



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

Quarterly Report 2012

For the three months ended 31 March

CONTENTS

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

	Page
Financial Highlights	2
Chairman's Statement	3
Chief Executive's Review	5
Board and Committees	7
Management Discussion and Analysis	
– Business Review	10
– Financial Review	20
– Operational Review	27
Disclosure of Interests	31
Condensed Consolidated Financial Statements (Unaudited)	
– Condensed Consolidated Statement of Comprehensive Income (Unaudited)	33
– Condensed Consolidated Statement of Financial Position (Unaudited)	34
– Condensed Consolidated Statement of Changes in Equity (Unaudited)	35
– Condensed Consolidated Statement of Cash Flows (Unaudited)	36
– Notes to the Condensed Consolidated Financial Statements (Unaudited)	37
Glossary	56

FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	63.2	75.9	(17%)
Average daily number of derivatives contracts traded on the Futures Exchange	255,110	246,687	3%
Average daily number of stock options contracts traded on the Stock Exchange	238,445	299,477	(20%)

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
RESULTS			
Revenue and other income	1,875	1,907	(2%)
Operating expenses	532	442	20%
Profit before taxation	1,343	1,465	(8%)
Taxation	(195)	(227)	(14%)
Profit attributable to shareholders	1,148	1,238	(7%)
Basic earnings per share	\$1.07	\$1.15	(7%)
Diluted earnings per share	\$1.06	\$1.15	(8%)

	At 31 Mar 2012	At 31 Dec 2011	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	10,335	9,159	13%
Total assets ¹ (\$m)	54,198	54,028	0%
Net assets per share ² (\$)	9.59	8.50	13%

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,077,704,090 shares as at 31 March 2012, being 1,079,910,640 shares issued and fully paid less 2,206,550 shares held for the Share Award Scheme (31 December 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)

CHAIRMAN'S STATEMENT

It is my pleasure to deliver my first Chairman's statement. I am honoured to have been appointed to the Board and have the privilege to be elected by my fellow Board members as the Chairman. I would like to take this opportunity to pay special tribute to the Honourable Mr Ronald Arculli, who had provided sterling leadership to the Board with great foresight and unwavering dedication, and steered HKEx to new heights in the past 6 years. I will use my best endeavours to ensure HKEx continues to observe its public obligations and delivers value to its Shareholders.

The global economic and political uncertainties persisted in the first quarter of 2012, and investors' confidence remained subdued. Hong Kong, as an international financial centre, could not abscond from the whirlpool of instability. Over the three-month period, the average daily turnover value in the Cash Market and the average daily number of contracts traded in the Derivatives Market decreased by 17 per cent and 10 per cent respectively year-on-year. The Group's profit attributable to Shareholders for the quarter was \$1.1 billion, a drop of 7 per cent compared with the corresponding period of last year.

The unclear economic and geopolitical backdrop will continue to raise challenges and cast shadows over the remainder of 2012. Nevertheless, HKEx will remain focused on executing the various initiatives under the 2010-2012 Strategic Plan.

I am pleased to note that significant progress was made in the 5 months after the BRICS Exchanges Alliance was formed in October last year as cross-listing of benchmark equity index derivatives on the 5 alliance members' trading platforms took effect on 30 March 2012. This move not only gives our investors greater exposure to the emerging and increasingly important BRICS economies, but also enables overseas investors to trade our HSI and H-shares Index futures, the turnover leaders in our futures market.

On the infrastructure front, we are developing the HKEx Orion, a cohesive programme of technology initiatives to progressively transform our core trading platforms in stages over the next 3 years. Our Hosting Services and new market data system, two of the programme's key initiatives, are well underway.

While continuing to promote market development, we have also been making much headway in strengthening our clearing house risk management framework. We are grateful for the broad market support to our reform measures. HKEx's success depends on the steadfast support and involvement of our market participants. Only through constructive and ongoing engagement with our stakeholders can we position ourselves globally to stay competitive and achieve sustainable growth.

To ensure that our markets continue to be highly attractive to local, regional, and international investors, we always strive to safeguard investors' interest by attaching great importance to our listed issuers' corporate governance. Thanks to the concerted efforts of our issuers and other market participants, revisions to our Listing Rules and the CG Code were introduced early this year to enhance our market's corporate governance standards.

It is our aim to be one of the most caring and socially responsible stock exchanges in the world, and we have been actively taking steps to instil a caring culture among our listed issuers by proposing our Environmental, Social and Governance Reporting Guide. We are reviewing the market views on making ESG reporting a recommended best practice.

The above initiatives, together with many others reported in the Chief Executive's Review and Business Review, including our new Data Centre in Tseung Kwan O, which is on schedule for operation this year, will further reinforce HKEx's position as a leading international exchange.

On behalf of the Board, I would like to take this opportunity to express sincere appreciation to the Honourable Mrs Laura Cha and Dr Moses Cheng for their invaluable contributions to HKEx during their tenure as Directors. Their unfailing support and dedication to the Board contributed in no small measure to HKEx's development and success in the past 6 years.

I am delighted that the Honourable Mr Ronald Arculli, together with Messrs Ignatius Chan and John Williamson continue to serve on the Board. I look forward to working closely with them and all other Directors, including Mr Timothy Freshwater, who has rejoined the Board. With the support and counsel of my fellow Directors, I have no doubt that HKEx will continue to build on its existing strengths to grasp the opportunities and face the challenges arising from the ever-changing global financial landscape.

While 2012 is critical to the implementation of our current three-year strategic plan, I am confident that with the strong commitment of our employees, we can make further progress in executing our various initiatives. I will be collaborating with the whole management team to create sustainable value for our Shareholders and other stakeholders as we move forward.

CHOW Chung Kong

Chairman

Hong Kong, 7 May 2012

CHIEF EXECUTIVE'S REVIEW

In the first quarter of 2012, we made tangible progress on various fronts and have achieved a number of key milestones in cross-market collaboration and platform infrastructure upgrade. I would like to provide here a review of our business during the period.

Market Performance

In the first quarter of 2012, 18 companies were newly listed on the Stock Exchange, raising a total of \$9.8 billion. They included an international company from Canada, with funds raised of \$4.5 billion.

In the secondary market, the average daily turnover value was \$63.2 billion, a 7 per cent increase from the fourth quarter of 2011. Average daily turnover of futures and index options were 255,110 contracts; average daily turnover of stock options were 238,445 contracts, down 6 per cent and 16 per cent respectively from the previous quarter.

Cross-market Collaboration

On 30 March 2012, BM&FBOVESPA from Brazil, Open Joint Stock Company MICEX-RTS from Russia, BSE Limited from India, HKEx as the initial China representative, and JSE Limited from South Africa implemented the first phase of their BRICS Exchanges Alliance by cross-listing their benchmark equity index derivatives on the boards of each of the other alliance members.

Although we expect a slow ramp up of trading in the new products initially, we believe the cross-listings were a big step for the BRICS Exchanges Alliance and will pave the way for more collaboration to expand alliance members' product offerings overseas, including developing new equity index-related products representing the BRICS economies. To facilitate trading, we have appointed 3 liquidity providers for the BRICS futures contracts in our derivatives market.

Platform Infrastructure Upgrade

Our strategy to enhance our platform infrastructure continued to proceed as planned in the first quarter of 2012. In March, we launched the HKEx Orion, a transformative programme of technology initiatives that will elevate Hong Kong's position on the world's financial stage. The programme involves initiatives that are being implemented under our Strategic Plan 2010-2012, such as the new Data Centre in Tseung Kwan O Industrial Estate and Hosting Services, as well as initiatives to be implemented in stages over the next 3 years, such as connectivity networks and systems providing order matching, market data dissemination, and market access services for our Participants. Total investment for the HKEx Orion is approximately \$3 billion.

Two of our ongoing projects under the HKEx Orion, Data Centre and Hosting Services, have reached key milestones in the first quarter of 2012. For the new Data Centre, construction of a data hall and associated electrical and mechanical facilities for our enterprise data centre has been completed. The rest of the construction is on track and will be completed in the second half of 2012. For Hosting Services, 22 organisations joined our first Founding Members Programme and will set up their service offerings in advance of the official launch.

On 29 March 2012, we announced our choice of NYSE Technologies' Exchange Data Publisher (XDP)[™] to drive the HKEx Orion Market Data Platform, which will deliver market data for all products traded in our markets in a common message format, and will further reduce the latency of our data distribution. The Orion Market Data Platform will be rolled out for our securities market towards the end of the second quarter of 2013, with a remote distribution hub in the Mainland and integration with our derivatives market to follow.

Market Structure Reform

The second phase of the new trading hours for our markets has been implemented smoothly since 5 March 2012. The new trading hours are aimed at aligning the opening of our securities market with that of the Mainland market and further increasing the overall competitiveness of Hong Kong.

We also published consultation conclusions on our proposed clearing house risk management reform measures in March after receiving overwhelming support. The proposed reform measures aim at significantly improving our risk management capabilities through substantially enhanced margin collection and much stronger guarantee and reserve funds. We expect to implement our plan in the third quarter of 2012.

Reform of any kind has never been easy. We appreciate the market's support for the above reforms even though they may result in inconvenience, increased costs, or both in some cases. We look forward to working with various stakeholders on future initiatives to lead Hong Kong's markets to new horizons.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 7 May 2012

BOARD AND COMMITTEES

Board

Independent Non-executive Chairman

CHOW Chung Kong * ¹ (Chairman)
Ronald Joseph ARCULLI * ² GBM, GBS, JP (ex-Chairman)

Executive Director, Chief Executive

LI Xiaojia, Charles

Independent Non-executive Directors

Ronald Joseph ARCULLI * ² GBM, GBS, JP
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 *
John Estmond STRICKLAND GBS, JP
John Mackay McCulloch WILLIAMSON ⁴
WONG Sai Hung, Oscar

Committees

Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius ⁶
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON ⁶

Environmental, Social and Governance Committee

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ⁸ (ex-Chairman)
CHA May-Lung, Laura ³
John Barrie HARRISON
LEE Tze Hau, Michael
LI Xiaojia, Charles

Executive Committee

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON ⁶

Committees (continued)

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 ⁹ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
CHAN Tze Ching, Ignatius ⁶
CHENG Mo Chi, Moses ³
Timothy George FRESHWATER ⁹
John Estmond STRICKLAND
WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius ⁹ (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 ⁹ (Chairman)
Ronald Joseph ARCULLI ⁸ (ex-Chairman)
CHA May-Lung, Laura ³
CHENG Mo Chi, Moses ³
Timothy George FRESHWATER ⁹
John Barrie HARRISON
John Mackay McCulloch WILLIAMSON ⁶

Risk Management Committee ^Δ

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
CHAN Ngai Hang **
HE Guangbei ** ¹⁰
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond ** ¹¹
LEE Tze Hau, Michael
LIU Swee Long, Michael **
LUI Kei Kwong, Keith ** ¹²

Company Secretary

MAU Kam Shing, Joseph

Notes:

- | | | |
|---|---|---|
| * Government Appointed Director | 4 Re-elected on 23 April 2012 | 10 Appointment effective 20 January 2012 |
| ** Appointed by the Financial Secretary | 5 Appointment effective 23 April 2012 | by virtue of being the Chairman of |
| Δ Established under Section 65 of the SFO | 6 Re-appointment effective 24 April 2012 | Hong Kong Interbank Clearing Limited |
| 1 Appointed as Director effective | 7 Appointment effective 27 April 2012 | 11 By virtue of being the HKMA's Executive |
| 23 April 2012 and as Chairman effective | by virtue of being HKEx's Chairman | Director (Monetary Management) effective |
| 27 April 2012 | 8 Ceased chairmanship effective 23 April | 20 January 2012 (formerly ad personam) |
| 2 Ceased chairmanship and re-appointed | 2012 and re-appointed as member effective | 12 By virtue of being the SFC's Executive |
| as Director effective 23 April 2012 | 24 April 2012 | Director (Supervision of Markets) effective |
| 3 Retired on 23 April 2012 | 9 Appointment effective 24 April 2012 | 20 January 2012 (formerly ad personam) |

Board of Directors

On 10 April 2012, the Government announced the appointment of Sir C K Chow and Mr Timothy Freshwater as Directors each 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 AGM to be held in 2013. 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 each for a term of approximately 3 years from 23 April 2012 until the conclusion of the AGM to be held in 2015.

Pursuant to Article 111(2) of HKEx's Articles of Association, Mr Arculli who has served as HKEx's Chairman for 6 consecutive years is ineligible for re-appointment and his chairmanship ceased after the conclusion of the 2012 AGM. The Board on 24 April 2012 appointed Sir C K as HKEx's Chairman for a term to be coterminous with his directorship, and the Chief Executive of the HKSAR approved his appointment which took effect on 27 April 2012.

Committees

The Financial Secretary appointed the HKMA's Executive Director (Monetary Management), the SFC's Executive Director (Supervision of Markets), and the Chairman of Hong Kong Interbank Clearing Limited, namely Messrs Edmond Lau, Keith Lui, and He Guangbei respectively, as members of the Risk Management Committee, which took effect on 20 January 2012.

Following the changes in the Board composition that took effect on 23 April 2012, the Board considered and announced new appointments to various Committees on 24 April 2012. The term of service of each Director on each Committee shall be coterminous with the individual's term of directorship with HKEx.

The updated member lists of the various Committees are available on the HKEx website.

Non-executive Directors' Remuneration

At the 2012 AGM, the Shareholders approved the (i) remuneration of \$900,000 and \$600,000 per annum be payable to the Chairman and each of the other Non-executive Directors respectively; (ii) remuneration of \$120,000 and \$90,000 per annum be payable to the chairman and each of the other members (excluding any Executive Director) respectively of the Audit Committee, Executive Committee, Investment Advisory Committee and Remuneration Committee (collectively referred as Committees); and (iii) attendance fee of \$3,000 be payable to each member of the Committees (excluding any Executive Director) for each meeting of the Committees. The above remuneration took effect from the conclusion of the 2012 AGM and will remain in effect until Shareholders in general meeting otherwise determine.

Other Changes in Directors' Information

Other changes in Directors' information since the date of the 2011 Annual Report are set out below.

	Appointment (effective)	Cessation of Office (effective)
Ronald J Arculli		
<ul style="list-style-type: none"> • King & Wood, where Mr Arculli is a senior partner, renamed as King & Wood Mallesons following a merger with Mallesons Stephen Jaques effective 1 March 2012. 	–	–
Vincent K H Lee		
<ul style="list-style-type: none"> • Brewin Trust Fund Committee – member 	–	1 Apr 2012

The updated biographies of Directors, including the newly appointed Directors, are available on the HKEx website.

Save for those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

Listing

Environmental, Social and Governance Reporting Guide

The Exchange is reviewing the responses to the consultation paper on its proposed Environmental, Social and Governance Reporting Guide published in December 2011. Consultation conclusions will be released later this year. Subject to market comments, the Environmental, Social and Governance Reporting Guide may be implemented as a recommended best practice.

Prospectus Simplification and Plain Language Seminar

On 19 March 2012, the Exchange held a half-day free seminar to provide guidance on drafting and presenting a prospectus that is clear, brief, and easy to understand while satisfying the disclosure requirements. The 4 speakers used a case study of a Hong Kong prospectus, international practices, and re-drafting exercises to illustrate how to simplify prospectuses and write in plain language. Seminar materials are available on the HKEx website. Over 150 participants attended the seminar, of which 136 were lawyers from 57 law firms and 17 were bankers from 5 sponsors of listings in Hong Kong. After receiving overwhelmingly positive feedback from participants, the Exchange plans to follow up with further guidance and possibly, seminars.

Statutory Backing of Obligation to Disclose Price Sensitive Information

The Securities and Futures (Amendment) Ordinance 2012 which provides, amongst other matters, statutory backing of listed issuers' continuing obligation to disclose price sensitive information (termed "inside information" under the Ordinance), was gazetted on 4 May 2012. The statutory disclosure regime is expected to commence operation on 1 January 2013.

In connection with the implementation of the statutory disclosure regime, changes to the Listing Rules will be necessary to minimise duplication and overlap with the new law. The main change will be to remove the existing continuing disclosure obligation which will become part of the statutory regime. In addition, a range of amendments will be made consequential on the removal of these core provisions; for example, references to the term "price sensitive information" will need to be replaced by the term "inside information" where appropriate, references to the obligation to disclose information under the current obligation to disclose price sensitive information will be deleted. We are continuing our work in this regard. We expect to launch a public consultation on the Listing Rule changes later this year.

Cash Market

Market Performance

In the three months ended 31 March 2012, 15 companies were newly listed on the Main Board (no transfers from GEM) and 3 on GEM. Total capital raised, including post-listing funds, was \$62 billion. As at 31 March 2012, 1,337 and 173 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$19,775.3 billion. In addition, there were 4,094 DWs, 1,097 CBBCs, 9 REITs, 89 ETFs and 209 debt securities listed on 31 March 2012. The average daily turnover value in the first three months of 2012 was \$63 billion on the Main Board and \$200.5 million on GEM, increases of 7 per cent and 25 per cent respectively compared with the fourth quarter of 2011.

Performance of various key products

Product	First quarter of 2012		Fourth quarter of 2011	
	Average daily turnover \$bn	Market total %	Average daily turnover \$bn	Market total %
Equities	44.9	71	38.9	66
DWs	8.6	14	8.2	14
CBBCs	7.6	12	10.3	17
ETFs	1.9	3	1.7	3
Others	0.2	0	0.2	0
Total	63.2	100	59.3	100

Among the various products in the Cash Market, 24 ETFs were newly listed in the first quarter of 2012, including the first RMB-denominated ETF, and 12 ETFs were delisted by an ETF manager. At the end of March 2012, there were 89 listed ETFs, 15 ETF managers and 23 ETF market makers. HKEx received the “Best Asian Exchange for Listing ETFs” award for the second consecutive year from etfexpress, a website that covers the ETF industry.

Extension of Trading Hours

Following a series of market simulations in the middle of February 2012 to assist EPs and IVs in verifying their readiness, the second phase of the extension of trading hours in the Cash and Derivatives Markets was implemented on 5 March 2012. The number of trading hours in a regular trading day in the Cash Market is now 5.5 hours. The objectives of the extension are to improve the price discovery function for Mainland-related securities listed in Hong Kong by increasing the overlap of HKEx’s trading hours with the Mainland exchanges’ trading hours, and to enhance HKEx’s regional competitiveness by narrowing the gaps between its trading hours and those of its regional counterparts.

Derivatives Market

Market Performance

In the three months ended 31 March 2012, there were a total of 30,106,876 contracts traded in the Derivatives Market, comprising 11,890,077 futures contracts and 18,216,799 options contracts. The average daily volumes were 194,919 futures contracts and 298,636 options contracts. On 31 March 2012, the total open interest was 5,861,532 contracts, comprising 296,397 futures contracts and 5,565,135 options contracts. The total turnover of HSCEI Dividend Point Index Futures in the first quarter of 2012 increased by 146 per cent as compared with the fourth quarter of 2011 from 22,740 contracts to 55,900 contracts.

Record high volume and open interest for major derivatives in the first quarter of 2012

Product	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
H-shares Index Options	17 Feb	43,238	28 Mar	448,971
HSI Dividend Point Index Futures	31 Jan	1,850	–	–
HSCEI Dividend Point Index Futures	–	–	27 Mar	51,705

On 20 February 2012, HSI Volatility Index (VHSI) Futures were introduced to provide investors with a new innovative instrument for trading or hedging their exposure to volatility in Hong Kong's stock market. The VHSI is regarded as a good volatility benchmark that enhances the pricing efficiency and transparency of options markets, and an alternative asset class for investment by some professional investors. HKEx has appointed 3 market makers to provide two-side quotes in all the listed contract months. An extensive investor education programme has been rolled out to increase investor awareness of the VHSI and VHSI Futures' features.

On 30 March 2012, 4 benchmark equity index futures of BRICS markets denominated in HKD including Brazil's IBOVESPA futures, Russia's MICEX Index futures, India's Sensex Index futures, and South Africa's FTSE/JSE Top40 futures, were introduced in the Derivatives Market.

After-hours Futures Trading

To prepare for the launch of after-hours futures trading tentatively set for the second half of 2012, HKEx conducted 5 briefing sessions on systems requirements during December 2011 and January 2012 for more than 650 attendees from its Participants and vendors. In addition, the HKEx website was enhanced with a dedicated web corner which contains all the relevant reference materials, including an information paper with a detailed business and operating model, briefing materials, circulars, and technical specifications. Some Participants and vendors have started developing their software to prepare for the market rehearsal to be held in the third quarter of 2012.

RMB Futures

As part of our strategy to expand beyond equities and equity-related derivatives and offer a wide range of RMB-traded products, we plan to introduce USD/CNH (RMB traded in Hong Kong) futures contract in the third quarter of this year, subject to regulatory approval and market readiness.

The USD/CNH futures contract will provide a way for investors to hedge RMB exposure. Under the plan, this contract will be quoted in RMB per USD (eg, RMB 6.2486 per USD) and margined in RMB, with the trading and settlement fees charged in RMB, and require delivery of USD by the seller and payment of the Final Settlement Value in RMB by the buyer at maturity.

HKEx has scheduled a market readiness test for the end of June and invited applications from potential market makers for the USD/CNH futures.

Clearing

Scripless Securities Market

The Scripless Securities Market Working Group has completed its study of the operational details of the proposed model which will form the basis for the SFC's consultation on the new subsidiary legislation under the SFO in 2012. HKEx is now supporting the SFC in preparing the subsidiary legislation.

Clearing Readiness for RMB-denominated Futures and Options Contracts

To prepare for the introduction of RMB-denominated futures and options, including stock options, a market readiness test was conducted in January 2012 to help CPs prepare their systems and operations for RMB-denominated futures and options. 43 HKCC CPs and 25 SEOC CPs confirmed their readiness after the test.

Participant Services

Participant Training and Market Education

In the first quarter of 2012, HKEx and the Hong Kong Securities Institute jointly organised 2 Continuous Professional Training courses on HKATS operations and trading procedures. There were also 3 training courses related to AMS/3.8 and 5 related to CCASS. In addition, over 1,400 people participated in 13 briefing sessions and 3 seminars on derivatives led by HKEx in the first quarter.

Participant Recruitment

At the end of March 2012, there were 538 SEHK Participants and 182 HKFE Participants, including 5 SEHK Participants and 4 HKFE Participants admitted in the first quarter of 2012. For HKSCC, there were 24,086 CCASS Participants, including 118 Investor Participants admitted in the first quarter of 2012.

Market Data

HKEx Orion Market Data Platform

A new market data system, the HKEx Orion Market Data Platform (OMD), will be the first building block of HKEx's next generation core platforms. HKEx has selected NYSE Technologies' Exchange Data Publisher (XDP)TM to drive the OMD.

The OMD will be an integrated low-latency platform to deliver market data for all asset classes traded in the HKEx markets in a common message format. It will enable HKEx to improve its customers' market data experience by providing a suite of market data product feeds with content, market depth, and bandwidth requirements tailored to suit the needs of different types of customers. It will also enable HKEx to establish points of presence for market data distribution outside of Hong Kong, such as in the Mainland. The OMD is expected to be rolled out for HKEx's securities market data and derivatives market data by the second and fourth quarter of 2013 respectively.

Risk Management

Clearing Houses' Risk Management Reform Measures

The consultation paper on the HKEx Clearing House Risk Management Reform Measures published on 8 July 2011 drew 626 responses from CPs, professional and industry associations, market practitioners, and individuals. Among the respondents, 273 were CPs of HKSCC, HKCC, or SEOCH. The responses received were broadly supportive and HKEx plans to implement the key proposals in the third quarter of this year subject to system readiness. The consultation conclusions were published on the HKEx website on 11 March 2012.

The key proposals are to: (i) introduce a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) revise certain price movement assumptions in the clearing houses' stress testing; (iii) revise the counterparty default assumption in the stress testing; and (iv) revise the collateral assumptions at HKCC and SEOCH. The proposals include various means of financial support from HKEx to reduce the impact on CPs. They also include a number of operational refinements in response to the feedback received during the consultation.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred 2 cases involving possible violations of Hong Kong laws, the SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during the three months ended 31 March 2012.

Information Technology

Production Systems' Stability and Reliability

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

Technology Upgrade

HKEx has commenced the phased implementation of the HKEx Orion technology programme, aiming to progressively transform HKEx's market platforms with respect to market access, connectivity, speed, and functionality.

Work in progress	Target completion
(i) Migration of network circuits for Cash Market Participants and IVs to SDNet/2 to implement a new network infrastructure which supports higher bandwidth and offers choice of multiple network carriers for diversity and competitive pricing;	Mid 2012
(ii) Implementation of a multi-asset class and low-latency market data platform for the Cash and Derivatives Markets;	Mid 2013 and end 2013 respectively
(iii) Upgrade of HKATS/DCASS to a new technology platform to achieve a multi-fold improvement in capacity and latency for further development of the Derivatives Market;	End 2013
(iv) Selection and implementation of technology solution for a Central Gateway facility which will enable high performance Participant access to the Cash Market trading system; and	Second Half of 2013
(v) Evaluation of the technology components to build a new Cash Market trading system to provide lower latency, higher capacity, and additional functionality	Late 2012

In addition, the development of a platform to support clearing and settlement of asset classes traded in the OTC market is in progress.

System Enhancements for RMB Products

In 2012, HKEx will continue its trading and clearing infrastructure enhancements to improve its service capability for RMB products. In the first quarter of 2012, HKEx completed: (i) the RMB Equity Trading Support Facility (TSF) suspension function to support requirements of partner banks under extreme market volatility conditions; and (ii) the automated order rejection by AMS/3.8 upon full consumption of the RMB Equity TSF funding pool. Further, HKEx will work on the multi-counter transfer function to streamline the Dual Tranche Dual Counter model and to enhance margin offset capability between products of different settlement currencies.

Independent Review

HKEx engaged an external security consultant to conduct an IT security risk and infrastructure review during the first quarter of 2012. The consultant concluded that there are no material issues requiring immediate action but recommended a number of security improvements for further enhancement of HKEx's security capability. An implementation roadmap has been developed for the rollout of various improvement initiatives in a prioritised manner.

New Data Centre and IT Office Consolidation

The superstructure works were completed and a dust-free environment for the enterprise data centre in Hong Kong's Tseung Kwan O Industrial Estate was handed over to HKEx at the end of March 2012. Provisioning of network infrastructure and structured cabling systems is in progress to facilitate installation and testing of the IT equipment starting in May 2012. The first phase of relocation, covering the IT office and primary data centre for the Cash Market, will take place in the fourth quarter of 2012. The consolidation of other data centres will be completed by phases in 2013.

HKEx Mobile

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

Market Development

BRICS Exchanges Alliance

The first phase of HKEx's alliance agreement with the leading exchanges in the other BRICS countries was implemented on 30 March 2012, when the founding members started the cross-listing of benchmark equity index futures and/or options on each other's trading platforms.

Introduction of the BRICS exchanges' benchmark index futures to Hong Kong diversified HKEx's product offerings, giving investors in Asian time zones easier access to the dynamic BRICS markets. At the same time, investors at the other 4 exchanges will be able to trade HSI and H-shares Index futures and/or related options with ease.

Derivatives cross-listed and offered in the local currency and local trading hours of each of the BRICS exchanges are as follows:

BRICS country	Product
• Brazil	IBOVESPA futures
• Russia	MICEX Index futures
• India	Sensex Index futures
• China (Hong Kong)	HSI and H-shares Index futures
• South Africa	FTSE/JSE Top40 futures

JSE Limited also listed options on the benchmark futures of the other 4 member exchanges. The 5 exchanges will be sharing the revenues generated from their benchmark index derivatives contracts traded overseas.

Apart from the cross-listing of benchmark equity index derivatives, the member exchanges plan to work together to develop new equity index-related products representing the BRICS economies for cross-listing in the second phase of the alliance. The third phase may include product development and cooperation in additional asset classes and services.

IT Platform Development

The HKEx Orion was officially announced in March 2012. It includes SDNet/2, Hosting Services, and market data system initiatives already in progress and new ones such as the Market Access gateway for the securities market, as well as a full upgrade of the derivatives trading and clearing platforms, which will be launched later this year.

Hosting Services

The Hosting Services initiative is progressing well. A low-latency local area network infrastructure will be set up to support ecosystem communication and access to the Cash and Derivatives Markets. Besides, automated operations support systems will be implemented to support 7 x 24 data centre operation. Vendors have been appointed to carry out the respective projects after a Request for Proposals process.

A Founding Members Programme was introduced in February 2012 to allow selected hosting ecosystem service providers to participate in the early set-up of the hosting ecosystem and joint marketing efforts with HKEx. The market response was positive and 22 companies consisting of IVs, network service providers, and technology vendors have been admitted to the programme.

HKEx announced the Hosting Services offerings and fees to the market in March 2012 and held 3 information briefing sessions after the announcement for over 300 attendees from EPs, IVs, network service providers, and technology vendors. HKEx has invited prospective users to apply for the services and plans to approve the first batch of applications in June 2012.

The total capacity of the hosting floors inside the new Data Centre can support up to 1,200 cabinets of server space, and the development will be divided into 3 phases. Phase 1, of around 320 cabinets, will be made available in the fourth quarter of 2012.

OTC Derivatives Clearing House

After completing one-on-one meetings with over 30 potential clearing members during the last quarter of 2011, 2 on-boarding seminars and a vendor session were arranged in March 2012 for nearly 200 participants from 35 banks to provide them with the latest information on the OTC Central Counterparty (CCP)'s business model, risk management framework, IT infrastructure, and membership criteria, as well as their necessary on-boarding preparation work. Training workshops for participants are scheduled for the third quarter to ensure a smooth on-boarding in the last quarter of 2012.

The conclusions of the HKMA and SFC's October 2011 joint consultation paper on the regulatory regime for Hong Kong's OTC derivatives market are expected to be released to the public in the late second quarter of 2012. In March 2012, the SFC proposed to introduce an interim legislative measure within the 2011/2012 legislative session to support voluntary clearing of OTC derivatives through a CCP in Hong Kong. The second consultation and legislative process for mandatory clearing is expected to commence in the last quarter of 2012 and become effective in around mid-2013.

Calypso, the clearing system developer, has completed the project's discovery phase and is now working on the design and development phases. The clearing system will be opened for market rehearsals involving all potential clearing members in the third quarter of 2012 and ready for live operations by the end of 2012.

Mainland Development

HKEx continued to deepen its relationship with key Mainland stakeholders by entering into MOUs on cooperation and exchange of information with them.

HKEx is now working on training programmes on Hong Kong's markets and the relevant regulations to be held later this year for Mainland authorities and the Mainland enterprises listed on the Exchange.

MOUs signed in 2012

Jan	-	China Financial Futures Exchange
Mar	-	Shanghai Futures Exchange
	-	Heilongjiang Province's Financial Affairs Office
Apr	-	Hebei Province's Financial Affairs Office

Issuer Marketing

In the first quarter of 2012, HKEx continued its marketing efforts to attract interest from international companies in seeking a Hong Kong listing. They included a trip to South Africa in February for meetings with potential listing applicants and speeches at conferences and seminars in Cape Town and Johannesburg. One of the speeches was at Mining Indaba in Cape Town, a major annual event for the global mining industry. In March, HKEx attended another major global mining conference, PDAC in Canada, and spoke at an event in Calgary co-organised by the Government of Alberta and an organisation that promotes economic development in Calgary, as well as a one-off event in Toronto organised by the Hong Kong Economic and Trade Office in the city. The speeches provided opportunities to promote listing in Hong Kong. In addition, there were meetings with potential listing applicants, government authorities, and intermediaries to promote listing in Hong Kong for natural resources companies. A number of Canadian and African companies expressed interest in raising funds in Hong Kong's capital markets.

To follow up on the success of the first Japan-incorporated company listing in Hong Kong last year, HKEx participated in an event in Tokyo in March and met with potential issuers in the consumer goods and real estate sectors.

In late March, HKEx participated in a roadshow and spoke at the promotional events in the US cities of Los Angeles, Chicago, and New York co-organised by the Hong Kong Economic and Trade Office in San Francisco and InvestHK to promote Hong Kong as China's global financial centre and the premier offshore RMB centre. It was followed by a speech at a Dubai depositary receipt conference targeting companies from Africa, Central Asia, emerging Europe, the Commonwealth of Independent States in Eastern Europe, and the Middle East. The roadshow continued with a total of 8 stops of Finland, France, Germany, Italy, Spain, the Isle of Man, and the United Kingdom, where HKEx spoke at a number of events to promote listing in Hong Kong and met potential issuers, government authorities, and intermediaries to explain the Exchange's fundraising and RMB capabilities.

RMB fundraising through the Exchange is also a key focus of marketing activities in Hong Kong and the Mainland for potential issuers and influential intermediaries.

In Hong Kong, HKEx's Chief Marketing Officer delivered a speech at the Mines and Money Hong Kong 2012 conference, and HKEx continued its participation in a number of seminars to introduce the capital raising activities at the Exchange – notable among these was a conference specific to the shipping industry.

In the Mainland, there were more meetings with government officials and potential issuers, including companies that are looking for a secondary listing, as well as leading enterprises in various sectors and industries, and HKEx spoke at events in Beijing, Fujian, Guangdong, Heilongjiang, Jiangxi, and Shanghai.

HKEx co-organised the following events during the first quarter of 2012 in the Mainland:

- Listing in Hong Kong Seminar for Wuhan Enterprises in Wuhan
- Financial Cooperation Seminar in Chongqing
- Listing in Hong Kong Seminar in Zhejiang
- Financing and Listing Seminar in Xiamen
- Listing in Hong Kong Seminar for Hi-Tech Companies and roundtable meetings in Wuhan

Research and Corporate Development

HKEx published the Cash Market Transaction Survey 2010/11 in March 2012. The survey findings revealed overseas investors contributed 46 per cent to the total securities market turnover value in 2010/11, surpassing the contribution from local investors for the second consecutive year. In addition, HKEx published the findings of the Retail Investor Survey 2011 in April 2012 which showed that about 2.15 million Hong Kong adults were stock investors, which is a new high, and the usage of online stock trading continued to grow and banks remained the major stock trading channel. The published survey reports are available on the HKEx website. HKEx will keep track of the trends and characteristics of investors' participation in and perceptions of its markets for product and service improvement and ensuring their competitiveness.

Other Promotional Activities

Apart from promoting its market as an international fundraising platform, HKEx participates in events organised by different international and local organisations to promote Hong Kong's financial industry. The events provide opportunities to introduce HKEx and its markets to market participants from different parts of the world. For instance, HKEx participated in an investment conference held in Tokyo in March 2012 to raise Japanese investors' awareness of Hong Kong's ETF market. HKEx's Chief Executive delivered a speech introducing HKEx's strategic visions and latest developments in the context of the current environment of the Hong Kong financial markets at an event held by The British Chamber of Commerce in Hong Kong in April 2012.

Moreover, HKEx, as an exchange operator required under the SFO to act in the interest of the public, is focused on building not only value for its Shareholders but also sustainable financial markets in Hong Kong. In March 2012, HKEx's Chairman and Chief Executive participated in a corporate governance forum organised by The Chamber of Hong Kong Listed Companies to foster high corporate governance standards and enhance market transparency.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$46.1 billion on average for the three months ended 31 March 2012 (31 March 2011: \$44.0 billion).

As compared with 31 December 2011, the overall size of funds available for investment as at 31 March 2012 decreased by 2 per cent or \$1.1 billion to \$44.6 billion (31 December 2011: \$45.7 billion). Details of the asset allocation of the investments as at 31 March 2012 against those as at 31 December 2011 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits		Global Equities	
	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011
Corporate Funds	10.9	9.7	48%	53%	48%	43%	4%	4%
Cash collateral	4.3	3.2	0%	0%	100%	100%	0%	0%
Margin Funds	27.4	31.3	21%	20%	79%	80%	0%	0%
Clearing House Funds	2.0	1.5	14%	19%	86%	81%	0%	0%
Total	44.6	45.7	25%	25%	74%	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 cash collateral, Margin Funds and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 31 March 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 March 2012 (\$44.2 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	
	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011
Corporate Funds	10.5	9.3	18%	20%	20%	4%	32%	42%	14%	17%	16%	17%
Cash collateral	4.3	3.2	72%	72%	7%	0%	21%	28%	0%	0%	0%	0%
Margin Funds	27.4	31.3	17%	14%	26%	26%	51%	54%	3%	4%	3%	2%
Clearing House Funds	2.0	1.5	60%	49%	10%	7%	30%	44%	0%	0%	0%	0%
Total	44.2	45.3	25%	20%	22%	19%	42%	50%	5%	6%	6%	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 March 2012, had a weighted average credit rating of Aa3 (31 December 2011: Aa3) and a weighted average maturity of 1.9 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 the first quarter of 2012 and the fourth quarter of 2011 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jan-Mar 2012	Oct-Dec 2011	Jan-Mar 2012	Oct-Dec 2011	Jan-Mar 2012	Oct-Dec 2011
Corporate Funds	24.3	24.3	27.2	27.4	22.0	23.4
Cash collateral	0.1	0.3	0.2	0.3	0.1	0.2
Margin Funds	2.2	3.5	3.3	3.8	1.5	3.2
Clearing House Funds	0.2	0.1	0.2	0.2	0.1	0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 6 to the condensed consolidated financial statements of this Quarterly Report.

FINANCIAL REVIEW

Overall Performance

	Note	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	1,129	1,255	(10%)
Stock Exchange listing fees	(B)	244	246	(1%)
Market data fees	(C)	147	168	(13%)
Other revenue	(D)	128	127	1%
Net investment income	(E)	227	111	105%
		1,875	1,907	(2%)
Operating expenses		532	442	20%
		1,343	1,465	(8%)
Profit before taxation		(195)	(227)	(14%)
		1,148	1,238	(7%)

Profit attributable to shareholders decreased to \$1,148 million in the first quarter of 2012 against \$1,238 million for the same period in 2011. The decrease was mainly due to lower turnover-related income and higher operating expenses, but partly offset by higher net investment income.

Income affected by market turnover dropped by \$126 million to \$1,129 million in the first quarter of 2012 mainly due to the lower trading fees and trading tariff and clearing and settlement fees driven by the decrease in turnover on the Cash and Derivatives Markets.

The increase in net investment income was mainly attributable to the higher net fair value gains of investments reflecting market movements, and a rise in interest income due to increases in bank deposit rates.

Total operating expenses increased over the same quarter last year mainly due to higher staff costs and increases in legal and professional fees on account of various initiatives under the Strategic Plan 2010-2012.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Trading fees and trading tariff	659	765	(14%)
Clearing and settlement fees	389	418	(7%)
Depository, custody and nominee services fees	81	72	13%
Total	1,129	1,255	(10%)

The decrease in trading fees and trading tariff was mainly attributable to the lower turnover of the Cash Market and trading volume of the Derivatives Market in the first quarter of 2012 against the same period in 2011.

Clearing and settlement fees are derived predominantly from Cash Market transactions. Clearing and settlement fees are also affected by the volume of settlement instructions (SIs) and, despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction. Therefore, they may not always move exactly with changes in the turnover of the Cash Market. In the first quarter of 2012, the percentage decrease in clearing and settlement fees was lower than that of the turnover of the Cash Market compared with the corresponding period in 2011 as a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee and the volume of SIs dropped by a smaller percentage.

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, and stock withdrawal fees. Depository, custody and nominee services fees increased mainly due to an increase in scrip fees.

Key Market Indicators

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
Average daily turnover value on the Stock Exchange (\$bn)	63.2	75.9	(17%)
Average daily number of derivatives contracts traded on the Futures Exchange	255,110	246,687	3%
Average daily number of stock options contracts traded on the Stock Exchange	238,445	299,477	(20%)

(B) Stock Exchange Listing Fees

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Annual listing fees	116	107	8%
Initial and subsequent issue listing fees	127	138	(8%)
Others	1	1	0%
Total	244	246	(1%)

The increase in annual listing fees was attributable to the higher number of listed companies. The drop in initial and subsequent issue listing fees was mainly due to the lower number of newly listed DWs.

Key Drivers for Annual Listing Fees

	At 31 Mar 2012	At 31 Mar 2011	Change
Number of companies listed on Main Board	1,337	1,258	6%
Number of companies listed on GEM	173	168	3%
Total	1,510	1,426	6%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
Number of newly listed DWs	1,580	2,056	(23%)
Number of newly listed CBBCs	1,419	1,449	(2%)
Number of newly listed companies on Main Board	15	14	7%
Number of newly listed companies on GEM	3	3	0%
Total equity funds raised on Main Board			
– IPOs (\$bn)	9.6	17.3	(45%)
– Post-IPO (\$bn)	51.8	46.9	10%
Total equity funds raised on GEM			
– IPOs (\$bn)	0.2	0.5	(60%)
– Post-IPO (\$bn)	0.4	2.0	(80%)

(C) Market Data Fees

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Market data fees	147	168	(13%)

Market data fees dropped as there was a decline in certain fees charged on a per quote basis from the same period in 2011.

(D) Other Revenue

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Network, terminal user, dataline and software sub-license fees	103	101	2%
Participants' subscription and application fees	9	9	0%
Trading booth user fees	3	4	(25%)
Sales of Trading Rights	5	7	(29%)
Miscellaneous revenue	8	6	33%
Total	128	127	1%

Network, terminal user, dataline and software sub-license fees rose mainly due to increases in Cash Market trading system line rental income and Derivatives Market trading system sub-license fees partly offset by decreases in sales of throttle, hardware, and software.

(E) Net Investment Income

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Gross investment income	228	112	104%
Interest rebates to Participants	(1)	(1)	0%
Net investment income	227	111	105%

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

	Three months ended 31 Mar 2012 \$bn	Three months ended 31 Mar 2011 \$bn	Change
Corporate Funds	10.5	10.4	1%
Cash collateral	3.6	4.4	(18%)
Margin Funds	30.4	26.3	16%
Clearing House Funds	1.6	2.9	(45%)
Total	46.1	44.0	5%

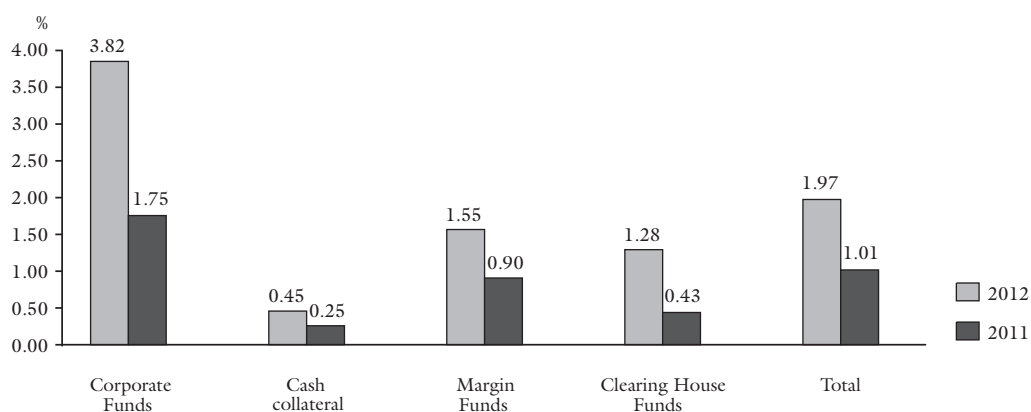
The increase in the average amount of Margin Funds during the period was mainly caused by the increases in open positions but partly offset by the lower margin rate required per contract.

The lower average amount of Clearing House Funds was mainly due to the drop in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The higher net investment income was primarily attributable to the rise in net fair value gains of investments, and the increase in interest income of the Corporate Funds and Margin Funds due to higher bank deposit rates.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants during the first quarter is set out below.

Annualised Net Return on Funds Available for Investment



The higher net returns of the Corporate Funds, Margin Funds and Clearing House Funds were mainly attributable to the rise in net fair value gains of investments (including certain principal-guaranteed structured notes) and higher bank deposit rates during the first quarter of 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.

The increase in net return of cash collateral was mainly attributable to increases in bank deposit rates and a larger portion of funds invested in longer term time deposits for yield enhancement.

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

Operating Expenses

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Staff costs and related expenses	294	244	20%
IT and computer maintenance expenses	80	72	11%
Premises expenses	57	52	10%
Product marketing and promotion expenses	6	4	50%
Legal and professional fees	28	10	180%
Depreciation	29	26	12%
Other operating expenses	38	34	12%
Total	532	442	20%

Staff costs and related expenses increased by \$50 million mainly as a result of an increase in permanent headcount (from 882 at 31 March 2011 to 974 at 31 March 2012) primarily for various new initiatives under the Strategic Plan 2010-2012, salary adjustments to keep up with the market trend, a rise in performance bonus due to the increased headcount, and higher employee share-based compensation expenses arising from the shares granted to employees in 2011.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$40 million (2011: \$37 million), were \$40 million (2011: \$35 million). The higher costs consumed by the Group were mainly due to the enhancement of the Group's IT security.

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

Legal and professional fees increased mainly due to the implementation of various strategic initiatives.

Taxation

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Taxation	195	227	(14%)

Taxation dropped mainly due to the lower profit before taxation and an increase in non-taxable investment income.

Working Capital

Working capital increased by \$1,152 million or 15 per cent to \$8,791 million at 31 March 2012 (31 December 2011: \$7,639 million). The increase was primarily due to the profit generated during the quarter ended 31 March 2012 of \$1,148 million, the drop in non-current financial assets of \$207 million and the increase in other working capital of \$38 million, but was partly offset by the increase in fixed assets of \$241 million.

Capital Expenditures and Capital Commitments

During the first quarter of 2012, the Group incurred capital expenditures of \$285 million (2011: \$168 million) which were mainly on the new Data Centre at Tseung Kwan O with Hosting Services capability.

The Group's capital expenditure commitments at 31 March 2012, including those authorised by the Board but not yet contracted for, amounted to \$1,530 million (31 December 2011: \$1,605 million) and were mainly related to the construction of the new Data Centre at Tseung Kwan O with Hosting Services capability, the development of the next generation market data system and the OTC derivatives clearing system, and the upgrade and enhancement of the Derivatives Market's trading and clearing systems. The Group has adequate resources to fund its capital expenditure commitments.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

At 31 March 2012, the aggregate net open foreign currency positions amounted to HK\$1,917 million, of which HK\$443 million was non-USD exposure (31 December 2011: HK\$2,116 million, of which HK\$427 million was non-USD exposure) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$2,496 million (31 December 2011: HK\$5,180 million). All forward foreign exchange contracts will mature within 2 months (31 December 2011: 3 months).

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

Contingent Liabilities

Details of contingent liabilities are included in note 26 to the condensed consolidated financial statements of this Quarterly Report.

Changes since 31 December 2011

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2011.

It is the Group's plan to declare a dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter of 2012 (first quarter of 2011: \$Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of income and operating expenses may vary substantially from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

Review of Financial Statements

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2012 in conjunction with HKEx's external auditor.

The external auditor has carried out certain agreed-upon procedures in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2012.

OPERATIONAL REVIEW

Organisational Changes

The former Co-Head of the IT Division, Mr Roger Lee, returned to the Listing Division as the Head of Listing Operations effective 1 January 2012.

Mr Colin Chau retired as the Head of Accounting Affairs of the Listing Division and Mr Joseph Meyer resigned as the Chief Administrative Officer on 1 and 9 March 2012 respectively.

Mr Samuel Wong's resignation as the Chief Financial Officer took effect from 20 March 2012. Mr Vincent Kwong, the Financial Controller, was appointed as Deputy Chief Financial Officer with effect from 20 March 2012 and acts as the interim Chief Financial Officer until the position is filled.

In addition, Mr Ren Guang Ming resigned as the Chief Representative of the Beijing Representative Office (BJO) effective 1 May 2012, and Ms Xu Chun Meng acts as the interim BJO Chief Representative.

HKEx takes this opportunity to express its gratitude to Messrs Colin Chau, Joseph Meyer, Ren Guang Ming, and Samuel Wong for their invaluable contributions to HKEx.

The updated organisational chart is available on the HKEx website.

Long-term Incentive Schemes

HKEx currently operates a Share Award Scheme for the purpose of recognising the contributions of certain employees and retaining them for the Group's operations and further development. Prior to the adoption of the Share Award Scheme, HKEx had implemented 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which expired 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 respective exercise periods.

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

Date of grant	Exercise price \$	Number of shares issuable under the options				
		As at 1 Jan 2012	Issued upon ¹ subscription during the three months ended 31 Mar 2012	Cancelled/ lapsed during the three months ended 31 Mar 2012	As at 31 Mar 2012	Exercise ² period
Employees						
31 Mar 2004	16.96	382,000	4,000	–	378,000	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	–	–	577,600	26 Jan 2007 – 25 Jan 2015

Notes:

1 The closing price immediately before the date on which the option was exercised was \$135.90.

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

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The rules and trust deed of the scheme are available on the HKEx website. Since the Adoption Date, a total of 3,701,760 shares had been awarded up to the date of this Quarterly Report, representing about 0.35 per cent of HKEx's issued share capital 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 three months ended 31 March 2012, are set out below.

Date of approval by Board	Date of ¹ award	Awarded sum \$'000	Number of shares purchased	Number of Awarded Shares	Average ² fair value per share \$	Number of Awarded Shares vested during the three months ended 31 Mar 2012	Vesting period ³
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	–	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	488	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 ⁴	123.29	–	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	–	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039 ⁴	176.75	4,442	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 2010	28 Mar 2012	500	3,400	3,400	143.74	–	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 ^{4,5}	124.75	11,524	14 Dec 2013 – 14 Dec 2014

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, 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 has been 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 relevant awards included an aggregate of 184,568 shares awarded to HKEx's Chief Executive.
- 5 The Share Award Scheme's trustee applied 344,706 shares held under the scheme, which were unallocated or forfeited pursuant to the Share Award Scheme, to partly satisfy the relevant award.

As at 31 March 2012, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,206,550 shares held in trust under the Share Award Scheme.

Corporate Governance

Throughout the three months ended 31 March 2012, HKEx complied with all Code Provisions with the exception of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors) and, where appropriate, adopted the Recommended Best Practices as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Main Board Listing Rules).

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. The term of office of HKEx's Chief Executive in his capacity as a Director is governed by Article 90 of HKEx's Articles of Association and is not subject to retirement by rotation.

The CG Code, the new edition of the Code on Corporate Governance Practices, is applicable to financial reports covering a period after 1 April 2012. As part of HKEx's unwavering commitment to high standards of corporate governance, it has adopted all new Code Provisions already and, where appropriate, new Recommended Best Practices as set out in the CG Code.

As of 30 March 2012, the Global and Home Market ESG Ratings assigned to HKEx by GovernanceMetrics International Inc (GMI), a provider of global corporate governance and ESG ratings and research, were B (above average) and A (superior) respectively. GMI assesses a company's ESG standing on a comprehensive set of indicators and evaluates the quality and effectiveness of the company's board in providing strategic oversight and representing shareholder interests. Ratings are expressed as a letter-grade rating from A (superior) to F (failing).

On 30 March 2012, 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) in *Corporate Governance Asia's* annual Asian Excellence Recognition Awards for the second consecutive year.

The Board engaged Egon Zehnder International (EZI) to conduct another independent evaluation of its performance in September 2011 with the aim of further improvement in its functioning. The EZI concluded that the Board continues to operate efficiently and is well aligned on HKEx's overall objectives and towards the organisation's public purpose. It also concluded that the Board has shown improvements on oversight of strategy and performance, oversight of people and people processes, and relationships with external stakeholders. The evaluation revealed that all the Board Committees perform well and have a strong composition, and the Board as a whole is reasonably ambitious in the goals it sets for itself.

The Company's corporate governance information is set out in the Corporate Governance section of the HKEx website.

Corporate Social Responsibility

HKEx's 2011 CSR Report, which fulfils the requirement of Global Reporting Initiative Application Level A+, was published on the HKEx website on 12 March 2012. HKEx regards the Report as an important tool for engaging with its stakeholders and improving its performance on its sustainability journey. Stakeholders are invited to view the Report and provide feedback on HKEx's CSR performance and reporting online at www.hkex.com.hk/eng/exchange/csr/csr_report/csr_reporting.htm.

To support board diversity, HKEx's then Chairman, Mr Ronald Arculli, and HKEx's Chief Executive, Mr Charles Li, joined the Chairmen's Breakfast and the Women on Boards Executive Forum respectively during the Women on Boards Week in March 2012 organised by Community Business and The Women's Foundation.

During the reporting period, HKEx continued to participate in various external charitable events and organise its own employee volunteering activities to promote community development and environmental protection. Collectively, about 470 participants, including HKEx's Chief Executive and employees' family members, supported these events and helped raise donations of about \$300,000 (comprising corporate and employee donations) for local charitable organisations to support their services for the elderly, the underprivileged and the disabled, and their work on climate change.

HKEx was awarded the "5 Years Plus Caring Company Logo" for 2011/12 by The Hong Kong Council of Social Service for the second consecutive year and continues to be included in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index Series. Building on its strengths and unique role in the marketplace, HKEx will continue to uphold its commitment to be a responsible corporate citizen.

The Company's CSR information is set out in the Corporate Social Responsibility section of the HKEx website.

DISCLOSURE OF INTERESTS

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 three months ended 31 March 2012.

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

As at 31 March 2012, the interests and short positions of Directors and 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 are set out below.

Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of the issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Charles X Li	188,858 ²	–	–	–	188,858	0.01
John E Strickland	18,000 ³	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,079,910,640 shares of HKEx in issue as at 31 March 2012
- 2 Being Mr Li's interests in 184,568 Awarded Shares and 4,290 shares acquired out of the dividends from such Awarded Shares according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Operational Review of this Quarterly Report.
- 3 Mr Strickland was the beneficial owner of those shares.

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

Apart from the Share Award Scheme, at no time during the period under review, was HKEx or any of its subsidiaries 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. Save for the disclosed, none of the Directors or HKEx's Chief Executive (including their spouses and children under the age of 18), during the three months ended 31 March 2012, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

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.

DISCLOSURE OF INTERESTS

Since 7 September 2007, the Government has become 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 right of and are not binding on the Government.

As at the date of this Quarterly 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 March 2012, the 8 approved Minority Controllers in aggregate held approximately 59 per cent of HKEx's issued share capital.

As at 31 March 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 are set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner Investment manager Person having a security interest in shares Custodian corporation/ approved lending agent	36,757,529 1,921,635 31,321,865 1,045,971	71,047,000 ²	6.57
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ³	62,919,500	5.82

Short positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner Person having a security interest in shares	35,755,547 29,506,341	65,261,888 ⁴	6.04

Notes:

- 1 Based on 1,079,910,640 shares of HKEx in issue as at 31 March 2012
- 2 It included an aggregate interest in 34,452,154 underlying shares through its holding of certain physically settled listed equity derivatives (141,975 underlying shares) and cash settled unlisted equity derivatives (34,310,179 underlying shares). It also included 1,045,971 shares in the lending pool.
- 3 Based on a disclosure of interest filing made by the Government on 10 September 2007 which it stated was voluntary
- 4 It included an aggregate interest in 35,362,285 underlying shares through its holding of certain physically settled listed equity derivatives (324,506 underlying shares) and cash settled unlisted equity derivatives (35,037,779 underlying shares).

Save for those disclosed above, as at 31 March 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.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 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 3,400 HKEx shares at a total consideration of about \$490,000.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended 31 Mar 2012	Three months ended 31 Mar 2011
	Note	\$m	\$m
Trading fees and trading tariff	3	659	765
Stock Exchange listing fees	4	244	246
Clearing and settlement fees		389	418
Depository, custody and nominee services fees		81	72
Market data fees		147	168
Other revenue	5	128	127
REVENUE AND TURNOVER		1,648	1,796
Investment income		228	112
Interest rebates to Participants		(1)	(1)
Net investment income	6	227	111
	2	1,875	1,907
OPERATING EXPENSES			
Staff costs and related expenses	7	294	244
Information technology and computer maintenance expenses	8	80	72
Premises expenses		57	52
Product marketing and promotion expenses		6	4
Legal and professional fees		28	10
Depreciation		29	26
Other operating expenses		38	34
	2	532	442
PROFIT BEFORE TAXATION	2	1,343	1,465
TAXATION	9	(195)	(227)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,148	1,238
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		1,148	1,238
Basic earnings per share	10(a)	\$1.07	\$1.15
Diluted earnings per share	10(b)	\$1.06	\$1.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 31 Mar 2012			At 31 Dec 2011		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	19,267	–	19,267	18,221	–	18,221
Financial assets measured at fair value through profit or loss	12	10,863	182	11,045	11,169	180	11,349
Financial assets measured at amortised cost	13	14,151	194	14,345	15,848	403	16,251
Accounts receivable, prepayments and deposits	14	8,302	24	8,326	7,210	23	7,233
Fixed assets		–	1,189	1,189	–	948	948
Lease premium for land		–	25	25	–	25	25
Deferred tax assets		–	1	1	–	1	1
Total assets		52,583	1,615	54,198	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	16	27,371	–	27,371	31,359	–	31,359
Cash collateral from HKSCC Clearing Participants	17	4,343	–	4,343	3,233	–	3,233
Accounts payable, accruals and other liabilities	18	9,888	–	9,888	8,456	–	8,456
Deferred revenue		468	–	468	524	–	524
Taxation payable		233	–	233	262	–	262
Other financial liabilities		56	–	56	60	–	60
Participants' contributions to Clearing House Funds	19	1,396	–	1,396	880	–	880
Provisions		37	43	80	35	27	62
Deferred tax liabilities		–	28	28	–	33	33
Total liabilities		43,792	71	43,863	44,809	60	44,869
Equity							
Share capital	20			1,080			1,080
Share premium	20			639			639
Shares held for Share Award Scheme	20			(293)			(296)
Employee share-based compensation reserve	21			132			106
Designated reserves	19, 22			580			577
Retained earnings	23			8,197			7,053
Shareholders' funds				10,335			9,159
Total liabilities and equity				54,198			54,028
Net current assets				8,791			7,639
Total assets less current liabilities				10,406			9,219

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 20) \$m	Employee share-based compensation reserve (note 21) \$m	Designated reserves (note 22) \$m	Retained earnings (note 23) \$m	Total equity \$m
At 1 Jan 2012	1,423	106	577	7,053	9,159
Profit attributable to shareholders	–	–	–	1,148	1,148
Shares purchased for Share Award Scheme	(1)	–	–	–	(1)
Vesting of shares of Share Award Scheme	4	(3)	–	(1)	–
Employee share-based compensation benefits	–	29	–	–	29
Transfer of reserves	–	–	3	(3)	–
At 31 Mar 2012	1,426	132	580	8,197	10,335

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	–	–	–	1,238	1,238
Shares issued upon exercise of employee share options	2	–	–	–	2
Shares purchased for Share Award Scheme	(3)	–	–	–	(3)
Vesting of shares of Share Award Scheme	2	(2)	–	–	–
Employee share-based compensation benefits	–	20	–	–	20
Transfer of reserves	–	–	1	(1)	–
At 31 Mar 2011	1,276	74	581	8,003	9,934

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	24	1,203	1,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(241)	(59)
Net (increase)/decrease in financial assets of the Corporate Funds:			
Increase in time deposits with original maturities more than three months		(1,180)	(408)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		-	(930)
Net proceeds from sale or maturity of financial assets measured at amortised cost (excluding time deposits)		-	504
Interest received from financial assets measured at amortised cost (excluding time deposits)		7	6
Interest received from financial assets measured at fair value through profit or loss		23	43
Net cash outflow from investing activities		(1,391)	(844)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		-	2
Purchases of shares for Share Award Scheme		(1)	(3)
Net cash outflow from financing activities		(1)	(1)
Net (decrease)/increase in cash and cash equivalents		(189)	700
Cash and cash equivalents at 1 Jan		2,340	1,945
Cash and cash equivalents at 31 Mar		2,151	2,645
Analysis of cash and cash equivalents			
Cash at bank and in hand		1,557	1,052
Time deposits with original maturities within three months		594	1,593
Cash and cash equivalents at 31 Mar		2,151	2,645

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (HKAS) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2011 annual consolidated financial statements. Except as described below, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements and segment information are consistent with those used in the annual consolidated financial statements and segment information for the year ended 31 December 2011.

Early adoption of new/revised Hong Kong Financial Reporting Standards (HKFRSs)

In 2012, the Group has early adopted the following new/revised HKFRSs where early adoption is permitted:

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 19 (2011)	Employee Benefits
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
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) does not have any impact to the Group as it currently does not have any other comprehensive income items.

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 to 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 to the Group as all subsidiaries satisfy the requirements for control under HKFRS 10.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new requirements for unconsolidated structured entities. The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

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 affects certain disclosures of the Group's financial statements.

The Group has applied the above new/revised HKFRSs retrospectively.

1. Basis of Preparation and Accounting Policies (continued)

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 accounting estimates was a decrease in depreciation charge of less than \$1 million for the period ended 31 March 2012.

2. Operating Segments

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

The Group has four reportable segments. The segments are managed separately as each business 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** business mainly refers to the operations of The Stock Exchange of Hong Kong Limited (Stock Exchange), which covers all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market. Stock Exchange listing fees and costs of the Listing Function are further explained in note 4.

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

The **Clearing Business** refers to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

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

2. Operating Segments (continued)

An analysis of the Group's reportable segment profit before taxation for the period by operating segment is as follows:

	Three months ended 31 Mar 2012				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	797	194	509	148	1,648
Net investment income	39	140	48	–	227
	836	334	557	148	1,875
Operating expenses					
Direct costs	182	48	93	21	344
Indirect costs	92	29	54	13	188
	274	77	147	34	532
Reportable segment profit before taxation	562	257	410	114	1,343

	Three months ended 31 Mar 2011				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	888	207	532	169	1,796
Net investment income	22	67	22	–	111
	910	274	554	169	1,907
Operating expenses					
Direct costs	163	43	85	17	308
Indirect costs	68	19	38	9	134
	231	62	123	26	442
Reportable segment profit before taxation	679	212	431	143	1,465

3. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	453	541
Derivatives contracts traded on the Derivatives Market	206	224
	659	765

4. Stock Exchange Listing Fees

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

	Three months ended 31 Mar 2012				Three months ended 31 Mar 2011			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
Stock Exchange Listing Fees								
Annual listing fees	109	6	1	116	101	6	-	107
Initial and subsequent issue listing fees	30	3	94	127	15	2	121	138
Other listing fees	1	-	-	1	1	-	-	1
Total	140	9	95	244	117	8	121	246
Costs of Listing Function								
Direct costs	72	17	5	94	62	13	4	79
Indirect costs	19	4	5	28	12	2	5	19
Total costs	91	21	10	122	74	15	9	98
Contribution to Cash Market Segment Profit before Taxation	49	(12)	85	122	43	(7)	112	148

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

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting Initial Public Offerings and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

5. Other Revenue

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Network, terminal user, dataline and software sub-license fees	103	101
Participants' subscription and application fees	9	9
Trading booth user fees	3	4
Sales of Trading Rights	5	7
Miscellaneous revenue	8	6
	128	127

6. Net Investment Income

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Gross interest income	90	41
Interest rebates to Participants	(1)	(1)
Net interest income	89	40
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	136	69
Others	2	2
Net investment income	227	111

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Salaries and other short-term employee benefits	245	207
Employee share-based compensation benefits	29	20
Retirement benefit costs (note 27(b))	20	17
	294	244

8. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Costs of services and goods:		
– consumed by the Group	40	35
– directly consumed by Participants	40	37
	<u>80</u>	<u>72</u>

9. Taxation

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

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%)	200	217
Deferred taxation	(5)	10
	<u>195</u>	<u>227</u>

10. Earnings Per Share

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

(a) Basic earnings per share

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011
Profit attributable to shareholders (\$m)	<u>1,148</u>	1,238
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	<u>1,077,691</u>	1,076,497
Basic earnings per share (\$)	<u>1.07</u>	1.15

10. Earnings Per Share (continued)

(b) Diluted earnings per share

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011
Profit attributable to shareholders (\$m)	1,148	1,238
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,691	1,076,497
Effect of employee share options (in '000)	852	1,256
Effect of Awarded Shares (in '000)	2,182	1,401
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,080,725	1,079,154
Diluted earnings per share (\$)	1.06	1.15

11. Cash and Cash Equivalents

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
Cash and cash equivalents:		
– Clearing House Funds (note 19)	1,351	835
– Margin Funds (note 16)	12,231	12,719
– Cash collateral (note 17)	3,534	2,327
(note (a))	17,116	15,881
– Corporate Funds (note 15)	2,151	2,340
	19,267	18,221

(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 condensed consolidated statement of cash flows.

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

	At 31 March 2012			
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Corporate Funds (note 15) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	106	106
– listed outside Hong Kong	–	–	305	305
	–	–	411	411
Debt securities:				
– listed in Hong Kong	–	–	225	225
– listed outside Hong Kong	127	–	1,946	2,073
– unlisted	159	5,753	2,419	8,331
	286	5,753	4,590	10,629
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	5	5
	286	5,753	5,006	11,045
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	286	5,753	4,824	10,863
More than twelve months	–	–	182	182
	286	5,753	5,006	11,045

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

	At 31 Dec 2011			Total \$m
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Corporate Funds (note 15) \$m	
<u>Mandatorily measured at fair value</u>				
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	–	–	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 of \$1,778 million (31 December 2011: \$1,867 million) attributable to the Margin Funds that could readily be liquidated to meet liquidity requirements of the Funds.

13. Financial Assets Measured at Amortised Cost

	At 31 March 2012				
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Cash collateral (note 17) \$m	Corporate Funds (note 15) \$m	Total \$m
Debt securities:					
– listed outside Hong Kong	–	–	–	245	245
– unlisted	–	–	–	458	458
	–	–	–	703	703
Time deposits with original maturities over three months	357	9,380	809	3,035	13,581
Other financial assets	–	–	–	61	61
	357	9,380	809	3,799	14,345
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	357	9,380	809	3,605	14,151
More than twelve months	–	–	–	194	194
	357	9,380	809	3,799	14,345

	At 31 Dec 2011				
	Clearing House Funds (note 19) \$m	Margin Funds (note 16) \$m	Cash collateral (note 17) \$m	Corporate Funds (note 15) \$m	Total \$m
Debt securities:					
– listed outside Hong Kong	–	–	–	245	245
– unlisted	–	–	–	461	461
	–	–	–	706	706
Time deposits with original maturities over three months	367	12,368	906	1,855	15,496
Other financial assets	–	–	–	49	49
	367	12,368	906	2,610	16,251
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	367	12,368	906	2,207	15,848
More than twelve months	–	–	–	403	403
	367	12,368	906	2,610	16,251

14. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 90 per cent (31 December 2011: 90 per cent) of the total accounts receivable, prepayments and deposits. 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.

15. Corporate Funds

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 11)	2,151	2,340
Financial assets measured at fair value through profit or loss (note 12)	5,006	4,800
Financial assets measured at amortised cost (note 13)	3,799	2,610
	10,956	9,750

16. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,852	5,302
HKCC Clearing Participants' margin deposits	22,519	26,057
	27,371	31,359
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 11)	12,231	12,719
Financial assets measured at fair value through profit or loss (note 12)	5,753	6,265
Financial assets measured at amortised cost (note 13)	9,380	12,368
Margin receivable from Clearing Participants	7	7
	27,371	31,359

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

17. Cash Collateral from HKSCC Clearing Participants

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
Cash collateral from HKSCC Clearing Participants (note (a))	<u>4,343</u>	<u>3,233</u>
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 11)	3,534	2,327
Financial assets measured at amortised cost (note 13)	<u>809</u>	<u>906</u>
	<u>4,343</u>	<u>3,233</u>

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

18. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 76 per cent (31 December 2011: 77 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

19. Clearing House Funds

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' cash contributions (note (a))	1,396	880
Designated reserves (note 22)	<u>580</u>	<u>577</u>
	<u>1,976</u>	<u>1,457</u>
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 11)	1,351	835
Financial assets measured at fair value through profit or loss (note 12)	286	284
Financial assets measured at amortised cost (note 13)	<u>357</u>	<u>367</u>
	1,994	1,486
Less: Other financial liabilities of Clearing House Funds	<u>(18)</u>	<u>(29)</u>
	<u>1,976</u>	<u>1,457</u>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	225	226
SEOCH Reserve Fund	737	578
HKCC Reserve Fund	<u>1,014</u>	<u>653</u>
	<u>1,976</u>	<u>1,457</u>

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

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

	At 31 Mar 2012		At 31 Dec 2011		
	\$m		\$m		
Authorised:					
2,000,000,000 shares of \$1 each	<u>2,000</u>		<u>2,000</u>		
Issued and fully paid:					
	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 (a))	470	–	8	–	8
Shares issued in lieu of cash dividends	1,298	2	213	(7)	208
Transfer from employee share-based compensation reserve upon exercise of employee share options	–	–	2	–	2
Shares purchased for Share Award Scheme (note (b))	(628)	–	–	(80)	(80)
Vesting of shares of Share Award Scheme (note (c))	94	–	–	10	10
At 31 Dec 2011	<u>1,077,670</u>	<u>1,080</u>	<u>639</u>	<u>(296)</u>	<u>1,423</u>
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon exercise of employee share options (note (a))	4	–	–	–	–
Shares purchased for Share Award Scheme (note (b))	(3)	–	–	(1)	(1)
Vesting of shares of Share Award Scheme (note (c))	33	–	–	4	4
At 31 Mar 2012	<u>1,077,704</u>	<u>1,080</u>	<u>639</u>	<u>(293)</u>	<u>1,426</u>

- (a) During the three months ended 31 March 2012, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 4,000 shares (year ended 31 December 2011: 469,900 shares) in HKEx at an average consideration of \$16.96 per share (year ended 31 December 2011: \$18.29 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the three months ended 31 March 2012, the Share Award Scheme acquired 3,400 HKEx shares (year ended 31 December 2011: 627,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$1 million (year ended 31 December 2011: \$80 million).
- (c) During the three months ended 31 March 2012, the Share Award Scheme transferred 33,017 HKEx shares (year ended 31 December 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 \$4 million (year ended 31 December 2011: \$10 million.)

21. Employee Share-based Compensation Reserve

The Group operates two employee share option schemes and a Share Award Scheme. The employee share-based compensation expenses in relation to the options and share awards were charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

No share options were granted during the three months ended 31 March 2012. Details of Awarded Shares awarded during the three months ended 31 March 2012 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$'000	Number of shares purchased	Number of shares awarded	Average fair value per share \$	Vesting period
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	3 Jan 2014 – 3 Jan 2015

22. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	124	123
– SEOCH Reserve Fund reserve	110	110
– HKCC Reserve Fund reserve	346	344
	580	577

23. Retained Earnings (Including Proposed Dividend)

	2012 \$m	2011 \$m
At 1 Jan	7,053	6,766
Profit attributable to shareholders	1,148	5,093
Transfer (to)/from Clearing House Funds reserves	(3)	3
Dividends:		
2010 final dividend	–	(2,487)
2011 interim dividend	–	(2,327)
Unclaimed HKEx dividends forfeited	–	6
Vesting of shares of Share Award Scheme	(1)	(1)
At 31 Mar 2012/31 Dec 2011	8,197	7,053
Representing:		
Retained earnings	5,945	4,801
Proposed dividend	2,252	2,252
At 31 Mar 2012/31 Dec 2011	8,197	7,053

24. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Profit before taxation	1,343	1,465
Adjustments for:		
Net interest income	(89)	(40)
Dividend income	(2)	(2)
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	(136)	(69)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(1)	–
Depreciation	29	26
Employee share-based compensation benefits	29	20
Gain on disposal of fixed assets	(2)	–
Provision for impairment losses of trade receivables	1	1
Changes in provisions	2	1
Net decrease in Margin Fund financial assets	4,016	413
Net decrease in Margin Fund financial liabilities	(3,988)	(413)
Net increase in Clearing House Fund financial assets	(506)	(46)
Net increase in Clearing House Fund financial liabilities	505	45
Net increase in financial assets of cash collateral	(1,110)	(2,710)
Net increase in cash collateral received from HKSCC Clearing Participants	1,110	2,710
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(97)	(2)
Increase in accounts receivable, prepayments and deposits	(1,026)	(7,892)
Increase in other current liabilities	1,241	8,179
Net cash inflow from operations	1,319	1,686
Dividends received	2	1
Interest received from bank deposits	86	36
Interest received from financial assets measured at fair value through profit or loss	26	31
Interest paid	(1)	(1)
Hong Kong Profits Tax paid	(229)	(208)
Net cash inflow from operating activities	1,203	1,545

25. Capital Expenditures and Commitments

During the three months ended 31 March 2012, the Group incurred capital expenditures of \$285 million (2011: \$168 million) which were mainly on the new data centre at Tseung Kwan O with hosting services capability.

At 31 March 2012, the Group's commitments in respect of capital expenditures were as follows:

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
Contracted but not provided for	632	729
Authorised but not contracted for	898	876
	1,530	1,605

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

26. Contingent Liabilities

At 31 March 2012, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (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 March 2012, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 500 trading Participants covered by the indemnity at 31 March 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$100 million (31 December 2011: \$100 million).
- (c) 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.

27. Material Related Party Transactions

- (a) Key management personnel compensation

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Salaries and other short-term employee benefits	19	17
Employee share-based compensation benefits	7	6
Retirement benefit costs	2	2
	28	25

- (b) Post-employment benefit plans

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme). The retirement benefit costs charged to the condensed consolidated statement of comprehensive income represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees (note 7).

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

28. Fair Value of Financial Assets and Financial Liabilities

- (a) Financial assets and financial liabilities carried at fair value

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

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

28. Fair Value of Financial Assets and Financial Liabilities (continued)

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

	At 31 Mar 2012		
	Level 1 \$m	Level 2 \$m	Total \$m
Recurring fair value measurements:			
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	411	–	411
– debt securities	–	10,629	10,629
– forward foreign exchange contracts	5	–	5
	416	10,629	11,045
Recurring fair value measurements:			
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	18	–	18
	18	–	18
	At 31 Dec 2011		
	Level 1 \$m	Level 2 \$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 the period ended 31 March 2012, no financial assets or financial liabilities were classified under Level 3 and 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 transfer into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

28. Fair Value of Financial Assets and Financial Liabilities (continued)

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

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

	At 31 Mar 2012		At 31 Dec 2011	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
– debt securities ¹	703	706	706	710
– other financial assets maturing over one year ²	61	57	49	48
Financial liabilities				
Financial guarantee contract ³	20	100	20	86

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, adjusted by an estimated credit spread. Assets without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.83 per cent to 2.00 per cent at 31 March 2012 (31 December 2011: 0.83 per cent to 1.13 per cent).

³ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 1.24 per cent at 31 March 2012 (31 December 2011: 1.46 per cent).

GLOSSARY

2012 AGM	HKEx's annual general meeting held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3.8	The Latest Upgrade of the Third Generation Automatic Order Matching and Execution System
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
Cash Market	HKEx's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	The Central Clearing and Settlement System
CG Code	Corporate Governance Code, Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DWs	Derivative Warrants
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
Listing Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
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
OTC	Over-the-counter
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
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
REITs	Real Estate Investment Trusts
RMB	Renminbi
SDNet	The Securities and Derivatives Network
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
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
US	United States of America
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn	Hong Kong dollar in billion
\$m	Hong Kong dollar in million

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