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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

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

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

The Board submits the unaudited consolidated results of the Group for the nine months ended 30 September 2012 as follows:

FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2012	Nine months ended 30 Sept 2011	Change	**Three months ended 30 Sept 2012**	Three months ended 30 Sept 2011	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange ($bn)	**53.1**	73.2	(27%)	**46.4**	72.6	(36%)
Average daily number of derivatives contracts traded on the Futures Exchange	**257,973**	268,850	(4%)	**243,303**	304,229	(20%)
Average daily number of stock options contracts traded on the Stock Exchange	**224,880**	309,104	(27%)	**211,479**	348,598	(39%)

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change	**Three months ended 30 Sept 2012 $m**	Three months ended 30 Sept 2011 $m	Change
RESULTS						
Revenue and other income	**5,463**	5,917	(8%)	**1,693**	1,945	(13%)
Operating expenses	**1,525**	1,383	10%	**493**	467	6%
Operating profit	**3,938**	4,534	(13%)	**1,200**	1,478	(19%)
Costs relating to proposed acquisition of LME Group	**(128)**	–	N/A	**(18)**	–	N/A
Share of loss of a joint venture	**(1)**	–	N/A	**(1)**	–	N/A
Profit before taxation	**3,809**	4,534	(16%)	**1,181**	1,478	(20%)
Taxation	**(589)**	(713)	(17%)	**(177)**	(241)	(27%)
Profit attributable to shareholders	**3,220**	3,821	(16%)	**1,004**	1,237	(19%)
Basic earnings per share	**$2.99**	$3.55	(16%)	**$0.93**	$1.15	(19%)
Diluted earnings per share	**$2.98**	$3.54	(16%)	**$0.93**	$1.15	(19%)

	At 30 Sept 2012	At 31 Dec 2011	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($m)	**8,693**	9,159	(5%)
Total assets [1] ($m)	**55,801**	54,028	3%
Net assets per share [2] ($)	**8.03**	8.50	(6%)

Notes:

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

2 Based on 1,082,084,895 shares as at 30 September 2012, being 1,084,057,087 shares issued and fully paid less 1,972,192 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

In the third quarter of 2012, global financial markets continued to be affected by macroeconomics which has undermined investor confidence. The Hong Kong stock market was of no exception. For the first nine months of 2012, the average daily turnover value on our securities market declined by 27 per cent from the same period last year, while the average daily number of futures and options contracts traded on our derivatives market dropped by 16 per cent year-on-year. The Group's profit attributable to shareholders for the nine months ended 30 September 2012 was $3.2 billion, a drop of about 16 per cent against that of last year.

The September 2012 announcement by the US Federal Reserve of a third round of quantitative easing and the maintaining of the federal funds rate near zero at least through mid-2015 has helped improve market sentiment, and as a result global financial markets responded positively to these stimulus policies.

Whilst the long-term effectiveness of these policies aiming to inspire global economic growth momentum has yet to be proven, HKEx has been working diligently in adding impetus to its business. Our strong foundation supports our expansion into fixed income, currencies and commodities, as well as RMB businesses.

After gaining over 99 per cent of LMEH shareholders' approval of our proposed acquisition, we applied to FSA for the change of control of LME. Subject to regulatory approval, completion of the acquisition of LME is anticipated by the end of this year. Although committed banking facilities have been arranged to finance the acquisition, we, in light of favourable market conditions and positive feedback from investors, tapped the capital markets and raised US$500 million by issuing convertible bonds to professional investors. The net proceeds from the issuance of convertible bonds will be used to partly fund the acquisition while allowing us to reduce the necessity of using bridge financing through our committed bank facilities.

Progress has been made in the development of our RMB business. We saw the introduction of a number of RMB products on our markets and the listing of the first RMB-traded equity on the Exchange. We established Ganghui Financial Information Services (Shanghai) Limited as a wholly foreign owned enterprise in Shanghai to provide financial information services on the Mainland, and we formed a joint venture company, China Exchanges Services Company Limited (CESC), in Hong Kong with the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) to develop financial products and related services on the three markets.

Apart from active business development, our work on maintaining and enhancing market quality continues. After market consultation, the Environmental, Social and Governance Reporting Guide will be implemented as a recommended best practice under the Listing Rules effective 1 January 2013. This is an important step to foster a caring attitude among issuers, and enhance public access to issuers' performance in this respect. In view of the growing concern about board diversity globally, we published a consultation paper in September 2012 to seek market views on amending the Listing Rules to cover the subject. We believe that good governance lays a firm foundation for companies' sustainable development in a competitive environment.

The Board has renewed the contract with Mr Charles Li as HKEx's Chief Executive for a further 3-year term until 15 October 2015. We look forward to working with Mr Li towards the continued success of HKEx and the further development of Hong Kong as an international financial centre.

Although global financial markets are overshadowed by uncertainties, with the continued support of all our stakeholders and the determined effort of our management team, we believe that we are well positioned for the challenges ahead.

CHOW Chung Kong
Chairman

CHIEF EXECUTIVE'S REVIEW

For the first three quarters of the 2012 financial year, we experienced weak fund raising and trading activities amidst economic uncertainties around the world. Nevertheless, our strategic initiatives under the Strategic Plan 2010-2012 began to bear fruit which I believe will significantly enhance our competitive position and prepare us for opportunities when market conditions improve.

Market Performance

In the first three quarters of 2012, 47 companies were newly listed on the Stock Exchange [1]. Total capital raised (including post-listing funds) reached $195.8 billion, a 46 per cent decrease from the same period in 2011. Among them were international companies from Canada, Japan and Singapore that raised a total of about $6.3 billion.

In the securities market, the average daily turnover value was $53.1 billion, a 27 per cent decrease from the same period in 2011. Average daily volume for futures was 190,916 contracts and average daily volume for options was 291,937 contracts, down 6 per cent and 22 per cent respectively year-on-year.

Business Development Review

RMB Internationalisation

As part of our continuing effort to promote RMB internationalisation and prepare for the unique opportunities brought about by China's gradual capital account opening, we have developed a variety of RMB-traded products. RMB-traded debt securities with a cumulative value of RMB66 billion were listed as of the end of the third quarter of 2012, including RMB23 billion in sovereign bonds. To provide investors with indirect access to the Mainland stock market, 3 RMB Qualified Foreign Institutional Investor (RQFII) A-share ETFs were newly listed on the Exchange in the third quarter. The assets under their management was in excess of RMB11 billion as at the end of September. On 17 September, we introduced the world's first exchange-traded deliverable RMB futures to cater for the increasing needs of companies and investors to hedge against RMB currency risk.

OTC Clearing

The development of the OTC derivatives clearing business is progressing well. Our new OTC clearing house, OTC Clearing Hong Kong Limited (OTC Clear), is the first OTC clearing house in Hong Kong. The finalisation of OTC Clear's rules and procedures and the implementation of its systems are underway. We have been in discussions with banks and licensed corporations in regard to OTC clearing membership and our Founding Members Programme. Responses received so far have been positive.

Platform Infrastructure Upgrade

In the third quarter of 2012, construction of the new Data Centre in Tseung Kwan O was completed. In October 2012, the IT office relocation and the first phase of data centre migration to the new building were smoothly completed.

[1] Excluding the number of transfers of listing from GEM to the Main Board

The HKEx Orion technology programme is also progressing well. The migration of network circuits for Cash Market Participants and IVs to SDNet/2 was completed in mid-July, while the Orion Market Data Platform (OMD) is being implemented as planned. On the Derivatives Market, the migration of HKATS/DCASS to the new Genium INET platform has commenced. The Orion Trading Platform (OTP) and Orion Central Gateway, 2 other initiatives under the HKEx Orion programme, are going through the proof-of-concept and development phases, respectively.

Update on Agreement to Acquire LME

As it is a key step in "kick-starting" HKEx's strategy of expanding our business into commodities, we continue to work diligently towards the closing of our proposed acquisition of LME. Application for Change of Control was submitted to FSA on 4 September. So far, no major issues have been identified. Meanwhile, an Integration Management Office has been set up to spearhead the preparation for Day-1 operations and the implementation of our strategic initiatives, as laid out in the news release regarding the offer [2]. Subject to FSA's approval, the transaction is expected to close in the fourth quarter of 2012.

LI Xiaojia, Charles
Director and Chief Executive

[2] The news release "HKEx Makes Recommended Cash Offer for the London Metal Exchange" dated 15 June 2012 is available on the HKEx website.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing

Environmental, Social and Governance Reporting Guide

The consultation conclusions on the proposed Environmental, Social and Governance Reporting Guide (Guide) were published on 31 August 2012.

The Guide will be a recommended practice and apply to issuers with financial years ending after 31 December 2012. Subject to further consultation, the Exchange plans to raise the obligation level of some recommended disclosures in the Guide to "comply or explain" by 2015. Dialogue will be continued with listed companies and other stakeholders as and when appropriate to solicit their views on the Guide.

Proposals on Trading Halts and Listing Rule Amendments regarding Inside Information

The Exchange is reviewing the responses to consultations conducted in the third quarter of 2012 on: (i) a proposal to implement trading halts that would allow listed companies to publish announcements with price sensitive information during trading hours; and (ii) proposed Rule changes consequential on the statutory backing of listed companies' continuing obligation to disclose inside information.

Consultation conclusions on the proposals will be released later this year.

Consultation Paper on Board Diversity

HKEx published a consultation paper on 7 September 2012 to seek views on its proposal to include board diversity in the Corporate Governance Code and Corporate Governance Report (Code).

Under the proposals, the Code's Principle for "Board Composition" will be revised to include "diversity of perspectives". An issuer should, upon conducting reviews of its board composition, consider the benefits of diversity in addition to achieving a balance of skills, experience and independence.

The proposals also include a new Code Provision (ie, subject to "comply or explain") stating that an issuer's nomination committee (or its board) should have a policy concerning diversity in the boardroom, and should disclose the policy or a summary of the policy in its corporate governance report.

The deadline for submitting responses to the consultation paper is 9 November 2012.

RMB Business Development

In the third quarter of 2012, 3 RQFII A-share ETFs were listed on the Exchange. The addition of RQFII A-share ETFs broadens HKEx's RMB product offerings and helps develop the ETF market further, and also enables investors to own physical A-shares.

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

HKEx, with the SFC's collaboration, established the Dual Counter model for RQFII ETFs to offer investors a choice of trading a security in RMB or HKD. A series of market practice sessions were carried out for the market to get familiar with the operations of Dual Counter model. On 12 October 2012, Harvest MSCI China A Index ETF was newly listed on the Exchange as the first Dual Counter security, and on 26 October 2012, ChinaAMC CSI 300 Index ETF also launched the HKD counter (in addition to the RMB counter). HKEx and the SFC have been working with other 2 RQFII A-share ETF managers on the launch of the HKD counter for their RQFII A-share ETFs (in addition to the RMB counter) under the Dual Counter model.

On 29 October 2012, the listing of RMB-traded shares issued by Hopewell Highway Infrastructure Limited on the Exchange (in addition to its HKD-traded shares) marked the debut of the first RMB-traded equity security outside Mainland China and HKEx's first Dual Counter equity security. It set a major milestone in HKEx's RMB product development and reinforced Hong Kong's position as a leading offshore RMB centre.

Number of RMB-traded Products Listed on the Exchange	
• Equity security	1
• Debt securities	43
• ETFs	5
• REIT	1

RMB Currency Futures commenced trading on 17 September 2012. They are the first exchange-traded deliverable futures based on the exchange rate of USD vs RMB circulated in Hong Kong. The new futures serve as a tool for RMB users to manage foreign exchange risk. A total of 2,172 contracts (US$217.2 million, or approximately RMB1.4 billion, in value terms) were traded in September 2012, and the month-end open interest was 1,076 contracts (US$107.6 million, or approximately RMB679 million, in value terms).

With effect from 6 August 2012, the coverage of the RMB Equity Trading Support Facility (TSF) was extended from RMB-traded shares to RMB-traded REITs and ETFs with equities as the underlying benchmark. As at 30 September 2012, there were 45 eligible TSF Participants and 4 TSF eligible securities.

Promotion of RMB products continued in the third quarter of 2012. HKEx organised and/or participated in various marketing and educational activities in Hong Kong, Singapore and the Mainland to enhance these markets' understanding of its RMB products.

Cash Market

Market Performance

In the nine months ended 30 September 2012, 39 companies were newly listed on the Main Board (including 2 transfers from GEM), and 10 on GEM. Total capital raised, including post-listing funds, reached $195.8 billion. As at 30 September 2012, 1,355 and 178 companies were listed on the Main Board and GEM respectively with a total market capitalisation of about $19,649 billion. In addition, there were 3,903 DWs, 1,104 CBBCs, 96 ETFs, 9 REITs, and

247 debt securities listed as at 30 September 2012. The average daily turnover value in the first nine months of 2012 was $53 billion on the Main Board and $131.7 million on GEM, a decline of 27 per cent and 54 per cent respectively compared with the corresponding period of 2011.

Performance of Major Products

	Third quarter of 2012		Second quarter of 2012	
	Average daily turnover $bn	Market total %	Average daily turnover $bn	Market total %
Equities	33.3	72	35.8	71
DWs	5.6	12	6.3	13
CBBCs	5.7	12	6.3	13
ETFs	1.6	3	1.5	3
Others	0.2	1	0.3	0
Total	46.4	100	50.2	100

ETF Market

During the first nine months of 2012, 31 ETFs, which track a diversified range of underlying benchmarks, were newly listed on the Exchange. As at 30 September 2012, there were 96 listed ETFs, 19 ETF managers, and 23 ETF market makers.

Number of ETFs Newly Listed in the First Nine Months of 2012

Underlying benchmark	
• Regional markets	18
• Global and regional industry sectors	7
• Hong Kong market strategy	3
• Hong Kong industry sector	1
• Money market	1
• Gold	1

Derivatives Market

Market Performance

In the nine months ended 30 September of 2012, 35,414,974 futures contracts and 54,154,375 options contracts were traded on the Derivatives Market. The average daily volume in the first nine months of 2012 was 190,916 contracts on futures and 291,937 contracts on options, a decline of 6 per cent and 22 per cent respectively compared with the corresponding period of 2011. On 28 September 2012 (the last trading date in September 2012), the total open interest was 6,015,773 contracts, comprising 368,523 futures contracts and 5,647,250 options contracts.

Record High Volume and Open Interest for Major Derivatives in the Third Quarter of 2012

	Volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
H-shares Index Futures	25 Sept	222,384	25 Sept	190,052
HSI Dividend Point Index Futures	1 Aug	3,000	28 Sept	7,724
HSCEI Dividend Point Index Futures	–	–	12 Sept	73,105
H-shares Index Options	14 Sept	67,677	26 Sept	702,719
Flexible HSI Options	–	–	28 Sept	13,010

After-hours Futures Trading

After-hours futures trading will tentatively be implemented in March 2013, subject to the SFC's approval of the related rule amendments. EPs and CPs intending to participate in after-hours futures trading were requested to prepare their systems for a simulation test to be held in December 2012.

Clearing

Scripless Securities Market

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

HKCC's Settlement Bank Arrangement

Since August 2012, money settlement arrangements with all Settlement Banks of HKCC have been standardised to streamline the payment flows and to facilitate a higher level of the banks' participation in RMB settlement.

OTC Clearing

The development of HKEx's OTC derivatives clearing business under the new OTC clearing house, OTC Clear, is making good progress. Consultation on the draft rules and procedures of OTC Clear was conducted, and comments have been received from a number of market players and an industry body. The relevant rules and procedures are being revised after consideration of the views and suggestions received, and will be finalised in the fourth quarter of this year.

The system implementation work is now in the user acceptance stage. All the system tests, including tests of interfaces with external service providers such as market data suppliers, SWIFT, and trade affirmation platforms, will be completed in November 2012. OTC Clear will then arrange connectivity tests for its Clearing Members. Before the start of the OTC clearing services, OTC Clear will also arrange a market rehearsal with its Clearing Members and all external service providers, and details will be available in November 2012.

In the past few months, OTC Clear has arranged meetings with banks and licensed corporations to provide them with the information about risk management, operating framework and work flow of OTC clearing services. Work is now underway with prospective Direct Clearing Members of OTC Clear on connection to trade affirmation platforms such as MarkitWire, DS-Match, and HKMA-trade repository. Formal clearing membership applications will commence in November 2012.

In July 2012, the HKMA and the SFC jointly issued their consultation conclusions on their proposed regulatory regime for the OTC derivatives market in Hong Kong. The consultation conclusions revealed that the market is generally supportive of the proposed regulatory regime and recognises the need for Hong Kong to be in line with the international regulatory reforms. The regulators plan to issue a consultation paper on the proposed legislative amendments to support mandatory clearing and reporting of OTC derivatives transactions in Hong Kong in the fourth quarter of 2012. The regulatory regime for Hong Kong's OTC derivatives market is expected to be in place around the middle to latter part of 2013.

In the coming months, HKEx will be working closely with the SFC on an application for OTC Clear to be a recognised clearing house for providing OTC clearing services in Hong Kong under the SFO.

Participant Services

Participant Training and Market Education

In the first nine months of 2012, HKEx and the Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute) jointly organised 8 Continuous Professional Training courses on HKATS operations and trading procedures. There were also 5 training courses related to AMS/3, and 16 related to CCASS or DCASS. In addition, a total of about 3,000 people participated in 52 briefing sessions and 23 seminars on derivatives organised under HKEx's joint promotion programme with EPs.

Participant Recruitment

At the end of September 2012, there were 547 SEHK Participants and 185 HKFE Participants, including 17 SEHK Participants and 13 HKFE Participants admitted in the first nine months of 2012. For HKSCC, there were 24,248 CCASS Participants, including 446 Investor Participants admitted in in the first nine months of 2012.

Market Data

HKEx Mainland Market Data Hub

In view of the substantial growth of Mainland IVs, HKEx aims to expand its market data distribution on the Mainland. In the third quarter of 2012, Ganghui Financial Information Services (Shanghai) Limited, an indirect wholly-owned subsidiary of HKEx, was established as a wholly foreign owned enterprise to provide financial information services on the Mainland. It is scheduled to launch a market data hub in Shanghai, through which securities market and index datafeed products will be offered initially, in the third quarter of 2013. The data hub is part of the HKEx Orion programme and will enable HKEx to deliver broader market data products to Mainland IVs and investors through a reliable, scalable, and more cost-effective infrastructure.

Risk Management

Clearing Houses' Risk Management Reform Measures

To strengthen HKEx's clearing house risk management regime, HKEx worked closely with CPs for the implementation of measures 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; (iv) revise the collateral assumption at HKCC; and (v) introduce various means of financial support to reduce the impact of risk management reform on CPs. Five briefing sessions were held in August 2012 for HKSCC's CPs on the measures and more than 600 representatives from 334 CPs attended. On 5 November 2012, HKEx successfully implemented the reform measures.

Market Surveillance

Under the Memorandum of Understanding between the SFC and HKEx on matters relating to market surveillance, HKEx referred 20 cases involving possible violations of Hong Kong laws, SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during the nine months ended 30 September 2012.

Information Technology

Production Systems' Stability and Reliability

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

System Enhancement

Further enhancement of CCMS is in progress to facilitate margin offset between products of different settlement currencies including RMB. Production rollout is scheduled in November 2012.

IT Security Enhancements

HKEx has commenced a programme to implement various security enhancement initiatives as recommended in an IT security risk and infrastructure review conducted earlier. The entire programme will be completed by phases before the end of 2013, with important items to be implemented in 2012.

New Data Centre and IT Office Consolidation

Construction of the new Data Centre in Tseung Kwan O, Hong Kong was completed and the relevant building occupancy permit has been obtained. The IT office was relocated to the new building in mid-October and the first phase of data centre migration, involving the Cash Market, was smoothly completed on 29 October after a series of successful market rehearsals with EPs and IVs. The relocation of all other primary data centres will be conducted by phases in 2013.

HKEx Orion Programme

The phased implementation of the HKEx Orion technology programme continued in the third quarter of 2012 with an aim of progressively transforming HKEx's market platforms to improve market access, connectivity, speed, and functionality.

The migration of network circuits for Cash Market Participants and IVs to SDNet/2, which marked the start of HKEx Orion programme, was completed in mid-July to provide higher bandwidth scalability and offer the choice of multiple network carriers for diversity and competitive pricing. The Participants' and IVs' network circuits for the Derivatives Market as well as Cash Clearing are targeted for migration in the first half and second half of 2013 respectively.

Implementation work for the OMD is underway. Rollout is scheduled for the second quarter of 2013 for the Cash Market and by the first quarter of 2014 for the Derivatives Market. The OMD, an integrated low-latency data feed for all asset classes traded on the HKEx markets in a common message format, will enable HKEx to: (i) offer a suite of market data product feeds with content, market depth, and bandwidth requirements tailored to suit the needs of different types of customers; and (ii) establish points of presence for market data distribution outside of Hong Kong such as on the Mainland. The information paper and on-boarding package for OMD Cash Market as well as the fee schedule for new OMD datafeed products are available on the HKEx website.

The proof-of-concept exercise regarding the development of OTP is progressing well and will be completed by the end of 2012, after which the project will enter into the development and implementation stages in 2013 and 2014. The OTP will serve as the new Cash Market trading system to provide low latency, high capacity, and new business functionality.

The design phase of the Orion Central Gateway has already been completed and the development phase has commenced with tentative launch date in the fourth quarter of 2013. It will offer access to the Cash Market without the need for any gateway equipment to be deployed in brokers' premises, and there will be new additional features such as FIX (Financial Information eXchange) support and "drop-copy" reports.

For the Derivatives Market, the vendor has commenced the migration of HKATS/DCASS to the new Genium INET platform for technology upgrade and significant improvement in capacity with reduced order latency. Software development is aimed to be completed in early 2013 for commencement of testing in the second quarter of 2013. The new platform is targeted for rollout in the fourth quarter of 2013.

Market Development

Hosting Services

A total of 50 EPs, IVs, network service providers, and technology vendors have entered into contracts to subscribe for the Hosting Services, so the initial capacity of 320 racks to be launched this year is sufficient to address the customer demand thus far.

The Hosting Services infrastructure comprising equipment racks, structured cabling system, and low-latency local area networks has been completed. To prepare for the production launch for the Cash Market trading in December 2012, customers have been invited to start their equipment installation and participate in market rehearsals in the fourth quarter of 2012.

Mainland Development

CESC was incorporated and is jointly owned by HKEx, SSE and SZSE for the development of financial products and related services. A 9-member board was formed comprising 3 directors nominated by each of the exchanges in the joint venture. Mr Bryan Chan, Head of Market Data, Mr Calvin Tai, Head of Trading, and Ms Yang Qiumei, Head of Mainland Development, were nominated by HKEx as CESC's directors. Mr Chan was appointed CESC's chief executive by the company's board.

CESC's principal business includes, but is not limited to: (i) the development and franchising of index-linked and other equity derivatives; (ii) the compilation of cross-border indices based on products traded on the 3 markets; and (iii) the development of industry classification for listed companies, as well as information standards and information products. CESC plans to launch a new series of cross-border indices by the end of this year and to introduce index-related products in the first quarter of next year. Those products will be traded on HKEx's Derivatives Market.

HKEx also continues to enhance its Mainland stakeholders' knowledge and understanding of its markets. In the third quarter of 2012, it arranged training programmes on Hong Kong's securities market for the officials of China Securities Regulatory Commission and H-share company executives from various provinces.

Issuer Marketing

In line with its strategy to generate additional growth in its listing business, HKEx has continued to promote Hong Kong as a listing centre of choice for international companies seeking capital, brand awareness, and Asia exposure. HKEx furthered its effort to attract international companies with China nexus to list in Hong Kong by speaking at various conferences held locally as well as overseas, and meeting with listing prospects and market intermediaries from Africa, Australia, Canada, Japan, Mongolia, Russia, Taiwan and the Commonwealth of Independent States.

As part of its marketing work to encourage Mainland enterprises to consider seeking a listing in Hong Kong, HKEx organised a number of major listing promotion events and invited intermediaries to form financial delegations to visit various Mainland provinces to share their Hong Kong IPO experience. HKEx also provided speakers for 30 different conferences and seminars during the third quarter of 2012 and was an active participant in those events.

Offshore RMB fundraising in Hong Kong remains a key focus as substantive conversations continue with potential and listed issuers and influential intermediaries.

BRICS Exchanges Alliance

To promote the cross-listings of benchmark equity index futures and/or options on trading platforms of the BRICS alliance exchanges through enhanced liquidity and investor demand at each exchange, the member exchanges have been sharing information on market maker recruitment, incentive schemes, and investor education resources. A website will be built for easy investor access to market and education information on the 5 exchanges. The exchanges will also jointly organise education events for investors and other market participants.

The alliance's member exchanges are also in the final phase of market testing, shortlisting, and selection after inviting major global index providers to propose index development turnkey solutions. Upcoming major tasks include the confirmation of: (i) product mix, (ii) best onshore and offshore go-to-market strategy, and (iii) the design of the appropriate vehicle for BRICS index business development and operations.

Research and Corporate Development

HKEx conducted its Derivatives Market Transaction Survey 2011/12 in the third quarter of 2012 and will publish the survey report in due course. The Cash Market Transaction Survey 2011/12 has commenced and is expected to be completed by the end of this year with results to be published early next year. The findings of these surveys will help HKEx to keep track of the trends and characteristics of investors' participation in its markets for product and service improvement and ensuring the markets' competitiveness.

Other Promotional Activities

Mr Ronald Arculli, in his capacity as Chairman of World Federation of Exchanges and a Director of HKEx, spoke at the 3rd Annual Russia & CIS Investment Summit in Hong Kong and the Hong Kong Legal Services Forum 2012 in Guangzhou during the third quarter of 2012 on the strengths of Hong Kong's financial markets. Mr Arculli and other HKEx's senior executives also participated in the Trading Architecture Asia 2012 event in Hong Kong to promote HKEx's technology initiatives to the trading community. In addition, HKEx's Chief Executive participated in an investors' forum held in Hong Kong and a commodities conference in Singapore.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling $44.3 billion on average for the nine months ended 30 September 2012 (nine months ended 30 September 2011: $46.7 billion).

As compared with 30 June 2012, the overall size of funds available for investment as at 30 September 2012 increased by 11 per cent or $4.7 billion to $46.2 billion (30 June 2012: $41.5 billion). Details of the asset allocation of the investments as at 30 September 2012 against those as at 30 June 2012 are set out below.

	Investment Fund Size $bn		**Bonds ***		**Cash or Bank Deposits**		**Global Equities**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**9.0**	9.7	**46%**	49%	**50%**	46%	**4%**	5%
Cash collateral	**3.6**	3.6	**0%**	0%	**100%**	100%	**0%**	0%
Margin Funds	**31.6**	26.7	**10%**	17%	**90%**	83%	**0%**	0%
Clearing House Funds	**2.0**	1.5	**0%**	11%	**100%**	89%	**0%**	0%
Total	**46.2**	41.5	**15%**	23%	**84%**	76%	**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 30 September 2012 and 30 June 2012), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2012 ($45.8 billion) and 30 June 2012 ($41.1 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**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**8.6**	9.3	**24%**	21%	**26%**	12%	**19%**	33%	**14%**	17%	**17%**	17%
Cash collateral	**3.6**	3.6	**82%**	73%	**14%**	9%	**4%**	18%	**0%**	0%	**0%**	0%
Margin Funds	**31.6**	26.7	**19%**	14%	**17%**	19%	**58%**	61%	**3%**	3%	**3%**	3%
Clearing House Funds	**2.0**	1.5	**52%**	48%	**12%**	15%	**36%**	37%	**0%**	0%	**0%**	0%
Total	**45.8**	41.1	**26%**	22%	**18%**	16%	**46%**	50%	**5%**	6%	**5%**	6%

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 30 September 2012, had a weighted average credit rating of Aa3 (30 June 2012: Aa3) and a weighted average maturity of 2.3 years (30 June 2012: 2.1 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 third quarter of 2012 and the second quarter of 2012 was as follows:

	Average VaR $m		**Highest VaR** $m		**Lowest VaR** $m	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**21.5**	21.7	**23.9**	24.1	**16.4**	18.5
Cash collateral	**0.0**	0.1	**0.1**	0.1	**0.0**	0.1
Margin Funds	**1.0**	1.3	**1.4**	1.6	**0.6**	1.0
Clearing House Funds	**0.1**	0.1	**0.1**	0.1	**0.0**	0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review.

FINANCIAL REVIEW

Overall Performance

	Note	**Nine months ended 30 Sept 2012 $m**	Nine months ended 30 Sept 2011 $m	Change
RESULTS				
Revenue and other income:				
Market revenue	(A)	**3,395**	4,120	(18%)
Stock Exchange listing fees	(B)	**682**	714	(4%)
Market data fees	(C)	**423**	491	(14%)
Other revenue	(D)	**339**	357	(5%)
Net investment income	(E)	**613**	235	161%
Other income		**11**	–	N/A
		5,463	5,917	(8%)
Operating expenses		**1,525**	1,383	10%
Operating profit		**3,938**	4,534	(13%)
Costs relating to proposed acquisition of LME Group		**(128)**	–	N/A
Share of loss of a joint venture		**(1)**	–	N/A
Profit before taxation		**3,809**	4,534	(16%)
Taxation		**(589)**	(713)	(17%)
Profit attributable to shareholders		**3,220**	3,821	(16%)

The Group's revenue and other income declined by 8 per cent for the first nine months of 2012 compared to the same period in 2011. The decline was attributable to macroeconomic uncertainties, including the European economic crisis, the slowdown in Mainland China's economic growth rate, and global weak economic growth rate which contributed to reduced investor confidence and led to lower levels of trading activity on the Stock Exchange which also affected revenue levels for several of the Group's service products. The average daily turnover value on the Cash Market dropped 27 per cent to $53.1 billion.

Market revenue dropped by 18 per cent, or $725 million to $3,395 million in the first nine months of 2012 mainly due to lower trading fees and trading tariff and clearing and settlement fees associated with the lower turnover value on the Cash and Derivatives Markets.

Net investment income rose 161 per cent, mainly due to higher net fair value gains on investments, reflecting market movements, a rise in interest income due to increases in bank deposit rates, and a slight 1 per cent increase in the average amount of funds available for investment in the Group's Margin Funds.

Operating expenses increased over the same period in 2011, mainly due to higher staff costs, premises expenses, legal and professional fees and depreciation.

The Group incurred $128 million of legal, professional and other expenses related to the proposed acquisition of the LME Group.

Profit attributable to shareholders decreased to $3,220 million in the first nine months of 2012 against $3,821 million for the same period in 2011. The drop was mainly due to lower market revenue due to lower turnover value and higher operating expenses, but partly offset by an increase in net investment income.

Revenue and Other Income

(A) Market Revenue

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Trading fees and trading tariff	**1,790**	2,266	(21%)
Clearing and settlement fees	**1,045**	1,268	(18%)
Depository, custody and nominee services fees	**560**	586	(4%)
Total	**3,395**	4,120	(18%)

Trading fees and trading tariff decreased by 21 per cent in the first nine months of 2012 compared to the same period in 2011 due to a 27 per cent reduction in the average daily turnover value on the Stock Exchange and a 16 per cent reduction in the average daily number of contracts on the Derivatives Market.

Clearing and settlement fees are derived predominantly from Cash Market transactions and are affected by the volume of settlement instructions (SIs). In the first nine months of 2012, the clearing and settlement fees declined less than the percentage reduction in the average daily turnover value on the Cash Market compared with the corresponding period in 2011 as a higher proportion of the transactions' settlements was subject to the minimum fee (ie, the fee rate is higher as a percentage of transaction value than the normal fee rate) 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. The fees are generally influenced by the level of Cash Market activity. For the first nine months of 2012, depository, custody and nominee services fees fell 4 per cent to $560 million due mainly to a drop in scrip fees and stock withdrawal fees.

Key Market Indicators

	Nine months ended 30 Sept 2012	Nine months ended 30 Sept 2011	Change
Average daily turnover value on the Stock Exchange ($bn)	**53.1**	73.2	(27%)
Average daily number of derivatives contracts traded on the Futures Exchange	**257,973**	268,850	(4%)
Average daily number of stock options contracts traded on the Stock Exchange	**224,880**	309,104	(27%)

(B) Stock Exchange Listing Fees

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Annual listing fees	**349**	329	6%
Initial and subsequent issue listing fees	**330**	381	(13%)
Others	**3**	4	(25%)
Total	**682**	714	(4%)

Initial and subsequent issue listing fees dropped by $51 million for the first nine months of 2012 compared to the same period in 2011 due primarily to a slowdown in IPOs and a 24 per cent reduction in the number of newly listed DWs. The result was partly offset by an increase in annual listing fees attributable to a 4 per cent increase in the number of listed companies at 30 September 2012 compared to 30 September 2011.

Key Drivers for Annual Listing Fees

	At 30 Sept 2012	At 30 Sept 2011	Change
Number of companies listed on Main Board	**1,355**	1,301	4%
Number of companies listed on GEM	**178**	166	7%
Total	**1,533**	1,467	4%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2012	Nine months ended 30 Sept 2011	Change
Number of newly listed DWs	**4,281**	5,641	(24%)
Number of newly listed CBBCs	**4,605**	3,781	22%
Number of newly listed companies on Main Board [3]	**39**	61	(36%)
Number of newly listed companies on GEM	**10**	8	25%
Total equity funds raised on Main Board			
– IPOs ($bn)	**43.7**	193.6	(77%)
– Post-IPOs ($bn)	**148.9**	163.1	(9%)
Total equity funds raised on GEM			
– IPOs ($bn)	**1.0**	0.8	25%
– Post-IPOs ($bn)	**2.2**	5.3	(58%)

(C) Market Data Fees

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Market data fees	**423**	491	(14%)

Market data fees decreased by 14 per cent primarily due to a decline in certain fees charged on a per quote basis from the same period in 2011, which was in line with the lower average daily turnover value on the Cash Market.

[3] Including 2 transfers from GEM (2011: 11 transfers from GEM)

(D) Other Revenue

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Network, terminal user, dataline and software sub-license fees	**270**	281	(4%)
Participants' subscription and application fees	**27**	26	4%
Trading booth user fees	**8**	12	(33%)
Sales of Trading Rights	**15**	16	(6%)
Miscellaneous revenue	**19**	22	(14%)
Total	**339**	357	(5%)

Other revenue fell 5 per cent due to decreases in network, terminal user, dataline and software sub-license fees which was primarily due to a drop in Cash Market trading system line rental revenue following the migration of the Group's network services to SDNet/2. As a result of the migration, EPs can directly contract with accredited vendors for Cash Market network line rental services instead of HKEx.

(E) Net Investment Income

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Gross investment income	**615**	237	159%
Interest rebates to Participants	**(2)**	(2)	0%
Net investment income	**613**	235	161%

Net investment income rose 161 per cent due to an increase in net fair value gains on investments and an increase in interest income related to higher bank deposit rates. The average amount of funds available for investment fell slightly 5 per cent.

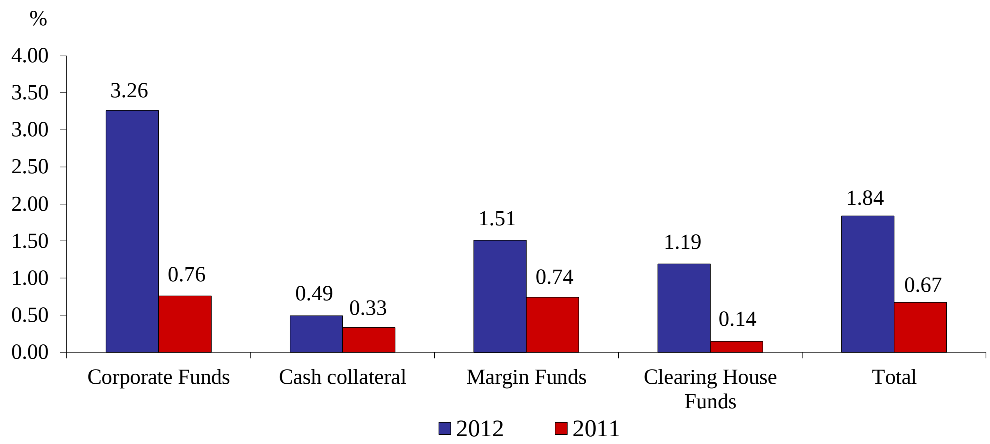
The average amounts of funds available for investment were as follows:

	Nine months ended 30 Sept 2012 $bn	Nine months ended 30 Sept 2011 $bn	Change
Corporate Funds	**10.6**	10.8	(2%)
Cash collateral	**3.2**	4.3	(26%)
Margin Funds	**28.8**	28.4	1%
Clearing House Funds	**1.7**	3.2	(47%)
Total	**44.3**	46.7	(5%)

The declines in cash collateral and Clearing House Funds were mainly in response to market fluctuations and changes in risk exposure.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants rose to 1.84 per cent for the first nine months of 2012 compared to the same period in 2011 as noted below:

Annualised Net Return on Funds Available for Investment



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

The increase in net return on 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

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Staff costs and related expenses	**884**	793	11%
IT and computer maintenance expenses	**219**	222	(1%)
Premises expenses	**185**	161	15%
Product marketing and promotion expenses	**14**	11	27%
Legal and professional fees	**32**	25	28%
Depreciation	**91**	70	30%
Other operating expenses	**100**	101	(1%)
Total	**1,525**	1,383	10%

Staff costs and related expenses increased by $91 million mainly as a result of an increase in permanent staff from 910 at 30 September 2011 to 1,043 at 30 September 2012. The increase was in relation to the recruitment of staff related to the various initiatives under the Strategic Plan 2010-2012 as well as 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 accrual due to the lower profit in the first nine months of 2012 compared with the corresponding period in 2011.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of $105 million (2011: $110 million), were $114 million (2011: $112 million). 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 third quarter of 2012 following the migration of the Group's network services to SDNet/2. Under this 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 staff.

Depreciation increased mainly due to capital spending associated with the upgrades of the Cash Market trading system (AMS/3.8) and Market Data system (MDS/3.8) rolled out in December 2011 as well as the completion of phase one of the construction of the new Data Centre at Tseung Kwan O in September 2012.

Taxation

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Change
Taxation	**589**	713	(17%)

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

Comparison of 2012 Third Quarter Performance with 2012 Second Quarter Performance

	Three months ended 30 Sept 2012 $m	Three months ended 30 Jun 2012 $m	Change
Revenue and other income:			
Market revenue:			
Trading fees and trading tariff	**551**	580	(5%)
Clearing and settlement fees	**322**	334	(4%)
Depository, custody and nominee services fees	**141**	338	(58%)
	1,014	1,252	(19%)
Stock Exchange listing fees	**220**	218	1%
Market data fees	**137**	139	(1%)
Other revenue	**95**	117	(19%)
Net investment income	**221**	165	34%
Other income	**6**	4	50%
	1,693	1,895	(11%)
Operating expenses	**493**	519	(5%)
Operating profit	**1,200**	1,376	(13%)
Costs relating to proposed acquisition of LME Group	**(18)**	(91)	(80%)
Share of loss of a joint venture	**(1)**	–	N/A
Profit before taxation	**1,181**	1,285	(8%)
Taxation	**(177)**	(217)	(18%)
Profit attributable to shareholders	**1,004**	1,068	(6%)

The Group's revenue and other income declined by 11 per cent in the third quarter of 2012 compared to the second quarter of 2012. The decline was attributable to macroeconomic uncertainties, including the European economic crisis, the slowdown in Mainland China's economic growth rate, and global weak economic growth rate which contributed to reduced investor confidence and led to lower levels of trading activity on the Stock Exchange and across several of the Group's revenue products. The average daily turnover value on the Cash Market fell 8 per cent to $46.4 billion.

Market revenue dropped by 19 per cent for the third quarter of 2012 compared to the second quarter of 2012 due primarily 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, and a decline in depository, custody and nominee services fees as a result of a drop in scrip fees due to seasonal fluctuations.

Net investment income rose 34 per cent in the third quarter of 2012 compared to the second quarter of 2012 due primarily to the higher net fair value gains on investments.

Profit attributable to shareholders fell from $1,068 million in the second quarter of 2012 to $1,004 million in the third quarter. The decrease was mainly driven by a drop in depository, custody and nominee services fees and a decline in trading and clearing fees, which were partly offset by a rise in net investment income and a decrease in costs relating to the proposed acquisition of the LME Group.

Key Market Indicators

	Three months ended 30 Sept 2012	Three months ended 30 Jun 2012	Change
Average daily turnover value on the Stock Exchange ($bn)	**46.4**	50.2	(8%)
Average daily number of derivatives contracts traded on the Futures Exchange	**243,303**	276,109	(12%)
Average daily number of stock options contracts traded on the Stock Exchange	**211,479**	225,266	(6%)

Corporate Funds Available for Investment

Corporate Funds available for investment fell by $636 million or 7 per cent to $9,033 million at 30 September 2012 (31 December 2011: $9,669 million). The decline was mainly due to dividend payments of $3,772 million and payments for capital expenditures of $838 million during the first nine months of 2012 which were partly offset by net cash inflow from operating activities of $3,970 million.

Capital Expenditures and Commitments

During the first nine months of 2012, the Group incurred capital expenditures of $889 million (first nine months of 2011: $378 million) mainly on the new Data Centre at Tseung Kwan O 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 30 September 2012, including those authorised by the Board but not yet contracted for, amounted to $1,066 million (31 December 2011: $1,605 million) and were mainly related to the relocation of the primary data centres to the new Data Centre at Tseung Kwan O, the development of Hosting Services, a new market data system, a clearing system for OTC derivatives and a Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market trading and clearing systems. The Group has adequate resources to fund its capital expenditure commitments.

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

(A) Proposed Acquisition of LME Group

On 15 June 2012, HKEx, HKEx Investment (UK) Limited (HKEx Investment) and LMEH entered into an agreement under which HKEx Investment made an offer to acquire the entire issued ordinary share capital of LMEH for cash by way of a scheme of arrangement and a capital reduction under the United Kingdom Companies Act. The offer price is GBP1.388 billion ($17.378 billion).

At 30 September 2012, the proposed acquisition remained subject to the approval of FSA and the sanction by the High Court of Justice of England and Wales. The acquisition is expected to complete before the end of 2012.

On 25 September 2012, HKEx entered into a subscription agreement with certain banks under which the banks agree severally to subscribe and pay for, or to procure subscribers to subscribe and pay for, convertible bonds of US$500 million principal amount that pay interest at 0.50 per cent per annum and mature in October 2017 (the Bonds). The closing date of the subscription and the issue date of the Bonds was 23 October 2012. HKEx intends to use the proceeds of the Bonds to fund part of the proposed acquisition of the LME Group.

(B) Joint Venture with SSE and SZSE

On 28 June 2012, HKEx, SSE and SZSE (the three JV investors) entered into a tripartite agreement to establish a joint venture with an aim of developing financial products and related services. On 16 August 2012, CESC was incorporated as a limited company in Hong Kong for such purpose. In accordance with the agreement, HKEx injected cash of $100 million into CESC in September 2012 for the purpose of subscribing for more shares in CESC. Subsequent to 30 September 2012, CESC issued 99,999,999 fully paid ordinary shares with a par value of $1 per share to each of the three JV investors.

Exposure to Fluctuations in Exchange Rates and Related Hedges

During the nine months ended 30 September 2012, the Group has made an offer to acquire the entire LME Group at a consideration of GBP1.388 billion.

In respect of 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 (including, in part, the proposed acquisition of the LME Group) to mitigate risks arising from fluctuations in exchange rates.

At 30 September 2012, the aggregate net open foreign currency positions amounted to HK$2,073 million, of which HK$1,939 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$4,244 million (31 December 2011: HK$5,180 million). All forward foreign exchange contracts will mature within 6 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 should not exceed 20 per cent of the Margin Funds.

Contingent Liabilities

At 30 September 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 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 30 September 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 506 trading Participants covered by the indemnity at 30 September 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to $101 million (31 December 2011: $100 million).

(c) On 15 June 2012, HKEx, HKEx Investment and LMEH entered into an agreement under which HKEx Investment made an offer to acquire the entire issued ordinary share capital of LMEH for cash by way of a scheme of arrangement and a capital reduction under the United Kingdom Companies Act. HKEx Investment has agreed to pay LMEH a break fee of (i) GBP25 million ($313 million) if the agreement is terminated in the event that FSA does not grant approval for the change of control or (ii) GBP30 million ($376 million) if HKEx is in material breach of its warranty or the agreement and such breach is not capable of remedy within 10 business days.

(d) 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.

Changes since 31 December 2011

There were no other significant changes in the Group's financial position or 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 dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the quarter ended 30 September 2012 (third quarter of 2011: $Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of revenue, other 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 nine months ended 30 September 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 nine months ended 30 September 2012.

OPERATIONAL REVIEW

Organisational Changes

Mr David Graham will join HKEx in January 2013 as Head of Listing (Designate) to succeed Mr Mark Dickens who will retire in July 2013. Mr Graham, as HKEx's first Chief Regulatory Officer, will also oversee all other regulatory, legal and compliance functions across HKEx.

There were other senior personnel changes in the third quarter of 2012. Messrs Lawrence Fok and Stewart Shing retired as Chief Marketing Officer and Advisor to HKEx's Chief Executive respectively after more than 20 years of service with HKEx and its predecessor entities. We are grateful for their invaluable contributions to HKEx.

The updated organisational chart is available on the HKEx website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE HIGHLIGHTS

Corporate Governance

Throughout the nine months ended 30 September 2012, HKEx complied with all Code Provisions 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) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012), with the exception of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. The term of office of HKEx's Chief Executive in his capacity as a Director is governed by Article 90(4) of HKEx's Articles of Association and is not subject to retirement by rotation.

The Directors acknowledge the need to further their knowledge and skills so they can continue contributing to the Company. During the first nine months of 2012, they received a total of about 170 hours of training, including internally-facilitated sessions as well as external seminars/programmes on topics relevant to their duties and responsibilities as Directors.

As of 29 October 2012, the Global and Home Market ESG Ratings assigned to HKEx by GMI Ratings, an independent provider of global corporate governance and ESG ratings and research, were both A (superior). On 31 October 2012, HKEx received the Gold Award in the "General" Category of the 2012 Best Annual Reports Awards organised by The Hong Kong Management Association.

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

Corporate Social Responsibility

HKEx continues to be included in the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series, the Dow Jones Sustainability Asia Pacific Index, and the STOXX® Global ESG Leaders Indices.

The consultation conclusions on the Environmental, Social and Governance Reporting Guide and the consultation paper on the proposal to include board diversity in the Corporate Governance Code and Corporate Governance Report, both of which demonstrate HKEx's efforts to promote sustainability in the marketplace, are available on the HKEx website.

To support employees' continuous learning and development, HKEx organised 97 in-house courses in the nine months ended 30 September 2012. Collectively, they attracted more than 4,200 participants. Moreover, a total of 216 employees attended external seminars, while 102 employees participated in HKEx's e-learning scheme. In October 2012, HKEx joined the Work-Life Balance Week launched by Community Business to reinforce its commitment to work-life balance and to raise awareness of work-life balance as a business issue.

To invest in our community, HKEx raised over $1.4 million in donations (including corporate and employee donations) and mobilised about 1,470 participants for various external charitable events and HKEx Volunteer Team activities during the first nine months of 2012. The HKEx 4th Annual Volunteer Recognition Ceremony was held on 31 August 2012 to recognise employees who served the community through volunteering with the HKEx Volunteer Team in 2011. A total of 27 employees and 4 divisions/departments received awards for their individual contributions and joint efforts.

HKEx's performance in waste avoidance, waste recycling and green purchasing during the 12-month period ended 31 July 2012 was assessed under the Wastewi$e Label recognition scheme of the Hong Kong Awards for Environmental Excellence. The results will be announced by the Environmental Campaign Committee in the fourth quarter of 2012. To further enhance employees' knowledge of waste management, an in-house eco-workshop "Turn Waste into Gold" and an organic farm visit were organised in September and October 2012 respectively, which attracted 128 participants in total.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Nine months ended 30 Sept 2012 $m**	Nine months ended 30 Sept 2011 $m	**Three months ended 30 Sept 2012 $m**	Three months ended 30 Sept 2011 $m
Trading fees and trading tariff		**1,790**	2,266	**551**	801
Stock Exchange listing fees		**682**	714	**220**	247
Clearing and settlement fees		**1,045**	1,268	**322**	441
Depository, custody and nominee services fees		**560**	586	**141**	192
Market data fees		**423**	491	**137**	159
Other revenue	3	**339**	357	**95**	111
REVENUE AND TURNOVER		**4,839**	5,682	**1,466**	1,951
Investment income/(loss)		**615**	237	**222**	(5)
Interest rebates to Participants		**(2)**	(2)	**(1)**	(1)
Net investment income/(loss)	4	**613**	235	**221**	(6)
Other income		**11**	–	**6**	–
REVENUE AND OTHER INCOME	2	**5,463**	5,917	**1,693**	1,945
OPERATING EXPENSES					
Staff costs and related expenses		**884**	793	**291**	275
IT and computer maintenance expenses		**219**	222	**61**	73
Premises expenses		**185**	161	**65**	55
Product marketing and promotion expenses		**14**	11	**1**	2
Legal and professional fees		**32**	25	**9**	8
Depreciation		**91**	70	**35**	20
Other operating expenses		**100**	101	**31**	34
	2	**1,525**	1,383	**493**	467
OPERATING PROFIT	2	**3,938**	4,534	**1,200**	1,478
Costs relating to proposed acquisition of LME Group	5	**(128)**	–	**(18)**	–
Share of loss of a joint venture		**(1)**	–	**(1)**	–
PROFIT BEFORE TAXATION	2	**3,809**	4,534	**1,181**	1,478
TAXATION	6	**(589)**	(713)	**(177)**	(241)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**3,220**	3,821	**1,004**	1,237
OTHER COMPREHENSIVE INCOME					
Item that may be reclassified subsequently to profit or loss:					
Fair value gain of cash flow hedges		**35**	–	**35**	–
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**35**	–	**35**	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**3,255**	3,821	**1,039**	1,237
Basic earnings per share	8(a)	**$2.99**	$3.55	**$0.93**	$1.15
Diluted earnings per share	8(b)	**$2.98**	$3.54	**$0.93**	$1.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		At 30 Sept 2012			At 31 Dec 2011		
	Note	**Current $m**	**Non-current $m**	**Total $m**	Current $m	Non-current $m	Total $m
ASSETS							
Cash and cash equivalents	9	**27,808**	**–**	**27,808**	18,221	–	18,221
Financial assets measured at fair value through profit or loss	9	**7,246**	**–**	**7,246**	11,169	180	11,349
Financial assets measured at amortised cost	9	**11,079**	**132**	**11,211**	15,848	403	16,251
Accounts receivable, prepayments and deposits	9, 10	**7,675**	**8**	**7,683**	7,210	23	7,233
Interest in a joint venture		**–**	**99**	**99**	–	–	–
Fixed assets		**–**	**1,730**	**1,730**	–	948	948
Lease premium for land		**–**	**24**	**24**	–	25	25
Deferred tax assets		**–**	**–**	**–**	–	1	1
Total assets		**53,808**	**1,993**	**55,801**	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts		**31,648**	**–**	**31,648**	31,359	–	31,359
Cash collateral from HKSCC Clearing Participants		**3,554**	**–**	**3,554**	3,233	–	3,233
Accounts payable, accruals and other liabilities	11	**9,570**	**–**	**9,570**	8,456	–	8,456
Deferred revenue		**201**	**–**	**201**	524	–	524
Taxation payable		**612**	**–**	**612**	262	–	262
Other financial liabilities		**87**	**–**	**87**	60	–	60
Participants' contributions to Clearing House Funds		**1,310**	**–**	**1,310**	880	–	880
Provisions		**38**	**47**	**85**	35	27	62
Deferred tax liabilities		**–**	**41**	**41**	–	33	33
Total liabilities		**47,020**	**88**	**47,108**	44,809	60	44,869
Equity							
Share capital				**1,084**			1,080
Share premium				**1,088**			639
Shares held for Share Award Scheme				**(263)**			(296)
Employee share-based compensation reserve				**143**			106
Hedging reserve				**35**			–
Designated reserves				**585**			577
Retained earnings	12			**6,021**			7,053
Shareholders' funds				**8,693**			9,159
Total liabilities and equity				**55,801**			54,028
Net current assets				**6,788**			7,639
Total assets less current liabilities				**8,781**			9,219

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements should be read in conjunction with the 2011 annual consolidated financial statements. Except as described below and the change in the presentation to the notes to the condensed consolidated financial statements as described in note 2, the accounting policies and methods of computation used in the preparation of these unaudited 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 Hong Kong Accounting Standard (HKAS) 1 (Revised): Presentation of Financial Statements
HKAS 19 (2011): Employee Benefits
HKAS 28 (2011): Investments in Associates and Joint Ventures
HKFRS 10: Consolidated Financial Statements
Amendments to HKFRS 10: Consolidated Financial Statements
HKFRS 11: Joint Arrangements
Amendments to HKFRS 11: Joint Arrangements
HKFRS 12: Disclosure of Interests in Other Entities
Amendments to 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 2 categories: (i) items which may be reclassified to profit or loss in the future and (ii) items which would never be reclassified to profit or loss. The adoption of the amended HKAS 1 (Revised) only affects the disclosure of the condensed consolidated statement of comprehensive income.

HKAS 19 (2011) eliminates the option of deferring the recognition of gains and losses arising from defined benefit plans, and enhances the disclosure requirements for defined benefit plans. The early adoption of HKAS 19 (2011) does not have any impact 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 within the Group are wholly-owned and satisfy the requirements for control under HKFRS 10.

Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangements. As the Group's new investment in CESC is a joint arrangement under which each investor has joint control and the rights to the net assets of the arrangement, it is a joint venture. In accordance with HKFRS 11, the joint venture is accounted for by the Group using the equity method under HKAS 28 (2011).

HKAS 28 (2011) stipulates that equity method should be applied to both joint ventures and associates. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition profit or loss and movements in other comprehensive income of the investee.

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 only affects the disclosures relating to the joint venture in the Group's financial statements.

The amendments to HKFRSs 10, 11 and 12 provide additional transition guidance on adopting the standards. The amendments aim to simplify the process of adopting HKFRSs 10 and 11 and provide relief from disclosures in respect of unconsolidated structured entities. There is no impact to the Group on adoption of the amendments.

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

HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement. The adoption of HKFRS 13 only affects disclosures of financial assets in the Group's financial statements.

Change in useful lives of leasehold buildings and leasehold improvements

Effective from 1 January 2012, the estimated useful lives of leasehold buildings and leasehold improvements were revised to better reflect the useful lives of the fixed assets as follows:

	Old useful lives	New useful lives
Leasehold buildings	25 years	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years	Over the remaining lives of the leases but not exceeding 10 years

The effect of the above changes in estimated useful lives resulted in a decrease in depreciation charge of less than $1 million for the nine months ended 30 September 2012.

Hedge accounting

In the third quarter of 2012, the Group designated certain foreign exchange forward contracts as cash flow hedges for hedging the foreign exchange risks of the consideration for the proposed acquisition of the LME Group.

The accounting policy for the cash flow hedge is as follows:

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in cash flows of the hedged items caused by the risk being hedged.

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and accumulated in equity as hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset. In case of business combination, the amounts accumulated in the hedging reserve will be treated as a basis adjustment to goodwill (and as part of the consideration payable).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss retained in hedging reserve is immediately reclassified to profit or loss.

2. Operating Segments

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

In 2012, the Group has amended the format of management information provided to the chief operating decision-maker for the purpose of assessing the performance of the operating segments. Previously, central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments and other costs not directly related to any of the operating segments) were allocated to the respective operating segments. From June 2012 onwards, the central income and central costs are included as "Corporate Items" and are no longer allocated to the respective operating segments. Income and expenses that are directly attributable to the reportable segments are not affected. Comparative figures have been restated to conform with the current period's presentation.

The Group has 4 reportable segments ("Corporate Items" is not a reportable segment). 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, which covers all products traded on the Cash Market platforms, such as equities, CBBCs and DWs. Currently, the Group operates 2 Cash Market platforms, the Main Board and the GEM. The major sources of revenue of the business are trading fees, trading tariff and listing fees. Results of the listing function are included in the Cash Market.

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

The **Clearing Business** refers to the operations of the 3 clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its revenue and other income are 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 revenue comprises primarily market data fees of the Cash and Derivatives Markets.

An analysis of the Group's 4 reportable segment profit before taxation for the period is shown below and reconciled to the Group's total as follows:

	Nine months ended 30 Sept 2012					
	Cash Market $m	**Derivatives Market $m**	**Clearing Business $m**	**Market Data $m**	**Corporate Items $m**	**Group $m**
Revenue from external customers	**2,117**	**579**	**1,717**	**426**	**–**	**4,839**
Net investment income	**–**	**328**	**27**	**–**	**258**	**613**
Other income	**–**	**–**	**11**	**–**	**–**	**11**
Revenue and other income	**2,117**	**907**	**1,755**	**426**	**258**	**5,463**
Operating expenses	**523**	**142**	**284**	**65**	**511**	**1,525**
Reportable segment operating results	**1,594**	**765**	**1,471**	**361**	**(253)**	**3,938**
Costs relating to proposed acquisition of LME Group	**–**	**–**	**–**	**–**	**(128)**	**(128)**
Share of loss of a joint venture	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Reportable segment profit before taxation	**1,594**	**764**	**1,471**	**361**	**(381)**	**3,809**

	As restated Nine months ended 30 Sept 2011					
	Cash Market $m	Derivatives Market $m	Clearing Business $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	2,561	646	1,983	492	–	5,682
Net investment income	–	159	14	–	62	235
Revenue and other income	2,561	805	1,997	492	62	5,917
Operating expenses	507	133	272	55	416	1,383
Reportable segment profit before taxation	2,054	672	1,725	437	(354)	4,534

3. Other Revenue

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	**Three months ended 30 Sept 2012 $m**	Three months ended 30 Sept 2011 $m
Network, terminal user, dataline and software sub-license fees	**270**	281	**72**	87
Participants' subscription and application fees	**27**	26	**9**	9
Trading booth user fees	**8**	12	**2**	4
Sales of Trading Rights	**15**	16	**6**	3
Miscellaneous revenue	**19**	22	**6**	8
	339	357	**95**	111

4. Net Investment Income/(Loss)

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Three months ended 30 Sept 2012 $m	Three months ended 30 Sept 2011 $m
Gross interest income	**284**	182	**102**	79
Interest rebates to Participants	**(2)**	(2)	**(1)**	(1)
Net interest income	**282**	180	**101**	78
Net fair value gains/(losses) including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	**318**	45	**115**	(88)
Gains on disposal of financial assets measured at amortised costs	**1**	–	**1**	–
Others	**12**	10	**4**	4
Net investment income/(loss)	**613**	235	**221**	(6)

5. Costs Relating to Proposed Acquisition of LME Group

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	Three months ended 30 Sept 2012 $m	Three months ended 30 Sept 2011 $m
Legal and professional fees	**121**	–	**13**	–
Others	**7**	–	**5**	–
	128	–	**18**	–

The costs above are solely incurred for the proposed acquisition of the LME Group. LME is a leading exchange for the trading of base metals forward and options contracts. Both LMEH and LME are companies incorporated in England and Wales.

On 15 June 2012, HKEx, HKEx Investment and LMEH entered into an agreement under which HKEx Investment made an offer to acquire the entire issued ordinary share capital of LMEH for cash by way of a scheme of arrangement and a capital reduction under the United Kingdom Companies Act. The offer price is GBP1.388 billion ($17.378 billion) based on 12,900,000 LMEH shares at GBP107.60 ($1,347.15) per share. The consideration was determined on an arm's length basis. The Group has obtained banking facilities of more than $20 billion in relation to the proposed acquisition.

At 30 September 2012, the proposed acquisition remained subject to the approval of FSA and the sanction by the High Court of Justice of England and Wales. The acquisition is expected to complete before the end of 2012.

HKEx Investment has agreed to pay LMEH a break fee of (i) GBP25 million ($313 million) if the agreement is terminated in the event that FSA does not grant approval for the change of control or (ii) GBP30 million ($376 million) if HKEx is in material breach of its warranty or the agreement and such breach is not capable of remedy within 10 business days. LMEH has agreed to pay HKEx Investment a break fee of GBP25 million ($313 million) if the agreement is terminated in certain circumstances and an offer or proposal by a third party competitor to acquire more than 50 per cent of LMEH, LME or any material part of the business or assets of the LME Group completes or becomes unconditional within 12 months after the termination of the agreement.

6. Taxation

Taxation charge in the condensed consolidated statement of comprehensive income represented:

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	**Three months ended 30 Sept 2012 $m**	Three months ended 30 Sept 2011 $m
Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%)	**580**	705	**168**	243
Deferred taxation	**9**	8	**9**	(2)
	589	713	**177**	241

7. Dividends

	Nine months ended 30 Sept 2012 $m	Nine months ended 30 Sept 2011 $m	**Three months ended 30 Sept 2012 $m**	Three months ended 30 Sept 2011 $m
Interim dividend paid of $1.85 (2011: $2.16) per share	**2,000**	2,331	**–**	–
Less: Dividend for shares held by Share Award Scheme	**(4)**	(4)	**–**	–
	1,996	2,327	**–**	–

8. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2012	Nine months ended 30 Sept 2011	**Three months ended 30 Sept 2012**	Three months ended 30 Sept 2011
Profit attributable to shareholders ($m)	**3,220**	3,821	**1,004**	1,237
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,078,370**	1,076,912	**1,079,235**	1,077,353
Basic earnings per share ($)	**2.99**	3.55	**0.93**	1.15

(b) Diluted earnings per share

	Nine months ended 30 Sept 2012	Nine months ended 30 Sept 2011	**Three months ended 30 Sept 2012**	Three months ended 30 Sept 2011
Profit attributable to shareholders ($m)	**3,220**	3,821	**1,004**	1,237
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,078,370**	1,076,912	**1,079,235**	1,077,353
Effect of employee share options (in '000)	**815**	1,101	**768**	952
Effect of Awarded Shares (in '000)	**2,008**	1,382	**1,859**	1,366
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	**1,081,193**	1,079,395	**1,081,862**	1,079,671
Diluted earnings per share ($)	**2.98**	3.54	**0.93**	1.15

9. Financial Assets

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

	At 30 Sept 2012 $m	At 31 Dec 2011 $m
Clearing House Funds		
Cash and cash equivalents	**1,320**	835
Financial assets measured at fair value through profit or loss	**–**	284
Financial assets measured at amortised cost	**626**	367
	1,946	1,486
Margin Funds		
Cash and cash equivalents	**18,868**	12,719
Financial assets measured at fair value through profit or loss	**3,008**	6,265
Financial assets measured at amortised cost	**9,757**	12,368
Accounts receivable and deposits	**15**	7
	31,648	31,359
Cash collateral		
Cash and cash equivalents	**3,300**	2,327
Financial assets measured at amortised cost	**254**	906
	3,554	3,233
Corporate Funds		
Cash and cash equivalents	**4,320**	2,340
Financial assets measured at fair value through profit or loss	**4,238**	4,800
Financial assets measured at amortised cost	**574**	2,610
Accounts receivable and deposits *	**7,602**	7,181
	16,734	16,931
	53,882	53,009

* Amounts excluded prepayments of $66 million (31 December 2011: $45 million)

10. 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 89 per cent (31 December 2011: 90 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within 2 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 3 months.

11. 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 72 per cent (31 December 2011: 77 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

12. Retained Earnings (Including Proposed Dividend)

	2012 $m	2011 $m
At 1 Jan	**7,053**	6,766
Profit attributable to shareholders	**3,220**	5,093
Transfer (to)/from Clearing House Funds reserves	**(8)**	3
Dividends:		
2011/2010 final dividend	**(2,252)**	(2,487)
2012/2011 interim dividend	**(1,996)**	(2,327)
Unclaimed HKEx dividends forfeited	**7**	6
Vesting of shares of Share Award Scheme	**(3)**	(1)
At 30 Sept 2012/31 Dec 2011	**6,021**	7,053
Representing:		
Retained earnings	**6,021**	4,801
Proposed dividend	**–**	2,252
At 30 Sept 2012/31 Dec 2011	**6,021**	7,053

13. Convertible Bonds

On 25 September 2012, HKEx entered into a subscription agreement with certain banks under which the banks agree severally to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds. The closing date of the subscription and the issue date of the Bonds was 23 October 2012.

The redemption value of the Bonds at maturity on 23 October 2017 is 102.56 per cent of the principal amount. At any time between 3 December 2012 and 13 October 2017, the Bonds can be converted into HKEx ordinary shares at an initial conversion price of HK$160 per share (subject to adjustments) at the option of the holders of the Bonds.

To the extent that the holders of the Bonds have not previously exercised their conversion option, at any time after 7 November 2014, HKEx may, by giving notice to the holders of the Bonds, elect to redeem the Bonds in whole but not in part, if the closing price of HKEx shares for any 20 out of the 30 consecutive trading days immediately prior to the date upon which notice of such redemption is given, was at least 130 per cent of the applicable early redemption amount (translated into HK$ at the fixed exchange rate of HK$7.7531 = US$1) divided by the conversion ratio (ie, if the HKEx share price is above the floor price of HK$208 accreting at 0.5 per cent per annum). HKEx also has the option to redeem the outstanding Bonds in whole but not in part if the aggregate principal amount of the Bonds outstanding is less than US$50 million.

HKEx intends to use the proceeds of the Bonds to fund part of the proposed acquisition of the LME Group (the Acquisition) (note 5). HKEx is entitled at its option to redeem the Bonds if FSA disapproves of the Acquisition, or on 23 March 2013 if FSA has not granted approval of the Acquisition by that date.

From an accounting perspective, the Bonds comprise 2 elements and are accounted for as follows:

(i) The loan element of approximately US$450 million is treated as a financial liability and measured at amortised cost and interest expense is recognised in profit or loss using the effective interest method.

(ii) The remaining conversion option element is treated as a derivative liability and measured at fair value through profit or loss. The impact of the fair value movements on profit or loss generally has an inverse correlation to movements in HKEx's share price.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the nine months ended 30 September 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 30,600 HKEx shares at a total consideration of $3.4 million.

PUBLICATION OF QUARTERLY RESULTS AND QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

This results announcement is published on the HKExnews website at www.hkexnews.hk and the HKEx website at www.hkex.com.hk/eng/exchange/invest/results/2012Results.htm. The Quarterly Report for the nine months ended 30 September 2012 will be available on the HKExnews and HKEx websites, and despatched to Shareholders on or about Thursday, 22 November 2012.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Ronald Joseph ARCULLI, Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
CHOW Chung Kong
Chairman

Hong Kong, 7 November 2012

GLOSSARY

AMS/3	Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
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
CCMS	The Common Collateral Management System
Corporate Governance Code and Corporate Governance Report	Refers to Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
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
FSA	The Financial Services Authority of the United Kingdom
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBP	Pounds sterling
GEM	The Growth Enterprise Market
Government Appointed Directors	Directors appointed by the Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China 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
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
Listing Rule(s) or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange Limited
LME Group	LMEH and its subsidiary, LME
LMEH	LME Holdings Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
OTC	Over-the-counter
REIT(s)	Real Estate Investment Trust(s)
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
US$/USD	United States dollar
$/HKD	Hong Kong dollar
$bn	Hong Kong dollar in billion
$m	Hong Kong dollar in million