

FINANCIAL REVIEW

HKEx Group – Overview of 2012 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

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

Segment Profit for the Year

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

Key Market Statistics and Business Drivers – Derivatives Market

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

Consolidated Statement of Financial Position

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

Cash Flows for the Year

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

Consolidated Statement of Financial Position

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

Notes

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

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

Movements in Retained Earnings for the Year

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

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

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

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

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

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

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

- EBITDA of the Cash Market segment dropped by \$534 million mainly due to the lower trading fees and trading tariff as a result of lower Cash Market turnover value.
- EBITDA of the Derivatives Market segment increased by \$61 million mainly due to an increase in net investment income, but partly offset by a decline in trading fees and trading tariff as a result of the lower number of contracts traded.
- EBITDA of the Commodities segment for 2012 was \$35 million, which was generated by the LME Group after the acquisition.
- EBITDA of the Clearing segment fell by \$411 million mainly due to a decrease in clearing and settlement fees, in tandem with the lower Cash Market turnover.
- EBITDA of the Market Data segment decreased by \$82 million as the volume of certain Cash Market data fees charged on a per quote basis dropped.
- Comprised financial assets and cash and cash equivalents of Margin Funds and cash collateral of \$36,783 million (2011: \$34,585 million), Corporate Funds of \$7,817 million (2011: \$9,750 million), and Clearing House Funds of \$2,542 million (2011: \$1,486 million).
- Goodwill and other intangible assets includes goodwill of \$13,488 million arising on the acquisition of the LME Group.
- Fixed assets and lease premium for land increased by \$726 million mainly due to additions of \$871 million and acquisition of the LME Group of \$28 million, but was partly offset by depreciation of \$134 million.
- Other assets consisted of money obligations receivable under the CNS System of \$12,733 million (2011: \$6,482 million) and other receivables.
- Represents margin deposits and cash collateral from Clearing Participants of \$36,786 million (2011: \$34,592 million) and Participants' contributions to Clearing House Funds of \$1,924 million (2011: \$880 million). Margin deposits and cash collateral from Clearing Participants at 31 December 2012 increased over the prior year due to the increase in open interest in futures contracts, partly offset by lower margin required per contract at the year end. The rise in Participants' contributions to Clearing House Funds was mainly due to the increase in additional contributions from Participants due to market fluctuations and changes in risk exposure.
- Other liabilities mainly represent money obligations payable under the CNS System of \$12,733 million (2011: \$6,482 million), borrowings of \$6,615 million (2011: \$Nil) and other liabilities.
- Net cash inflow from operating activities increased by \$1,218 million compared with 2011 mainly due to a decrease in financial assets measured at fair value through profit or loss and an increase in other current liabilities, but partly offset by lower profit before tax and an increase in accounts receivables, prepayments and deposits.

Overall Performance

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

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

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

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

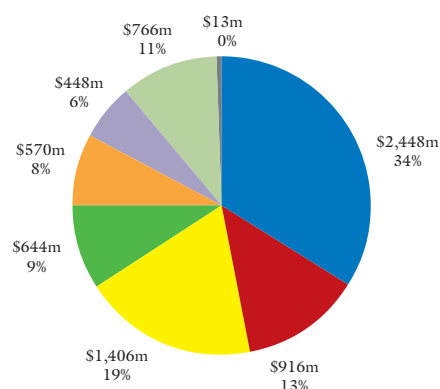
Operating expenses (excluding depreciation and amortisation) increased by 13 per cent compared to 2011 mainly due to higher staff costs and premises expenses.

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

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

Revenue and Other Income

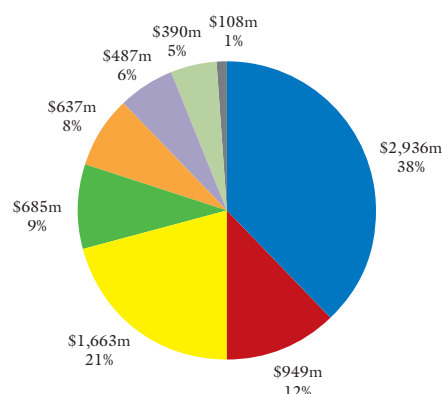
Analysis of 2012 Revenue and Other Income



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

- Trading fees and trading tariff
- Stock Exchange listing fees
- Clearing and settlement fees
- Depository, custody and nominee services fees

Analysis of 2011 Revenue and Other Income



Total Revenue and Other Income = \$7,855m

- Market data fees
- Other revenue
- Net investment income
- Sundry income

(A) Revenue Affected by Market Turnover

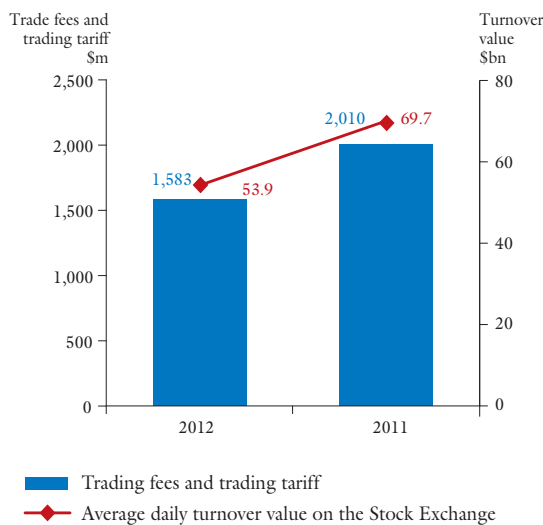
	2012 \$m	2011 \$m	Change
Trading fees and trading tariff	2,448	2,936	(17%)
Clearing and settlement fees	1,406	1,663	(15%)
Depository, custody and nominee services fees	644	685	(6%)
Total	4,498	5,284	(15%)

Key Market Indicators

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

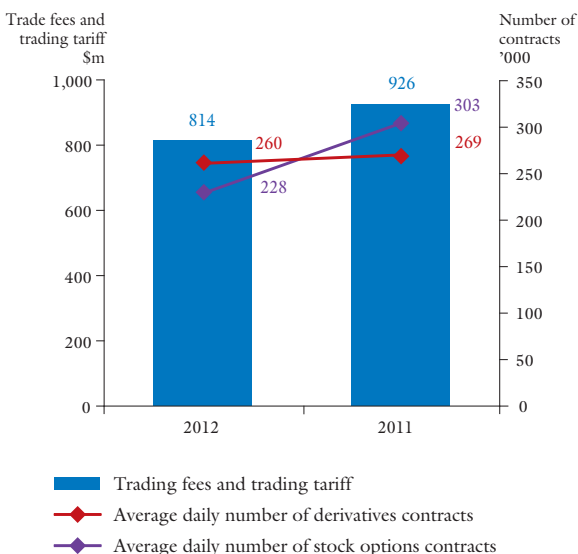
Trading Fees and Trading Tariff

Cash Market



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

Derivatives Market



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

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

Clearing and Settlement Fees

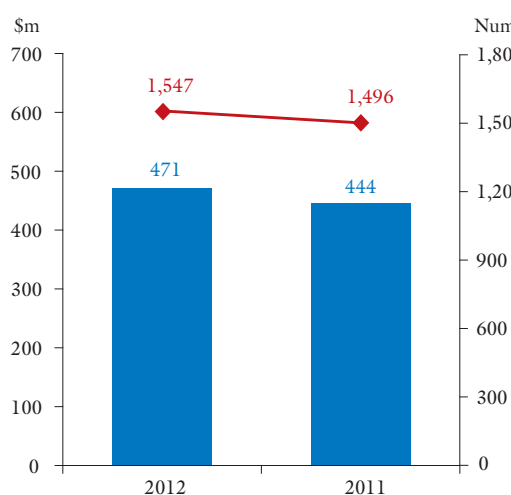
Clearing and settlement fees are derived predominantly from Cash Market transactions and are affected by the volume of SIs. In 2012, the percentage drop in clearing and settlement fees was less than the reduction in the average daily turnover value of the Cash Market compared with 2011 as a higher proportion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

Depository, Custody and Nominee Services Fees

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

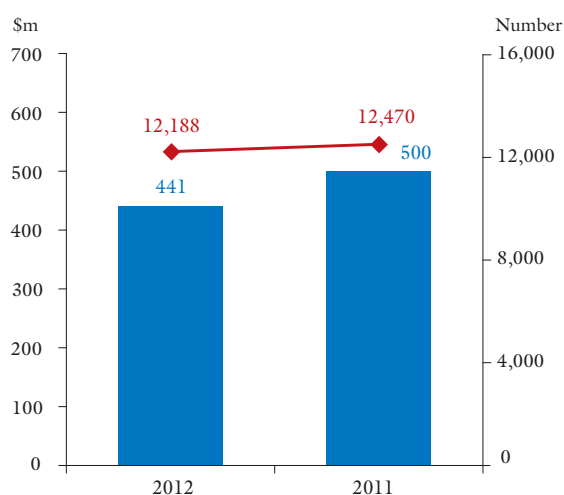
(B) Stock Exchange Listing Fees

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

Annual Listing Fees

■ Annual listing fees
◆ Total number of listed companies at 31 Dec

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

Initial and Subsequent Issue Listing Fees

■ Initial and subsequent issue listing fees
◆ Total number of newly listed securities

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

Key Drivers for Annual Listing Fees

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

Key Drivers for Initial and Subsequent Issue Listing Fees

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

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

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

(C) Market Data Fees

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

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

(D) Other Revenue

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

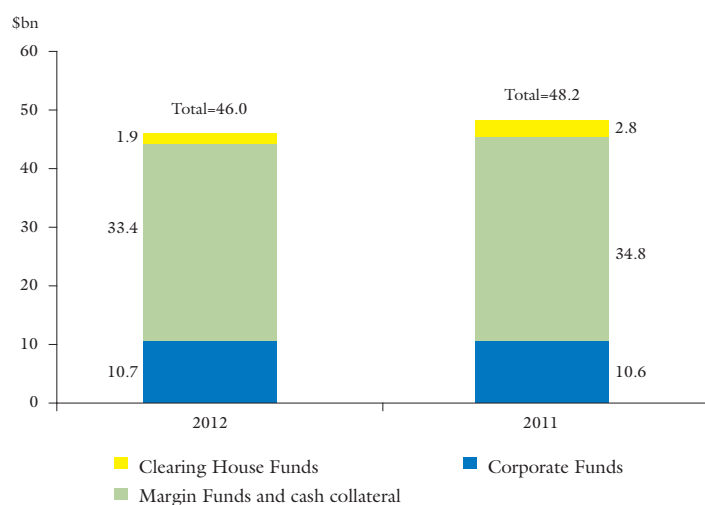
Network, terminal user, dataline and software sub-license fees declined mainly due to a decrease in Cash Market trading system line rental income following the migration of the Group's network services to SDNet/2 in the second half of 2012. As a result of the migration, EPs can directly contract with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

(E) Net Investment Income

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

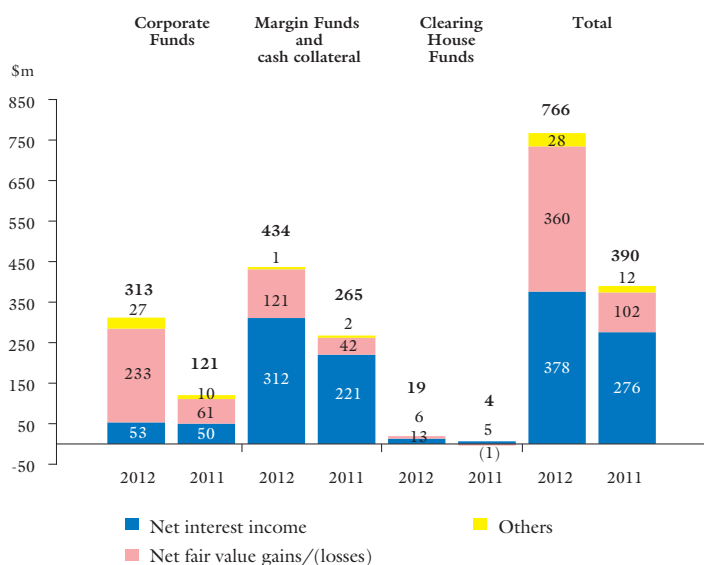
Net investment income rose 96 per cent due to an increase in net fair value gains of investments and an increase in interest income from higher bank deposit rates.

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

Average Amount of Funds Available for Investment

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

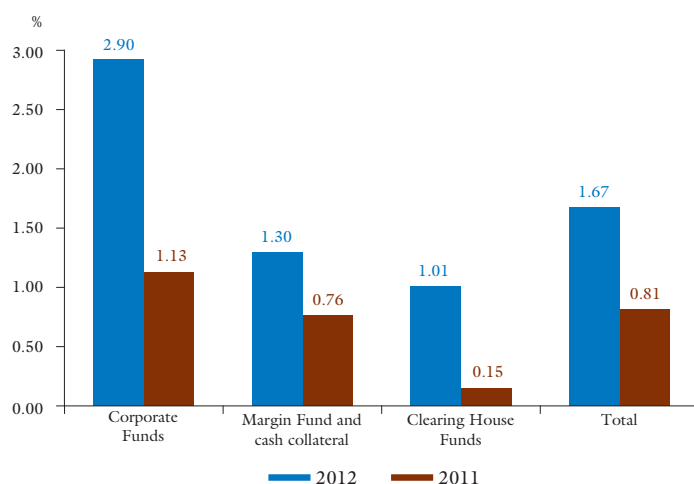
The movements in net investment income by Funds were as follows:

Net Investment Income by Funds

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

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

Annualised Net Return on Funds Available for Investment



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

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

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

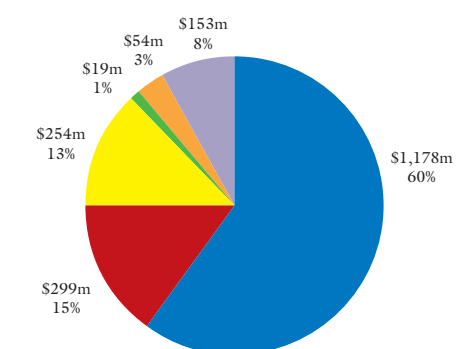
(F) Sundry Income

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

Expenses, Other Costs and Taxation

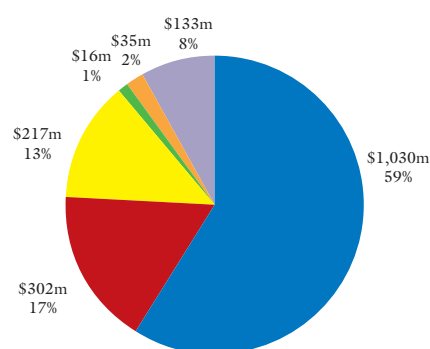
(G) Operating Expenses (excluding Depreciation and Amortisation)

Analysis of 2012 Expenses



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

Analysis of 2011 Expenses



Total expenses = \$1,733m

■ Staff costs and related expenses
■ IT and computer maintenance expenses
■ Premises expenses

■ Product marketing and promotion expenses
■ Legal and professional fees
■ Other operating expenses

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

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

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

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

(H) Depreciation and Amortisation

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

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

(I) Costs relating to Acquisition of LME Group

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

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

(J) Finance Costs

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

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

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

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

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

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

(L) Taxation

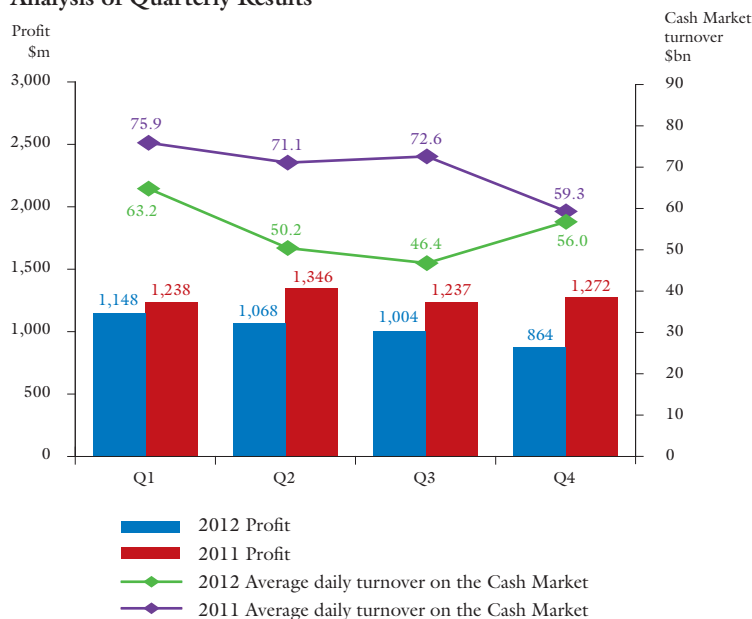
	2012 \$m	2011 \$m	Change
Taxation	761	939	(19%)

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

Analysis of Results by Quarter**Quarterly Results**

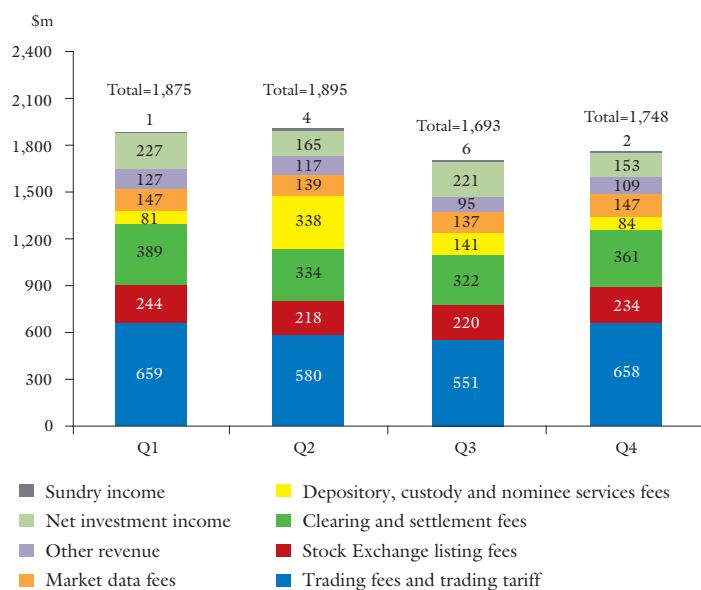
	Q1 2012 \$m	Q2 2012 \$m	Q3 2012 \$m	Q4 2012 \$m	Total 2012 \$m
Revenue and other income	1,875	1,895	1,693	1,748	7,211
Operating expenses (excluding depreciation and amortisation)	484	492	458	523	1,957
EBITDA	1,391	1,403	1,235	1,225	5,254
Depreciation and amortisation	(29)	(27)	(35)	(67)	(158)
Costs relating to acquisition of LME Group	(19)	(91)	(18)	(10)	(138)
Finance costs	–	–	–	(55)	(55)
Fair value loss on derivative component of convertible bonds	–	–	–	(55)	(55)
Share of loss of a joint venture	–	–	(1)	(2)	(3)
Profit before taxation	1,343	1,285	1,181	1,036	4,845
Taxation	(195)	(217)	(177)	(172)	(761)
Profit attributable to shareholders	1,148	1,068	1,004	864	4,084
	Q1 2011 \$m	Q2 2011 \$m	Q3 2011 \$m	Q4 2011 \$m	Total 2011 \$m
Profit attributable to shareholders	1,238	1,346	1,237	1,272	5,093

Analysis of Quarterly Results



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

Analysis of 2012 Revenue and Other Income by Quarter



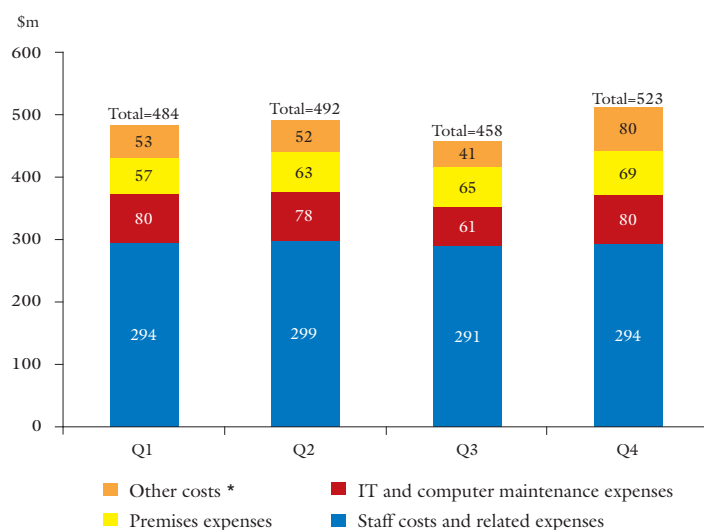
Trading fees and trading tariff and clearing and settlement fees generally moved in line with the average daily turnover on the Cash Market. Depository, custody and nominee services fees were the highest in the second quarter on account of higher scrip fee income due to seasonal factors.

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

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

* Including transfers from GEM

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



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

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

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

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

Operating Segments

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

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

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

- The **Cash** segment will include all revenues associated with the listing, trading and market data of Cash Market products traded on the Stock Exchange (excluding derivatives such as CBBCs, DWs, warrants and stock options);
- The **Equity and Financial Derivatives** segment will cover all revenues associated with derivatives traded on the Stock Exchange (ie, CBBCs, DWs, warrants and stock options) and the Futures Exchange;
- The **Commodities** segment will represent the operations of the LME Group (excluding its clearing operations);
- The **Clearing** segment will comprise the operations of HKSCC, SEOCH, HKCC, OTC Clear and LME Clear;

- (v) The **Platform and Infrastructure** segment will include the operations of Hosting Services and other technology related services; and
- (vi) **Corporate Items** comprise central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the reportable segments, finance costs and other costs not directly related to any of the reportable segments), and are not allocated to the reportable segments. Under the new segmental analysis, costs of developing new business initiatives incurred before launch (such as OTC Clear, LME Clear and Hosting Services), which were previously absorbed as support function costs under Corporate Items, will be included under the respective reportable segments.

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

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

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

Additional Information on LME Group's 2012 Full Year Results

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

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

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

Notes:

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

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

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

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

Note:

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

Changes to Key Items in Consolidated Statement of Financial Position

(A) Fixed Assets, Intangible Assets and Capital Commitments

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

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

(B) Significant Financial Assets and Financial Liabilities by Funds

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

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

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

* Excluding margin receivable from CPs

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

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

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

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

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

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

Joint Venture with Shanghai Stock Exchange and Shenzhen Stock Exchange

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

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

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

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

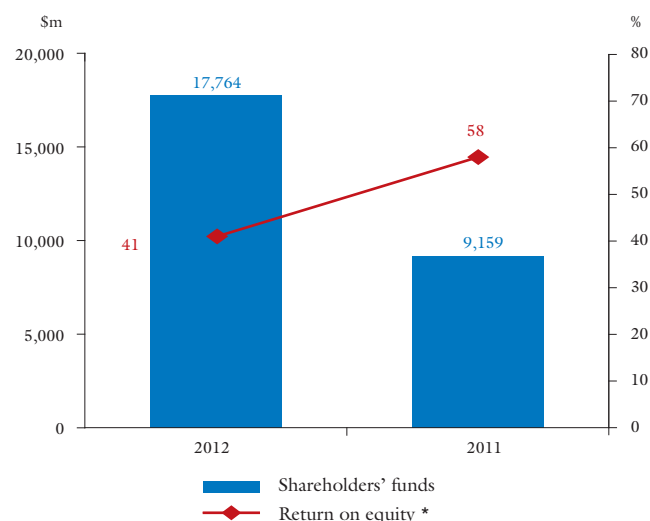
The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2012 mainly comprised CNS money obligations receivable and payable, and other receivables from and payables to EPs and CPs.

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

(E) Shareholders' Funds and Return on Equity

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

Shareholders' Funds and Return on Equity



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

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

Liquidity, Financial Resources and Gearing

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

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

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

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

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

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

Charges on Assets

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Contingent Liabilities

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