/10		2/2	8/8		1/1		7/7	6/6
Ronald Arculli (ex-Chairman) [3]	1/1	14/15		2/2	2/2		1/1		8/8	3/3
Laura Cha [4]	0/1	4/5						–	1/1	
Ignatius Chan	1/1	12/15	4/4				2/2	1/1		
Moses Cheng [4]	1/1	5/5					1/1		1/1	
Timothy Freshwater [5]		7/10					1/1		5/7	
John Harrison	1/1	15/15	4/4	2/2					7/8	
Stephen Hui	1/1	15/15				4/5				
Bill Kwok	1/1	15/15	4/4		10/10			1/1		9/9
Michael Lee	1/1	15/15		2/2		4/5		1/1		8/9
Vincent Lee	1/1	15/15	4/4		10/10			1/1		
John Strickland	1/1	14/15				5/5	2/2			
John Williamson	1/1	15/15	4/4		10/10				8/8	
Oscar Wong	1/1	14/15				5/5	2/2	1/1		
Executive Director										
Charles Li	1/1	15/15		1/2	7/10					
Market Professionals										
Chan Ngai Hang										8/9
He Guangbei [6]										5/9
Edmond Lau [7]										8/9
Michael Liu										4/9
Keith Lui [8]										9/9
David Lui						1/5				
Average Attendance Rate	92%	95%	100%	90%	94%	76%	100%	100%	93%	83%

Notes:

1 Including 2 offsite meetings
2 Mr Chow was appointed as Director effective 23 April 2012. He was appointed as the chairman of the Nomination Committee and the Remuneration Committee effective 24 April 2012 as well as the chairman of the ESG Committee, the Executive Committee, and the Risk Management Committee effective 27 April 2012.
3 Mr Arculli ceased to be the chairman of the Executive Committee, the Nomination Committee, and the Risk Management Committee effective 23 April 2012.
4 Mrs Cha and Dr Cheng retired from the Board and the committees on 23 April 2012. No meeting of the Panel Member Nomination Committee took place during the period from 1 January to 23 April 2012.
5 Mr Freshwater was appointed as Director and member of the committees effective 23 April 2012.
6 All 5 meetings were attended by Mr He's alternate.
7 1 meeting was attended by Mr Lau's alternate.
8 2 meetings were attended by Mr Lui's alternate.

Performance Evaluation

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. Independent evaluation of the Board performance was commissioned for 2 consecutive years in 2010 and 2011.

Given that a vast majority of Directors had been subject to an independent evaluation in 2011 and continued to serve on the Board in 2012, a Board evaluation was not conducted last year. An evaluation is planned to be carried out in the latter part of 2013, and in the future at appropriate intervals.

Delegation by the Board

Board Committees

The Board has delegated authority to 8 standing Committees with specific roles and responsibilities. The effective functioning of these Committees is a critical element in the Board's overall effectiveness. Their terms of reference and composition are reviewed and updated regularly to ensure that they remain appropriate and reflect changes in good practice and governance. The member lists of the Committees are set out in the Board and Committees section of this Annual Report, and together with the terms of reference of each of the Committees are available on the HKEx website. The attendance record of the Committee members is shown on page 98 of this Annual Report.

Ad hoc Review Committee

In 2011, the Board established an ad hoc Review Committee to review HKEx's IT security plans and the existing contingency measures with the aim of ensuring uninterrupted, fair, and even distribution of market information and maintaining an orderly and open market. The Review Committee was dissolved after the completion of the review in April 2012.

Review Committee's membership
• 3 Directors (Mr Ronald Arculli, Dr Bill Kwok, and Mr John Williamson)
• 3 advisers with extensive knowledge of the financial industry and strong expertise in IT (Messrs Raymond Cheng, Tan Yong Wah, and Carlson Tong)
Summary of work of Review Committee done in 2012
• Held 2 meetings each with an attendance rate of 100 per cent
• Reviewed external IT security specialists' assessment of (i) HKExnews website services; (ii) Internet security infrastructure; (iii) market systems; and (iv) security roadmap
• Endorsed various IT security enhancement initiatives recommended by external specialists for the Board's approval. Information about the implementation of the initiatives is set out in the Business Review section of this Annual Report

The Executive Committee

In September 2012, the Board reviewed the functions and duties of the Executive Committee and resolved to delegate certain of its power and duties to the Senior Management Committee (which was renamed as the Management Committee). The revised terms of reference of the Executive Committee took effect on 7 January 2013 upon the establishment of Management Committee on the same date.

The Nomination Committee

The Nomination Committee, comprising 5 members who are all INEDs, held 3 meetings in 2012 and up to 27 February 2013.

Summary of work done in 2012/2013
• Nominated candidates stand for election by Shareholders at the AGMs • Reviewed and confirmed the independence of the 12 INEDs • Reviewed Board structure and composition • Reviewed time commitment from Directors to perform their responsibilities • Endorsed the Board Diversity Policy, and proposed amendments to the Committee's terms of reference and the Nomination Policy to take into account the Board Diversity Policy

On 31 January 2013, the Committee nominated Messrs John Strickland and Oscar Wong to the Board for it to recommend them to stand for election by Shareholders at the 2013 AGM. The nomination was made in accordance with the Nomination Policy and against the objective criteria, with due regard for the benefits of diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service). It had also taken into account their respective contributions to the Board and their firm commitment to their roles.

On 27 February 2013, the Committee's nomination was accepted by the Board. As a good governance practice, Messrs Strickland and Wong each abstained from voting at both the Committee meeting and Board meeting on the propositions of themselves for election by Shareholders. Messrs Strickland and Wong do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the HKEx website.

Consultative Panels

Apart from the Board Committees, there are 3 standing Consultative Panels – Cash Market Consultative Panel, Derivatives Market Consultative Panel (DMCP), and Clearing Consultative Panel (CCP) – with the major responsibility of providing market expertise and advice to the Board in relation to the trading and clearing of securities and derivatives. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website. In 2012, 3 meetings were held by DMCP and 2 by CCP.

Management Functions

The executive management under the Chief Executive's leadership is responsible for the day-to-day management of the Group's businesses and implementation of the strategy and direction set by the Board. The Management Committee (formerly known as the Senior Management Committee) has an enhanced executive role and is the main executive decision making body of the Group. It currently comprises 13 members (including HKEx's Chief Executive as the chairman) and aims to hold meetings at least two times every month.

To coincide with the 2013-2015 Strategic Plan, the organisational structure was reviewed and the executive team was further strengthened to provide a strong pool of talent for the future development of the Group.

Major changes to organisational structure in 2012/2013

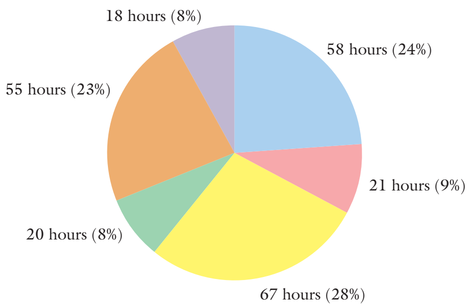
Listing and Regulatory Affairs
• Mr David Graham has been appointed as HKEx's Chief Regulatory Officer effective 9 January 2013 to oversee HKEx's Listing, Enterprise Risk Management and Surveillance, Legal Services and Secretarial Services Departments. Mr Graham is the Head of Listing (Designate) to succeed Mr Mark Dickens who will retire on 1 March 2013. Ms Grace Hui has been appointed as the Chief Operating Officer of Listing effective 9 January 2013 to manage the day-to-day operations of the Listing.
Global Markets
• Mr Romnesh Lamba, who was HKEx's Head of Market Development, and Mr Martin Abbott, LME's Chief Executive, have been appointed as the Co-heads of the newly established Global Markets Division to oversee the newly established Equities and FIC Business, the Commodities Business, including LME, as well as the Mainland Development and the Business Development and Strategy Departments. The Market Development Division was dissolved upon the establishment of the Global Markets Division.
• Mr Lamba has succeeded Mr Gerald Greiner as the Chief Executive of SEHK and HKFE effective 4 January 2013. The appointments were approved by the SFC pursuant to Section 26 of the SFO. Mr Abbott remains as LME's Chief Executive.
• Messrs Bryan Chan and Calvin Tai, who were HKEx's Heads of Market Data and Trading respectively, have been appointed as the Co-heads of the Equities and FIC Business and report to the Co-heads of Global Markets Division. While Mr Chan is responsible for cash trading, market data and CESC, Mr Tai oversees derivatives trading, and product and index development, and both of them jointly oversee issuer and client services.
• Ms Liz Milan has been appointed as Head of Asia Commodities effective 6 February 2013. She is responsible for building the commodities franchise of the Group in Asia and remains the Managing Director of LME Asia, LME. She reports to the Co-heads of Global Markets Division.
Global Clearing
• Mr Gerald Greiner, who was HKEx's Chief Operating Officer, has been appointed as HKEx's Head of Global Clearing to oversee all clearing businesses of the Group, including existing clearing operations, OTC Clear, LME Clear and risk management, and he remains as the HKSCC's Chief Executive.
• To align with global regulatory developments in clearing, risk management for HKEx's clearing operations has been segregated from HKEx's enterprise risk management.
• Messrs Felix Wang and Ketan Patel, who were HKEx's Co-deputy Heads of Risk Management, and Mr Chris Jones, who is LME Clear's Chief Risk Officer, have been appointed as the Co-heads of Clearing Risk Management, and they all report to HKEx's Head of Global Clearing and to HKEx's Chief Executive directly on material risk matters.
• Messrs Wang and Patel are responsible for risk management for equities clearing and for FIC clearing including OTC clearing respectively; Mr Jones is responsible for LME Clear's risk management and also reports to Mr Trevor Spanner, LME's Head of Post Trade Services.
Corporate Services
• Mr Henry Ingrouille, who joined HKEx as the Chief Administrative Officer on 7 July 2012, has been appointed as HKEx's Chief Operating Officer effective 4 January 2013 as approved by the SFC pursuant to Section 70(1) of the SFO.
• With a redefined role, HKEx's Chief Operating Officer is responsible for the corporate services encompassing human resources, corporate and investor communications, and information security and business continuity.
• The functions of HKEx's Chief Administrative Officer are taken up by Ms Monica Wong who reports to Mr Ingrouille.
• Mr Henry Law, who was HKEx's Head of Corporate Communications, has been appointed as HKEx's Chief Communications Officer to assists in all external communication affairs and directly reports to HKEx's Chief Executive.
Other changes
• Mr James Fok has been appointed as HKEx's Chief of Staff responsible for internal and external liaisons as well as the planning and organisation of work within the Chief Executive's Office.
• Mr Stephen Marzo who joined HKEx on 26 June 2012 as HKEx's Chief Financial Officer resigned from the post effective 13 January 2013. A Selection Committee has been formed to identify a suitable candidate to fill the vacancy.
• Mr Kevin King resigned from HKEx's Head of Risk Management effective 1 February 2013. Ms Sylvia Hoosen, HKEx's Head of Human Resources, and Ms Yang Qiumei, HKEx's Head of Mainland Development, had tendered their resignations, which will take effect from 7 and 30 April 2013 respectively.
• Messrs Lawrence Fok and Stewart Shing retired as HKEx's Chief Marketing Officer and Adviser to HKEx's Chief Executive on 1 September and 1 October 2012 respectively.

The updated organisational structure is set out in the Organisation Chart section of this Annual Report, and is available on the HKEx website. The list of Senior Management and their biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

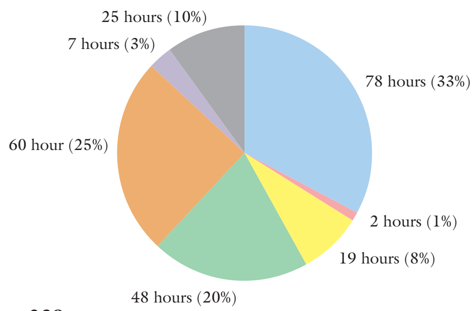
Management Training

Ongoing professional development is important to Senior Management given the competitive business environment in which the Group operates. To ensure that members of the Senior Management continue to cultivate skills and knowledge for the fulfilment of their duties and responsibilities, the ESG Committee reviewed their training records in February 2013.

Analysis of training attended by Senior Management in 2012 by training topic



Analysis of training attended by Senior Management in 2012 by training organiser



Total hours of training: 239

HKEx's strategy/business
Director's duties/governance practices
Economy/financial markets and products
Risk management
Legislative/regulatory compliance
Others

HKEx
Universities
Accounting/legal firms
Financial services institutions
Professional bodies/industry associations
Government/regulatory bodies
Others

Further information about training attended by HKEx's employees during 2012 will be set out in the 2012 CSR Report.

Company Secretary

All Directors have access to the advice and services of the Company Secretary, Mr Joseph Mau. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management. Under the revised organisational structure, the Company Secretary remains as the Head of Secretarial Services Department which is now under the Listing and Regulatory Affairs Division led by HKEx's Chief Regulatory Officer.

The Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2012, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

Remuneration of Directors and Senior Management

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

Directors' Securities Transactions and Interests in HKEx

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the year ended 31 December 2012.

Directors' Interests and Short Positions in Shares and Underlying Shares of HKEx

As at 31 December 2012, the interests and short positions of Directors, including HKEx's Chief Executive, in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code were as set out below.

Long positions in shares and underlying shares of HKEx

	Number of shares/underlying shares held					
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	% of issued share capital [1]
C K Chow	15,000 [2]	–	–	–	15,000	0.00
Charles Li	265,234 [3]	–	–	–	265,234	0.02
John Strickland	18,000 [4]	–	–	–	18,000	0.00

Notes:

1 Based on 1,149,808,087 HKEx shares in issue as at 31 December 2012
2 Mr Chow was the beneficial owner of those shares.
3 It included Mr Li's interests in 198,088 Awarded Shares and 6,607 shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report of this Annual Report.
4 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2012, none of the Directors had any interests or short positions in the shares, underlying shares, or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Awarded Shares as disclosed in the Remuneration Committee Report of this Annual Report, none of the Directors (including their spouses and children under the age of 18), during the year ended 31 December 2012, held any interests in or was granted any right to subscribe for the securities of HKEx or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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

Minority Controllers

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

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

As at the date of this report, the SFC has granted approval to 8 entities to be Minority Controllers on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2012, the 8 approved Minority Controllers in aggregate held approximately 58 per cent of HKEx's issued share capital.

As at 31 December 2012, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange, were as set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of issued[1] share capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300[2]	66,730,300	5.80

Notes:

1 Based on 1,149,808,087 HKEx shares in issue as at 31 December 2012
2 Based on a confirmation to HKEx by the Government in respect of its holding immediately following completion of placing of new HKEx shares as announced on 30 November 2012.

Save for those disclosed above, as at 31 December 2012, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Senior Management

Members of the Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts, and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2012, Senior Management's interests in the shares and underlying shares of HKEx were as set out below.

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of * Awarded Shares	Derivatives (number of underlying shares)
Mark Dickens	50,352	–	82,393	–
Gerald Greiner	53,117	125,000	89,805	–
Henry Ingrouille	–	–	23,539	–
Kevin King	3,230	–	3,292	–
Romnesh Lamba	26,255	–	86,278	–
Henry Law	100,802	–	34,575	–
Stephen Marzo	500	–	–	–
Christine Wong	13,756	–	43,428	–

* Including shares acquired out of the dividends from the relevant Awarded Shares according to the Share Award Scheme. The beneficial interest of these shares will be vested in accordance with the terms and conditions of the Share Award Scheme.

Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B), and (C) below. The waiver has remained valid since then. During the year ended 31 December 2012 and subject to the waiver, the Group had the following continuing connected transactions.

Continuing connected transactions for the year ended 31 December 2012

A.	Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing, and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental, or otherwise related to the foregoing:
(a)	Mr Ronald Arculli, an INED, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a CP, in which his sister and his brother-in-law each have a 50 per cent interest.
(b)	Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.
(c)	Mr Vincent Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.
B.	Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing, or proposed listing, of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental, or otherwise related to the foregoing:
(a)	Mrs Laura Cha, an ex-INED who retired on 23 April 2012, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both companies are listed on the Stock Exchange.
(b)	Dr Bill Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.
C.	Transactions between HKEx or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for (i) carrying out "buy-in" when a CCASS Participant failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):
(a)	Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. For the year ended 31 December 2012, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to $44,793.

The Audit Committee (AC) comprising 5 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the AC respectively, abstained from reviewing the respective transactions in which they had an interest. The AC confirmed that:

(i) the transactions disclosed above were entered into in the Group's ordinary and usual course of business and conducted on an arm's length basis, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;

(ii) in respect of the transactions as disclosed under (A) and (B) above, they were conducted in accordance with the rules and regulations of the relevant Group company governing such transactions, and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;

(iii) in respect of the Buy-in Transactions as disclosed under (C) above, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the mutually agreed commission rates payable by HKSCC in respect of such Buy-in Transactions generally; and

(iv) the transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

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

Material Related Party Transactions

During the year ended 31 December 2012, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in note 50 to the consolidated financial statements of this Annual Report.

Accountability and Audit

Financial Reporting

The Board is responsible for overseeing the preparation of annual financial statements which give a true and fair view of the Group's state of affairs, results, and cash flows for the year. Management provides the Board with management accounts and updates on a monthly basis, with a view to giving a balanced and understandable assessment of the Group's performance, financial position, and prospects to enable the Board as a whole and each Director to discharge their duties. In preparing the financial statements for the year ended 31 December 2012, the Board:

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

In 2012, the annual, interim, and quarterly results were published within 3 months, 2 months and 45 days respectively after the end of the relevant periods to provide stakeholders with transparent and timely financial information.

Internal Controls and Their Effectiveness

The Board has the overall responsibility for maintaining sound and effective internal controls for the Group (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets. To this end, an internal control and risk management system which is on a par with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards has been established to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure to achieve business objectives.

Details of the internal control procedures are available in the Corporate Governance section of the HKEx website. The key control measures are summarised below.

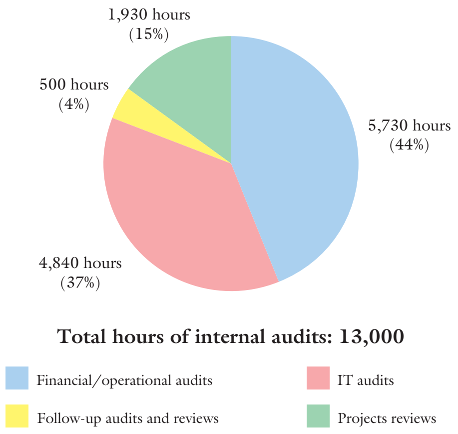
Key control measures undertaken for 2012
• A clear organisational structure with defined responsibilities was in place for the implementation of the HKEx Strategic Plan 2010-2012. To prepare for the integration post acquisition of the LME Group, a concrete implementation programme structure comprising a Steering Committee, an Integration Management Office, and Implementation Workstreams was set up to foster joint collaboration between HKEx and LME to initiate and deliver the implementation plan as well as to build the foundation for enhancing revenue synergies between businesses of HKEx and LME.
• Different policies, procedures, and guidelines have been adopted with defined authority for effective segregation of duties and controls, and are kept under regular review. For example, the Board approved the revised HKEx Market Contingency Plan to benchmark and further enhance the contingency planning and management processes against leading industry standards.
• All division/department Heads confirmed that appropriate internal control policies and procedures had been established and properly complied with in 2012.
• Regular reviews were conducted to identify and assess risks in different areas across the organisation using a common platform and standardised process. More information in this regard is set out in the Business Review section of this Annual Report.
• Information about the Group's management of its financial risks is set out in note 53 to the consolidated financial statements of this Annual Report.
• An Escalation and Incident Reporting Policy is in place to facilitate swift action and timely communication with stakeholders. A review of the policy was conducted in 2012 to further refine the incident escalation and reporting processes.
• Guidelines on reporting and disseminating inside information, maintaining confidentiality, and complying with dealing restrictions are in place for employees to follow. With the acquisition of the LME Group and the introduction of the statutory disclosure regime for inside information under the Securities and Futures (Amendment) Ordinance 2012 effective 1 January 2013, the HKEx Continuous Disclosure and Communication Policy has been amended to ensure that employees of HKEx and LME comply with the relevant statutory obligations.
• A Whistle-blowing Policy is in place to facilitate internal reporting on any malpractice without fear of reprisal or victimisation.
• The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability, and stability. For example, an independent IT security risk and infrastructure review was completed in the first quarter of 2012 to assist management in ensuring that HKEx's Internet facing systems are adequately protected from known Internet hacking risks.
• An independent review was completed in October 2012 to provide additional assurance of building management and Hosting Services operational readiness in the TKO Data Centre before the data centre and Hosting Services started operations in phases from October and December 2012 respectively.

Internal Audit

The Internal Audit Department (IAD) is responsible for conducting independent reviews of the adequacy and effectiveness of the Group' s internal control and risk management system and regularly reporting the review results to the Board through the AC. Its work covers all material controls, including financial, operational, and compliance controls and risk management functions. During 2012, no suspected cases of fraud, irregularities, or infringement of laws, rules and regulations, or material control failures were identified.

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

Analysis of internal audit hours in 2012



Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing the IAD's work and findings.

Further details of the AC's work done in 2012/2013 and its review of the Group's internal control system, and accounting, and financial reporting function are set out in the Audit Committee Report of this Annual Report.

Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. Prior to the commencement of the audit of the Group's 2012 financial statements, the AC received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The AC reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the external auditor's fees are set out in notes 13 and 14 to the consolidated financial statements of this Annual Report.

Pursuant to the Group's 5-year rotation policy, the engagement partner of the external auditor was last rotated in 2010. The Group has also adopted a policy of not hiring employees of the external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to its auditing. These policies have been strictly complied with since their adoption.

Further details of the external auditor's responsibilities are set out in the Auditor's Report of this Annual Report.

Shareholder Relations

Shareholder Engagement and Communication

The Board gives high priority to balanced, clear, and transparent communications which allow Shareholders and investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and investors in a number of different ways to help ensure that their views and concerns are understood and addressed in a constructive way.

Key shareholder engagement and communication
• HKEx ensures prompt dissemination of corporate communications to enable Shareholders and other stakeholders to keep abreast of the Group's business affairs and developments. In relation to the acquisition of the LME Group, a number of announcements were issued in 2012 from June onwards to provide timely updates on the acquisition progress and details of financing arrangements, and a letter was issued by HKEx's Chairman in December 2012 to all Shareholders informing them of the successful completion of the acquisition.
• The HKEx website has become the primary method of communication with the majority of Shareholders. As at 31 December 2012, about 80 per cent of Shareholders opted to receive corporate communications via electronic methods. The investor relations section of the website is kept under regular review to ensure that information relevant to Shareholders is provided in an accurate and timely manner.
• HKEx offers Shareholders an option of receiving their dividends in the form of new shares in HKEx instead of cash, which may enable Shareholders to increase their investment in HKEx without incurring brokerage fees, stamp duty, or related dealing costs.
• Pursuant to Article 90(2) of HKEx's Articles, if a Shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination which shall be given to the Company Secretary at HKEx's registered office within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). Details for nominating candidates to stand for election as a Director at the 2013 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report.
• To include a resolution relating to other matters in a general meeting, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the HKEx website.
• A Shareholders Communication Policy is in place to ensure that Shareholders are provided with ready, equal, and timely access to balanced and understandable information about HKEx. The policy is regularly reviewed to ensure its effectiveness and is posted on the HKEx website.
• A Shareholders' Guide is posted on the HKEx website which sets out the answers to the frequently asked questions raised by Shareholders with regard to their interests in HKEx shares.
• Shareholder(s) holding not less than one-twentieth of HKEx's paid-up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at HKEx's registered office.
• Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs, and the analysis for 2012 is set out in the Shareholding Analysis section of this Annual Report. HKEx's market capitalisation and public float as at 31 December 2012 are set out in the Information for Stakeholders and Directors' Report sections of this Annual Report respectively.

The Company also has an ongoing programme of dialogue and meetings with institutional shareholders. The Corporate and Investor Communications team is the primary contact point for communications with investors and analysts. Further details of the key investor-relation activities during 2012 will be set out in the 2012 CSR Report.

The important dates for Shareholders in 2012 and the results announcement schedule in 2013 are set out in the Financial Calendar under the Investor Relations section of the HKEx website.

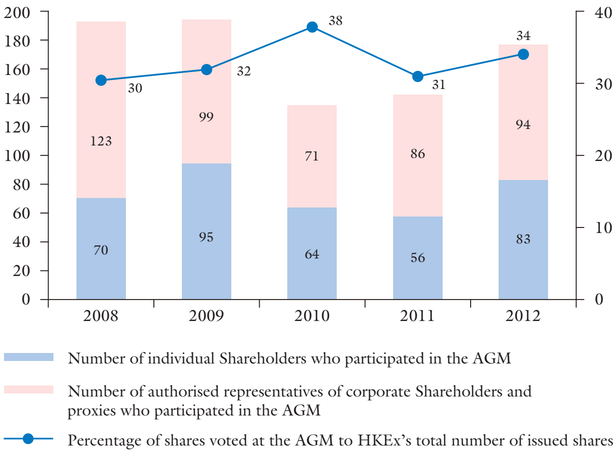
The Board is grateful to Shareholders and other stakeholders for their views, and welcomes their questions and concerns raised in relation to the management and governance of the Group. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary by post to HKEx, Secretarial Services Department, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to ssd@hkex.com.hk.

2012 Annual General Meeting

The Board and the management are committed to the constructive use of the AGM as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business.

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2012 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the AC, the Nomination Committee, and the Remuneration Committee on the date of the meeting.

Participation in annual general meetings



At the 2012 AGM, HKEx continued its practice of proposing separate resolutions on each substantially separate issue. All resolutions were passed by way of a poll conducted by the Company's registrar and verified by an independent scrutineer. The poll voting results and the minutes of the meeting are available on the HKEx website.

Matters resolved at the 2012 AGM
• Received the audited financial statements for the year ended 31 December 2011 together with the Reports of the Directors and the Auditor
• Payment of the final dividend of $2.09 per share (with scrip alternative) for the year ended 31 December 2011
• Election of Messrs Ignatius Chan and John Williamson as Directors
• Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation to the Directors to fix the Auditor's remuneration
• Approval of a general mandate for the Directors to repurchase shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2012 AGM
• Approval of a general mandate for the Directors to allot and issue of new shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2012 AGM, provided any shares to be allotted and issued (whether for cash or otherwise) under such authority are not at a discount of more than 10 per cent to the "benchmarked price" (as described in Rule 13.36(5) of the Main Board Listing Rules)
• Approval of remuneration of $900,000 and $600,000 payable to the Chairman and each of the other Non-executive Directors respectively for their service during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise
• Approval of, in addition to an attendance fee of $3,000 per meeting, remuneration of $120,000 and $90,000 payable to the chairman and each of the other members (excluding Executive Director) of certain Board committees respectively during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise

2013 Annual General Meeting

All Shareholders are encouraged to attend the 2013 AGM and exercise their right to vote. They are invited to ask questions related to the business of the meeting, and will have an opportunity to meet with the Directors and the management following the conclusion of the meeting.

Apart from normal business at the 2013 AGM, the Board has proposed general mandates for the repurchase of HKEx shares and the issue of HKEx shares. Further details of business to be conducted at the 2013 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the HKEx website.

Recognition and Rating

During 2012, the Group received external recognition for its efforts in pursuing sustainable corporate practices that promote long-term value for Shareholders and other stakeholders.

Recognition/Rating	Organisation	Details
Asian Excellence Recognition Awards 2012	Corporate Governance Asia	For the 2nd consecutive year, HKEx was included in the Best Investor Relations (Hong Kong Company) category, and HKEx's Chief Executive, Mr Charles Li, was chosen as one of Asia's Best CEOs (Investor Relations).
Best Annual Reports Awards	The Hong Kong Management Association	HKEx's 2011 Annual Report was granted the Gold Award (General Category).
Best Corporate Governance Disclosure Awards	HKICPA	HKEx's 2011 Annual Report was granted the Platinum Award (HSI Category) for the 4th consecutive year.
Corporate Governance Score-card 2012 Survey	HKIoD and Hong Kong Baptist University	HKEx was named as one of the top 10 Hong Kong listed companies with respect to corporate governance practices.
GMI's ESG Ratings	GMI Ratings	HKEx received B (above average) Global and Home Market Ratings.

Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2012 to the date of approval of this report.

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

Hong Kong, 27 February 2013

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee (AC) comprises 5 INEDs appointed by the Board who have extensive experience in financial matters. Among them, Messrs John Harrison and John Williamson are chartered accountants, and Messrs Vincent Lee and Ignatius Chan are certified public accountants. None of the members is employed by or otherwise affiliated with the former or existing auditors of HKEx.

The AC is delegated by the Board with the responsibility to provide an independent review and supervision of financial reporting and to ensure the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. To perform its duties, the AC is provided with sufficient resources and is supported by the Internal Audit Department (IAD) to examine all matters relating to the Group's adopted accounting principles and practices, and to review all material financial, operational, and compliance controls. The AC's terms of reference are available on the HKEx website.

The AC holds at least 4 regular meetings a year and convenes additional meetings when necessary. The external auditor, HKEx's Chief Executive, and other senior executives are invited to attend the AC meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC held 6 meetings in 2012 and up to 22 February 2013. Each member's attendance record in 2012 is shown on page 98 of this Annual Report.

Summary of work done in 2012/2013
• Reviewed the financial statements for disclosure on a quarterly basis • Reviewed the internal audit activities summary and approved the internal audit annual plan • Reviewed the internal and external auditors' significant findings and management's response to the recommendations raised • Reviewed the continuing connected transactions • Reviewed the effectiveness of the internal control system and the adequacy of the accounting and financial reporting function • Reviewed the external auditor's statutory audit scope for 2012 and the letter of representation to be given by the Board • Considered and approved the 2012 external audit fees and engagement letters • Reviewed and monitored the external auditor's independence and engagement to perform non-audit services • Reviewed the finance, accounting, and audit matters in relation to the acquisition of the LME Group

Review of Internal Control System

HKEx's internal control system is reviewed regularly by management and the IAD. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2012: (i) HKEx's internal control system was effective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of internal controls.

Review of 2012 Consolidated Financial Statements

The AC reviewed the 2012 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards, and fairly present the Group's financial position and results for the year ended 31 December 2012. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2012 be approved by the Board.

Review of Group's Accounting and Financial Reporting Function

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting function.

Review of Continuing Connected Transactions

The AC also reviewed the "Continuing Connected Transactions" as set out in the Corporate Governance Report of this Annual Report, and confirmed that the continuing connected transactions entered into by the Group were in accordance with the conditions of the waiver granted by the SFC and the requirements of the Main Board Listing Rules.

Recommendation for Re-appointment of External Auditor

The AC was satisfied with the external auditor's work, its independence, and objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (which has indicated its willingness to continue in office) as the Group's external auditor for 2013 for Shareholders' approval at the 2013 AGM.

Members of the Audit Committee
John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Hong Kong, 22 February 2013

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (RC) is delegated by the Board with the responsibility to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices to ensure that employees are fairly remunerated with reference to the Group's and individual's performance. The RC comprises 5 INEDs whose names are set out in the Board and Committees section of this Annual Report. Its detailed terms of reference are available on the HKEx website.

The RC held 10 meetings and passed 1 written resolution in 2012 and up to 21 February 2013. Members' attendance records in 2012 are shown on page 98 of this Annual Report.

Summary of work done in 2012/2013

- Adopted the annual RC Report
- Reviewed the remuneration level for Non-executive Directors and recommended increases for 2012/2013
- Engaged an external professional consultant to conduct a compensation study and, based on the study results, recommended the remuneration package for the renewal of the employment contract of HKEx's Chief Executive
- Approved the remuneration packages for the new recruits as the Chief Administrative Officer, the Chief Financial Officer, and the Chief Regulatory Officer of HKEx
- Approved the remuneration level for LME's directors
- Recommended the 2012 performance bonus and share award pools for employees
- Recommended the 2012 performance bonus and share award for HKEx's Chief Executive
- Recommended the 2013 salary adjustment for merit increase, inflation, and promotion

Non-executive Directors' Remuneration

Objective

To remunerate Non-executive Directors at an appropriate level for their commitment of time and efforts to HKEx, and ensure the attraction and retention of high calibre and experienced individuals to oversee HKEx's business and development

Policy

- To conduct annual reviews with reference to companies of comparable business or scale, and recommend remuneration adjustments, if appropriate
- To seek the Board's endorsement for and Shareholders' approval on any recommended changes

Annual review for 2012/2013

An in-depth study of the level of remuneration of non-executive directors of HSI constituent companies, overseas listed exchanges, and major global and regional financial services companies was conducted. Professional advice from Egon Zehnder International Limited, an independent consultant engaged to perform the Board's performance evaluation in 2011, was also sought. A recommendation to increase: (i) the remuneration of HKEx's Chairman and each of the other Non-executive Directors; (ii) the remuneration of the chairman and each of the other members (excluding the Executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee, and RC; and (iii) the attendance fee in respect of each of the said committee's meetings was then made to the Board. The proposal received endorsement from the Board and was approved by Shareholders at the 2012 AGM.

Annual review for 2013/2014

In consideration of the increases in Non-executive Directors' remuneration for 2012/2013, macroeconomic factors, and the competitive environment, the RC recommended that the remuneration level for Non-executive Directors for 2013/2014 should remain unchanged.

Non-executive Directors are not entitled to participate in the Share Option Schemes or the Share Award Scheme, or to receive other fringe benefits.

Non-executive Directors' Fee for 2012/2013

	2012/2013	2011/2012
	$	$
Board Chairman	**900,000**	550,000
Board member *	**600,000**	385,000
Audit Committee/Executive Committee */Investment Advisory Committee/RC		
– chairman	**120,000**	100,000
– member	**90,000**	70,000
– attendance fee per meeting	**3,000**	2,500

* Excluding the Executive Director

Non-executive Directors' Fee for 2012

Name	2012	2011
	$	$
Current Directors		
Ronald Arculli	**733,500**	752,500
Ignatius Chan	**642,750**	456,250
C K Chow [1]	**957,527** [4]	–
Timothy Freshwater [1]	**532,500**	–
John Harrison	**835,777** [4]	431,250
Stephen Hui	**642,750**	453,750
Bill Kwok	**756,750**	551,250
Michael Lee	**643,250**	451,250
Vincent Lee	**756,750**	566,250
John Strickland	**675,750**	476,250
John Williamson	**865,250**	618,750
Oscar Wong	**645,750**	451,250
Ex-Directors		
Laura Cha [2]	**116,250**	451,250
Moses Cheng [2]	**116,250**	451,250
Marvin Cheung [3]	–	107,500
Total	**8,920,804**	6,218,750

Notes:

1 Messrs Chow and Freshwater were appointed effective 23 April 2012.
2 Mrs Cha and Dr Cheng retired on 23 April 2012.
3 Dr Cheung retired on 20 April 2011.
4 Including a director's fee of $57,527 to be paid by LME to each of Messrs Chow and Harrison for their directorships with LME during the period between 6 and 31 December 2012

Employees' Remuneration

Objective

To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals as well as the key business objectives at corporate level

Policy

- To recommend, based on up-to-date market information, the appropriate salary adjustments, if any, for the Board's approval
- To evaluate the corporate performance based on a set of pre-determined measurements, and recommend to the Board the appropriate level of performance bonus and share award pools for the year
- To consult HKEx's Chief Executive about the individual performance of the Senior Management, and ensure that they are remunerated equitably and in accordance with the established guidelines
- To review and recommend to the Board the remuneration of HKEx's Chief Executive, and ensure that he is not involved in the discussion and decision on his own compensation

Review for 2012/2013

- The RC recommended and the Board approved in November 2012:
  - (i) a salary adjustment effective January 2013 that covered merit increase, inflation, and promotion. The salary adjustment took into consideration the cost of living and projected pay increase in the financial services industry;
  - (ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2012; and
  - (iii) a sum of $112.4 million for the purchase of HKEx shares pursuant to the Share Award Scheme for 150 selected employees including HKEx's Chief Executive and selected employees to be recruited in 2013.
- The performance bonus was determined based on the Group's financial performance and achievement of strategic initiatives, as well as market, regulatory, and organisational development. Individual performance bonuses were then differentiated according to a 5-point performance rating scale, the employees' grade level, and job function.

Further details of HKEx's remuneration policy and structure are available in the Corporate Governance section of the HKEx website.

As at 31 December 2012, the Group had 1,030 permanent employees (2011: 940) and 75 temporary employees (2011: 57).

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked, and their training and development opportunities are identified. Further employee training details will be set out in the 2012 CSR Report.

Emoluments for 2012

Executive Director

Name	2012 Salary $	2012 Cash bonus $	2012 Other [1] benefits $	2012 Retirement [2] benefits cost $	2012 Director's fee $	2012 Total [3] $	2011 Total [3] $	2012 Share [4] award benefits $
HKEx's Chief Executive								
Charles Li	7,642,334	6,559,669	170,561	955,292	–	15,327,856	16,131,880	9,247,357

Senior Management

Name	2012 Salary $	2012 Cash bonus $	2012 Other [1] benefits $	2012 Retirement [2] benefits cost $	2012 Compensation for loss of office $	2012 Total [3] $	2011 Total [3] $	2012 Share [4] award benefits $
Martin Abbott [5]	377,288	458,357	4,237	64,132	–	904,014	–	–
Mark Dickens	4,467,600	2,978,400	67,354	558,450	–	8,071,804	9,365,317	3,959,396
Lawrence Fok [6]	2,448,000	–	745,863	306,000	–	3,499,863	5,126,171	214,324
Gerald Greiner	6,000,000	3,000,000	126,250	750,000	–	9,876,250	6,858,466	4,961,049
Henry Ingrouille [7]	1,451,613	2,250,000	41,769	181,452	–	3,924,834	–	258,521
Kevin King	3,198,000	–	60,754	399,750	–	3,658,504	3,605,078	196,384
Romnesh Lamba	4,467,600	3,723,000	84,216	558,450	–	8,833,266	9,373,049	4,180,435
Henry Law	2,754,000	1,377,000	56,548	344,250	–	4,531,798	4,889,186	1,674,782
Stephen Marzo [8]	2,295,850	–	49,236	286,981	–	2,632,067	–	–
Diarmuid O'Hegarty [5]	253,005	245,897	3,377	25,299	–	527,578	–	–
Christine Wong	3,427,200	3,998,400	125,108	342,720	–	7,893,428	6,887,255	2,142,390
Samuel Wong [9]	731,613	–	214,139	91,451	–	1,037,203	5,575,095	(1,578,827)

Notes:

1 Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 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 7 years of service.
3 Excluding the shares awarded to HKEx's Chief Executive and the Senior Management during the relevant years, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
4 The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEx's Chief Executive and the respective members of the Senior Management that were charged to the consolidated statement of comprehensive income for the year ended 31 December 2012.
5 Messrs Abbott and O'Hegarty became members of the Senior Management effective 6 December 2012. Their emoluments are for the period from 6 to 31 December 2012, with the amounts of cash bonus payable to them in March 2013. In addition, they are members of the LME pension scheme operating in the UK. The vesting scale of HKEx's provident fund scheme as specified in note 2 above is not applicable to them.
6 Mr Fok retired on 1 September 2012.
7 Mr Ingrouille joined HKEx on 7 July 2012.
8 Mr Marzo joined HKEx on 26 June 2012 and resigned effective 13 January 2013.
9 Mr Wong resigned effective 20 March 2012.

Further details of Directors' emoluments and the 5 top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 to the Main Board Listing Rules are set out in notes 16 and 17 respectively to the consolidated financial statements of this Annual Report.

Long-term Incentive Schemes

HKEx adopted the Share Award Scheme to recognise the contributions of certain employees, and help retain them for the Group's operation and further development. Prior to the adoption of the Share Award Scheme, HKEx had 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which ended on 30 May 2010.

Share Option Schemes

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

Movements in the outstanding share options granted under the Post-Listing Scheme during the year ended 31 December 2012 are set out below.

		Number of shares issuable under the options				
Date of grant	Exercise price $	As at 1 Jan 2012	Issued upon subscription during the year [1]	Cancelled/lapsed during the year	As at 31 Dec 2012	Exercise period [2]
Employees						
31 Mar 2004	16.96	382,000	72,500	–	309,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	577,600	49,000	–	528,600	26 Jan 2007 – 25 Jan 2015

Notes:

1 The weighted average closing price immediately before the dates on which the options were exercised was $117.23.

2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2nd anniversary and became fully vested on the 5th anniversary of the grant.

Further details of the Share Option Schemes are set out in note 40(b) to the consolidated financial statements of this Annual Report.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the scheme is 3 per cent (ie, 31,871,575 shares) of the HKEx shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the scheme is 1 per cent (ie, 10,623,858 shares).

In December 2012, the Board approved a sum of $112.4 million for the purchase of the HKEx shares for awards to the selected employees, including HKEx's Chief Executive ($8.92 million), and a sum of $10 million for the purchase of the HKEx shares for selected employees to be recruited in 2013. Based on the Board's recommendation, the Share Award Scheme's trustee applied 103,116 HKEx shares held under the scheme, which were unallocated or forfeited pursuant to the scheme, to partly satisfy such award.

Further details of the Share Award Scheme are set out in note 40(c) to the consolidated financial statements of this Annual Report.

Since its adoption, a total of 4,539,205 shares had been awarded under the Share Award Scheme up to the date of this report, representing about 0.43 per cent of the HKEx shares in issue as at the Adoption Date.

Details of the awards (save for those which had been fully vested or lapsed as of 31 December 2011), including the number of shares which were awarded and vested according to the terms of the Share Award Scheme during the year ended 31 December 2012 are set out below.

Date of approval by Board	Date of award [1]	Awarded sum $'000	Number of shares purchased	Number of Awarded Shares	Average fair value per share [2] $	Number of Awarded Shares vested during the year	Vesting period [3]
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	1,375	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	25,688	12 Dec 2009 – 12 Dec 2012
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	14,975	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054	123.29	308,250	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	3,450	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039	176.75	238,900	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	–	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	–	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	–	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	–	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	–	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	–	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	–	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	–	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 [4]	124.75	11,524 [5]	14 Dec 2013 – 14 Dec 2014
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	–	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	–	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	–	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	–	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	–	2 May 2014 – 2 May 2015
14 Dec 2011	5 Sept 2012	975	8,900	8,900	109.00	–	7 Jul 2014 – 7 Jul 2015
3 Dec 2012	31 Dec 2012	102,398	707,200	810,245 [4]	126.71	–	3 Dec 2014 – 3 Dec 2015

Notes:

1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
2 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
(a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
(b) for shares purchased from the market: average cost per share.
3 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2nd and 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to 5th year, the arrangement prior to the change.
4 The Share Award Scheme's trustee applied 344,706 shares and 103,116 shares held under the scheme, which were unallocated or forfeited pursuant to the Share Award Scheme, to partly satisfy the awards allocated on 30 December 2011 and 31 December 2012 respectively.
5 According to the terms of the Share Award Scheme, these Awarded Shares became vested on a selected employee who retired prior to the vesting period.

As at 31 December 2012, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,399,854 shares held in trust under the Share Award Scheme.

Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes

Share Options

			Number of shares issuable under the options				
Name	**Date of grant**	**Exercise price $**	**As at 1 Jan 2012**	**Subscribed during the year**	**Lapsed during the year**	**As at 31 Dec 2012**	**Exercise period [1]**
Senior Management							
Gerald Greiner	17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	26 Jan 2007 – 25 Jan 2015

Note:

1 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2nd anniversary and became fully vested on the 5th anniversary of the grant.

Awarded Shares

Name	Date of award [2]	Number of Awarded Shares	Average [3] fair value per share $	Number of shares [1]: As at 1 Jan 2012	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year	As at 31 Dec 2012	Vesting period [4]
HKEx's Chief Executive									
Charles Li	10 Jun 2010	73,217	123.29	76,355	1,952	38,816	–	39,491	13 May 2012 – 13 May 2013
	31 Dec 2010	40,856	176.75	42,008	1,442	21,723	–	21,727	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	70,495	124.75	70,495	2,426	–	–	72,921	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	70,556	126.71	–	–	–	–	70,556	3 Dec 2014 – 3 Dec 2015
Senior Management									
Mark Dickens	3 Feb 2009	59,900	81.96	49,047	1,122	16,347	–	33,822	1 Jan 2011 – 1 Jan 2014
	10 Jun 2010	14,236	123.29	14,848	378	7,546	–	7,680	13 May 2012 – 13 May 2013
	31 Dec 2010	19,860	176.75	20,424	700	10,558	–	10,566	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	29,312	124.75	29,312	1,013	–	–	30,325	14 Dec 2013 – 14 Dec 2014
Lawrence Fok [5]	4 Feb 2008	658	163.72	213	6	219	–	–	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	7,468	123.29	7,794	200	7,994	–	–	13 May 2012 – 13 May 2013
Gerald Greiner	4 Feb 2008	8,418	163.72	2,433	82	2,515	–	–	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	35,700	123.29	37,230	951	18,925	–	19,256	13 May 2012 – 13 May 2013
	31 Dec 2010	16,601	176.75	17,073	585	8,824	–	8,834	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	48,185	124.75	48,185	1,660	–	–	49,845	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	11,870	126.71	–	–	–	–	11,870	3 Dec 2014 – 3 Dec 2015
Henry Ingrouille	5 Sept 2012	8,900	109.00	–	–	–	–	8,900	7 Jul 2014 – 7 Jul 2015
	31 Dec 2012	14,639	126.71	–	–	–	–	14,639	3 Dec 2014 – 3 Dec 2015
Kevin King	10 Jun 2010	6,101	123.29	6,361	161	3,230	–	3,292	13 May 2012 – 13 May 2013
Romnesh Lamba	10 Jun 2010	25,626	123.29	26,723	682	13,585	–	13,820	13 May 2012 – 13 May 2013
	31 Dec 2010	23,832	176.75	24,504	840	12,670	–	12,674	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	29,312	124.75	29,312	1,011	–	–	30,323	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	29,461	126.71	–	–	–	–	29,461	3 Dec 2014 – 3 Dec 2015
Henry Law	4 Feb 2008	3,623	163.72	1,060	35	1,095	–	–	12 Dec 2009 – 12 Dec 2012
	10 Jun 2010	15,832	123.29	16,512	420	8,392	–	8,540	13 May 2012 – 13 May 2013
	31 Dec 2010	7,362	176.75	7,574	258	3,912	–	3,920	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	10,841	124.75	10,841	378	–	–	11,219	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	10,896	126.71	–	–	–	–	10,896	3 Dec 2014 – 3 Dec 2015
Christine Wong	9 Jul 2010	6,900	121.88	7,192	183	3,656	–	3,719	10 Jun 2012 – 10 Jun 2013
	31 Dec 2010	14,299	176.75	14,703	504	7,600	–	7,607	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	15,740	124.75	15,740	542	–	–	16,282	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	15,820	126.71	–	–	–	–	15,820	3 Dec 2014 – 3 Dec 2015
Samuel Wong [6]	9 Jul 2010	21,000	120.32	21,899	–	–	21,899	–	2 Jul 2012 – 2 Jul 2013

Notes:

1 It included shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme.
2 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
3 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
(a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
(b) for shares purchased from the market: average cost per share.
4 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2nd and 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to 5th year, the arrangement prior to the change.
5 Mr Fok retired on 1 September 2012. According to the terms of the Share Award Scheme, all the Awarded Shares and the related income became vested on Mr Fok on 31 August 2012.
6 Mr Wong resigned effective 20 March 2012.

Members of the Remuneration Committee
CHOW Chung Kong (Chairman)
Ronald Joseph ARCULLI
Timothy George FRESHWATER
John Barrie HARRISON
John Mackay McCulloch WILLIAMSON

Hong Kong, 21 February 2013

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The Environmental, Social and Governance Committee

The Board has delegated the day-to-day responsibility for all corporate governance and CSR-related matters to the ESG Committee. The ESG Committee comprises 5 Board members, including the Board Chairman, who acts as the ESG Committee's chairman, and HKEx's Chief Executive. The ESG Committee reports to the Board on a regular basis. Its major roles and functions and terms of reference are posted on the HKEx website.

The ESG Committee held 3 meetings and passed 1 written resolution regarding HKEx's corporate governance and CSR-related matters in 2012 and up to 6 February 2013. The attendance record of members in 2012 is shown on page 98 of this Annual Report.

Summary of work done in 2012/2013
• Reviewed the implementation progress of HKEx's CSR Strategy • Considered a proposed sustainable community project • Approved the engagement of an external independent verifier for the 2012 CSR Report • Reviewed the training and continuous professional development of the Directors and Senior Management • Reviewed and endorsed the annual Corporate Governance Report and CSR Report

CSR Performance and Reporting

Being a responsible corporate citizen, HKEx is committed to the sustainable development of the marketplace, workplace, community and environment. We are pleased that our efforts have been recognised, as HKEx remains a constituent stock in the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series, the Dow Jones Sustainability Asia Pacific Index, and the STOXX® Global ESG Leaders Indices.

A full report on HKEx's CSR performance in 2012 is set out in the 2012 CSR Report which will be available on the HKEx website in mid-March 2013. Your feedback on HKEx's performance and reporting is invaluable to us, and can be sent to us via the online feedback form at www.hkex.com.hk/eng/exchange/csr/csr.htm or email to ssd@hkex.com.hk.

Members of the Environmental, Social and Governance Committee
CHOW Chung Kong (Chairman)
Ronald Joseph ARCULLI
John Barrie HARRISON
LEE Tze Hau, Michael
LI Xiaojia, Charles

Hong Kong, 6 February 2013

SHAREHOLDING ANALYSIS

Share Capital (as at 31 December 2012)

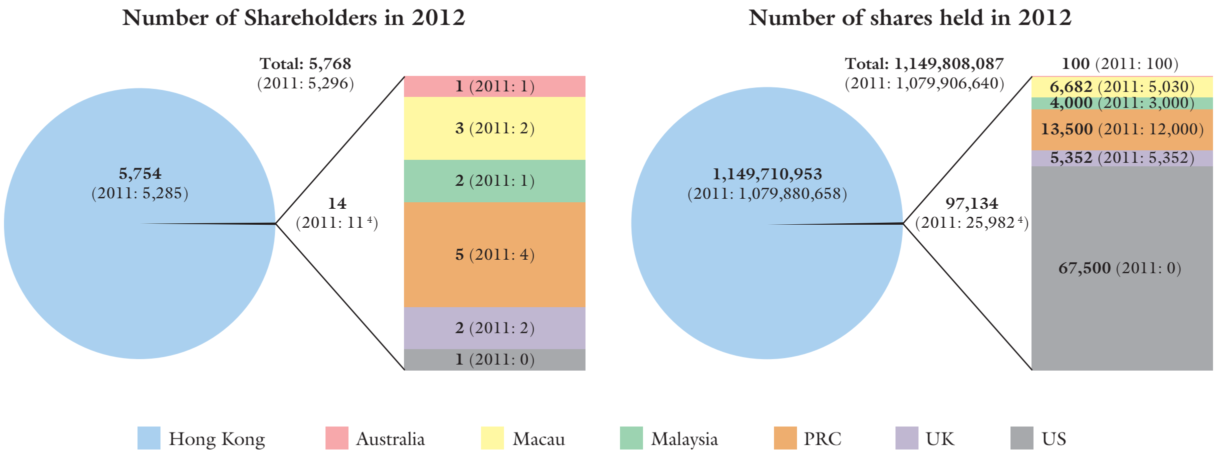
Authorised Share Capital	$2 billion with shares of $1 each
Issued Share Capital	$1,149,808,087 with shares of $1 each

An analysis of Shareholders based on ROM as at 31 December 2012 and 31 December 2011 is as follows:

Shareholding Distribution

Size of shareholding	Number of Shareholders		% of [1] Shareholders		Number of [2] shares held ('000)		% of issued share capital	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
1 – 1,000	**2,769**	2,496	**48.01**	47.13	**1,509**	1,400	**0.13**	0.13
1,001 – 5,000	**1,881**	1,721	**32.61**	32.50	**4,820**	4,506	**0.42**	0.42
5,001 – 10,000	**497**	468	**8.62**	8.84	**3,886**	3,704	**0.34**	0.34
10,001 – 100,000	**482**	467	**8.36**	8.82	**14,199**	14,287	**1.23**	1.32
100,001 and above	**139**	144	**2.41**	2.72	**1,125,395**	1,056,009	**97.88**	97.79
Total	**5,768**	5,296	**100.00**	100.00	**1,149,808**	1,079,907	**100.00**	100.00

Geographical Distribution[3]



Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of [2] shares held ('000)		% of issued share capital	
	2012	2011	**2012**	2011	**2012**	2011
Individual	**5,675**	5,200	**63,756**	65,281	**5.54**	6.05
Non-Individual	**93**	96	**1,086,052**	1,014,626	**94.46**	93.95
HKSN	**1**	1	**1,055,590**	979,716	**91.81**	90.72
Direct CPs			**204,544**	182,325	**17.79**	16.88
General CPs						
– Broker Participants			**11,124**	10,011	**0.97**	0.93
– Custodian Participants			**445,666**	441,917	**38.76**	40.92
Custodian Participants			**381,169**	334,245	**33.15**	30.95
IPs			**11,495**	9,636	**1.00**	0.89
Defaulting Participant			**1,489**	1,489	**0.13**	0.14
			1,055,487 [5]	979,622 [5]	**91.80**	90.71
Other corporate/incorporated bodies	**92**	95	**30,462**	34,910	**2.65**	3.23
Total	**5,768**	5,296	**1,149,808**	1,079,907	**100.00**	100.00

Notes:

1 Percentage is for reference only, and may not add up to the total due to rounding.

2 Figures have been rounded up/down to the nearest thousand, and may not add up to the total or sub-group total due to rounding.

3 According to the addresses shown on the ROM

4 A Shareholder located in Canada held 500 shares.

5 The breakdown of the shareholding in the name of HKSN was obtained from the records shown in the Participant Shareholding Report (PSH Report). The number of shares registered in HKSN as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.

For 2012, the shares were held for 420 Direct CPs (2011: 422); 8 General CPs (2011: 7), of which 3 were Broker Participants (2011: 3) and 5 were Custodian Participants (2011: 4); 28 Custodian Participants (2011: 29); 1,175 IPs (2011: 1,101); and 1 Defaulting Participant (2011: 1).

INFORMATION FOR STAKEHOLDERS

Annual Report

This Annual Report is printed in English and Chinese, and is available in the Investor Relations section of the HKEx website. Shareholders can elect to receive a printed or electronic version. Should Shareholders elect the electronic version, HKEx will donate $50 to a charity with a focus on environmental protection, subject to a cap of $100,000 per annum. Shareholders are encouraged to access HKEx's corporate communications electronically via the HKEx website, which helps conserve the environment. Shareholders may at any time change their choice of language or means of receiving HKEx's corporate communications free of charge by giving not less than 7 days' notice in writing to HKEx's registrar, Hong Kong Registrars Limited (by post to 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at hkex.ecom@computershare.com.hk).

HKEx values feedback on this Annual Report for improving its reporting on financial and governance performance, which can be made via the online form at www.hkex.com.hk/eng/exchange/invest/ir.htm or email at ssd@hkex.com.hk.

Stakeholders who are interested in receiving information about HKEx may register at the Investment Service Centre on the HKEx website. Upon successful registration, they will receive alerts when HKEx publishes its corporate communications on the HKExnews website.

Annual General Meeting

The 2013 AGM will be held on Wednesday, 24 April 2013. The Notice of the 2013 AGM, which constitutes part of the circular to Shareholders, will be sent together with this Annual Report. The Notice of the 2013 AGM and the proxy form will also be available on the HKEx website.

2012 Dividends

Interim dividend	$1.85 per share
Proposed final dividend	$1.46 per share

Scrip Dividend Alternative

Subject to Shareholders' approval of the proposed final dividend and a general mandate to issue shares at the 2013 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Thursday, 2 May 2013. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEx to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form will be despatched to Shareholders on or about Wednesday, 8 May 2013. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Friday, 31 May 2013.

Closure of ROM

For determining Shareholders' eligibility to attend and vote at 2013 AGM

Latest time to lodge transfer documents for registration	4:30 pm on 19 April 2013
Closure of ROM	22 to 24 April 2013 (both dates inclusive)
Record date	24 April 2013

For determining Shareholders' entitlement to final dividend

Latest time to lodge transfer documents for registration	4:30 pm on 29 April 2013
Closure of ROM	30 April to 2 May 2013 (both dates inclusive)
Record date	2 May 2013

Financial Calendar

Announcement of 2012 final results	27 February 2013
2013 AGM	24 April 2013
Ex-dividend date for final dividend	26 April 2013
Despatch of scrip dividend circular and election form	on or about 8 May 2013
Despatch of dividend warrants/definitive share certificates	on or about 31 May 2013
Announcement of 2013 1st quarter results (tentative)	May 2013
Announcement of 2013 interim results (tentative)	August 2013
Announcement of 2013 3rd quarter results (tentative)	November 2013

Share Information

Share Listing

First listed on the Stock Exchange	27 June 2000
As a FTSE4Good Index Series constituent company	Since September 2005
As a HSI constituent stock	Since 11 September 2006
As a Hang Seng Corporate Sustainability Index Series constituent company	Since 26 July 2010
As a Dow Jones Sustainability Asia Pacific Index component stock	Since 20 September 2010
As a STOXX® Global ESG Leaders Indices component	Since September 2011

Board Lot

100 shares

Market Capitalisation as at 31 December 2012

Market capitalisation	$151.7 billion
Number of issued shares	1,149,808,087 shares
Closing price	$131.9 per share

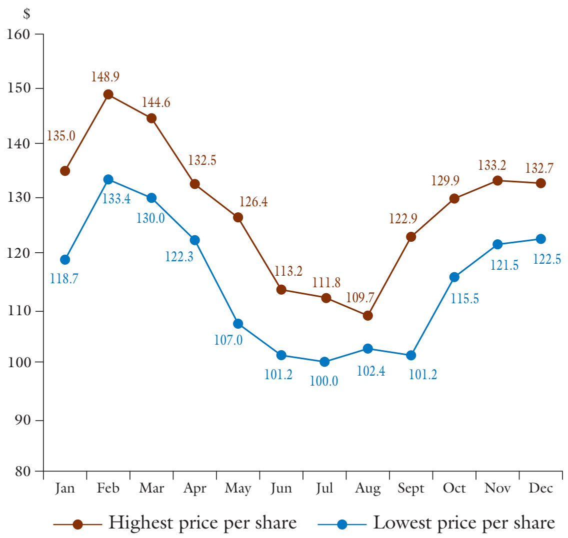
Stock Codes

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0NJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478

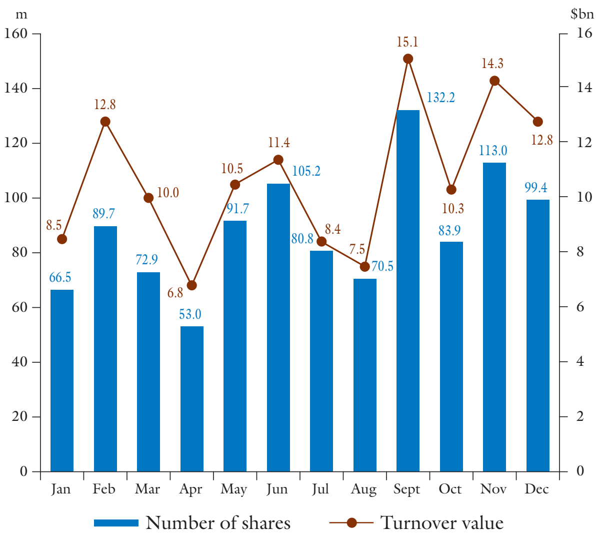
American Depositary Receipt

Ticker Symbol	HKXCY
CUSIP	43858F109

Price of HKEx shares in 2012



Turnover of HKEx shares in 2012



Note: Figures have been rounded.

HKEx's Registrar and Transfer Office

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Franky Chung, Special Representative, Southern China
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Fax No.: +8620 8550 1035
Email address: frankychung@hkex.com.hk

DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited financial statements for the year ended 31 December 2012.

Principal Activities

HKEx is a recognised exchange controller under the SFO. It owns and operates the only stock exchange and a futures exchange in Hong Kong and their related clearing houses, HKSCC, SEOCH and HKCC. During the year, the Group acquired control of LMEH and its subsidiaries. One of its subsidiaries, LME, is an exchange for the trading of base metals forward and options contracts operating in the UK.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and a futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are recognised clearing houses pursuant to the SFO. LME is a recognised investment exchange under the United Kingdom Financial Services and Markets Act 2000 (as amended).

The Group's revenue is derived from business activities conducted in Hong Kong and the UK (since 6 December 2012). An analysis of the Group's revenue and other income, and profit before taxation for the year ended 31 December 2012 is set out in note 4 to the consolidated financial statements of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2012 are set out in note 38 to the consolidated financial statements of this Annual Report.

Results and Appropriations

The Group's results for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 131 of this Annual Report.

The Board declared an interim dividend of $1.85 per share (2011: $2.16 per share), amounting to a total of $2.0 billion (2011: $2.3 billion) which was paid to Shareholders on 21 September 2012 and included dividends of $4 million (2011: $4 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of $1.46 per share (2011: $2.09 per share) to Shareholders whose names appear on the ROM on 2 May 2013, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about $3.7 billion (2011: $4.6 billion), which represents a payout ratio of 90 per cent (2011: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2012 and includes dividends of about $8 million (2011: $9 million) for shares held in trust under the Share Award Scheme. The Board also proposed to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

Distributable Reserves

HKEx's distributable reserves as at 31 December 2012, calculated under Section 79B of the Companies Ordinance and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA, amounted to $7.3 billion (31 December 2011: $6.4 billion).

Details of the movements in the reserves of the Group and HKEx during the year are set out in the consolidated statement of changes in equity and notes 40 to 44 to the consolidated financial statements of this Annual Report.

Donations

The Group's charitable and other donations during the year amounted to $718,000 (2011: $907,000). No donations were made to political parties.

Intangible Assets and Fixed Assets

Details of the movements in intangible assets and fixed assets of the Group and HKEx during the year are set out in notes 28 and 29 respectively to the consolidated financial statements of this Annual Report.

Share Capital

Details of the movements in HKEx's share capital during the year are set out in note 39 to the consolidated financial statements of this Annual Report.

Borrowings

Details of the Group's and HKEx's borrowings as at the end of the year are set out in note 35 to the consolidated financial statements of this Annual Report.

Group Financial Summary

A summary of the Group's results and assets and liabilities for the past 10 financial years is set out in the 10-Year Financial Statistics section of this Annual Report.

Purchase, Sale or Redemption of HKEx's Listed Securities

During 2012, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 737,800 HKEx shares at a total consideration of about $93.5 million.

Public Float

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, approximately 100 per cent of HKEx's issued share capital was held by the public. HKEx share information, including the Company's market capitalisation as at 31 December 2012, is set out in the Information for Stakeholders section of this Annual Report.

Directors

The list of Directors during the year and up to the date of this Annual Report is set out in the Board and Committees section of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in HKEx shares, is set out in the Corporate Governance Report of this Annual Report.

Biographical Details of Directors and Senior Management

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the Board of Directors and Senior Management section of this Annual Report. None of the Directors or Senior Management is involved in any relationships as defined in Appendix 16 to the Main Board Listing Rules.

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

Directors' Interests in Contracts

Details of the continuing connected transactions and material related party transactions are set out in the Corporate Governance Report and note 50 to the consolidated financial statements of this Annual Report.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

Directors' Rights to Acquire Shares or Debentures

Pursuant to the Share Award Scheme, the HKEx shares were awarded to the Company's sole executive director, details of which are set out in the Remuneration Committee Report and note 40(c) to the consolidated financial statements of this Annual Report.

Save for the above, neither HKEx nor any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate at any time during the year or at the end of the year.

Loans to Officers

No loans to the Company's officers (within the meaning of the Companies Ordinance) were made and outstanding at any time during the year or at the end of the year.

Major Customers and Suppliers

During the year ended 31 December 2012, the combined value of the Group's contracts with its 5 largest suppliers which were not of a capital nature was less than 30 per cent of the total value of supplies purchased. HKEx's 5 largest customers combined contributed less than 30 per cent of the Group's total revenue and other income during the year ended 31 December 2012.

Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 10(a) to the consolidated financial statements of this Annual Report.

Corporate Governance

HKEx's principal corporate governance practices are set out in the Corporate Governance Report, Audit Committee Report, Remuneration Committee Report, and Environmental, Social and Governance Committee Report of this Annual Report.

Auditor

The financial statements for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers which retires and, being eligible, offers itself for re-appointment at the 2013 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2013 AGM.

On behalf of the Board

CHOW Chung Kong
Chairman

Hong Kong, 27 February 2013

AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 131 to 225, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 $m	As restated 2011 $m
Trading fees and trading tariff	5	**2,448**	2,936
Stock Exchange listing fees	6	**916**	949
Clearing and settlement fees		**1,406**	1,663
Depository, custody and nominee services fees		**644**	685
Market data fees		**570**	637
Other revenue	7	**448**	487
REVENUE AND TURNOVER		**6,432**	7,357
Gains on disposal of financial assets measured at amortised cost		**1**	–
Other investment income		**768**	392
Interest rebates to Participants		**(3)**	(2)
Net investment income	8	**766**	390
Sundry income	9	**13**	108
REVENUE AND OTHER INCOME	4	**7,211**	7,855
OPERATING EXPENSES			
Staff costs and related expenses	10	**1,178**	1,030
Information technology and computer maintenance expenses	11	**299**	302
Premises expenses		**254**	217
Product marketing and promotion expenses		**19**	16
Legal and professional fees		**54**	35
Depreciation and amortisation		**158**	90
Other operating expenses	12	**153**	133
		2,115	1,823
OPERATING PROFIT	13	**5,096**	6,032
Costs relating to acquisition of LME Group	14	**(138)**	–
Finance costs	15	**(55)**	–
Fair value loss on derivative component of convertible bonds	35(b)	**(55)**	–
Share of loss of a joint venture	27(a)(iii)	**(3)**	–
PROFIT BEFORE TAXATION	4	**4,845**	6,032
TAXATION	18(a)	**(761)**	(939)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	44	**4,084**	5,093
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences of foreign subsidiaries	2(ac)(iii)	**189**	–
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**189**	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**4,273**	5,093
Basic earnings per share	19(a)	**$3.75**	$4.71
Diluted earnings per share	19(b)	**$3.74**	$4.70
DIVIDENDS	20	**3,671**	4,579
EBITDA	2(g)	**5,254**	6,122

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

		At 31 Dec 2012			As restated At 31 Dec 2011		
	Note	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
ASSETS							
Cash and cash equivalents	21, 22	34,077	–	34,077	18,221	–	18,221
Financial assets measured at fair value through profit or loss	21, 23	4,369	123	4,492	11,169	180	11,349
Financial assets measured at amortised cost	21, 24(a)	8,442	131	8,573	15,848	403	16,251
Accounts receivable, prepayments and deposits	26	13,689	7	13,696	7,210	23	7,233
Interest in a joint venture	27(a)	–	97	97	–	–	–
Goodwill and other intangible assets	28(a)	–	18,183	18,183	–	–	–
Fixed assets	29(a)	–	1,675	1,675	–	948	948
Lease premium for land	30	–	24	24	–	25	25
Deferred tax assets	37(d)	–	20	20	–	1	1
Total assets		60,577	20,260	80,837	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	21, 31	36,786	–	36,786	34,592	–	34,592
Accounts payable, accruals and other liabilities	32	15,818	20	15,838	8,456	–	8,456
Deferred revenue		530	–	530	524	–	524
Taxation payable		178	–	178	262	–	262
Other financial liabilities	33	57	–	57	60	–	60
Participants' contributions to Clearing House Funds	21, 34	1,924	–	1,924	880	–	880
Borrowings	35	–	6,615	6,615	–	–	–
Provisions	36(a)	44	45	89	35	27	62
Deferred tax liabilities	37(d)	–	1,056	1,056	–	33	33
Total liabilities		55,337	7,736	63,073	44,809	60	44,869
Equity							
Share capital	39			1,150			1,080
Share premium	39			8,731			639
Shares held for Share Award Scheme	39			(305)			(296)
Employee share-based compensation reserve	40			122			106
Exchange reserve	2(ac)(iii)			189			–
Convertible bond reserve	35(b)			409			–
Designated reserves	34, 42			587			577
Retained earnings	44			6,881			7,053
Shareholders' funds				17,764			9,159
Total liabilities and equity				80,837			54,028
Net current assets				5,240			7,639
Total assets less current liabilities				25,500			9,219

Approved by the Board of Directors on 27 February 2013

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

		At 31 Dec 2012			At 31 Dec 2011		
	Note	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
ASSETS							
Cash and cash equivalents	21, 22	797	–	797	607	–	607
Financial assets measured at amortised cost	21, 24(b)	1,213	1	1,214	1,480	7	1,487
Accounts receivable, prepayments and deposits	26	31	5	36	21	5	26
Amounts due from subsidiaries	38(b)	5,377	14,943	20,320	5,123	–	5,123
Interest in a joint venture	27(a)	–	100	100	–	–	–
Intangible assets	28(b)	–	22	22	–	–	–
Fixed assets	29(b)	–	234	234	–	55	55
Investments in subsidiaries	38(a)	–	4,843	4,843	–	1,854	1,854
Deferred tax assets	37(d)	–	–	–	–	1	1
Total assets		7,418	20,148	27,566	7,231	1,922	9,153
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable, accruals and other liabilities	32	393	–	393	244	–	244
Amounts due to subsidiaries	38(b)	2,202	3,294	5,496	39	–	39
Taxation payable		15	–	15	21	–	21
Other financial liabilities	33	203	–	203	11	–	11
Borrowings	35	–	3,100	3,100	–	–	–
Provisions	36(b)	40	2	42	33	1	34
Deferred tax liabilities	37(d)	–	13	13	–	–	–
Total liabilities		2,853	6,409	9,262	348	1	349
Equity							
Share capital	39			1,150			1,080
Share premium	39			8,731			639
Shares held for Share Award Scheme	39			(305)			(296)
Employee share-based compensation reserve	40			122			106
Convertible bond reserve	35(b)			409			–
Merger reserve	43			694			694
Retained earnings	44			7,503			6,581
Shareholders' funds				18,304			8,804
Total liabilities and equity				27,566			9,153
Net current assets				4,565			6,883
Total assets less current liabilities				24,713			8,805

Approved by the Board of Directors on 27 February 2013

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital, share premium and shares held for Share Award Scheme (note 39) $m	Employee share-based compensation reserve (note 40) $m	Exchange reserve $m	Convertible bond reserve (note 35(b)) $m	Designated reserves (note 42) $m	Retained earnings (note 44) $m	Total equity $m
At 1 Jan 2011	1,275	56	–	–	580	6,766	8,677
Profit attributable to shareholders	–	–	–	–	–	5,093	5,093
2010 final dividend at $2.31 per share	–	–	–	–	–	(2,487)	(2,487)
2011 interim dividend at $2.16 per share	–	–	–	–	–	(2,327)	(2,327)
Unclaimed HKEx dividends forfeited	–	–	–	–	–	6	6
Shares issued upon exercise of employee share options	8	–	–	–	–	–	8
Shares issued in lieu of cash dividends	208	–	–	–	–	–	208
Shares purchased for Share Award Scheme	(80)	–	–	–	–	–	(80)
Vesting of shares of Share Award Scheme	10	(9)	–	–	–	(1)	–
Employee share-based compensation benefits	–	61	–	–	–	–	61
Transfer of reserves	2	(2)	–	–	(3)	3	–
At 31 Dec 2011	1,423	106	–	–	577	7,053	9,159
At 1 Jan 2012	**1,423**	**106**	**–**	**–**	**577**	**7,053**	**9,159**
Profit attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**4,084**	**4,084**
Other comprehensive income	**–**	**–**	**189**	**–**	**–**	**–**	**189**
Total comprehensive income	**–**	**–**	**189**	**–**	**–**	**4,084**	**4,273**
2011 final dividend at $2.09 per share	**–**	**–**	**–**	**–**	**–**	**(2,252)**	**(2,252)**
2012 interim dividend at $1.85 per share	**–**	**–**	**–**	**–**	**–**	**(1,996)**	**(1,996)**
Unclaimed HKEx dividends forfeited	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Shares issued upon placement of shares	**7,708**	**–**	**–**	**–**	**–**	**–**	**7,708**
Shares issued upon exercise of employee share options	**2**	**–**	**–**	**–**	**–**	**–**	**2**
Shares issued in lieu of cash dividends	**442**	**–**	**–**	**–**	**–**	**–**	**442**
Shares purchased for Share Award Scheme	**(93)**	**–**	**–**	**–**	**–**	**–**	**(93)**
Vesting of shares of Share Award Scheme	**93**	**(88)**	**–**	**–**	**–**	**(5)**	**–**
Employee share-based compensation benefits	**–**	**105**	**–**	**–**	**–**	**–**	**105**
Substitution of convertible bonds	**–**	**–**	**–**	**409**	**–**	**–**	**409**
Transfer of reserves	**1**	**(1)**	**–**	**–**	**10**	**(10)**	**–**
At 31 Dec 2012	**9,576**	**122**	**189**	**409**	**587**	**6,881**	**17,764**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 $m	2011 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	45	**6,491**	5,273
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		**(1,042)**	(456)
Acquisition of subsidiaries, net of cash acquired	49	**(16,754)**	–
Payment for interest in a joint venture		**(100)**	–
Net decrease/(increase) in financial assets of Corporate Funds:			
Decrease/(increase) in time deposits with original maturities more than three months		**534**	(253)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		**–**	(1,169)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		**607**	1,411
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		**1,103**	88
Interest received from financial assets measured at amortised cost (excluding time deposits)		**18**	19
Interest received from financial assets measured at fair value through profit or loss		**89**	160
Net cash outflow from investing activities		**(15,545)**	(200)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans		**3,099**	–
Proceeds from issuance of convertible bonds		**3,875**	–
Proceeds from issuance of shares		**7,755**	8
Payments of transaction costs on bank loans		**(3)**	–
Payments of transaction costs on issuance of convertible bonds		**(30)**	–
Payments of transaction costs on placement of shares		**(45)**	–
Purchases of shares for Share Award Scheme		**(93)**	(80)
Payments of financing related costs	15	**(30)**	–
Dividends paid to shareholders of HKEx		**(3,784)**	(4,606)
Net cash inflow/(outflow) from financing activities		**10,744**	(4,678)
Net increase in cash and cash equivalents		**1,690**	395
Cash and cash equivalents at 1 Jan		**2,340**	1,945
Exchange differences on cash and cash equivalents		**5**	–
Cash and cash equivalents at 31 Dec	22	**4,035**	2,340
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks		**4,035**	2,340

1. General Information

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

During the year, the Group acquired control of LME Holdings Limited (LMEH) and its subsidiaries (LME Group). One of its subsidiaries, The London Metal Exchange (LME) (formerly known as The London Metal Exchange Limited), is an exchange for the trading of base metals forward and options contracts operating in the United Kingdom.

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

These consolidated financial statements were approved for issue by the Board of Directors (Board) on 27 February 2013.

2. Principal Accounting Policies

(a) Statement of compliance

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

(b) Basis of preparation

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

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

Early adoption of new/revised HKFRSs

In 2012, the Group has early adopted the following new/revised HKFRSs where early adoption is permitted:

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new/revised HKFRSs (continued)

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
Amendments to HKFRS 10	Consolidated Financial Statements – Transition Guidance
HKFRS 11	Joint Arrangements
Amendments to HKFRS 11	Joint Arrangements – Transition Guidance
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 12	Disclosure of Interests in Other Entities – Transition Guidance
HKFRS 13	Fair Value Measurement

The amendments to HKAS 1 (Revised) require companies to classify items within other comprehensive income under two categories: (i) items which may be reclassified to profit or loss in the future and (ii) items which would never be reclassified to profit or loss. The adoption of the amended HKAS 1 (Revised) only affects the presentation of the consolidated statement of comprehensive income.

HKAS 19 (2011) eliminates the option of deferring the recognition of gains and losses arising from defined benefit plans, and enhances the disclosure requirements for defined benefit plans. The early adoption of HKAS 19 (2011) does not have any impact on the Group as it does not have a defined benefit plan.

Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under HKAS 27 (Revised) (for companies) or exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities). The adoption of HKFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under HKFRS 10 and there are no new subsidiaries identified under the new guidance.

Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangements. In accordance with HKFRS 11, a joint venture is accounted for by the Group using the equity method under HKAS 28 (2011), while assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement. As the Group's new investment in China Exchanges Services Company Limited (note 27(a)) is a joint arrangement under which each investor has joint control and the rights to the net assets of the arrangement, it is a joint venture. In accordance with HKFRS 11, the joint venture is accounted for by the Group using the equity method under HKAS 28 (2011). The Group's newly acquired subsidiary, LME, has an interest in a joint operation (note 27(b)). Accordingly, assets, liabilities, revenue and expenses of the joint operation were apportioned in accordance with the agreement and included in the Group's consolidated financial statements.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Early adoption of new/revised HKFRSs (continued)

HKAS 28 (2011) stipulates that the equity method shall be applied to both joint ventures and associates. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition profit or loss and the Group's share of movements in other comprehensive income of the investee.

HKAS 27 (2011) was issued following the issuance of HKFRS 10. The revised HKAS 27 only deals with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. The adoption of HKAS 27(2011) does not have any impact on HKEx's financial statements as it already complies with the requirements of the standard.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities. The adoption of HKFRS 12 only affects the disclosures relating to the subsidiaries and the joint arrangements in the Group's consolidated financial statements.

The amendments to HKFRSs 10, 11 and 12 provide additional transition guidance on adopting the standards. The amendments aim to simplify the process of adopting HKFRSs 10 and 11 and provide relief from disclosures in respect of unconsolidated structured entities. There is no impact on the Group on adoption of the amendments.

The Group has applied the above new/revised HKFRSs retrospectively.

HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement. The adoption of HKFRS 13 only affects disclosures on financial assets and financial liabilities in the Group's and HKEx's financial statements.

Change in presentation of Margin deposits from Clearing Participants on derivatives contracts and cash collateral from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC)

In previous years, the obligation to refund margin deposits from Clearing Participants of HKFE Clearing Corporation Limited (HKCC) and The SEHK Options Clearing House Limited (SEOCH) was disclosed as Margin deposits from Clearing Participants on derivatives contracts and the obligation to refund the cash collateral received from HKSCC Clearing Participants was disclosed as Cash collateral from HKSCC Clearing Participants on the face of the consolidated statement of financial position. Details of the financial assets of Margin Funds and cash collateral were separately disclosed in the notes to the consolidated financial statements.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Change in presentation of Margin deposits from Clearing Participants on derivatives contracts and cash collateral from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC) (continued)

Following the HKEx Clearing House Risk Management Reform in November 2012, HKSCC introduced margining as a measure to safeguard against exposures to future market movements. Thereafter, the Group presents the combined balance of "Margin deposits from Clearing Participants on derivatives contracts" and "Margin deposits and cash collateral from HKSCC Clearing Participants" as "Margin deposits and cash collateral from Clearing Participants" on the face of the consolidated statement of financial position, with the breakdown of the balances shown in the notes to the consolidated financial statements. Similarly, the financial assets of the HKSCC Margin Funds and cash collateral and Margin Funds of SEOCH and HKCC are grouped together and disclosed in the details of the financial assets of "Margin Funds and cash collateral", a new caption replacing the previous captions, "Margin Funds" and "Cash collateral".

Comparative figures have been adjusted to conform with the changes in the revised presentation.

New/revised HKFRSs issued before 31 December 2012 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2012 and are pertinent to its operations but not yet effective:

Amendments to HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[2]
Annual Improvements to HKFRSs 2009 – 2011 Cycle [1]	

1 Effective for accounting periods beginning on or after 1 January 2013
2 Effective for accounting periods beginning on or after 1 January 2014

The Group has adopted these HKFRSs from 1 January 2013 onwards. The adoption of the amendments to HKAS 32 and the amended HKFRSs included in annual improvements to HKFRSs 2009 – 2011 Cycle is not expected to have any material impact on the Group as these changes do not affect the Group and the adoption of amendments to HKFRS 7 will only affect certain disclosures in the Group's consolidated financial statements.

(c) Subsidiaries

(i) Consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. All material intra-group transactions, unrealised gains and losses and balances have been eliminated on consolidation.

2. Principal Accounting Policies (continued)

(c) Subsidiaries (continued)

(i) Consolidation (continued)

Accounting policies of subsidiaries have been aligned on consolidation to ensure consistency with the policies adopted by the Group.

Business combination

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Acquisition-related costs are expensed when incurred in the Group's consolidated financial statements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

(ii) Separate financial statements

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

(d) Controlled special purpose entity

HKEx controls a special purpose entity, The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), which is set up solely for the purpose of purchasing, administering and holding HKEx shares for an employees' share award scheme (Share Award Scheme). As HKEx has the power to direct the relevant activities of the HKEx Employee Share Trust and it has the ability to use its power over the HKEx Employee Share Trust to affect its exposure to returns, the assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

(e) Joint arrangements

A joint arrangement is an arrangement which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes the Group and other parties have joint control of the arrangement.

(i) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

2. Principal Accounting Policies (continued)

(e) Joint arrangements (continued)

(i) Joint ventures (continued)

An interest in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee and any impairment loss relating to the investment. The consolidated statement of comprehensive income includes the Group's share of post-acquisition profit or loss and the Group's share of movements in other comprehensive income of the investee and any impairment loss of the investment.

Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The accounting policies of the joint ventures are the same as the policies adopted by the Group.

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

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement.

(f) Revenue and other income recognition

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

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

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

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

(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.

2. Principal Accounting Policies (continued)

(f) Revenue and other income recognition (continued)

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

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

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

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

(g) EBITDA

EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and other non-recurring costs arising from the acquisition of the LME Group. EBITDA has been included in the Group's consolidated financial statements as it has been used by the Group as a measure of business performance from 2012 onwards.

(h) Net investment income

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

(i) 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.

(j) 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.

2. Principal Accounting Policies (continued)

(j) Employee benefit costs (continued)

(ii) Equity compensation benefits

Equity-settled share-based payment transactions

For share awards granted under the HKEx Share Award Scheme (Awarded Shares), the estimated fair value of the Awarded Shares (for shares awarded from forfeited or unallocated shares held by the Share Award Scheme) granted and the cost of Awarded Shares (for shares purchased from the market) are recognised as employee share-based compensation expense and credited to an employee share-based compensation reserve under equity over the vesting periods (note 40(c)(i)).

At the end of each reporting period, the Group revises its estimates of the number of 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.

Cash-settled share-based payment transactions

For share options granted under the LME Shadow Equity Long-Term Incentive Plan (LME Long-Term Incentive Plan), a cash-settled shared-based arrangement, the fair value of employee services received in exchange for the grant of options has been credited to the LME Long-Term Incentive Plan payable under accounts payable, accruals and other liabilities on the acquisition date.

At the end of each reporting period and at the date of settlement, the Group remeasures the fair value of the LME Long-Term Incentive Plan payable, with any changes in fair value charged/credited to the employee share-based compensation expense.

(iii) Retirement benefit costs

Contributions to the defined contribution plans are expensed as incurred.

(k) Operating leases

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

(l) 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.

2. Principal Accounting Policies (continued)

(m) 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	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 10 years
Computer trading and clearing systems – hardware and software	Up to 5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	Up to 5 years
Data centre facilities and equipment	Up to 20 years

Change in useful lives of leasehold buildings and leasehold improvements

Effective from 1 January 2012, the estimated useful lives of leasehold buildings and leasehold improvements were revised to better reflect the useful lives of the fixed assets as follows:

	Old useful lives	New useful lives
Leasehold buildings	25 years	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years	Over the remaining lives of the leases but not exceeding 10 years

The effect of the above changes in estimated useful lives resulted in a decrease in depreciation charge of $5 million and $14 million for the year ended 31 December 2012 and year ending 31 December 2013 respectively.

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 if the software forms an integral part of the hardware on which it operates.

2. Principal Accounting Policies (continued)

(m) Fixed assets (continued)

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.

(n) Lease premium for land

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

(o) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity (ie, operating segment level) at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised but impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

(ii) Tradenames

Tradenames acquired in a business combination are recognised at fair value at the acquisition date. The fair value is based on the discounted estimated royalty payments that are expected to be avoided as a result of the tradenames being owned. Tradenames arising from the acquisition of LME Group have indefinite useful lives and are carried at cost less accumulated impairment losses. Tradenames are reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment.

2. Principal Accounting Policies (continued)

(o) Intangible assets (continued)

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The fair value is determined using the multi-period excess earnings method, whereby the asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 20 to 25 years.

(iv) Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates and when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Software development costs acquired in a business combination are recognised at fair value at the acquisition date based on the depreciated replacement cost method.

Other development expenditures that do not meet these criteria are recognised in profit or loss as incurred. Development costs previously recognised in profit or loss are not recognised as an asset in a subsequent period.

Qualifying software system development expenditures and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives on a straight-line basis, which do not exceed five years. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Costs associated with maintaining computer systems and software programmes are recognised in profit or loss as incurred.

2. Principal Accounting Policies (continued)

(p) Impairment of non-financial assets

Assets that have an indefinite useful life, which include goodwill and tradenames (note 2(o)), are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation 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. An impairment loss other than goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in joint ventures are impaired. Such objective evidence includes whether there have been any significant adverse changes in the technological, markets, economic or legal environment in which the joint ventures operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a joint venture is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value-in-use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in HKEx's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.

(q) Margin deposits and cash collateral from Clearing Participants

The Group receives margin deposits from the Clearing Participants of SEOCH and HKCC for covering their open positions in derivatives contracts. Margin deposits and cash collateral are also received from HKSCC Clearing Participants for covering their open positions.

The obligation to refund the margin deposits and cash collateral is disclosed as Margin deposits and cash collateral from Clearing Participants 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.

(r) Participants' contributions to Clearing House Funds

The Group receives contributions to Clearing House Funds from Clearing Participants of HKSCC, SEOCH and HKCC.

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

2. Principal Accounting Policies (continued)

(s) Derivative financial instruments

Derivatives, which may include forward foreign exchange, futures and options contracts, are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value are recognised in profit or loss, except when the derivatives are designated as cash flow hedges (note 2(t)). All derivatives outstanding on the reporting date 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.

(t) Hedge accounting

The Group documents at the inception of the hedge transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in cash flows of the hedged items caused by the risk being hedged.

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and accumulated in equity in a hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset, the gains or losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset. In case of business combination, the amounts accumulated in the hedging reserve will be treated as a basis adjustment to goodwill (and as part of the consideration payable).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss retained in hedging reserve is immediately reclassified to profit or loss.

(u) Financial assets

(i) Classification

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received from the Participants (note 21).

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

Financial assets measured at amortised cost

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

2. Principal Accounting Policies (continued)

(u) Financial assets (continued)

(i) Classification (continued)

Financial assets measured at amortised cost (continued)

- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

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

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

Financial assets measured at fair value through profit or loss

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

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

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

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

Financial assets of Corporate Funds, which include those held for trading purpose, are classified as current assets unless they are non-trading assets that are expected to mature or be disposed of after twelve months from the end of the reporting period, 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 if they are held for trading or are expected to be disposed of within twelve months at the end of the reporting period.

(ii) Recognition and initial measurement

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

(iii) Derecognition

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

2. Principal Accounting Policies (continued)

(u) Financial assets (continued)

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

Financial assets measured at fair value through profit or loss

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

Financial assets measured at amortised cost

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

(v) Fair value measurement principles

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

(vi) Impairment of financial assets measured at amortised cost

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

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

2. Principal Accounting Policies (continued)

(u) Financial assets (continued)

(vi) Impairment of financial assets measured at amortised cost (continued)

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

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

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be shown to relate 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.

(v) Financial liabilities

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

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

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

(ii) Financial guarantee contracts

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

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

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

2. Principal Accounting Policies (continued)

(v) Financial liabilities (continued)

(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.

(w) 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.

(x) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as interest expense over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. When the facility is cancelled, the fees paid are charged to profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

(y) Convertible bonds

Convertible bonds with conversion options which are not settled by exchanging a fixed amount of cash for a fixed number of HKEx shares comprise a derivative component and a liability component.

Convertible bonds with conversion options which are settled by exchanging a fixed amount of cash for a fixed number of HKEx shares comprise an equity component and a liability component.

At initial recognition the derivative component of the convertible bonds is measured at fair value. Any excess of the proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs relating to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability component. The portion relating to the derivative component is recognised immediately in profit or loss.

2. Principal Accounting Policies (continued)

(y) Convertible bonds (continued)

The derivative component is subsequently remeasured at fair value, with changes in fair value recognised immediately in profit or loss. The liability component is subsequently measured at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The liability component is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

When the obligation to deliver a variable number of shares upon conversion expires, lapses or is cancelled and the convertible bonds with conversion options are to be settled by exchanging a fixed amount of cash for a fixed number of HKEx shares, the conversion option is reclassified from derivative liability to the convertible bond reserve under equity. The convertible bond reserve is not remeasured subsequent to initial recognition.

(z) Current and deferred tax

Tax charge for the period comprises current and deferred tax. Tax is recognised in profit or loss.

(i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where HKEx's subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except that deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

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 current tax losses can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(aa) Deferred revenue

Deferred revenue mainly comprises listing fees received in advance and payments received in advance for services in relation to the sales of market data.

2. Principal Accounting Policies (continued)

(ab) Provisions and contingent liabilities

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

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

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

(ac) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong dollars (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 the functional currency using the exchange rates prevailing at the dates of 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 except when deferred in equity as qualifying cash flow hedges (note 2(t)).

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.

(iii) Group companies

The results and financial position of all the Group entities that have a non-HKD functional currency are translated into HKD as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries) for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of comprehensive income are translated at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated separately in the exchange reserve under equity.

2. Principal Accounting Policies (continued)

(ad) 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 and cash collateral and the Clearing House Funds.

(ae) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(af) Shares held for Share Award Scheme

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

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

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

(ag) Operating Segments

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

2. Principal Accounting Policies (continued)

(ah) Dividends

Dividends disclosed in note 20 to the consolidated financial statements represent interim dividend paid and final dividend proposed for the year (based on the issued share capital less the number of shares held for the Share Award Scheme at the end of the reporting period).

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

3. Critical Accounting Estimates and Assumptions

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

(a) Valuation of intangible assets acquired in the acquisition of LME Group

Intangible assets acquired by the Group in the acquisition of the LME Group include tradenames, customer relationships and software systems. In addition, a significant portion of the purchase consideration was allocated to goodwill, which represents the balance of the purchase consideration and fair value of identifiable net assets acquired by the Group.

Except for the fair values of software systems which were determined using the depreciated replacement cost method, the fair values of the other identifiable intangible assets acquired through the acquisition of the LME Group have been determined using an income approach. The fair value of the tradenames was determined based on the discounted estimated royalty payments that are expected to be avoided as a result of the tradenames being owned. The fair value of customer relationships was determined using the multi-period excess earnings method, under which the assets are valued after deducting a fair return on all other assets that are part of creating the related cash flows. The purchase price allocation of intangible assets involved significant management judgement and estimation. Customer relationships have finite useful lives and therefore are subject to amortisation whereas goodwill (being the residual value after the allocation of net identifiable assets, liabilities, contingent liabilities and non-controlling interests) and tradenames have indefinite useful lives. All intangible assets are subject to impairment review and could affect the future results of the Group. Further information on the valuation basis of the intangible assets and the carrying amounts of the intangible assets is included in note 2(o) and note 28 respectively.

(b) Estimated impairment of goodwill and tradenames

The Group tests in the year of acquisition and annually whether goodwill and tradenames have suffered any impairment in accordance with the accounting policy stated in note 2(p). The Group acquired the LME Group on 6 December 2012 and performed an allocation of the purchase price against the acquired assets. A detailed review of the fair value of the acquired intangible assets and goodwill was performed at 6 December 2012 and the Group considers that the assumptions used in the valuation are still valid and there are no triggering events which would indicate an impairment of the intangible assets or goodwill at 31 December 2012.

3. Critical Accounting Estimates and Assumptions (continued)

(c) Deferred tax assets

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

At 31 December 2012, the Group had unrecognised tax losses carried forward amounting to $431 million (31 December 2011: $449 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 available 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 $71 million (2011: $74 million).

(d) Valuation of investments

The Group has a significant amount of investments that are classified as Level 2 and Level 3 investments under HKFRS 13. Except for a non-controlling shareholding in an unlisted company, held by a subsidiary, the valuations are either provided by banks or the custodian of the investments, a reputable independent third party custodian bank.

As the unlisted investment held by a subsidiary is not traded in an active market, its fair value has been determined using discounted cash flow valuation techniques. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimate of weighted average cost of capital, the effect of expected changes in regulation and an adjustment for the value of the investment attributable to a minority stake.

At 31 December 2012, the financial assets that are classified as Level 2 and Level 3 investments under HKFRS 13, amounted to $4,273 million (31 December 2011: $10,931 million). If the fair value of such financial assets dropped by 1 per cent, the Group's profit before taxation would decrease by $43 million (2011: $109 million).

4. Operating Segments

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

In 2012, the Group has amended the format of management information provided to the chief operating decision-maker for the purpose of assessing the performance of the operating segments. Previously, 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 and other costs not directly related to any of the operating segments) were allocated to the respective operating segments. From June 2012 onwards, the central income and central costs are included as "Corporate Items" and are no longer allocated to the respective operating segments. Income and expenses that are directly attributable to the reportable segments are not affected. Comparative figures have been restated to conform to the current year's presentation.

In December 2012, the Group completed the acquisition of the LME Group (note 49). Its results are included in a new separate reportable segment, commodities, as it is closely monitored as a separate business segment by the chief operating decision-maker.

4. Operating Segments (continued)

After the acquisition, the Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

The **Cash Market** segment mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, CBBCs and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of revenue of the segment 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** segment 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 revenue and other income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds on derivatives contracts invested.

The **Commodities** segment refers to the operations of the LME Group, which operates an exchange in the United Kingdom for the trading of base metals forward and options contracts. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment 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 revenue and other income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds and Margin Funds and cash collateral from HKSCC Clearing Participants.

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

4. Operating Segments (continued)

The chief operating decision-maker assesses the performance of the operating segments based on their EBITDA (note 2(g)). An analysis of the Group's EBITDA, profit before taxation and other selected financial information for the year by operating segment is as follows:

	2012						
	Cash Market $m	Derivatives Market $m	Commodities $m	Clearing $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	2,824	761	74	2,209	563	1	6,432
Net investment income	–	422	2	31	–	311	766
Sundry income	–	–	–	13	–	–	13
Revenue and other income	2,824	1,183	76	2,253	563	312	7,211
Operating expenses (excluding depreciation and amortisation)	647	178	41	332	76	683	1,957
Reportable segment EBITDA	2,177	1,005	35	1,921	487	(371)	5,254
Depreciation and amortisation	(42)	(13)	(22)	(46)	(13)	(22)	(158)
Costs relating to acquisition of LME Group	–	–	–	–	–	(138)	(138)
Finance costs	–	–	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	–	–	(55)	(55)
Share of loss of a joint venture	–	(3)	–	–	–	–	(3)
Reportable segment profit before taxation	2,135	989	13	1,875	474	(641)	4,845
Interest income	–	303	1	26	–	51	381
Interest rebates to Participants	–	(2)	–	(1)	–	–	(3)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	–	–	–	13	–	–	13
Employee share-based compensation expenses	(32)	(5)	–	(11)	(5)	(52)	(105)
Reversal of provision for impairment losses	1	–	–	–	–	–	1

4. Operating Segments (continued)

	As restated 2011						
	Cash Market $m	Derivatives Market $m	Commodities $m	Clearing $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	3,344	855	–	2,519	639	–	7,357
Net investment income	–	250	–	19	–	121	390
Sundry income	–	–	–	108	–	–	108
Revenue and other income	3,344	1,105	–	2,646	639	121	7,855
Operating expenses (excluding depreciation and amortisation)	633	161	–	314	70	555	1,733
Reportable segment EBITDA	2,711	944	–	2,332	569	(434)	6,122
Depreciation and amortisation	(32)	(13)	–	(36)	(3)	(6)	(90)
Reportable segment profit before taxation	2,679	931	–	2,296	566	(440)	6,032
Interest income	–	207	–	21	–	50	278
Interest rebates to Participants	–	(2)	–	–	–	–	(2)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	–	–	–	108	–	–	108
Employee share-based compensation expenses	(20)	(3)	–	(6)	(3)	(29)	(61)
Provision for impairment losses	(1)	–	–	–	(1)	–	(2)

(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, finance costs and other costs not directly related to any of the operating segments) are not allocated to the operating segments and are included as "Corporate Items". Taxation charge/(credit) is not allocated to reportable segments.

(b) Geographical information

(i) Revenue

The Group's revenue from external customers is derived from its operations in the following geographical location:

	2012 $m	2011 $m
Hong Kong (place of domicile)	**6,358**	7,357
United Kingdom	**74**	–
	6,432	7,357

4. Operating Segments (continued)

(b) Geographical information (continued)

(ii) Non-current assets

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Hong Kong (place of domicile)	**1,966**	994
United Kingdom	**18,018**	–
China	**2**	2
	19,986	996

(c) Information about major customers

In 2012 and 2011, 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

	2012 $m	2011 $m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**1,583**	2,010
Derivatives contracts traded on the Derivatives Market	**814**	926
Base metals forward and options contracts traded on the LME	**51**	–
	2,448	2,936

6. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of listing function comprised the following:

	2012				As restated 2011			
	Equity				Equity			
	Main Board $m	GEM $m	CBBCs, DWs & others $m	Total $m	Main Board $m	GEM $m	CBBCs, DWs & others $m	Total $m
Stock Exchange Listing Fees								
Annual listing fees	**444**	**24**	**3**	**471**	418	24	2	444
Initial and subsequent issue listing fees	**92**	**10**	**339**	**441**	112	8	380	500
Other listing fees	**3**	**1**	**–**	**4**	4	1	–	5
Total	**539**	**35**	**342**	**916**	534	33	382	949
Direct costs of listing function	**267**	**76**	**19**	**362**	256	57	18	331
Contribution to Cash Market segment operating results	**272**	**(41)**	**323**	**554**	278	(24)	364	618

Listing fees are 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.

6. Stock Exchange Listing Fees (continued)

The costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting IPOs, enforcing the Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and disseminating information relating to listed companies.

Previously, central costs (mainly costs of support functions that centrally provide services to all of the operating segments and other costs not directly related to any of the operating segments) were allocated as indirect costs of listing function. As a result of the change in the format of management information provided to the chief operating decision-maker, these costs are no longer included as costs of the Listing Function. Comparative figures have been restated to conform to current year's presentation.

7. Other Revenue

	2012 $m	2011 $m
Network, terminal user, dataline and software sub-license fees	**334**	370
Participants' subscription and application fees	**36**	35
Brokerage on direct IPO allotments	**2**	23
Trading booth user fees	**11**	15
Sales of Trading Rights	**19**	20
Hosting services	**8**	–
Commodities stock levies and warehouse listing fees	**10**	–
Miscellaneous revenue	**28**	24
	448	487

8. Net Investment Income

	2012 $m	2011 $m
Interest income from financial assets measured at amortised cost		
– bank deposits	**369**	261
– listed securities	**5**	5
– unlisted securities	**7**	12
Gross interest income	**381**	278
Interest rebates to Participants	**(3)**	(2)
Net interest income	**378**	276
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	**191**	41
– unlisted securities	**179**	83
– exchange differences	**89**	115
	459	239
Net fair value losses on financial liabilities at fair value through profit or loss, held for trading		
– exchange differences	**(99)**	(137)
Gains on disposal of unlisted financial assets measured at amortised cost	**1**	–
Others	**27**	12
Net investment income	**766**	390

9. Sundry Income

In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of $13 million (2011: $108 million) held by HKSN which had remained unclaimed for a period of more than seven years and recognised such dividends as sundry income. The Group has, however, undertaken to honour all claims if adequate proof of entitlement is provided by the beneficial owner claiming the dividends forfeited.

10. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2012 $m	2011 $m
Salaries and other short-term employee benefits	989	899
Employee share-based compensation benefits of Share Award Scheme (note 40)	105	61
Termination benefits	3	–
Retirement benefit costs (note (a)):		
– ORSO Plan	80	69
– MPF Scheme	1	1
	1,178	1,030

(a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under the Occupational Retirement Schemes Ordinance (ORSO) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. 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 contribution, which has been adjusted from $1,000 to $1,250 per month with effect from 1 June 2012). 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 MPF Scheme are held separately from those of the Group and are independently administered.

The Group has also sponsored a defined contribution pension scheme for all employees of the LME Group aged over 25. The Group contributes 15 per cent to 17 per cent of the employee's basic salary to the LME pension scheme. There are no forfeited contributions for the LME pension scheme as the contributions are fully vested to the employees upon payment to the pension scheme. Assets of the LME pension scheme are held separately from those of the Group and are independently administered. The retirement benefit costs incurred by the Group from 6 December 2012 (date of acquisition of the LME Group) to 31 December 2012 were less than $1 million.

11. Information Technology and Computer Maintenance Expenses

	2012 $m	2011 $m
Costs of services and goods:		
– consumed by the Group	**177**	156
– directly consumed by Participants	**122**	146
	299	302

12. Other Operating Expenses

	2012 $m	2011 $m
Insurance	**5**	4
Financial data subscription fees	**9**	6
Custodian and fund management fees	**12**	13
Bank charges	**20**	19
Repair and maintenance expenses	**12**	10
License fees	**19**	19
Communication expenses	**8**	6
Overseas travel expenses	**9**	10
Contribution to Financial Reporting Council	**4**	4
Security expenses	**7**	3
Other miscellaneous expenses	**48**	39
	153	133

13. Operating Profit

	2012 $m	2011 $m
Operating profit is stated after (charging)/crediting:		
Amortisation of intangible assets (note 28(a))	**(24)**	–
Auditor's remuneration		
– statutory audit fees	**(6)**	(4)
– warehouse stock count fees	**(1)**	–
– other non-audit fees	**(3)**	(1)
Depreciation of fixed assets (note 29(a))	**(134)**	(90)
Operating lease rentals		
– land and buildings	**(199)**	(174)
– computer systems and equipment	**(11)**	(7)
Net foreign exchange gains on financial assets and liabilities (excluding financial assets and financial liabilities measured at fair value through profit or loss)	**13**	2
Gain on disposal of fixed assets	**1**	–

14. Costs Relating to Acquisition of LME Group

	2012 $m	2011 $m
Legal and professional fees (note (a))	**129**	–
Others	**9**	–
	138	–

(a) Includes $2 million paid to the auditor for non-audit services.

15. Finance Costs

	2012 $m	2011 $m
Financing related costs for acquisition of LME Group (note (a))	**30**	–
Interest expenses:		
– Bank borrowings not wholly repayable within five years (note 35(a))	**3**	–
– Convertible bonds wholly repayable within five years (note 35(b))	**21**	–
Net foreign exchange losses on financing activities	**1**	–
	55	–

(a) The costs were incurred for the purpose of establishing a banking facility for the acquisition of LME Group. Subsequently, the facility was not used and was cancelled. Accordingly, the costs are charged to profit or loss in 2012.

16. Directors' Emoluments

All Directors, including one Executive Director (the Chief Executive), received emoluments during the years ended 31 December 2012 and 31 December 2011. The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2012 $'000	2011 $'000
Executive Director:		
Salaries and other short-term employee benefits	**7,813**	7,667
Performance bonus	**6,560**	7,524
Retirement benefit costs	**955**	941
	15,328	16,132
Employee share-based compensation benefits (note (a))	**9,247**	6,942
	24,575	23,074
Non-executive Directors:		
Fees	**8,921**	6,219
	33,496	29,293

(a) Employee share-based compensation benefits represent the 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:

	2012 Number of Directors	2011 Number of Directors
$1 – $500,000	**2**	9
$500,001 – $1,000,000	**12**	4
$23,000,001 – $23,500,000	–	1
$24,500,001 – $25,000,000	**1**	–
	15	14

16. 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 2012 and 2011 are set out below:

	2012							
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
C K Chow (note (iii))	957	–	–	–	–	957	–	957
Ronald J Arculli	734	–	–	–	–	734	–	734
Charles X Li	–	7,642	171	6,560	955	15,328	9,247	24,575
Laura M Cha (note (iv))	116	–	–	–	–	116	–	116
Ignatius T C Chan	643	–	–	–	–	643	–	643
Moses M C Cheng (note (iv))	116	–	–	–	–	116	–	116
Timothy G Freshwater (note (iii))	532	–	–	–	–	532	–	532
John B Harrison (note (v))	836	–	–	–	–	836	–	836
Stephen C C Hui	643	–	–	–	–	643	–	643
Bill C P Kwok	757	–	–	–	–	757	–	757
Vincent K H Lee	757	–	–	–	–	757	–	757
Michael T H Lee	643	–	–	–	–	643	–	643
John E Strickland	676	–	–	–	–	676	–	676
John M M Williamson	865	–	–	–	–	865	–	865
Oscar S H Wong	646	–	–	–	–	646	–	646
Total	8,921	7,642	171	6,560	955	24,249	9,247	33,496

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

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 23 April 2012

(iv) Retired on 23 April 2012

(v) Appointment effective 20 April 2011

(vi) Retired on 20 April 2011

17. Five Top-paid Employees

One (2011: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 16. Details of the emoluments of the other four (2011: four) top-paid employees were as follows:

	2012 $'000	2011 $'000
Salaries and other short-term employee benefits	**18,765**	18,463
Performance bonus	**13,700**	11,840
Retirement benefit costs	**2,210**	2,181
	34,675	32,484
Employee share-based compensation benefits (note (a))	**15,243**	11,180
	49,918	43,664

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

(b) The emoluments of these four (2011: four) employees, including share-based compensation benefits, were within the following bands:

	2012 Number of employees	2011 Number of employees
$8,000,001 – $8,500,000	**–**	1
$10,000,001 – $10,500,000	**1**	1
$12,000,001 – $12,500,000	**1**	–
$12,500,001 – $13,000,000	**–**	2
$13,000,001 – $13,500,000	**1**	–
$14,500,001 – $15,000,000	**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.

18. Taxation

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

	2012 $m	2011 $m
Current tax – Hong Kong Profits Tax		
– Provision for the year	**740**	922
Current tax – Overseas Tax		
– Provision for the year	**10**	–
	750	922
Deferred tax (note 37(a))	**11**	17
Taxation charge	**761**	939

(i) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2011: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates.

(ii) The weighted average applicable tax rate was 16.5 per cent (2011: 16.5 per cent).

18. Taxation (continued)

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2012 $m	2011 $m
Profit before taxation	**4,845**	6,032
Tax calculated at domestic tax rates applicable to profits in the respective countries	**798**	995
Income not subject to taxation	**(96)**	(83)
Expenses not deductible for taxation purposes	**44**	5
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**15**	22
Taxation charge	**761**	939

19. Earnings Per Share

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

(a) Basic earnings per share

	2012	As restated 2011
Profit attributable to shareholders ($m)	**4,084**	5,093
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,088,346**	1,081,763
Basic earnings per share ($)	**3.75**	4.71

(b) Diluted earnings per share

	2012	As restated 2011
Profit attributable to shareholders ($m)	**4,084**	5,093
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,088,346**	1,081,763
Effect of employee share options (in '000)	**804**	1,035
Effect of Awarded Shares (in '000)	**1,961**	1,383
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	**1,091,111**	1,084,181
Diluted earnings per share ($)	**3.74**	4.70

(i) The effect of the outstanding convertible bonds (note 35(b)) was not included in the computation of diluted earnings per share for the year ended 31 December 2012 as it was anti-dilutive.

(ii) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount (note 39(a)). The effect of the bonus element of the share placement has been included within the calculation of basic and diluted earnings per share. The effect of the share placement was an increase in the weighted average number of ordinary shares for 2012 and 2011 by 4,589,000 and 4,561,000 respectively.

20. Dividends

	2012 $m	2011 $m
Interim dividend paid:		
$1.85 (2011: $2.16) per share	**2,000**	2,331
Less: Dividend for shares held by Share Award Scheme (note (a))	**(4)**	(4)
	1,996	2,327
Final dividend proposed (note (b)):		
$1.46 (2011: $2.09) per share based on issued share capital at 31 Dec	**1,679**	2,257
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	**(4)**	(5)
	1,675	2,252
	3,671	4,579

(a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEx's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.

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

(c) The 2012 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.

21. Financial Assets

As part of its day to day operations, the Group receives margin deposits and cash collateral from Clearing Participants (note 31) and Participants' contributions to Clearing House Funds (note 34). The Group classifies the corresponding assets into the following funds:

Margin Funds and cash collateral – the Margin Funds and cash collateral are established by cash received or receivable from the Clearing Participants of the three clearing houses (ie, HKSCC, HKCC and SEOCH) to cover their open positions. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

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

Financial assets belonging to the Group and HKEx for its own corporate use are classified as Corporate Funds (note 25).

The Margin Funds and cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents (note 22), financial assets measured at fair value through profit or loss (note 23) and financial assets measured at amortised cost (note 24).

22. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2012 $m	As restated At 31 Dec 2011 $m	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Cash and cash equivalents:				
– Clearing House Funds (note 34)	2,325	835	–	–
– Margin Funds and cash collateral (note 31) (note (a))	27,717	15,046	–	–
	30,042	15,881	–	–
– Corporate Funds (note 25)	4,035	2,340	797	607
	34,077	18,221	797	607

(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.

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

	Group At 31 Dec 2012			
	Clearing House Funds (note 34) $m	Margin Funds and cash collateral (note 31) $m	Corporate Funds (note 25) $m	Total $m
Mandatorily measured at fair value				
Equity securities:				
– listed in Hong Kong	–	–	111	111
– listed outside Hong Kong	–	–	105	105
– unlisted	–	–	292	292
	–	–	508	508
Debt securities:				
– listed in Hong Kong	–	–	193	193
– listed outside Hong Kong	–	–	980	980
– unlisted	–	2,186	622	2,808
	–	2,186	1,795	3,981
Derivative financial instruments:				
– forward foreign exchange contracts (note 53(b))	–	–	3	3
	–	2,186	2,306	4,492
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	–	2,186	2,183	4,369
More than twelve months	–	–	123	123
	–	2,186	2,306	4,492

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

	Group			
	As restated At 31 Dec 2011			
	Clearing House Funds (note 34) $m	Margin Funds and cash collateral (note 31) $m	Corporate Funds (note 25) $m	Total $m
Mandatorily measured at fair value				
Equity securities:				
– listed in Hong Kong	–	–	102	102
– listed outside Hong Kong	–	–	284	284
	–	–	386	386
Debt securities:				
– listed in Hong Kong	–	–	217	217
– listed outside Hong Kong	125	283	1,914	2,322
– unlisted	159	5,982	2,251	8,392
	284	6,265	4,382	10,931
Derivative financial instruments:				
– forward foreign exchange contracts (note 53(b))	–	–	32	32
	284	6,265	4,800	11,349
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	284	6,265	4,620	11,169
More than twelve months	–	–	180	180
	284	6,265	4,800	11,349

(a) Included financial assets maturing after twelve months is $1,796 million (31 December 2011: $1,867 million) attributable to the Margin Funds and cash collateral that could readily be liquidated to meet liquidity requirements of the Funds (note 53(b)).

24. Financial Assets Measured at Amortised Cost

(a) Group

	At 31 Dec 2012			
	Clearing House Funds (note 34) $m	**Margin Funds and cash collateral (note 31) $m**	**Corporate Funds (note 25) $m**	**Total $m**
Unlisted debt securities	**–**	**–**	**94**	**94**
Time deposits with original maturities over three months	**217**	**6,880**	**1,321**	**8,418**
Other financial assets	**–**	**–**	**61**	**61**
	217	**6,880**	**1,476**	**8,573**
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	**217**	**6,880**	**1,345**	**8,442**
More than twelve months	**–**	**–**	**131**	**131**
	217	**6,880**	**1,476**	**8,573**

24. Financial Assets Measured at Amortised Cost (continued)

(a) Group (continued)

	As restated At 31 Dec 2011			
	Clearing House Funds (note 34) $m	Margin Funds and cash collateral (note 31) $m	Corporate Funds (note 25) $m	Total $m
Debt securities:				
– listed outside Hong Kong (note (i))	–	–	245	245
– unlisted	–	–	461	461
	–	–	706	706
Time deposits with original maturities over three months	367	13,274	1,855	15,496
Other financial assets	–	–	49	49
	367	13,274	2,610	16,251
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	367	13,274	2,207	15,848
More than twelve months	–	–	403	403
	367	13,274	2,610	16,251

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

(b) HKEx

	Corporate Funds	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Unlisted debt securities	**6**	14
Time deposits with original maturities over three months	**1,207**	1,472
Other financial assets	**1**	1
	1,214	1,487

(c) The carrying amounts of short-term time deposits approximated their fair values. The fair values of other financial assets maturing after twelve months and debt securities are disclosed in note 53(d)(ii).

25. Corporate Funds

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
The Corporate Funds were invested in the following instruments:				
Cash and cash equivalents (note 22)	**4,035**	2,340	**797**	607
Financial assets measured at fair value through profit or loss (note 23)	**2,306**	4,800	**–**	–
Financial assets measured at amortised cost (note 24)	**1,476**	2,610	**1,214**	1,487
	7,817	9,750	**2,011**	2,094

26. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Receivable from Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	**12,733**	6,482	**–**	–
– transaction levy, stamp duty and fees receivable	**429**	342	**–**	–
– others	**162**	164	**–**	–
Other receivables, prepayments and deposits	**531**	405	**36**	26
Less: Provision for impairment losses of receivables (note (b))	**(159)**	(160)	**–**	–
	13,696	7,233	**36**	26

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

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

	Group	
	2012 $m	2011 $m
At 1 Jan	**160**	158
(Reversal of provision for)/provision for impairment losses of receivables under other operating expenses	**(1)**	2
At 31 Dec	**159**	160

(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.

27. Joint Arrangements

(a) Interest in a joint venture

	Group	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Share of net assets of a joint venture (note (ii))	**97**	–

	HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Investment in unlisted shares, at cost	**100**	–

27. Joint Arrangements (continued)

(a) Interest in a joint venture (continued)

(i) Details of the joint venture at 31 December 2012 were as follows:

Name	Place of business and country of incorporation	Principal activities	Particulars of shares held	% of ownership interest	Measurement method
China Exchanges Services Company Limited (CESC)	Hong Kong	Development of index-linked and equity derivatives products	100,000,000 ordinary shares of $1 each	33.33%	Equity

On 28 June 2012, HKEx, the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) (the three JV investors) entered into a tripartite agreement to establish a joint venture with an aim of developing financial products and related services. On 16 August 2012, CESC, a limited company, was incorporated in Hong Kong for such purpose. CESC is a strategic investment for the Group and it is expected to enhance the competitiveness of Hong Kong, help promote the development of China's capital markets and the internationalisation of the Group.

The three JV investors have an equal shareholding interest in CESC and have joint control over CESC as, under the agreement, unanimous consent is required from all investors for all activities that significantly affect the returns of the arrangement (ie, relevant activities). The joint arrangement also provides the three JV investors with rights to the net assets of CESC. Therefore, CESC is classified as a joint venture of the Group.

CESC is a private company and there is no quoted market price available for its shares.

(ii) Summarised statement of financial position of CESC and reconciliation to the carrying amount of the Group's share of net assets of CESC at 31 December 2012

	Current $m	Non-current $m	Total $m
Assets			
Cash and cash equivalents	294	–	294
Other assets	–	9	9
Total assets	294	9	303
Liabilities			
Accounts payable, accruals, other liabilities and provisions	12	1	13
Total liabilities	12	1	13
Net assets	282	8	290
Carrying amount of the Group's share of net assets of CESC (@33.33%)			97

(iii) Summarised statement of comprehensive income of CESC for the period from 16 August 2012 (date of incorporation) to 31 December 2012

	$m
Operating expenses	10
Loss and total comprehensive income	(10)
Share of loss of CESC (@33.33%)	(3)

27. Joint Arrangements (continued)

(b) Interest in a joint operation

The Group's newly acquired subsidiary, LME, has entered into an agreement with Singapore Exchange Derivatives Trading Limited (SGX) with the objective of trading, clearing and settling LME mini contracts on systems provided by SGX in Singapore since 2010. LME SGX copper, aluminium and zinc futures were launched in 2011.

Assets, liabilities, income and expenditure were apportioned in accordance with the agreement and included in the Group's consolidated financial statements. Net costs to the Group incurred were less than $1 million from 6 December 2012 (date of acquisition of the LME Group) to 31 December 2012.

28. Goodwill and Other Intangible Assets

(a) Group

	Goodwill	Other Intangible Assets			Total
		Tradenames	Customer relationships	Software systems	
	$m	$m	$m	$m	$m
Cost:					
At 1 Jan 2011 and 1 Jan 2012	–	–	–	–	–
Exchange differences	147	10	34	4	195
Acquisition of subsidiaries (note 49)	13,341	902	3,192	351	17,786
Additions	–	–	–	226	226
At 31 Dec 2012	13,488	912	3,226	581	18,207
Accumulated amortisation:					
At 1 Jan 2011 and 1 Jan 2012	–	–	–	–	–
Amortisation	–	–	11	13	24
At 31 Dec 2012	–	–	11	13	24
Net book value:					
At 31 Dec 2012	13,488	912	3,215	568	18,183
At 31 Dec 2011	–	–	–	–	–
Cost of software systems under development:					
At 31 Dec 2012	–	–	–	361	361
At 31 Dec 2011	–	–	–	–	–

Amortisation of $24 million (2011: $Nil) is included in the "depreciation and amortisation" in the consolidated statement of comprehensive income.

Tradenames are regarded to have indefinite useful lives and there is no foreseeable limit to the period over which they are expected to generate cash flows for the Group as it is expected that their value will not be reduced through usage and there are no legal or similar limits on the period for the use of the tradenames.

28. Goodwill and Other Intangible Assets (continued)

(a) Group (continued)

The Group has not yet completed its allocation of goodwill, of $13,488 million, to those cash generating units that are expected to benefit from synergies of combination with the LME Group. During January 2013, the Group announced its Strategic Plan for 2013-2015, which included a re-organisation of the Group's segments/cash generating units and expects the allocation of goodwill to relevant cash generating units to be completed by 31 December 2013.

At 31 December 2012, the Group assessed that no triggering event had occurred since the acquisition date (6 December 2012), which indicated any impairment of the intangible assets or goodwill.

(b) HKEx

	Software systems $m
Cost:	
At 1 Jan 2011 and 1 Jan 2012	–
Additions	**22**
At 31 Dec 2012	**22**
Accumulated amortisation:	
At 1 Jan 2011 and 1 Jan 2012	–
Amortisation	–
At 31 Dec 2012	–
Net book value:	
At 31 Dec 2012	**22**
At 31 Dec 2011	–
Cost of software systems under development:	
At 31 Dec 2012	**22**
At 31 Dec 2011	–

29. Fixed Assets

(a) Group

	Leasehold land in Hong Kong under long term finance lease $m	Leasehold buildings $m	Computer trading and clearing systems $m	Other computer hardware and software $m	Data centre facilities and equipment $m	Leasehold improvements, furniture, equipment and motor vehicles $m	Total $m
Cost:							
At 1 Jan 2011	70	37	1,294	227	–	296	1,924
Additions	–	334	129	65	185	30	743
Disposals	–	–	(13)	(9)	–	(2)	(24)
At 31 Dec 2011	70	371	1,410	283	185	324	2,643
At 1 Jan 2012	**70**	**371**	**1,410**	**283**	**185**	**324**	**2,643**
Exchange differences	**–**	**–**	**–**	**1**	**–**	**–**	**1**
Acquisition of subsidiaries (note 49)	**–**	**–**	**–**	**27**	**–**	**1**	**28**
Additions	**–**	**340**	**29**	**73**	**206**	**223**	**871**
Disposals	**–**	**–**	**(121)**	**(10)**	**–**	**(2)**	**(133)**
At 31 Dec 2012	**70**	**711**	**1,318**	**374**	**391**	**546**	**3,410**
Accumulated depreciation:							
At 1 Jan 2011	10	12	1,146	202	–	259	1,629
Depreciation	1	1	53	10	–	25	90
Disposals	–	–	(13)	(9)	–	(2)	(24)
At 31 Dec 2011	11	13	1,186	203	–	282	1,695
At 1 Jan 2012	**11**	**13**	**1,186**	**203**	**–**	**282**	**1,695**
Depreciation	**–**	**9**	**63**	**28**	**8**	**26**	**134**
Disposals	**–**	**–**	**(87)**	**(5)**	**–**	**(2)**	**(94)**
At 31 Dec 2012	**11**	**22**	**1,162**	**226**	**8**	**306**	**1,735**
Net book value:							
At 31 Dec 2012	**59**	**689**	**156**	**148**	**383**	**240**	**1,675**
At 31 Dec 2011	59	358	224	80	185	42	948
At 1 Jan 2011	60	25	148	25	–	37	295
Cost of fixed assets in the course of construction (including systems under development):							
At 31 Dec 2012	**–**	**1**	**9**	**61**	**1**	**80**	**152**
At 31 Dec 2011	–	355	144	63	185	12	759

29. 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 2011	65	46	111
Additions	19	21	40
Disposals	(2)	(2)	(4)
At 31 Dec 2011	82	65	147
At 1 Jan 2012	**82**	**65**	**147**
Additions	**52**	**148**	**200**
Disposals	**(2)**	**(2)**	**(4)**
At 31 Dec 2012	**132**	**211**	**343**
Accumulated depreciation:			
At 1 Jan 2011	51	31	82
Depreciation	5	9	14
Disposals	(2)	(2)	(4)
At 31 Dec 2011	54	38	92
At 1 Jan 2012	**54**	**38**	**92**
Depreciation	**7**	**13**	**20**
Disposals	**(2)**	**(1)**	**(3)**
At 31 Dec 2012	**59**	**50**	**109**
Net book value:			
At 31 Dec 2012	**73**	**161**	**234**
At 31 Dec 2011	28	27	55
At 1 Jan 2011	14	15	29
Cost of fixed assets in the course of construction (including systems under development):			
At 31 Dec 2012	**58**	**57**	**115**
At 31 Dec 2011	20	3	23

30. Lease Premium for Land

	Group	
	2012	2011
	$m	$m
Net book value at 1 Jan	**25**	25
Amortisation	**(1)**	–
Net book value at 31 Dec	**24**	25

(a) The amount represents a non-Hong Kong Government medium-term lease in Hong Kong.

31. Margin Deposits and Cash Collateral from Clearing Participants

	Group	
		As restated
	At	At
	31 Dec 2012	31 Dec 2011
	$m	$m
Margin deposits and cash collateral from Clearing Participants comprised (notes (a) and 21):		
SEOCH Clearing Participants' margin deposits	**4,125**	5,302
HKCC Clearing Participants' margin deposits	**30,237**	26,057
HKSCC Clearing Participants' margin deposits and cash collateral	**2,424**	3,233
	36,786	34,592
The margin deposits and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds and cash collateral:		
Cash and cash equivalents (note 22)	**27,717**	15,046
Financial assets measured at fair value through profit or loss (note 23)	**2,186**	6,265
Financial assets measured at amortised cost (note 24(a))	**6,880**	13,274
Margin receivable from Clearing Participants	**3**	7
	36,786	34,592

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

32. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Payable to Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	**12,733**	6,482	**–**	–
– others	**1,317**	1,027	**–**	–
Transaction levy payable to the SFC	**80**	66	**–**	–
Unclaimed dividends (note (b))	**215**	208	**133**	118
Stamp duty payable to the Collector of Stamp Revenue	**255**	146	**–**	–
LME Long-Term Incentive Plan payable (note 40(d))	**279**	–	**–**	–
Other payables, accruals and deposits received	**959**	527	**260**	126
	15,838	8,456	**393**	244

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

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSN but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, cash dividends held by HKSN which had remained unclaimed for a period of more than seven years amounting to $13 million (2011: $108 million) were forfeited and recognised as sundry income (note 9) and dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $7 million (2011: $6 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 44).

(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.

33. Other Financial Liabilities

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Financial liabilities of Clearing House Funds (note 34)	**31**	29	**–**	–
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	**6**	11	**–**	–
Financial guarantee contracts (note (b))	**20**	20	**203**	11
	26	31	**203**	11
	57	60	**203**	11

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

	Group	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts (note 53(b))	**6**	11

33. Other Financial Liabilities (continued)

(b) Financial guarantee contracts

(i) Group

The amount represents the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 47(a)(ii).

(ii) HKEx

The amounts represent the carrying value of an undertaking provided by HKEx in favour of HKSCC amounting to $50 million (note 47(b)(i)) and the carrying value of the guarantee provided by HKEx for the convertible bonds issued by HKEx International Limited (note 47(b)(ii)) (2011: carrying value of the undertaking provided by HKEx in favour of HKSCC amounting to $50 million). The amounts were eliminated on consolidation.

34. Clearing House Funds

	Group	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
The Clearing House Funds comprised (note 21):		
Clearing Participants' contributions (note (a))	**1,924**	880
Designated reserves (notes (b) and 42)	**587**	577
	2,511	1,457
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 22)	**2,325**	835
Financial assets measured at fair value through profit or loss (note 23)	**–**	284
Financial assets measured at amortised cost (note 24(a))	**217**	367
	2,542	1,486
Less: Other financial liabilities of Clearing House Funds (note 33)	**(31)**	(29)
	2,511	1,457
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	**228**	226
SEOCH Reserve Fund	**414**	578
HKCC Reserve Fund	**1,869**	653
	2,511	1,457

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

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

35. Borrowings

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Bank borrowings (note (a))	**3,100**	–	**3,100**	–
Convertible bonds (note (b))	**3,515**	–	**–**	–
Total borrowings	**6,615**	–	**3,100**	–

At 31 December 2012, the Group's and HKEx's borrowings were repayable as follows:

	Group				HKEx	
	Bank borrowings		Convertible bonds		Bank borrowings	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
After 1 year but within 2 years	**31**	–	**–**	–	**31**	–
After 2 years but within 5 years	**124**	–	**3,515**	–	**124**	–
After 5 years	**2,945**	–	**–**	–	**2,945**	–
	3,100	–	**3,515**	–	**3,100**	–

(a) Bank borrowings

Bank borrowings mature within 10 years and bear average coupons of 2.2 per cent per annum. The average effective interest rate of the bank borrowings is 2.3 per cent per annum.

(b) Convertible bonds

On 23 October 2012, HKEx issued convertible bonds (the Bonds) in the principal amount of US$500 million (HK$3,875 million). The Bonds pay interest at the rate of 0.50 per cent per annum and mature on 23 October 2017. The redemption value of the Bonds at maturity is 102.56 per cent of their principal amount. At any time between 3 December 2012 and 13 October 2017, the Bonds can be converted into ordinary shares of HKEx at an initial conversion price of HK$160 per share (subject to adjustments) at the option of the holders of the Bonds.

To the extent that the holders of the Bonds have not previously exercised their conversion option, at any time after 7 November 2014, HKEx may, by giving notice to the holders of the Bonds, elect to redeem the Bonds in whole but not in part, if the closing price of HKEx shares for any 20 out of the 30 consecutive trading days immediately prior to the date upon which notice of such redemption is given, was at least 130 per cent of the applicable early redemption amount (translated into HKD at the fixed exchange rate of HK$7.7531 = US$1) divided by the conversion ratio (ie, if the HKEx share price is above the floor price of HK$208 accreting at 0.5 per cent per annum). HKEx also has the option to redeem the outstanding Bonds in whole but not in part if the aggregate principal amount of the Bonds outstanding is less than US$50 million. In addition, HKEx was entitled at its option to redeem the Bonds in whole if The Financial Services Authority of the United Kingdom (FSA) did not approve the acquisition of the LME Group.

HKEx used the proceeds of the Bonds to fund part of the acquisition of the LME Group (note 49).

35. Borrowings (continued)

(b) Convertible bonds (continued)

Prior to the Substitution described below, the Bonds comprised two elements and were accounted for as follows:

- The debt element of HK$3,521 million was treated as a financial liability and measured at amortised cost and interest expense was recognised in profit or loss using the effective interest method.

- The share conversion option element of HK$354 million was treated as a derivative liability with subsequent changes in fair value being recognised in profit or loss.

With effect from 17 December 2012, HKEx has substituted in its place HKEx International Limited, a wholly-owned subsidiary of HKEx whose functional currency is United States dollars (USD), as the issuer and the principal obligor under the Bonds (the Substitution); all payments due under the Bonds will be unconditionally and irrevocably guaranteed by HKEx and HKEx remains obliged to issue and deliver HKEx shares on conversion of the Bonds. Following the Substitution and upon receipt of FSA approval for the acquisition of the LME Group, both the number of HKEx shares and the amount of cash that would be exchanged upon conversion of the Bonds became fixed. Accordingly, the share conversion option element of the Bonds was remeasured at its fair value on that date and was transferred from derivative liability to the convertible bond reserve under equity in the consolidated financial statements of the Group and will not be revalued thereafter. In the HKEx's financial statements, the amount included in the convertible bond reserve represents commitment by HKEx to issue shares upon conversion.

The movements of the liability component and derivative component of the Bonds for the year since issuance are set out below:

	Group		
	Liability component $m	**Derivative component $m**	**Total $m**
Issuance of the Bonds	**3,521**	**354**	**3,875**
Transaction costs of the Bonds	(27)	–	(27)
Interest expenses (notes (i) and 15)	21	–	21
Changes in fair value recognised in profit or loss during the period from issuance to Substitution (note (ii))	–	55	55
Transfer to convertible bond reserve	–	(409)	(409)
At 31 Dec 2012	**3,515**	–	**3,515**

35. Borrowings (continued)

(b) Convertible bonds (continued)

	HKEx		
	Liability component $m	Derivative component $m	Total $m
Issuance of the Bonds	3,521	354	3,875
Transaction costs of the Bonds	(27)	–	(27)
Interest expenses (note (i))	16	–	16
Changes in fair value recognised in profit or loss during the period from issuance to Substitution (note (ii))	–	55	55
Transfer to a subsidiary	(3,510)	–	(3,510)
Transfer to convertible bond reserve	–	(409)	(409)
At 31 Dec 2012	–	–	–

(i) The effective interest rate of the liability component is 3.1 per cent per annum.

(ii) The changes in fair value of the derivative component were included in "fair value loss on derivative component of convertible bonds" in the consolidated statement of comprehensive income.

36. Provisions

(a) Group

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2012	29	33	62
Acquisition of subsidiaries (note 49)	–	1	1
Provision for the year	19	57	76
Amount used during the year	–	(47)	(47)
Amount paid during the year	–	(3)	(3)
At 31 Dec 2012	48	41	89

(b) HKEx

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2012	1	33	34
Provision for the year	1	57	58
Amount used during the year	–	(47)	(47)
Amount paid during the year	–	(3)	(3)
At 31 Dec 2012	2	40	42

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

37. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method.

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

	Group		HKEx	
	2012 $m	2011 $m	**2012 $m**	2011 $m
At 1 Jan	**32**	15	**(1)**	(2)
Exchange differences	**10**	–	**–**	–
Acquisition of subsidiaries (note 49)	**983**	–	**–**	–
Charged to profit or loss (note 18(a))	**11**	17	**14**	1
At 31 Dec (note (d))	**1,036**	32	**13**	(1)

(b) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $431 million at 31 December 2012 (31 December 2011: $449 million) that may be carried forward for offsetting against future taxable income indefinitely.

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

	Group											
	Accelerated tax depreciation		Intangible assets		Financial assets		Tax losses		Employee benefits		Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
At 1 Jan	**49**	24	**–**	–	**–**	–	**(12)**	(4)	**(5)**	(5)	**32**	15
Exchange differences	**–**	–	**10**	–	**–**	–	**–**	–	**–**	–	**10**	–
Acquisition of subsidiaries (note 49)	**(10)**	–	**942**	–	**59**	–	**(8)**	–	**–**	–	**983**	–
Charged/(credited) to profit or loss	**43**	25	**(3)**	–	**–**	–	**(28)**	(8)	**(1)**	–	**11**	17
At 31 Dec	**82**	49	**949**	–	**59**	–	**(48)**	(12)	**(6)**	(5)	**1,036**	32

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
At 1 Jan	**4**	3	**(5)**	(5)	**(1)**	(2)
Charged/(credited) to profit or loss	**15**	1	**(1)**	–	**14**	1
At 31 Dec	**19**	4	**(6)**	(5)	**13**	(1)

37. Deferred Taxation (continued)

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

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Net deferred tax assets	**(20)**	(1)	**–**	(1)
Net deferred tax liabilities	**1,056**	33	**13**	–
	1,036	32	**13**	(1)

(e) The analysis of deferred tax liabilities/(assets) is as follows:

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Deferred tax liabilities				
Amounts to be recovered or settled after more than 12 months	**997**	33	**19**	–
Amounts to be recovered or settled within 12 months	**59**	–	**(6)**	–
	1,056	33	**13**	–

At 31 December 2012 and 31 December 2011, the deferred tax assets were expected to be recovered after more than twelve months.

38. Investments in and Amounts Due from/to Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Investments in unlisted shares, at cost	**4,146**	4,146
Adjustment to carrying value (note (i))	**(2,303)**	(2,303)
	1,843	1,843
Capital contribution to a subsidiary (note (ii))	**2,797**	–
Financial guarantees granted to subsidiaries (note 33(b)(ii))	**203**	11
	4,843	1,854

(i) In 2011, the directors of HKEx's subsidiaries resolved that the subsidiaries would pay substantially all of their annual profits to HKEx prior to the date of their statement of financial position. The subsidiaries had in aggregate retained earnings amounting to $2,303 million prior to the merger in 2000 and the directors therefore consider that, following the implementation of the new dividend policy by HKEx's subsidiaries, HKEx's investments in its subsidiaries should be reduced by an amount of $2,303 million.

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

(a) Investments in subsidiaries (continued)

(ii) In 2012, HKEx advanced an interest-free loan of US$1,586 million (HK$12,290 million) to a subsidiary, HKEx Investment (UK) Limited. The loan is unsecured and repayable in 2017. The fair value of the loan at initial recognition was $9,493 million and was determined as the present value of all future cash receipts discounted using prevailing market interest rate for a loan with similar credit rating and maturity. The difference of $2,797 million between the loan amount and the fair value of the loan was accounted for as a capital contribution to the subsidiary and included in the investments in subsidiaries.

(b) Amounts due from/to subsidiaries

The amounts due from/to subsidiaries under current assets and current liabilities are unsecured and repayable on demand. The amounts are interest-free during 2012 and 2011.

The amounts due from subsidiaries at 31 December 2012 under non-current assets represent loans to a subsidiary, HKEx Investment (UK) Limited, for the acquisition of the LME Group. The loans are unsecured and repayable in 2017. Part of the balance amounting to US$700 million (HK$5,426 million) is interest bearing at an average interest rate of 5.0 per cent per annum, and the remaining balance is interest-free.

The amounts due to subsidiaries at 31 December 2012 under non-current liabilities represent a loan from a subsidiary, HKEx International Limited, which is unsecured and repayable in 2017. The balance is interest bearing at 0.6 per cent per annum.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2012:

Company	Place of business/ incorporation	Issued and fully paid up share/ registered capital	Principal activities	Interest held by the Group
Direct subsidiaries:				
The Stock Exchange of Hong Kong Limited	Hong Kong	"A" shares $929	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Hong Kong	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Hong Kong	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%
OTC Clearing Hong Kong Limited	Hong Kong	$1	Operates a clearing house for over-the-counter derivatives	100%
HKEx Hosting Services Limited (formerly known as The Stock Exchange Nominee Limited) (note (i))	Hong Kong	$2	Provision of hosting services	100%
HKEx Property Limited	Hong Kong	Ordinary $2	Property holding	100%
HKEx International Limited	Hong Kong	$1	Investment holding	100%
HKEx (China) Limited	Hong Kong	$2	Promotes HKEx products and services	100%

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

(c) Particulars of subsidiaries (continued)

Company	Place of business/ incorporation	Issued and fully paid up share/ registered capital	Principal activities	Interest held by the Group
Indirect subsidiaries:				
The SEHK Options Clearing House Limited	Hong Kong	Ordinary $1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange in Hong Kong	100%
HKEx Information Services Limited	Hong Kong	$100	Sales of market data	100%
The Stock Exchange Club Limited	Hong Kong	$8	Property holding	100%
HKFE Clearing Corporation Limited	Hong Kong	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKSCC Nominees Limited	Hong Kong	$20	Act as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited	Hong Kong	$2	Conversion agency services	100%
HKEx Investment (UK) Limited (formerly known as Alnery No. 3032 Limited)	United Kingdom	Ordinary £1	Investment holding	100%
LME Holdings Limited	United Kingdom	Ordinary £1,290,000	Investment holding	100%
The London Metal Exchange (formerly The London Metal Exchange Limited) (note (ii))	United Kingdom	Ordinary £100	Operates an exchange for the trading of base metals forward and options contracts	100%
LME Clear Limited	United Kingdom	Ordinary £1	Development of a platform for clearing contracts traded on LME	100%
Ganghui Financial Information Services (Shanghai) Limited	China	US$770,000	Operates a market data hub in China	100%

(i) On 26 March 2012, The Stock Exchange Nominee Limited, a dormant subsidiary held by the Stock Exchange, was renamed as HKEx Hosting Services Limited. On 2 April 2012, all of the shares of HKEx Hosting Services Limited were transferred to HKEx at a consideration of $2. There is no financial impact to the Group on the share transfer.

(ii) On 13 December 2012, The London Metal Exchange Limited was converted from a limited company by guarantee without any share capital to an unlimited company.

(iii) Significant restrictions

Cash and saving deposits are held by a subsidiary in China and are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2012 was $6 million (31 December 2011: $Nil).

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

(d) Controlled special purpose entity

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

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust)	Purchases, administers and holds HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 40(c))

As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEx shares for the Share Award Scheme (note 40(c)), HKEx has the power to direct the relevant activities of the HKEx Employee Share Trust and it has the ability to use its power over the HKEx Employee Share Trust to affect its exposure to returns. Therefore, the assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

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

	HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $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 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (b))	470	–	8	–	8
Shares issued in lieu of cash dividends (note (c))	1,298	2	213	(7)	208
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 40)	–	–	2	–	2
Shares purchased for Share Award Scheme (note (d))	(628)	–	–	(80)	(80)
Vesting of shares of Share Award Scheme (note (e))	94	–	–	10	10
At 31 Dec 2011	1,077,670	1,080	639	(296)	1,423
At 1 Jan 2012	**1,077,670**	**1,080**	**639**	**(296)**	**1,423**
Shares issued upon placement of shares (note (a))	**65,705**	**66**	**7,642**	**–**	**7,708**
Shares issued upon exercise of employee share options (note (b))	**122**	**–**	**2**	**–**	**2**
Shares issued in lieu of cash dividends (note (c))	**4,004**	**4**	**447**	**(9)**	**442**
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 40)	**–**	**–**	**1**	**–**	**1**
Shares purchased for Share Award Scheme (note (d))	**(738)**	**–**	**–**	**(93)**	**(93)**
Vesting of shares of Share Award Scheme (note (e))	**645**	**–**	**–**	**93**	**93**
At 31 Dec 2012	**1,147,408**	**1,150**	**8,731**	**(305)**	**9,576**

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

(a) On 7 December 2012, 65,705,000 HKEx shares were issued at $118.00 each to third party independent professional and institutional investors and the Hong Kong Government at a total consideration of $7,753 million. The price for each share represented a discount of 5.4 per cent to the market price of HKEx shares of $124.80 on 29 November 2012, the date on which the terms of the issue were fixed. The related transaction costs amounting to $45 million have been netted off against the proceeds. The net proceeds were used to fund part of the consideration for the acquisition of the LME Group (note 49).

(b) During the year, employee share options granted under the share option schemes were exercised to subscribe for 121,500 shares (2011: 469,900 shares) in HKEx at a consideration of $2 million (2011: $8 million), of which less than $1 million (2011: less than $1 million) was credited to share capital and $2 million (2011: $8 million) was credited to the share premium account.

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

	2012					
	Number of shares	Scrip price $	Share capital $m	Share premium $m	Shares held for Share Award Scheme $m	Total $m
Issued as 2011 final scrip dividends:						
– total	860,935	124.46	1	106	–	107
– to Share Award Scheme	(37,053)	124.46	–	–	(5)	(5)
Issued as 2012 interim scrip dividends:						
– total	3,214,012	106.98	3	341	–	344
– to Share Award Scheme	(33,597)	106.98	–	–	(4)	(4)
	4,004,297		4	447	(9)	442

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

(d) During the year, the Share Award Scheme (note 40(c)) acquired 737,800 HKEx shares (2011: 627,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was $93 million (2011: $80 million).

(e) During the year, the Share Award Scheme transferred 644,763 HKEx shares (2011: 94,421 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 $93 million (2011: $10 million).

40. Employee Share-based Arrangements

The movements of employee share-based compensation reserve were as follows:

	Group and HKEx	
	2012 **$m**	2011 $m
At 1 Jan	**106**	56
Employee share-based compensation benefits (note 10)	**105**	61
Transfer to share premium upon exercise of employee share options (note 39)	**(1)**	(2)
Vesting of shares of Share Award Scheme	**(88)**	(9)
At 31 Dec	**122**	106

(a) The Group operates a share option scheme (HKEx Share Option Scheme) and a share award scheme (HKEx Share Award Scheme) as part of the benefits to its employees in Hong Kong. The LME Group also operates a long-term incentive plan for its employees in the United Kingdom (LME Long-Term Incentive Plan).

(b) HKEx Share Option Scheme

(i) Under the terms of the HKEx Post-Listing Share Option Scheme (HKEx Post-Listing Scheme), share options were granted to employees during the period from May 2003 to January 2005 respectively. The share options 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 for the HKEx Post-Listing Scheme are exercisable up to 10 years after the grant date.

The estimated fair value of share options granted was 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 were 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.

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Option Scheme (continued)

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

	2012		2011	
	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
HKEx Post-Listing Scheme				
Outstanding at 1 Jan	**18.28**	**985**	18.28	1,455
Exercised	**17.88**	**(122)**	18.29	(470)
Outstanding at 31 Dec	**18.33**	**863**	18.28	985

At 31 December 2012, all outstanding options (31 December 2011: all) were vested and exercisable at a weighted average exercise price of $18.33 per share (31 December 2011: $18.28 per share).

Options exercised in 2012 resulted in 121,500 shares (2011: 469,900 shares) being issued at a weighted price of $17.88 per share (2011: $18.29 per share). The weighted average closing share price on the dates on which the options were exercised was $117.02 (2011: $161.06) per share.

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

	At 31 Dec 2012		At 31 Dec 2011	
	Remaining contractual life	**Number of shares issuable under options granted '000**	Remaining contractual life	Number of shares issuable under options granted '000
Exercise price				
$16.96	**1.24 years**	**309**	2.24 years	382
$15.91	**1.37 years**	**25**	2.37 years	25
$19.25	**2.07 years**	**529**	3.07 years	578
	1.75 years	**863**	2.73 years	985

40. Employee Share-based Arrangements (continued)

(c) HKEx Share Award Scheme

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

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

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

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

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

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

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

40. Employee Share-based Arrangements (continued)

(c) HKEx Share Award Scheme (continued)

(i) (continued)

Details of the Awarded Shares awarded during 2011 and 2012 are set out below:

Date of approval by Board	Date of award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 [1,2]	124.75	14 Dec 2013 – 14 Dec 2014
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	2 May 2014 – 2 May 2015
14 Dec 2011	5 Sept 2012	975	8,900	8,900	109.00	7 Jul 2014 – 7 Jul 2015
3 Dec 2012	31 Dec 2012	102,398	707,200	810,245 [1,2]	126.71	3 Dec 2014 – 3 Dec 2015

[1] 70,495 and 70,556 shares were awarded to the Chief Executive of HKEx on 30 December 2011 and 31 December 2012 respectively.

[2] 344,706 and 103,116 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 30 December 2011 and 31 December 2012 respectively.

Details of the Awarded Shares vested during 2011 and 2012 are as follows:

		2012		2011	
Date of award	**Average fair value per share $**	**Number of Awarded Shares vested**	**Cost of related Awarded Shares $m**	Number of Awarded Shares vested	Cost of related Awarded Shares $m
15 Jan 2007	72.28	**–**	**–**	40,220	3
17 Jul 2007	102.29	**1,375**	**<1**	1,375	< 1
4 Feb 2008	163.72	**25,688**	**4**	25,961	5
3 Feb 2009	81.96	**14,975**	**1**	14,975	1
10 Jun 2010	123.29	**308,250** [3]	**38**	–	–
9 Jul 2010	121.88	**3,450**	**1**	–	–
31 Dec 2010	176.75	**238,900** [4]	**42**	–	–
30 Dec 2011	124.75	**11,524**	**2**	–	–
		604,162	**88**	82,531	9

[3] 36,608 of the shares vested were for the Chief Executive of HKEx

[4] 20,428 of the shares vested were for the Chief Executive of HKEx

40. Employee Share-based Arrangements (continued)

(c) HKEx Share Award Scheme (continued)

(i) (continued)

During the year, 70,650 HKEx shares (2011: 46,895 shares) were issued to the Scheme in lieu of cash dividends at a total consideration of $9 million (2011: $7 million), of which 67,723 shares (2011: 38,052 shares) were subsequently allocated to awardees.

During the year, 40,601 dividend shares (2011: 11,890 shares), including 3,503 shares (2011: Nil) for the Chief Executive of HKEx, at a cost of $5 million (2011: $1 million) were vested and transferred to the employees at nil consideration.

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

	2012	2011
	Number of Awarded Shares and dividend shares	Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	**2,211,716**	1,416,002
Awarded [1]	**840,845**	972,337
Forfeited	**(89,455)**	(115,998)
Vested	**(604,162)**	(82,531)
Dividend shares:		
– allocated to awardees	**67,723**	38,052
– allocated to awardees but subsequently forfeited	**(2,877)**	(4,256)
– vested	**(40,601)**	(11,890)
Outstanding at 31 Dec	**2,383,189**	2,211,716

[1] Average fair value per share was $126.19 (2011: $126.13)

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

	At 31 Dec 2012		At 31 Dec 2011	
	Remaining vesting period	**Number of Awarded Shares and dividend shares outstanding**	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2007	**NA**	**–**	0.47 year	1,375
2008	**NA**	**–**	0.95 year	26,059
2009	**0.00 year to 1.00 year**	**29,950**	0.00 year to 2.00 years	44,925
2010	**0.37 year to 0.95 year**	**535,130**	0.37 year to 1.95 years	1,116,294
2011	**0.04 year to 1.95 years**	**911,393**	1.04 years to 2.95 years	972,337
2012	**1.01 years to 2.92 years**	**831,745**	N/A	–
Dividend shares	**0.00 year to 2.33 years**	**74,971**	0.00 year to 2.55 years	50,726
		2,383,189		2,211,716

(iv) At 31 December 2012, 16,665 forfeited or unallocated shares (31 December 2011: 24,451 shares) were held by the Scheme and would be regranted to eligible employees in future.

40. Employee Share-based Arrangements (continued)

(d) LME Long-Term Incentive Plan

The LME Long-Term Incentive Plan was set up by the LME Group to provide its chief executive and other selected employees with an entitlement, in the form of share options, to a receipt of cash when the options are exercised, calculated by reference to the unit value price of notional LMEH shares over the exercise price of the options. The unit value price is determined by the Remuneration Committee of the LME Group. At the date of acquisition of the LME Group (6 December 2012) and 31 December 2012, the unit value price was determined to be £73.90, which was calculated using a formula with reference to the consideration paid by HKEx to acquire the LME Group.

The options vest in tranches of 25 per cent over four years and vesting is conditional on continuing employment of the awardees. The options outstanding at the date of acquisition was as follows:

	Average exercise price per share £	Number of notional shares '000
Outstanding at the date of acquisition	7.18	294

One member of the LME Long-Term Incentive Plan exercised options to the value of £10,000 in the period from 6 December 2012 to 31 December 2012.

At the date of acquisition and 31 December 2012, all outstanding options were vested and exercisable at a weighted average exercise price of £7.18 per share with a remaining contractual life of 8 months from 31 December 2012. The liability (including social security contributions payable) at 31 December 2012 was $279 million (2011: $Nil) and was included in accounts payable, accruals and other liabilities (note 32).

41. Hedging Reserve

	Group	
	2012 $m	2011 $m
At 1 Jan	**–**	–
Cash flow hedges:		
– net fair value gains of hedging instruments	**93**	–
– net gains reclassified to goodwill as basis adjustment at acquisition (note 49)	**(93)**	–
At 31 Dec	**–**	–

During the year ended 31 December 2012, the Group entered into several forward foreign exchange contracts and certain bank deposits to purchase British Pounds Sterling (GBP) totalling £1,368 million. These forward foreign exchange contracts and bank deposits were designated as cash flow hedges for hedging the foreign exchange risks of the consideration for the acquisition of the LME Group.

The net fair value gains of the forward foreign exchange contracts and bank deposits of $93 million were initially deferred in hedging reserve and included as part of the consideration for the acquisition completed on 6 December 2012. No ineffective portion arose from the cash flow hedges during the year ended 31 December 2012.

42. Designated Reserves

Clearing House Funds reserves (note 34(b))

	Group			
	HKSCC Guarantee Fund reserve $m	SEOCH Reserve Fund reserve $m	HKCC Reserve Fund reserve $m	Total $m
At 1 Jan 2011	125	111	344	580
Deficit of net investment income net of expenses of Clearing House Funds transferred to retained earnings (note 44)	(2)	(1)	–	(3)
At 31 Dec 2011	123	110	344	577
At 1 Jan 2012	**123**	**110**	**344**	**577**
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings (note 44)	**1**	**1**	**8**	**10**
At 31 Dec 2012	**124**	**111**	**352**	**587**

43. Merger Reserve

	HKEx	
	2012 $m	2011 $m
At 1 Jan	**694**	2,997
Transfer to retained earnings (note 44)	**–**	(2,303)
At 31 Dec	**694**	694

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

As a result of the adjustment to the carrying value of the cost of investments of the subsidiaries in 2011 (note 38(a)(i)), $2,303 million of the merger reserve became realised and hence distributable in accordance with Accounting Bulletin 4: Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance issued by the HKICPA and was transferred to retained earnings during the year end 31 December 2011.

44. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2012 **$m**	2011 $m	**2012** **$m**	2011 $m
At 1 Jan	**7,053**	6,766	**6,581**	1,416
Profit attributable to shareholders (note (a))	**4,084**	5,093	**5,168**	7,671
Transfer (to)/from Clearing House Funds reserves (note 42)	**(10)**	3	**–**	–
Transfer from merger reserve (note 43)	**–**	–	**–**	2,303
Dividends:				
2011/2010 final dividend	**(2,252)**	(2,487)	**(2,252)**	(2,487)
2012/2011 interim dividend	**(1,996)**	(2,327)	**(1,996)**	(2,327)
Unclaimed HKEx dividends forfeited (note 32(b))	**7**	6	**7**	6
Vesting of shares of Share Award Scheme	**(5)**	(1)	**(5)**	(1)
At 31 Dec	**6,881**	7,053	**7,503**	6,581
Representing:				
Retained earnings	**5,206**	4,801	**5,828**	4,329
Proposed dividend	**1,675**	2,252	**1,675**	2,252
At 31 Dec	**6,881**	7,053	**7,503**	6,581

(a) Profit attributable to shareholders included a profit of $5,168 million, which included $4,926 million of dividends from subsidiaries (2011: profit of $7,671 million, which included $9,920 million of dividends from subsidiaries and a reduction in carrying value of investments in subsidiaries of $2,303 million), and has been dealt with in the financial statements of HKEx, the holding company of the Group.

45. Notes to the Consolidated Statement of Cash Flows

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

	2012 $m	As restated 2011 $m
Profit before taxation	**4,845**	6,032
Adjustments for:		
Net interest income	**(378)**	(276)
Dividend income	**(12)**	(10)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	**(360)**	(102)
Fair value loss on derivative component of convertible bonds	**55**	–
Transaction costs on issuance of convertible bonds allocated to the derivative component	**3**	–
Gains on disposal of financial assets measured at amortised cost of Corporate Funds	**(1)**	–
Forfeiture of unclaimed cash dividends held by HKSN	**(13)**	(108)
Finance costs	**55**	–
Depreciation and amortisation	**158**	90
Employee share-based compensation benefits	**105**	61
Gain on disposal of fixed assets	**(1)**	–
(Reversal of provision for)/provision for impairment losses of receivables	**(1)**	2
Share of loss of a joint venture	**3**	–
Changes in provisions	**7**	5
Net increase in financial assets of Margin Funds and cash collateral	**(2,152)**	(8,379)
Net increase in financial liabilities of Margin Funds and cash collateral	**2,194**	8,296
Net (increase)/decrease in Clearing House Fund financial assets	**(1,051)**	1,151
Net increase/(decrease) in Clearing House Fund financial liabilities	**1,046**	(1,155)
Net decrease/(increase) in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	**1,804**	(104)
(Increase)/decrease in accounts receivable, prepayments and deposits	**(6,263)**	1,972
Increase/(decrease) in other current liabilities	**6,835**	(1,613)
Net cash inflow from operations	**6,878**	5,862
Dividends received	**13**	9
Interest received from bank deposits	**369**	261
Interest received from financial assets measured at fair value through profit or loss	**106**	123
Interest paid to Participants	**(3)**	(2)
Income tax paid	**(872)**	(980)
Net cash inflow from operating activities	**6,491**	5,273

46. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Contracted but not provided for:				
– fixed assets	**78**	729	**–**	1
– intangible assets	**125**	–	**2**	–
Authorised but not contracted for:				
– fixed assets	**358**	876	**67**	109
– intangible assets	**271**	–	**32**	–
	832	1,605	**101**	110

The Group's capital expenditure commitments were mainly related to the relocation of the primary data centres to the new Data Centre at Tseung Kwan O, the development of Hosting Services, a new market data system, a clearing system for OTC derivatives and commodities, and a Central Gateway for the Cash Market, the upgrade and enhancement of the Derivatives Market trading and clearing system.

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

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Land and buildings				
– within one year	**216**	117	**2**	4
– in the second to fifth years	**232**	209	**1**	3
	448	326	**3**	7
Computer systems, software and equipment				
– within one year	**9**	7	**6**	4
– in the second to fifth years	**49**	–	**49**	–
– after the fifth year	**11**	–	**11**	–
	69	7	**66**	4
	517	333	**69**	11

At 31 December 2012 and 31 December 2011, in respect of computer systems, software and equipment, the Group did not have any purchase options.

46. Commitments (continued)

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

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

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

47. Contingent Liabilities

At 31 December 2012, 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 2011: $71 million). Up to 31 December 2012, 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 33(b)(i)). In the unlikely event that all of its 511 trading Participants covered by the indemnity at 31 December 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to $102 million (31 December 2011: $100 million).

(b) HKEx

(i) HKEx had given an undertaking in favour of HKSCC to contribute up to $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up (note 33(b)(ii)).

(ii) The convertible bonds issued by HKEx International Limited are irrevocably and unconditionally guaranteed by HKEx (notes 33(b)(ii) and 35(b)).

(iii) HKEx had issued two guarantees to two banks in respect of banking facilities granted to three wholly-owned subsidiaries amounting to $7,000 million (31 December 2011: $4,000 million). At 31 December 2012 and 31 December 2011, the banking facilities had not been drawn down.

48. Future Operating Lease Receipts

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

	Group	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Trading booths and related facilities		
– within one year	**11**	11
– in the second to fifth years	**10**	21
Total	**21**	32

49. Business Combination

On 6 December 2012, the Group completed the acquisition of the entire issued ordinary share capital of LMEH for a total cash consideration of £1,388 million ($17,298 million). The LME Group operates an exchange for the trading of base metals forward and options contracts in the United Kingdom.

The acquisition offers an opportunity for the Group to develop as a global horizontally and vertically integrated exchange group beyond equities. The addition of a strong commodities component to the Group's existing businesses through the acquisition is expected to support and enhance the Group's growth prospects while diversifying its earnings base thereby enhancing value mainly from the significant opportunities for revenue synergies.

The goodwill arising from the acquisition is attributable to diversity of earnings through new customers and introduction of new products in the future, buyer specific synergies in relation to the potential future value of expanding the LME business in China by leveraging HKEx's resources, infrastructure and network in China, and the benefit of skills and technical talents of the acquired work force. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the LME Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	$m
Cash and cash equivalents	**451**
Financial assets measured at fair value through profit or loss	**289**
Accounts receivable, prepayments and deposits	**216**
Intangible assets (note 28(a))	**4,445**
Fixed assets (note 29(a))	**28**
Deferred revenue	**(5)**
Taxation payable	**(38)**
Provisions (note 36(a))	**(1)**
Accounts payable, accruals and other liabilities	**(538)**
Net deferred tax liabilities (note 37(a))	**(983)**
Total identifiable net assets	**3,864**
Goodwill (note 28(a))	**13,341**
Total	**17,205**
Total consideration satisfied by cash	**17,298**
Less: net gains on cash flow hedges reclassified from hedging reserve (note 41)	**(93)**
Total	**17,205**
Net cash outflow in respect of the acquisition of the LME Group	**16,754**

49. Business Combination (continued)

Acquisition-related costs were disclosed as "Costs relating to acquisition of LME Group" (note 14) in the consolidated statement of comprehensive income for the year ended 31 December 2012.

The accounts receivables, prepayment and deposits acquired included accounts receivables of $189 million, which represented their gross contractual amount and fair value. No accounts receivable is expected to be uncollectible.

At the date of acquisition, the share capital of LMEH includes 1,365,000 "B" shares with a nominal value of £0.01 each which do not carry any voting rights, nor any rights to participate in any dividends. Trading rights are attached to the "B" shares. On winding up, "B" shareholders would only be entitled to receive, in priority to the ordinary shareholders, the nominal value of the capital paid up on each "B" share they held. Since LMEH is required to repay the "B" shareholders in cash only in the event of LMEH's liquidation, such "B" shares (less than $1 million) are included in non-controlling interests in equity of the Group's consolidated statement of financial position.

The total revenue included in the consolidated statement of comprehensive income from its date of acquisition (ie, 6 December 2012) to 31 December 2012 contributed by the LME Group was $74 million. The LME Group also contributed net profit of $19 million over the same period.

Had the LME Group been consolidated from 1 January 2012, the HKEx Group's pro-forma revenue, EBITDA and profit attributable to shareholders would have been $7,332 million, $5,093 million and $3,601 million, respectively. These amounts have been calculated by adopting the Group's accounting policies. In determining these amounts, it is assumed that the fair value adjustments that arose on the acquisition date would have been the same had the acquisition occurred on 1 January 2012. The pro-forma amounts also include the depreciation and amortisation of the acquired fixed assets and intangible assets and finance costs on the borrowings as a result of the acquisition.

50. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

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

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

(b) Material related party transactions

In addition to the above and those disclosed elsewhere in these consolidated financial statements, 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	
	2012 $m	2011 $m
Dividend income	**4,926**	9,920
Management fees and equipment rental fees charged	**671**	588
Interest income (note 38(b))	**37**	–
Expenses recharged	**1,178**	1,023
Interest expenses (note 38(b))	**3**	–

(ii) Transactions with a joint venture

	Group and HKEx	
	2012 $m	2011 $m
Management fee charged	**1**	–

(iii) Key management personnel compensation

	Group		HKEx	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Salaries and other short-term employee benefits	**94**	84	**74**	70
Employee share-based compensation benefits	**31**	26	**25**	21
Retirement benefit costs	**6**	6	**5**	5
	131	116	**104**	96

(iv) Balances with related parties

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Amounts due from subsidiaries (note 38(b))	**–**	–	**20,320**	5,123
Amounts due to subsidiaries (note 38(b))	**–**	–	**(5,496)**	(39)
Amount due from a joint venture	**7**	–	**7**	–
Financial guarantee granted to HKSCC (maximum amount guaranteed) (notes 47(b)(i))	**–**	–	**50**	50
Financial guarantee for convertible bonds issued by HKEx International Limited (maximum amount guaranteed with accrued interest up to 31 Dec) (note 47(b)(ii))	**–**	–	**3,896**	–

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

(b) Material related party transactions (continued)

(v) Post-retirement benefit plans

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

The retirement benefit costs charged to the consolidated statement of comprehensive income represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME pension fund and related fees. The contributions payable to the respective post-retirement benefit plans at 31 December were as follows:

	Group		HKEx	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
ORSO Plan	**–**	–	**–**	–
MPF Scheme	**<1**	<1	**<1**	<1
LME pension fund	**1**	–	**–**	–
	1	<1	**<1**	<1

(vi) 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.

51. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2012 and 31 December 2011.

52. Capital Management

The Group's objectives when managing capital are:

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the expected capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. At 31 December 2012, the Group had set aside $4,000 million (31 December 2011: $4,000 million) of shareholders' funds for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

52. Capital Management (continued)

In prior years, the Group had no borrowings and it monitored capital by reviewing the level of capital that was 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 and HKEx at 31 December 2011 was $8,582 million and $8,804 million respectively.

After the acquisition of the LME Group, the Group monitors capital on the basis of its gearing ratio. The ratio is calculated as net debt divided by adjusted capital. For this purpose, the Group defines net debt as bank loans and convertible bonds (total borrowings) less cash and cash equivalents of Corporate Funds. The Group's strategy is to maintain the gearing ratio at less than 50 per cent.

	Group	HKEx
	At 31 Dec 2012 $m	At 31 Dec 2012 $m
Total borrowings	6,615	3,100
Less: cash and cash equivalents of Corporate Funds	(4,035)	(797)
Net debt	2,580	2,303
Total equity	17,764	18,304
Less: designated reserves	(587)	–
Adjusted capital	17,177	18,304
Gearing ratio	15%	13%

53. 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 financial assets and financial liabilities (including borrowings).

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

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

Investment and fund management by HKEx and the Group's subsidiaries in Hong Kong 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.

53. Financial Risk Management (continued)

(a) Market risk management (continued)

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

The LME Group, the Group's newly acquired subsidiaries in the United Kingdom, has its own financial risk management policies approved by the Board of LMEH. The LME Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The policies will be reviewed in the next twelve months to align with the overall objectives of the Group.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the entity to which the transactions relate) will fluctuate because of changes in foreign exchange rates. In June 2012, the Group made an offer to acquire the LME Group at a consideration of £1,388 million. The Group designated certain forward foreign exchange contracts and bank deposits as cash flow hedges for hedging the foreign exchange risks of the consideration (note 41). In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have also been used to hedge the currency exposure of the Group's non-HKD securities and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the HKEx Investment Policy, Restrictions and Guidelines, 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 Renminbi (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.

The Group's non-HKD borrowings by the Hong Kong entities are denominated in USD, which is pegged against HKD, and therefore are not subject to significant foreign currency risks.

The LME Group is exposed to foreign exchange risk arising from various currency exposures (mainly USD and Euro). Its risk management policy in the normal course of events is to convert non-GBP currencies into GBP as soon as deemed appropriate. Forward foreign exchange contracts may be used to hedge the currency exposure of the USD portion of LME Group's revenue against GBP.

53. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

The following table details the Group's and HKEx's financial assets and financial liabilities denominated in a currency other than the functional currency of the entity to which they relate and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (economic hedges)) at 31 December presented in HKD equivalents.

		Group		
		At 31 Dec 2012		
	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	1,672	(1,668)	4
	GBP	535	–	535
	JPY	90	(90)	–
	NZD	2	–	2
	RMB	101	(68)	33
	SGD	2	–	2
	USD	281	(19)	262
Financial assets measured at fair value through profit or loss[1,2]	AUD	243	(236)	7
	CAD	53	(16)	37
	CHF	6	–	6
	EUR	360	(40)	320
	GBP	101	(95)	6
	JPY	27	(17)	10
	NZD	51	(45)	6
	RMB	229	(59)	170
	SGD	30	–	30
	USD	1,468	(230)	1,238
Financial assets measured at amortised cost	RMB	1	–	1
Accounts receivable and deposits	GBP	10	–	10
	RMB	169	–	169
	USD	88	–	88
Margin deposits and cash collateral from Clearing Participants[1]	EUR	(1,668)	1,668	–
	JPY	(90)	90	–
	RMB	(68)	68	–
	USD	(19)	19	–
Accounts payable, accruals and other liabilities	GBP	(67)	–	(67)
	RMB	(171)	–	(171)
	USD	(78)	–	(78)
Borrowings	USD	(3,100)	–	(3,100)
Total net open positions for the Group	AUD			8
	CAD			38
	CHF			6
	EUR			324
	GBP			484
	JPY			10
	NZD			8
	RMB			202
	SGD			32
	USD			1,590
				2,702

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.

53. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

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

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

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

53. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

	Foreign currency	HKEx Gross and net open position At 31 Dec 2012 $m	At 31 Dec 2011 $m
Financial assets/(financial liabilities)			
Cash and cash equivalents	GBP	**24**	–
	RMB	**3**	4
	USD	**16**	–
Financial assets measured at amortised cost	RMB	**1**	1
Accounts receivable and deposits	GBP	**10**	–
	RMB	**1**	1
	USD	**5**	–
Amounts due from subsidiaries	USD	**15,081**	–
Accounts payable and other liabilities	GBP	**(67)**	–
	RMB	**(2)**	(4)
	USD	**(18)**	(25)
Amounts due to subsidiaries	USD	**(3,294)**	–
Borrowings	USD	**(3,100)**	–
Total net open positions for HKEx	GBP	**33**	–
	RMB	**3**	2
	USD	**8,690**	25
		8,726	27

(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 in Hong Kong. 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 also exposed to equity price risk on its subsidiary's investment in an unlisted company (note 3(d)).

The Group was also exposed to equity price risk arising from changes in HKEx's own share price to the extent that HKEx's own equity instruments underline the fair values of derivatives of the Group. During 2012, the Group was exposed to this risk from 23 October 2012 to 17 December 2012 through the conversion rights attached to the convertible bonds issued by HKEx (note 35(b)).

The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

53. Financial Risk Management (continued)

(a) Market risk management (continued)

(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 (including borrowings) which are interest-bearing. The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

The contractual interest rates of the Group's and HKEx's borrowings and HKEx's loans from/to subsidiaries are disclosed in notes 35 and 38 to the consolidated financial statements respectively.

The following tables present the highest and lowest contractual interest rates of the financial assets held by the Group and HKEx (excluding loans from/to subsidiaries, bank deposits held at savings and current accounts and zero coupon bonds purchased at discounts) at 31 December:

Fixed rate financial assets

	Group		HKEx	
	At 31 Dec 2012	At 31 Dec 2011	**At 31 Dec 2012**	At 31 Dec 2011
Highest contractual interest rates	**8.00%**	11.25%	**3.00%**	2.19%
Lowest contractual interest rates	**0.01%**	0.01%	**0.21%**	1.00%

Floating rate financial assets

	Group		HKEx	
	At 31 Dec 2012	At 31 Dec 2011	**At 31 Dec 2012**	At 31 Dec 2011
Highest contractual interest rates	**3.75%**	4.38%	**–**	–
Lowest contractual interest rates	**0.55%**	0.53%	**–**	–

53. Financial Risk Management (continued)

(a) Market risk management (continued)

(iv) Risk management techniques

Value-at-Risk (VaR) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group, as well as individual limit for each fund under management (Clearing House Funds, Margin Funds and cash collateral and Corporate Funds).

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

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

	Group		**HKEx**	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m	**At 31 Dec 2012 $m**	At 31 Dec 2011 $m
Foreign exchange risk	**12**	8	**8**	< 1
Equity price risk	**8**	22	**–**	–
Interest rate risk	**36**	16	**16**	< 1
Total VaR	**35**	26	**16**	< 1

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

(b) Liquidity risk management

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

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

53. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

Surplus cash of the Group in Hong Kong 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 LME Group also employed prudent liquidity risk management which involves maintaining sufficient cash to meet ongoing operational commitments and adhere to the regulatory requirements to maintain liquid assets amounting to at least six months' operating costs.

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

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

	Group					
	At 31 Dec 2012					
	Up to 1 month[1] $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	>5 years $m	Total $m
Cash and cash equivalents	34,077	–	–	–	–	34,077
Financial assets measured at fair value through profit or loss	4,200	–	169	123	–	4,492
Financial assets measured at amortised cost	8,512	–	–	56	5	8,573
Accounts receivable and deposits [2]	13,609	33	2	–	–	13,644
	60,398	33	171	179	5	60,786

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

1 Amounts included $1,866 million (31 December 2011: $2,401 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 $52 million (31 December 2011: $45 million).

53. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx				
	At 31 Dec 2012				
	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	797	–	–	–	797
Financial assets measured at amortised cost	1,213	–	–	1	1,214
Accounts receivable and deposits[4]	15	–	–	–	15
Amounts due from subsidiaries	5,371	–	6	14,943	20,320
	7,396	–	6	14,944	22,346

	HKEx				
	At 31 Dec 2011				
	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	607	–	–	–	607
Financial assets measured at amortised cost	1,486	–	–	1	1,487
Amounts due from subsidiaries	5,123	–	–	–	5,123
	7,216	–	–	1	7,217

[3] Amounts included $Nil (31 December 2011: $6 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 $21 million.

In December 2012, HKEx drew down a bank loan of US$400 million (HK$3,099 million) to fund the acquisition of the LME Group (note 35(a)).

In addition, banking facilities have been put in place for contingency purposes. At 31 December 2012, the Group's total available banking facilities for its daily operations amounted to $16,010 million (31 December 2011: $13,010 million), which included $7,000 million (31 December 2011: $4,000 million) of committed banking facilities that provide for same day borrowing in HKD and/or RMB and $9,000 million (31 December 2011: $9,000 million) of repurchase facilities.

The Group also put in place foreign exchange facilities for the RMB Equity Trading Support Facility to support the trading of RMB stocks. At 31 December 2012, the amount of such facilities was RMB17,000 million (31 December 2011: RMB Nil).

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. The amounts disclosed in the table are the contractual undiscounted cash flows.

53. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group At 31 Dec 2012					
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	>5 years $m	Total $m
Margin deposits and cash collateral from Clearing Participants	36,786	–	–	–	–	36,786
Accounts payable, accruals and other liabilities [5]	15,474	228	114	–	–	15,816
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	28	–	3	–	–	31
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 47(a)(ii))	102	–	–	–	–	102
Participants' contributions to Clearing House Funds	1,420	457	47	–	–	1,924
Borrowings:						
Bank borrowings	6	11	52	429	3,143	3,641
Convertible bonds	–	–	19	4,053	–	4,072
	53,816	696	235	4,482	3,143	62,372

	Group As restated At 31 Dec 2011					
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	>5 years $m	Total $m
Margin deposits and cash collateral from Clearing Participants	34,592	–	–	–	–	34,592
Accounts payable, accruals and other liabilities	8,343	2	111	–	–	8,456
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	26	3	–	–	–	29
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 47(a)(ii))	100	–	–	–	–	100
Participants' contributions to Clearing House Funds	394	440	46	–	–	880
	43,455	445	157	–	–	44,057

5 Amounts excluded non-financial liabilities of $22 million.

53. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx At 31 Dec 2012					
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	>5 years $m	Total $m
Accounts payable, accruals and other liabilities	383	3	7	–	–	393
Amounts due to subsidiaries	2,202	–	19	3,590	–	5,811
Other financial liabilities:						
Other financial liabilities of Corporate Funds:						
Financial guarantee granted to HKSCC (maximum amount guaranteed) (note 47(b)(i))	50	–	–	–	–	50
Financial guarantee for convertible bonds issued by HKEx International Limited (maximum amount with accrued interest up to guaranteed 31 Dec) (note 47(b)(ii))	3,896	–	–	–	–	3,896
Borrowings:						
Bank borrowings	6	11	52	429	3,143	3,641
	6,537	14	78	4,019	3,143	13,791

	HKEx At 31 Dec 2011					
	Up to 1 month $m	>1 month to 3 months $m	>3 months to 1 year $m	>1 year to 5 years $m	>5 years $m	Total $m
Accounts payable, accruals and other liabilities	237	2	5	–	–	244
Amounts due to subsidiaries	39	–	–	–	–	39
Other financial liabilities:						
Other financial liabilities of Corporate Funds:						
Financial guarantee granted to HKSCC (maximum amount guaranteed) (note 47(b)(i))	50	–	–	–	–	50
	326	2	5	–	–	333

At 31 December 2012, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $1,114 million (31 December 2011: $5,180 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.

53. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group					
	At 31 Dec 2012			At 31 Dec 2011		
	Up to 1 month $m	>1 month to 3 months $m	Total $m	Up to 1 month $m	>1 month to 3 months $m	Total $m
Forward foreign exchange contracts						
– outflows	928	186	1,114	3,614	1,545	5,159
– inflows	925	186	1,111	3,624	1,556	5,180

(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 2012, the investment in debt securities for Margin Funds and cash collateral, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa3 (Moody) (31 December 2011: Aa3 (Moody)). Deposits in Hong Kong are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty (except certain Hong Kong note-issuing banks). The LME Group's cash and deposit balance are held only with banks with a minimum rating of F1 (Fitch), and the LME Group's only significant concentration risk is with the banks. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

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

53. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management

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

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. At 31 December 2012, bank guarantees of $1,426 million (31 December 2011: $1,643 million) were accepted for such purpose.

Under the HKSCC Margining and Guarantee Fund arrangements effective in 2012, each HKSCC Clearing Participant is allowed by HKSCC a Margin Credit of $5 million and a Dynamic Contribution Credit of $1 million. If a Clearing Participant defaults and any loss arises, HKSCC will absorb the default loss up to the Margin Credit and Dynamic Contribution Credit utilised by the defaulting Clearing Participant, after deducting its collateral and Guarantee Fund contribution kept by HKSCC. After the initial losses, HKSCC is required to absorb further losses after the HKSCC Guarantee Fund reserve and the Guarantee Fund contribution (excluding the Dynamic Contribution portion) of non-defaulting Clearing Participants are depleted. The amount of losses borne by HKSCC will be calculated on a pro rata basis with reference to the non-defaulting Clearing Participants' Dynamic Contributions and Dynamic Contribution Credits granted by HKSCC. At 31 December 2012, HKSCC has 502 Clearing Participants and the total amounts of Margin Credit and Dynamic Contribution Credit granted to Clearing Participants amounted to $592 million (2011: $Nil). The Margin Fund Credit and Dynamic Contribution Credit are supported by the $4 billion of shareholders' funds set aside by the HKEx Group for risk management purpose.

Following the HKEx Clearing House Risk Management Reform effective in 2012, the HKCC Contingent Advance Capital was introduced through which HKCC shares 50 per cent of the daily Participants' Additional Deposits collectible from Clearing Participants. In case of default, the HKCC Contingent Advance Capital would be utilised only after utilisation of the defaulting Clearing Participants' margin and all available resources of the HKCC Reserve Fund (including but not limited to the defaulting Clearing Participants' Reserve Fund contributions, HKCC Reserve Fund reserve and the non-defaulting Clearing Participants' Reserve Fund contribution) as temporary funding. The non-defaulting Clearing Participants will be responsible for sharing the loss of the defaulting participant and replenishing the HKCC Contingent Advance Capital after utilisation. The HKCC Contingent Advance Capital is supported by the $4 billion of shareholders' funds set aside by the HKEx Group for risk management purpose.

53. 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 was as follows:

	Group			
	At 31 Dec 2012		At 31 Dec 2011	
	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 47(a)(ii))	**(20)**	**102**	(20)	100

	HKEx			
	At 31 Dec 2012		At 31 Dec 2011	
	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 contracts				
Financial guarantee granted to HKSCC (note 47(b)(i))	**(11)**	**50**	(11)	50
Financial guarantee granted to HKEx International Limited (note 47(b)(ii))	**(192)**	**3,896**	–	–

(iv) Collateral held for mitigating credit risk

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

	Group			
	At 31 Dec 2012		At 31 Dec 2011	
	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	**13,644**	**1,784**	7,188	2,011

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

53. Financial Risk Management (continued)

(c) Credit risk management (continued)

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

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

	Group	
	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Up to six months	**330**	351

No financial assets of HKEx were past due at 31 December 2012 and 31 December 2011.

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

At 31 December 2012, receivables of the Group amounting to $159 million (31 December 2011: $160 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(u)(vi).

No financial assets of HKEx were impaired at 31 December 2012 and 31 December 2011.

(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 2012, the amount of doubtful deferred revenue amounted to $94 million (31 December 2011: $79 million).

At 31 December 2012 and 31 December 2011, HKEx did not have any doubtful deferred revenue.

53. Financial Risk Management (continued)

(d) Fair values of assets and liabilities

(i) Assets and liabilities carried at fair value

The following tables present the carrying value of assets and liabilities measured at fair value at 31 December according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and 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 assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 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 2012			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Recurring fair value measurements: Assets				
Financial assets measured at fair value through profit or loss:				
– equity securities	216	–	292	508
– debt securities	–	3,981	–	3,981
– forward foreign exchange contracts	3	–	–	3
	219	3,981	292	4,492
Recurring fair value measurements: Liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
– forward foreign exchange contracts	6	–	–	6
	6	–	–	6

53. Financial Risk Management (continued)

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

(i) Assets and liabilities carried at fair value (continued)

	Group			
	At 31 Dec 2011			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Recurring fair value measurements: Assets				
Financial assets measured at fair value through profit or loss:				
– equity securities	386	–	–	386
– debt securities	–	10,931	–	10,931
– forward foreign exchange contracts	32	–	–	32
	418	10,931	–	11,349
Recurring fair value measurements: Liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
– forward foreign exchange contracts	11	–	–	11
	11	–	–	11

During 2011, no financial assets or financial liabilities were classified under Level 3. During 2012 and 2011, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input is market interest rates.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At 31 December 2012, no non-financial assets or liabilities were carried at fair value.

53. Financial Risk Management (continued)

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

(i) Assets and liabilities carried at fair value (continued)

Fair value measurements using significant unobservable inputs (Level 3)

	Group Investment in an unlisted company $m
At 1 Jan 2012	–
Addition through acquisition of subsidiaries	289
Exchange differences	3
At 31 Dec 2012	292
Total gains for the year included in profit or loss for assets held at 31 Dec 2012	–
Change in unrealised gains for the year included in profit or loss for assets held at 31 Dec 2012	–

	Group and HKEx Conversion option classified as derivative $m
At 1 Jan 2012	–
Issue of convertible bonds	354
Fair value loss recognised in profit or loss (note 35(b)(ii))	55
Transfer to convertible bond reserve	(409)
At 31 Dec 2012	–

Information about fair value measurements using significant unobservable inputs (Level 3)

Group

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation $m
Investment in shares in an unlisted company (Fair value at 31 Dec 2012 was $292 million)	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	+72/-53
	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-49/+67
	Dilution effect of capital raise to comply with expected changes in regulatory capital	25% to 35%	The higher the dilution, the lower the fair value;	+/-5%	-22/+22
	Discount for value attributable to a minority stake	10% to 20%	The higher the discount, the lower the fair value.	+/-5%	-17/+17

53. Financial Risk Management (continued)

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

(i) Assets and liabilities carried at fair value (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) (continued)

As the unlisted investment held by a subsidiary is not traded in an active market, its fair value has been determined using discounted cash flow valuation techniques. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimate of weighted average cost of capital (WACC), the effect of expected changes in regulation and an adjustment for the value of the investment attributable to a minority stake.

(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. These assets and liabilities were classified under Level 2 in the fair value hierarchy. The carrying amounts of bank borrowing with floating interest rates, short-term receivables (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	At 31 Dec 2012		At 31 Dec 2011	
	Carrying amount in consolidated statement of financial position $m	Fair value $m	Carrying amount in consolidated statement of financial position $m	Fair value $m
Assets				
Financial assets measured at amortised cost:				
– debt securities [1]	94	94	706	710
– other financial assets maturing over one year [2]	61	58	49	48
Liabilities				
Borrowings:				
– liability component of convertible bonds [3]	3,515	3,723	–	–
Financial guarantee to the collector of Stamp Revenue [4]	20	102	20	86

53. Financial Risk Management (continued)

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

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

	HKEx			
	At 31 Dec 2012		At 31 Dec 2011	
	Carrying amount in statement of financial position $m	**Fair value $m**	Carrying amount in statement of financial position $m	Fair value $m
Assets				
Financial assets measured at amortised cost:				
– debt securities [1]	**6**	**6**	14	14
– other financial assets maturing over one year [2]	**1**	**1**	1	1
Amounts due from subsidiaries under non-current assets [3]	**14,943**	**14,943**	–	–
Liabilities				
Amounts due to subsidiaries under non-current liabilities [3]	**3,294**	**3,294**	–	–
Financial guarantee in favour of HKSCC [4]	**11**	**50**	11	43
Financial guarantee for convertible bonds issued by HKEx International Limited [5]	**192**	**192**	–	–

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 0.81 per cent to 1.51 per cent at 31 December 2012 (31 December 2011: 0.83 per cent to 1.13 per cent).

3 The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 1.88 per cent to 5.30 per cent at 31 December 2012.

4 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 used was 0.59 per cent at 31 December 2012 (31 December 2011: 1.46 per cent).

5 The fair value is based on the total fees charged by financial institutions for guaranteeing the debts discounted using a five-year United States Government bond rate. The discount rate used was 0.72 per cent at 31 December 2012.

GLOSSARY

2012 AGM	Annual general meeting held on 23 April 2012 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2013 AGM	Annual general meeting to be held on 24 April 2013
AGM(s)	HKEx's annual general meeting(s)
AHFT	After-hours futures trading
AMS	The Automatic Order Matching and Execution System
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
BSS	The Broker Supplied System
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCMS	The Common Collateral Management System
CESC	China Exchanges Services Company Limited
CNH	RMB traded in Hong Kong
CNS	Continuous Net Settlement
Corporate Governance Code and Corporate Governance Report	Refers to Appendix 14 to the Main Board Listing Rules
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DW(s)	Derivative Warrant(s)
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
GFIS	Ganghui Financial Information Services (Shanghai) Limited
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKIoD	The Hong Kong Institute of Directors

HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute)
HKSN	HKSCC Nominees Limited
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
INED(s)	Independent Non-executive Director(s) of HKEx
IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IV(s)	Information Vendor(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange (formerly known as The London Metal Exchange Limited)
LME Clear	LME Clear Limited
LME Group	LMEH and its subsidiaries
LMEH	LME Holdings Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	The Market Datafeed
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU(s)	Memorandum(s) of Understanding
OCG	HKEx Orion Central Gateway
OMD	HKEx Orion Market Data Platform
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
OTP	HKEx Orion Trading Platform
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
PRC	People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	HKEx's Register of Members
RQFII	RMB Qualified Foreign Institutional Investor
SDNet	The Securities and Derivatives Network
Senior Management	HKEx's senior executives, and the list of Senior Management as at the date of this Annual Report is set out on pages 34 to 36 of this Annual Report
SEOCH	The SEHK Options Clearing House Limited

SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
TKO Data Centre	New Data Centre at Tseung Kwan O
TSF	RMB Equity Trading Support Facility
UK	United Kingdom
US	United States of America
US$/USD	United States dollar
$/HKD	Hong Kong dollar
$bn/bn	Hong Kong dollar in billion/billion
$m/m	Hong Kong dollar in million/million
£	Pound sterling

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