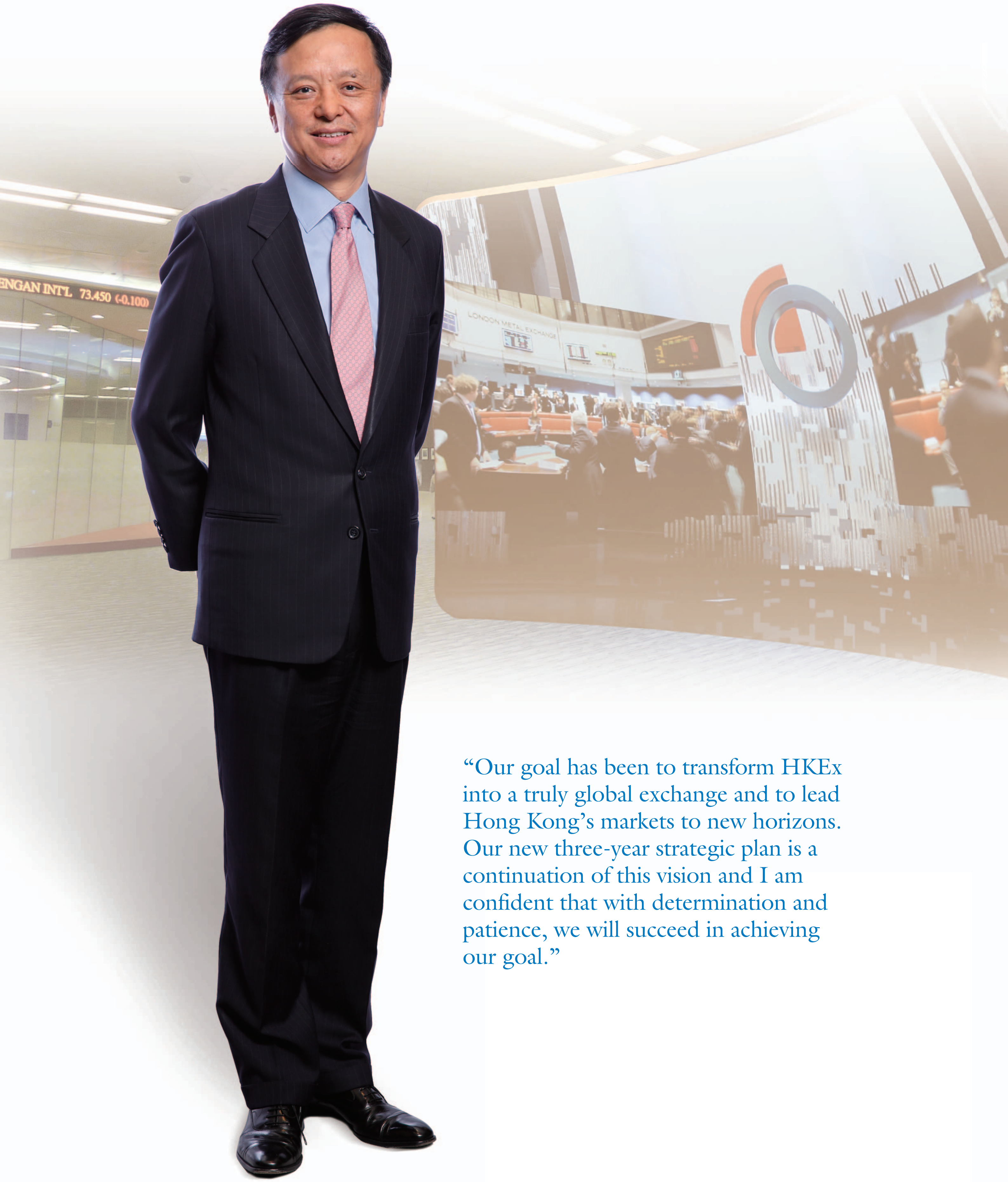
CHIEF EXECUTIVE'S REVIEW



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

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

Market Performance

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

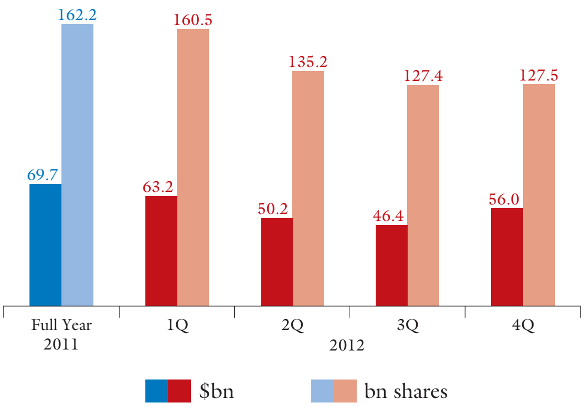
In the primary market, IPOs raised $90 billion, a 65 per cent decrease from 2011. Sixty-two companies were newly listed on our market, compared to 89 in 2011 [1]. We continued to attract international issuers, with 3 companies from overseas listing in Hong Kong, raising a total of $6.3 billion through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

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

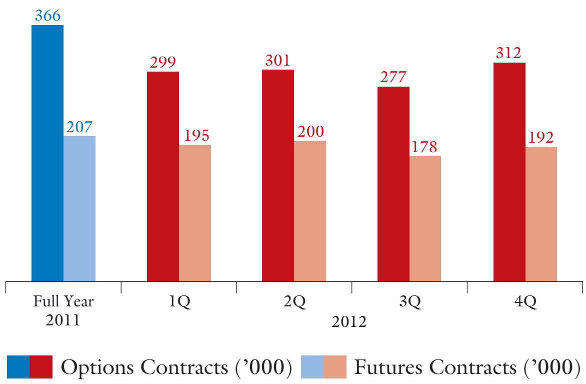
Turnover in the Derivatives Market was 119,802,638 contracts, a decrease of about 15 per cent from 2011, and open interest at year-end was 5,317,952 contracts, down from 5,936,798 at the previous year-end. Derivatives turnover was the second highest ever.

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

Average daily turnover on Cash Market



Average daily number of contracts traded on Derivatives Market



Business Development Review

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

Strengthening Core Businesses

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

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

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

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

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

Developing RMB Capability, RMB Products and Cross-border Products

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

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

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

Expanding into New Asset Classes

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

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

Platform Infrastructure Upgrade

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

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

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

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

Reorganisation

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

Strategy Going Forward

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

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

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

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

Appreciation

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

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

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

LI Xiaojia, Charles
Director and Chief Executive

Hong Kong, 27 February 2013