

DIRECTORS' REPORT

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

Principal Activities

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

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

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

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

Results and Appropriations

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

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

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

Distributable Reserves

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

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

Donations

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

Intangible Assets and Fixed Assets

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

Share Capital

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

Borrowings

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

Group Financial Summary

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

Purchase, Sale or Redemption of HKEx's Listed Securities

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

Public Float

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

Directors

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

Biographical Details of Directors and Senior Management

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

Management Contracts

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

Directors' Interests in Contracts

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

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

Directors' Rights to Acquire Shares or Debentures

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

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

Loans to Officers

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

Major Customers and Suppliers

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

Provident Fund Schemes

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

Corporate Governance

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

Auditor

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

On behalf of the Board

CHOW Chung Kong
Chairman

Hong Kong, 27 February 2013