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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)

2012 FINAL RESULTS, FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board submits the Group's consolidated results for the year ended 31 December 2012.

FINANCIAL HIGHLIGHTS

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

	2012 $m	As restated 2011 $m	Change
RESULTS			
Revenue and other income	**7,211**	7,855	(8%)
Operating expenses (excluding depreciation and amortisation)	**1,957**	1,733	13%
EBITDA [1]	**5,254**	6,122	(14%)
Depreciation and amortisation	**(158)**	(90)	76%
Costs relating to acquisition of LME Group	**(138)**	–	N/A
Finance costs	**(55)**	–	N/A
Fair value loss on derivative component of convertible bonds	**(55)**	–	N/A
Share of loss of a joint venture	**(3)**	–	N/A
Profit before taxation	**4,845**	6,032	(20%)
Taxation	**(761)**	(939)	(19%)
Profit attributable to shareholders	**4,084**	5,093	(20%)
Basic earnings per share	**$3.75**	$4.71	(20%)
Diluted earnings per share	**$3.74**	$4.70	(20%)
Interim dividend per share	**$1.85**	$2.16	(14%)
Final dividend per share	**$1.46**	$2.09	(30%)
	$3.31	$4.25	(22%)
Dividend payout ratio	**90%**	90%	–

	2012	2011	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds ($m)	**17,764**	9,159	94%
Total assets [2] ($m)	**80,837**	54,028	50%
Net assets per share [3] ($)	**15.48**	8.50	82%

Notes:

1 For the purpose of this announcement, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and other non-recurring costs arising from the acquisition of the LME Group.

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

3 Based on 1,147,408,233 shares as at 31 December 2012, being 1,149,808,087 shares issued and fully paid less 2,399,854 shares held for the Share Award Scheme (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). The increase in net assets per share was attributable to the issue of 65,705,000 HKEx shares at $118 per share in December 2012.

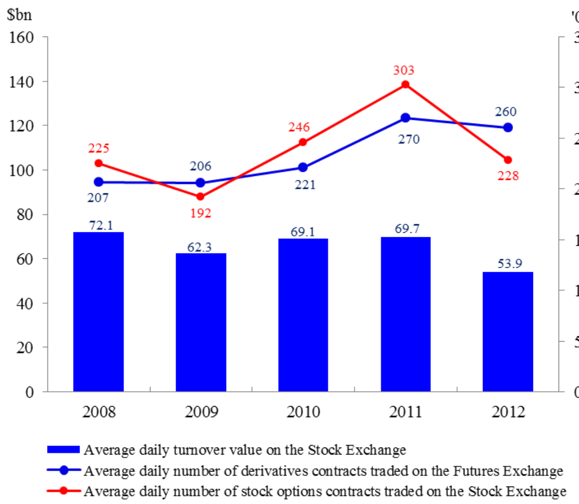
CHAIRMAN'S STATEMENT

"The world's financial markets had another challenging year in 2012. However, it was also a year of particular significance for HKEx, as we achieved our strategic goal of adding new asset classes by acquiring the LME Group. Through the acquisition, we shall build HKEx into a leading global, vertically integrated multi-asset class exchange for both our local and international clients. This is a move that is consistent with our vision to reinforce Hong Kong's position as an international financial centre."

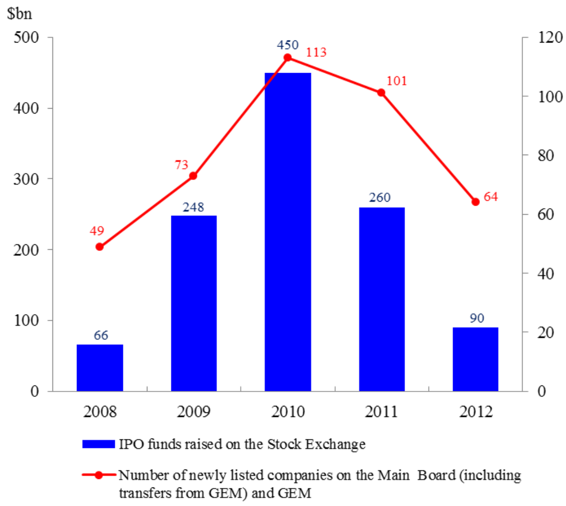
HKEx Group's Performance

The exchange sector's post-financial crisis slowdown continued in 2012, as Europe's financial problems, subpar economies in Japan and the US, and slower growth in the mainland of China dampened market sentiment. Although activities in our markets improved in the latter part of the year after central banks of major economies injected more liquidity into their respective financial systems, annual turnover in our markets was down from the previous year. New listings and IPO fundraising also declined. As a result, the Group's profit attributable to shareholders in 2012 was about $4.1 billion, a decline of 20 per cent from a year ago. Consistent with the Company's practice of paying 90 per cent of its profit attributable to shareholders as dividends, the Board is recommending a final dividend of $1.46 per share for the year ended 31 December 2012. If the recommendation is approved by Shareholders, the full-year dividend per share for 2012 will be $3.31, down 22 per cent from the previous year.

Key market statistics



IPO funds raised and newly listed companies



Note: Figures have been rounded.

Acquisition of LME Group

Our acquisition of the LME Group was a significant milestone for the Company. It has given us new capabilities and positioned us to broaden our ties with the mainland of China. The offer decision was made after considering a series of factors, amongst them, the establishment of HKEx's presence in commodities market, which is a sector that offers growing opportunities. We will work closely with our LME colleagues to expand LME's current business, move into new areas, and develop its untapped potential. To partly fund the acquisition, we issued convertible bonds of US$500 million and had a share placement of over $7.7 billion. The overwhelming responses to both issues were a clear testimony of investors' unwavering confidence in HKEx.

"We are pleased to see that LME produced another record year in 2012 with trading volumes increased almost 10 per cent. In addition, LME was awarded Commodity Exchange of the Year in the 2012 Commodity Business Awards and its LMEswaps contracts, launched in January 2012, received New Contract of the Year (Metals category) in the 2012 FOW International Awards."

The acquisition of the LME Group was completed in the final month of the period covered by our previous strategic plan of 2010-2012. Details of other achievements under the plan are set out in the Chief Executive's Review, Business Review, and Financial Review sections of this announcement. The new 3-year plan for 2013-2015 is set out in the HKEx Group Strategic Plan 2013-2015 section of this announcement.

Other Major Developments

Investing and Building for the Future

We also invested and built for the future in other key areas in 2012. Apart from the introduction of 4 HKD-denominated benchmark equity index futures of the other member exchanges of the BRICS alliance, which enable investors to get exposure to the BRICS markets through HKEx, HSI and/or H-shares Index futures were cross-listed on each of the BRICS exchanges.

New products/services in 2012/2013
- AHFT
- BRICS Futures
- Hosting Services
- HSI Volatility Index Futures
- RMB Currency Futures
- Mainland Market Data Hub
- OTC clearing services

Our TKO Data Centre and the Hosting Services began operations in the fourth quarter of 2012, which are part of the HKEx Orion, a $3 billion-investment programme designed to strengthen our markets and Hong Kong's position as a leading international financial centre. The Ganghui Financial Information Services (Shanghai) Limited, an indirect wholly owned subsidiary of the Company, also officially commenced operations in Shanghai.

We expect to open a market data hub in Shanghai in the third quarter of 2013 that will give Mainland information vendors direct access to our real-time market data. The CESC, a joint venture we established with the stock exchanges in Shanghai and Shenzhen in 2012, launched its first index, an index to track the performance of shares in the mainland of China and Hong Kong, on 10 December. Regarding OTC Clear, we formed a strong team and completed much of the preparatory work with a view towards opening for business in the first half of 2013.

RMB Products

The range of RMB products in our markets expanded in 2012 as more issuers used our listing facilities for RMB products. In our securities market, we saw more RMB bond listings, including the first by the Central Government's Ministry of Finance, as well as the first RMB ETF and RMB equity security listings. In our derivatives market, we introduced RMB Currency Futures, the world's first exchange-traded deliverable RMB futures. RMB products constitute an important part of our strategy to take advantage of opportunities from the internationalisation of the RMB and outward investment from the mainland of China.

New RMB-related products/ services in 2012
- Dual counter ETFs that trade in both RMB and HKD
- RMB Currency Futures
- RMB-traded gold ETF
- RMB-traded equity securities

Quality Market

In 2012 and early 2013, various legislative amendments and regulatory measures were introduced to keep our regulatory regime in line with international standards and strengthen Hong Kong's position as a premier capital formation centre. We welcomed the enactment of the legislation that provides statutory backing to listed corporations' continuing obligation to disclose inside information which took effect on 1 January 2013, and we made corresponding Listing Rule changes. We are committed to ensure that our disclosure

- Enactment of the Securities and Futures (Amendment) Ordinance 2012 for the statutory regime to disclose inside information
- Consultation conclusions on the regulation of IPO sponsors published by SFC
- Implementation of HKEx's clearing house risk management reform measures
- Guide on enhancing regulation of the listed structured products market published by HKEx

regime is in line with international best practices to protect investors' interest. The Environmental, Social and Governance Reporting Guide as a recommended practice under the Listing Rules became effective on 1 January 2013; HKEx's 2012 CSR reporting is in compliance with the Guide while adopting the Global Reporting Initiative, or GRI, G3.1 Sustainability Reporting Guidelines. To support the inclusion of board diversity in the Listing Rules' Corporate Governance Code and Corporate Governance Report from 1 September 2013, HKEx has early adopted a Board Diversity Policy and will make the recommended disclosure in the 2012 Annual Report. As a director of the World Federation of Exchanges, I shall work closely with other member exchanges to promote market integrity and standards as well as global financial stability and growth.

Corporate Social Responsibility

CSR is a high priority for the Company so it is encouraging that we continue 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. Our 2012 CSR Report, which underscores our approach and commitment to acting responsibly and contributing positively to the community and the environment, will be available on the HKEx website in mid-March 2013. In particular, we continued to raise a significant amount of donations for The Community Chest of Hong Kong through the Stock Code Balloting for Charity Scheme. Moreover, in striving for environmental excellence, we took more targeted actions to reduce the environmental impact of our TKO Data Centre with the aim of completing the final Leadership in Energy and Environmental Design, or LEED, certification for the data centre, and to further improve our office waste management practices in order to achieve "Class of Excellence" Wastewi$e Label under the Hong Kong Awards for Environmental Excellence in 2013.

Acknowledgments

I would like to take this opportunity to thank my fellow Board and Committee members for their hard work and contributions throughout the year.

On behalf of the Board, I would like to express our sincere gratitude to the Directors who retired after the conclusion of the 2012 AGM, the Honourable Mrs Laura Cha and Dr Moses Cheng, for their invaluable advice to the Company over their 6 years of service. I would also like to extend special appreciation and acknowledgment to Mr Ronald Arculli, who will retire after the conclusion of the 2013 AGM. Mr Arculli's dedication and many contributions throughout his 7 years' service on the Board have been major factors in the Company's success and laid a solid foundation for future growth.

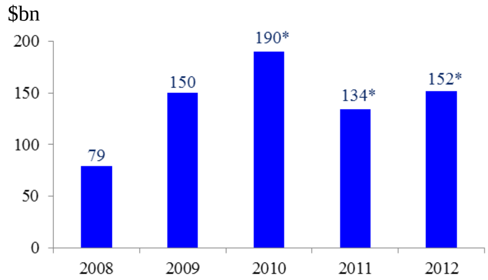
Our progress towards our strategic goals over the past year would not have been possible without the untiring efforts of our management team and staff. On behalf of the Board, I would like to thank Mr Charles Li and all of our employees for their dedication and commitment. The Board has renewed the contract with Mr Li as HKEx's Chief Executive for a further term of 3 years. We look forward to working with Mr Li to realise the full benefit of the strategic initiatives that are being put into place.

I would also like to thank all of our stakeholders, in particular our Shareholders, for their ongoing support, trust, and confidence.

Outlook

The quantitative easing policies implemented in the key financial markets including Europe, Japan and the US, would help improve market sentiment. Nonetheless, the low interest rates and expansion of money supply could cause higher inflation than desired. The effectiveness of these easing policies on improving the performance of the global economies is yet to be proven. Hong Kong would however continue to benefit from the progress of the mainland China's economy in 2013.

HKEx's market capitalisation (as at 31 December)



* Ranked first among the world's listed exchanges

Note: Figures have been rounded.
Source: Reuters

Our markets experienced increased turnover at the end of last year and the beginning of this year, and we saw renewed investor interest in IPOs. While the global economic outlook remains challenging, we believe we are well positioned to weather any storms that might come our way.

CHOW Chung Kong
Chairman

CHIEF EXECUTIVE'S REVIEW

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

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

Market Performance

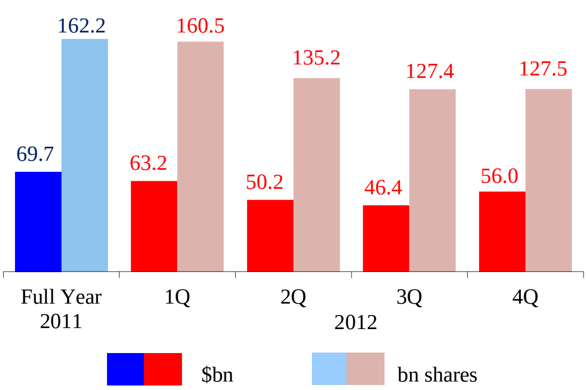
Our markets experienced a "down year" in 2012, both in terms of funds raised and turnover. That was mostly in line with other major markets around the world and was largely due to uncertainty about the health of the global economy and investors' decreased appetite for risk.

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

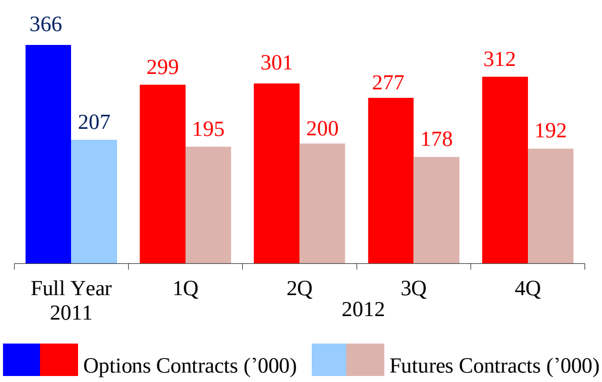
In the secondary market, the year started relatively strong, with Cash Market average daily turnover (ADT) of $63.2 billion in the first quarter, but trading activity gradually decreased, reaching a 2012 low of $46.4 billion in the third quarter. The year ended with a fourth quarter ADT of $56.0 billion.

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

Average daily turnover on Cash Market



Average daily number of contracts traded on Derivatives Market



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

Business Development Review

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

Strengthening Core Businesses

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

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

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

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

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

Developing RMB Capability, RMB Products and Cross-border Products

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

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

Our joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the CESC, officially opened for business in October 2012. The CESC's first index, the cross-border CES China 120 Index (CES120), was launched in December 2012 and there are more indices and index-related products to come in 2013. We see many possibilities for the CESC as it develops and grows.

Expanding into New Asset Classes

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

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

Platform Infrastructure Upgrade

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

- **TKO Data Centre:** The construction of the TKO Data Centre was completed and an occupancy permit was obtained in August 2012. Relocation of the IT office to the new building and the first phase of data centre migration both went smoothly. We hosted the grand opening of the TKO Data Centre on 31 January 2013.
- **Hosting Services:** Our Hosting Services business was launched in December 2012 with 60 subscribers including our EPs, IVs and other service providers. The service will be extended to support the Derivatives Market trading and low-latency direct connections to the OMD in 2013.
- **HKEx Orion Programme:** The first part of HKEx Orion, migration of network circuits for the Cash Market to SDNet/2, was completed in July 2012. The OMD project has started and is progressing well towards rollout for the Cash Market in 2013 and the Derivatives Market in 2014.

Reorganisation

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

Strategy Going Forward

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

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

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

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

Appreciation

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

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

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

LI Xiaojia, Charles
Director and Chief Executive

HKEx GROUP STRATEGIC PLAN 2013-2015

Overview

Our Strategic Plan 2013-2015 builds upon the growth-oriented strategy of the past 3 years and aims to take the Group into a new phase of transformational development in the next 3 years.

Mission

We aim to be the global exchange of choice for our China clients and our international clients seeking China exposure.

Vision

With the continuing growth of HKEx's core business as a foundation and with the successful acquisition of the LME Group as a catalyst, our vision is to build HKEx into a leading global vertically-integrated multi-asset class exchange and prepare ourselves for the managed but accelerating opening of China's capital account.

Highlights

Our plan has 2 key components: business strategy, and platform and infrastructure strategy.

In terms of business strategy, we will seek to build out a horizontally integrated business across the following asset classes:

- Cash Equity: Continue to grow this core business line by seeking additional China and international listings and by expanding access products such as ETFs particularly in RMB; continue our efforts to achieve a breakthrough in mutual market access via partnership with Mainland counterparties;

- Equity Derivatives: Build on our existing business by offering new products and providing new services by ourselves or in partnership with others;

- FIC: This is largely new and will be mainly driven by RMB internationalisation and global regulatory changes; and

- Commodities: Leverage the acquisition of the LME Group to build an extensive commodities platform.

Within each asset class, we also seek to achieve vertical integration from products through trading to clearing.

In terms of platform and infrastructure strategy we will seek to consolidate and further modernise our currently diverse trading and clearing platforms, and to build greater connectivity with local, Mainland and international market communities.

Background

Recap of Strategic Plan 2010-2012

The 2010-2012 Strategic Plan aimed to enhance our global competitiveness and capture opportunities from the continuing opening of Mainland market. It had 3 main themes:

- **Core Strategy:** These initiatives aimed to strengthen our existing business by enhancing efficiency and improving the market structure. Key achievements included: being ranked the world's number one IPO market by funds raised in 2010 and 2011, streamlining the listing process, successfully implementing new trading hours, and strengthening risk management capital adequacy.

- **Extension Strategy:** Under this strategy, our objective was to build a platform for higher performance. We achieved key components of this strategy, including: the introduction of AMS/3.8, the completion of the TKO Data Centre, and the offering of Hosting Services.

- **Expansion Strategy:** This prepared us to enter new asset classes and geographies. Key milestones achieved included: offering RMB products, establishing the BRICS Exchange alliance and the Mainland equity derivatives joint venture, the CESC, launching our new clearing house for OTC derivatives, and crucially, successfully acquiring the LME Group.

Historical Trend of Our Development

We view the Group's development as a story in 3 chapters.

- **Chapter One:** This chapter is the listing of Mainland enterprises in Hong Kong to raise capital from international investors. This chapter is continuing but is relatively mature.

- **Chapter Two:** Anticipating the continued relaxation of Mainland capital controls, in this chapter we attract Mainland investors by providing an array of RMB-denominated products that will give them currency neutrality. We expect the growing presence of Mainland investors over time to increase the level of trading in our market and attract a wider range of international companies to list in Hong Kong. Chapter Two has already commenced and is gradually building, driven by the pace of the capital account opening.

- **Chapter Three:** We have at the same time begun Chapter Three, in which we attract a broader range of Mainland and international players to deal on the Group's trading and clearing platforms, not only in equity but extending into fixed income, currency and commodities. Our acquisition of the LME Group is a key catalyst for this Chapter and, by accelerating RMB internationalisation and Mainland capital account opening, could in turn further facilitate the development of Chapter Two.

Strategic Outlook

Continuing Mainland Opening

Looking at the next 3 years, we remain confident in the structural opportunities arising from the opening of the Mainland economy. Historically, since the mid-1990s, our growth has been fuelled by the Mainland's economic growth and its increasing utilisation of Hong Kong's equity capital markets. As the Mainland's growth continues to evolve, we expect the Mainland's needs to shift increasingly from capital formation to investment diversification and risk management across all asset classes, reflecting the country's transformation from an importer of capital to an exporter of capital. A presence in multiple asset classes will position us to serve the Mainland economy across a broad front during this evolution.

Commodities as a Breakthrough

We view commodities as the asset class most likely to see a breakthrough in this transformation. This is because of the Mainland's continuing structural demand for raw materials, its extensive experience in the international trade of commodities and the growing need to reform its existing capital control regime which is increasingly constraining the further development of Mainland commodity markets. LME will spearhead the Group's efforts in this asset class. We will respond to emerging opportunities, and seek to extend the resultant benefits across other asset classes. In this process we expect to deepen our relationships with the Mainland exchanges and clearing houses, moving towards partnership and eventually mutual market access.

In order to support business development flowing from the above opportunities, as well as to forestall any competitive threats, we will continue to invest in infrastructure and technology. We will aim to deliver a highly competitive suite of systems and platforms across our business lines. We will also ensure that our market microstructure adapts to evolving market conditions.

Business Strategy

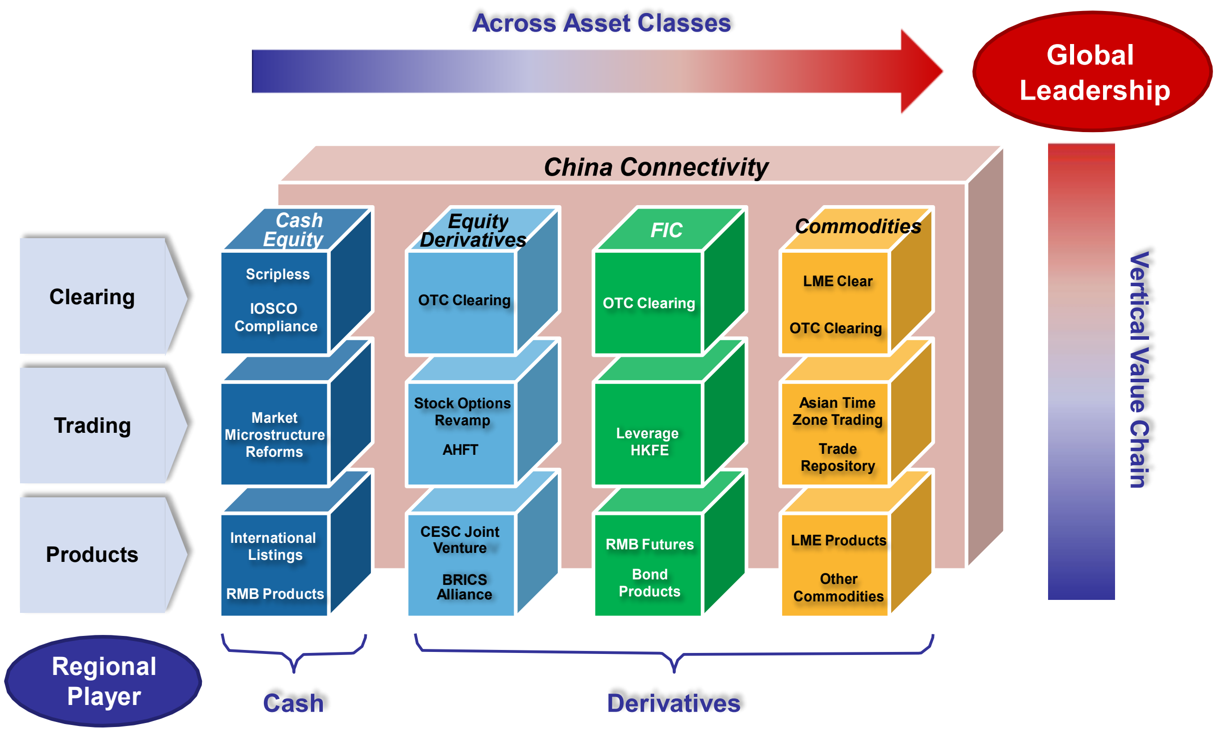
Our business strategic concept encompasses 2 dimensions of integration: horizontal integration across asset classes, and vertical integration through the value chain.

In the horizontal dimension, we have identified 4 asset classes: cash equity, equity derivatives, FIC, and commodities. We will seek to build upon our existing core asset classes of cash equity and equity derivatives, and expand into new asset classes by using commodities as a catalyst, leveraging RMB internationalisation, and seeking mutual access across the Hong Kong and Mainland markets. Our cross asset class strategy will reap the benefits of synergy and link contiguous market communities.

Within each asset class, we also aspire to offer services along the value chain, from products through trading to clearing. We believe this vertical integration strategy, with an emphasis on clearing, will allow us to achieve the maximum degree of synergy, defend our existing businesses, and gain entry to new businesses that require clearing services and to new relations with the mainland of China.

Throughout our horizontal asset classes and vertical business segments, we seek to build the critical connectivity with the Mainland's markets in order to benefit from the accelerated opening of its capital account.

The above concept and the initiatives under each asset class (as detailed in the rest of this section) are shown in the diagram below:



Cash Equity Strategy

Our cash equity business is relatively mature, but we believe this segment could undergo structural uplift in velocity and trading volumes as and when Mainland investors are progressively permitted to invest offshore. Our cash equity strategy is to better position us to take advantage of the expected lowering of Mainland capital account barriers.

In terms of products, as a continuation of our Chapter One strategy, we will continue seeking to attract Mainland-related issuers, positioning as their primary offshore capital formation centre. Recent developments such as B share to H share conversion and the easing of offshore listings by Mainland regulation are expected to provide renewed impetus. At the same time, to prepare for the increasing participation of Mainland investors, we will continue to reach out to international issuers and enlarge our RMB product suite. We will further develop our ETF segment as this is a potential facilitator of RMB internationalisation and mutual access with Mainland markets.

In terms of trading and clearing, we will seek further improvement in our secondary market microstructure, implement the scripless market, and ensure our clearing houses' compliance with evolving international standards. We will also explore, together with Mainland counterparties, the feasible model for mutual market access, which, as we view, will be a significant catalyst for the structural change in Hong Kong's capital market and will position us as an interface between the international and Mainland market environments.

Equity Derivatives Strategy

In our equity derivatives strategy, we aim to offer an extensive product suite across Hong Kong and Mainland underlying securities. Leveraging the CESC, we will roll out a range of cross-market and A share-related products, including indices and derivatives. Our BRICS Exchanges alliance will also develop a range of international benchmarks.

To reap the benefit of new and existing products, at the trading level we will seek to improve volumes by launching a revamp of our stock options market, and introducing AHFT.

At the clearing level, through our OTC clearing house we will seek to tap a new asset class – OTC equity derivatives on Hong Kong, Mainland and regional underlyings. We will again seek to improve connectivity with the Mainland market via partnership and other means.

Fixed Income and Currency Strategy

The FIC asset class is largely new to HKEx. New factors such as international regulation mandating the shift to central counterparty clearing of OTC derivatives, and RMB internationalisation, offer us an opportunity to enter this asset class.

We have a two-fold strategy. The first initiative is the launch of on-exchange RMB futures. Although trading at first will be slow, reflecting the low volatility of the RMB exchange rate, it should pick up as RMB internationalisation proceeds. We will also continue to explore other product opportunities, such as bond index products and RQFII ETFs on bonds, where appropriate in partnership or cooperation with others.

Secondly, leveraging emerging regulatory requirements, our OTC derivatives clearing house will provide clearing services, initially for interest rate swaps (IRS) and non-deliverable forwards (NDFs) in RMB and other appropriate currencies. This initiative can be extended to other FIC products, and will lead over time to new revenue streams. It will also bring in new bank-related participant groups to whom we can provide other products and services.

Commodities Strategy

Building on the deep liquid markets of LME, we will expand the existing business by lowering barriers for Asian particularly Mainland investors to access the LME market. Key initiatives include: facilitating easier cross-border access, developing Asian time zone trading and clearing, offering RMB clearing services, and extending LME's warehouse network into the mainland of China.

On the other hand, we will leverage the base metal platform and our proximity to the mainland of China as the largest global consumer of commodities to extend into other metals and commodities. By achieving this, we expect to build a broader commodities derivatives business.

We will also seek to realise the untapped potential in the business through commercialisation and modernisation. Key initiatives include enhancing the electronic trading platform and infrastructure and expanding contract types.

To support the above initiatives, we will initially build a London-based clearing house to achieve self-clearing for base metals and extend this to enable Asian time zone clearing, RMB clearing and clearing of other products relevant to Asian markets. We will also extend further along the value chain to provide OTC clearing and trade repository services for commodity derivatives.

Platform and Infrastructure Strategy

The Group inherited a collection of different platforms, reflecting the history of its formation through merger. These platforms differ by application – from market data distribution to trading, clearing, risk management and depository – and by asset class. They vary greatly in terms of functionality, capacity and performance level, and some have support dependency on external parties. The aim over time is to develop next-generation platforms that fully meet global standards and converge onto a single technology platform for each application across asset classes. At the same time, in-house support capability will be strengthened through source code licensing arrangements and knowledge transfer with third-party platform vendors where applicable. However, given the life-cycle of the Ggroup's platforms and market impact during transition, this process of consolidation and strengthening will take place over time.

The Group's TKO Data Centre will continue to play a key role in improving connectivity – not just within the Hong Kong market, but between the international environment and the mainland of China, and between the London and Hong Kong. The connectivity will be leveraged to facilitate implementation of the Mainland Market Data Hub in Shanghai for more efficient distribution of market data generated in Hong Kong and London to Mainland-based investors.

With TKO Data Centre facilities, consolidated trading and clearing platforms and improved connectivity with the mainland of China and internationally, the Group will be positioned to support business diversification and growth across asset classes.

Conclusion

Building upon the strong foundation established under the previous strategic plan, over the coming 3 years we aim to consolidate recent investments, fill out HKEx's capabilities as a vertically-integrated multi-asset class exchange of global reach, and begin to harvest the fruit of these efforts.

In our equity business, we expect to deepen Hong Kong's role as a leading listing market for Mainland and international companies and prepare ourselves for the greater participation of Mainland investors. In equity derivatives, we expect to establish new benchmarks with Mainland and international underlyings and leverage them for trading and clearing. In FIC, we expect to establish a solid base of business and participant community around our on-exchange RMB-related and OTC clearing initiatives. And in commodities we aim to enhance the existing LME business and make significant progress in the China dimension. These four pillars of achievements would transform HKEx into a comprehensive platform and consolidate its leading position among world exchanges.

Key initiatives

We have identified the following key initiatives under Strategic Plan 2013-2015:

Business Strategy	
Cash Equity	
(1)	Improve framework for and continue to attract international listings
(2)	Further improve quality of listing
(3)	Develop critical mass of products trading in RMB
(4)	Improve cash market microstructure
(5)	Implement scripless market
(6)	Explore feasible model for mutual market access via partnership with Mainland counterparties
Equity Derivatives	
(1)	Leveraging the CESC joint venture, introduce further A share-related products
(2)	Launch stock options revamp
(3)	Introduce AHFT
(4)	Launch Phase 2 of the BRICS alliance
(5)	Explore potential to clear OTC equity derivatives
Fixed Income and Currency	
(1)	Launch and establish OTC clearing business
(2)	Build out RMB derivatives and bond-related product suite
(3)	Explore other potential opportunities to enter the FIC space
Commodities	
(1)	Establish LME clearing house in London
(2)	Introduce Asian time-zone price-discovery and clearing
(3)	Launch OTC commodity derivatives trade repository and clearing
(4)	Expand Mainland participant base
(5)	Seek to establish LME-licensed warehouse network in China
(6)	Explore potential to extend LME's product suite into Hong Kong market
Platform and Infrastructure Strategy	
(1)	Fully establish the TKO Data Centre operation and hosting business
(2)	Implement Genium platform for equity derivatives trading, clearing and risk management
(3)	Develop and roll out the OMD system
(4)	Implement necessary infrastructure to facilitate connection of market platforms and corporate systems between Hong Kong and London
(5)	Fully establish Mainland Market Data Hub
(6)	Develop and roll out the OCG system
(7)	Define requirements for and commence development of the OTP system, initially to support cash trading as replacement of AMS
(8)	Conduct feasibility study for and commence implementation of Next Generation Clearing and Risk Management Systems

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing and Regulatory Affairs

Listing

Review of Listing Rules

After taking into account the market comments collected from a public consultation, the Corporate Governance Code was revised with effect from 1 April 2012. New Code provisions were introduced, including, inter alia, the requirement of publishing updated lists of directors with their roles and functions identified, and the terms of reference of issuers' nomination, remuneration, and audit committees. A vast majority of issuers had adopted the new Code provisions before the effective date.

Proposals on Listing Rules amendments made in 2012 and proposals under review in 2013 are set out in the following tables.

Proposals made in 2012	**Consultation Paper ***	**Consultation Conclusions ***	**Effective date of changes (if any)**
• Trading Halts – to allow publication of price sensitive information announcements during trading hours subject to a short halt in trading in shares of the issuer	Jul 2012	Feb 2013 (tentatively)	Subject to consultation conclusions
• Rule Changes Consequential on the Enactment of the Securities and Futures (Amendment) Ordinance 2012 to Provide Statutory Backing to Listed Corporations' Continuing Obligation to Disclose Inside Information	Aug 2012	Nov 2012	1 Jan 2013
• Board Diversity – to include a Code provision requiring an issuer to adopt a policy concerning board diversity and to disclose the policy or a summary of the policy in its corporate governance report	Sept 2012	Dec 2012	1 Sept 2013

* All the consultation papers and conclusions are available on the HKEx website.

Proposals under review in 2013

- Consultation on further review of the connected transaction Rules
- Work with the SFC to issue a revised Joint Policy Statement regarding the listing of overseas companies and other related guidance
- Further simplification of listing documents and procedures
- Review operation of Chapter 18 of the Main Board Listing Rules (Mineral Companies)
- Review disclosure requirements of Appendix 16 to the Main Board Listing Rules with reference to International Financial Reporting Standards/HKFRSs
- Amendments to the Listing Rules and procedures to complement the SFC's reform of the sponsor regime

Environmental, Social and Governance Reporting Guide

The consultation conclusions on the Environmental, Social and Governance Reporting Guide (ESG Guide) were published in August 2012 after a 4-month consultation. The ESG Guide was introduced as a recommended practice applicable to issuers with financial year ended after 31 December 2012. Subject to further consultation, HKEx plans to raise the obligation level of some requirements to "comply or explain" by 2015.

Throughout 2012, HKEx provided talks and seminars, and participated in conferences organised by professional bodies and industry groups to explain the ESG Guide to interested parties.

Guide on Enhancing Regulation of Listed Structured Products Market

In July 2012, HKEx published the Guide on Enhancing Regulation of the Listed Structured Products Market, which embraces a number of regulatory enhancement measures focusing on: (i) the enhancement of issuers' internal controls and the standardisation of listing documents; (ii) the improvement of liquidity provision standards; and (iii) the management of issuers' credit risks.

The Guide was introduced to foster higher standards across structured products issuers and liquidity providers with the ultimate objective of strengthening protection for investors and promoting the healthy long-term development of the listed structured products market in Hong Kong.

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Exchange in processing new listings, and monitoring issuers' compliance with an aim of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Statistics of IPO work

	2012	2011
• Number of listing applications vetted	**205** [1]	286
• Number of first comment letters issued to new listing applicants	**111** [2]	212
– Average time (in calendar days) between receipt of application and issuance of first comment letter	**15**	16
• Number of applications brought to the Listing Committees (or their delegates) for decisions	**83**	147
– Number of applications reviewed by the Listing Committees (or their delegates) within 120 calendar days	**27**	85
– Number of applications reviewed by the Listing Committees (or their delegates) within more than 180 calendar days	**26**	17
• Number of applications to which approval was granted in principle	**84** [3]	167
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications to which responses were made	**106**	165
– Average response time (in calendar days)	**6**	7
• Number of listing applications for transfer of listing from GEM to the Main Board accepted	**10**	14

Notes:

1 141 were new applications and 64 applications were brought forward from 2011.
2 The number was smaller than the total number of new applications accepted because a number of cases (eg, investment vehicles seeking listing under Chapter 20 of the Main Board Listing Rules and transfer of listing from GEM to the Main Board) required no comments from the Listing and proceeded to the approval process directly. Including transfers of listing from GEM to the Main Board, the number of first comment letters issued was 114 and the average number of days taken was 15.
3 As at the end of 2012, 15 approved applications had not yet been listed, and 20 approved applications lapsed during the year.

Number of IPO transactions

	2012	2011	2010	2009	2008
• New listing applications accepted	**141**	247	204	123	137
• Applications listed	**100**	112	141	93	57
– Companies listed on the Main Board under Chapter 8	**50**	75	94	64	29
– Investment vehicles listed on the Main Board	**35**	10	27	19	7
– Transfer of listing from GEM to the Main Board	**2**	12	12	4	18
– Companies listed on GEM	**12**	13	7	5	2
– Deemed new listings	**1**	2	1	1	1
• New listing applications rejected	**8**	3	2	0	1
• New listing applications withdrawn	**12**	1	9	3	8
• Applications in process as at year-end	**50**	64	39	31	27
• Active applications with approval granted but not yet listed at year-end	**15**	51	23	12	24

Number of compliance and monitoring actions

	2012	2011	2010	2009	2008
• Announcements of issuers vetted	**42,124**	32,508	32,099	27,588	20,784
– Pre-vetted	**147**	151	188	1,589	4,266
– Post-vetted [1]	**41,977**	32,357	31,911	25,999	16,518
• Circulars of issuers vetted	**1,643**	1,565	1,782	1,731	2,849
– Pre-vetted	**1,155**	1,228	1,344	1,275	2,761
– Post-vetted	**488**	337	438	456	88
• Share price and trading volume monitoring actions undertaken [2]	**3,947**	4,507	5,091	8,112	8,439
– Clarification announcements published by issuers in response to enquiries on unusual share price and/or trading volume movements	**348** [3]	360	328	840	2,627
• Enquiries raised about press reports [4]	**77**	156	221	311	536
– Clarification announcements published by issuers in response to enquiries about press reports	**27**	35	55	81	43
• Complaints handled	**604**	657	630	599	516
• Cases (including complaints) referred to Listing Enforcement Department for investigation	**35**	58	59	54	86

Notes:

1 Including clarification announcements published by issuers in response to unusual share price and/or trading volume movements in their securities
2 In 2012, monitoring actions undertaken included 694 enquiries (2011: 693) on unusual share price and trading volume movements, and the actions undertaken led to 53 resumption announcements (2011: 59) on trading suspensions addressing dissemination of unpublished price sensitive information.
3 Including 160 qualified announcements (2011:184) and 188 standard negative announcements (2011: 176)
4 Figures cover written enquiries only. The Exchange also raised verbal enquires to issuers in relation to press reports. In 2012, there were 168 verbal enquiries and 44 of them resulted in clarification announcements published by issuers.

Post-vetted announcements

	2012	2011
Subject to detailed post-vetting *	**10,037**	9,448
Required follow-up actions by issuers (eg, clarification announcements)	**21%**	22%
Involved Listing Rules non-compliance	**14%**	15%
Required follow-up actions by the Exchange	**3%**	4%

* Representing 24 and 29 per cent of all post-vetted announcements in 2012 and 2011 respectively

Key initiatives by the Exchange in 2012 to promote issuers' self-compliance with the Listing Rules

- Published a series of listing decisions and frequently asked questions providing further guidance on Listing Rules
- Issued periodic letters to issuers on Listing Rules amendments and provided guidance on frequently asked questions about topics such as disclosure obligations and connected transactions
- Published a Plain Language Guide on connected transactions to facilitate issuers' understanding of the relevant requirements

Under the Financial Statements Review Programme, the Exchange reviews, on a sample basis, the periodic financial reports published by issuers. The 2012 review included 120 financial reports released by issuers between May 2011 and September 2012. It resulted in: (i) 4 cases that were referred to the Financial Reporting Council for its enquiry and/or investigation into issuers' possible non-compliance with accounting requirements, or auditing irregularities in the preparation of published financial statements; and (ii) 3 cases that were referred to the HKICPA for its independent enquiry and/or investigation into its members' possible non-compliance with the auditing and accounting standards issued by the HKICPA. In January 2013, the Exchange published a report of key findings and observations from its 2012 review. It was the fourth report since the programme began and is available on the HKEx website.

The Exchange encourages directors and other persons responsible for financial reporting to take note of the matters discussed in the report and to review their existing financial reporting systems to ensure that the information presented in their financial reports is: (i) specific, relevant, and material; (ii) in compliance with the disclosure requirements; and (iii) useful to users in making investment decisions.

Communication with Issuers

The Exchange has continued its programme of issuer education and market outreach to issuers and other stakeholders with a view to promoting issuers' self-compliance with the Listing Rules and facilitating mutual understanding of regulatory issues through continued dialogue. Some of the key events held in 2012 are highlighted below.

Event	Place	Purpose of event
• Seminar on simplification of listing documents	Hong Kong	To provide market practitioners with an interactive forum to familiarise them with the simplified approach for a succinct and informative listing document
• Media workshop on listed structured products market regulations	Hong Kong	To promote market awareness of HKEx's listed structured products regulatory enhancement initiatives
• 5 seminars on the new inside information disclosure regime and connected transactions	Beijing, Hong Kong, and Shanghai	To promote issuers' self-compliance with the Listing Rules and facilitate mutual understanding of regulatory issues

Operational Efficiency

The following table summarises the Exchange's service standards for monitoring and guidance actions as well as its subsequent responses to issuers' actions. It is the Exchange's objective to continue improving the transparency, quality, efficiency, and predictability of its service.

		% of cases meeting service standard	
Service for initial responses	**Service standard**	**2012**	2011
• Pre-vetting activities			
– Initial response to pre-vetted announcements	Same day	**90%**	77%
– Initial response to pre-vetted circulars (very substantial acquisition)	10 business days	**97%**	95%
– Initial response to pre-vetted circulars (other than very substantial acquisition)	5 business days	**98%**	98%
• Issuer enquiries [1]			
– Initial response to issuer's enquiries	5 business days	**93%**	96%
• Waiver applications [2]			
– Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	**95%**	93%
• Post-vetting activities			
– Initial response to post-vetted results announcements	5 business days	**98%**	99%
– Initial response to post-vetted announcements (other than results announcements)	1 business day	**100%**	96%

Notes:

1 In 2012, 435 written enquiries (2011: 393) on Listing Rules interpretations and related matters were handled.
2 In 2012, 256 waiver applications (2011: 262) from strict compliance with requirements under the Listing Rules were processed.

Long Suspension

Status of long suspended companies (as at year-end)

	Main Board		GEM	
	2012	2011	**2012**	2011
Resumption of trading of securities during the year	**23**	10	**4**	2
Cancellation/withdrawal of listing during the year	**3**	2	**1**	0
Companies in the 3rd stage of delisting	**5**	4	**N/A**	N/A
Companies notified of the Exchange's intention to cancel their listing	**1**	0	**3**	2
Companies suspended for 3 months or more	**43**	39	**10**	11

Listing Enforcement

In the enforcement of the Listing Rules, the Exchange adopts the strategy of (i) referring cases of egregious conduct which may involve a breach of the SFO to the SFC; (ii) referring cases of suspected violations of laws and other rules and regulations to the appropriate law enforcement agencies such as the Independent Commission Against Corruption and the Commercial Crime Bureau of the Hong Kong Police; (iii) taking disciplinary actions against serious breaches of the Listing Rules; and (iv) issuing warnings or taking no action for other less serious conduct, where appropriate.

When the SFC commences an investigation of a case, the Exchange will normally suspend its investigation and provide support to the SFC. After the SFC's completion of an investigation, the Exchange will consider if a reactivation of its investigation is required. Under this arrangement, the Exchange has suspended the investigation of 12 cases.

The Exchange will also provide other law enforcement agencies with technical advice on the application of the Listing Rules in given circumstances, and witness statements to support their prosecutions.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of the issuer. Compliance with some of the important obligations can be achieved through compliance systems and internal controls. Directors may be subject to disciplinary sanctions should they be held liable for substantive breaches of Listing Rules by the issuer. In addition, they may be subject to disciplinary sanctions should they be held liable for failing to create and maintain adequate internal controls by which compliance can be achieved.

During 2012, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions on the issuers or directors by the Listing Committees. There are currently 6 cases at different stages of the disciplinary process. The number of disciplinary hearings and review hearings increased from 10 in 2011 to 20 in 2012 (14 hearings regarding disciplinary actions were concluded in the year and 6 hearings for those disciplinary actions which remained ongoing as at year-end), resulting in the need for a heavy commitment of regulatory resources.

Number of disciplinary actions

	2012	2011	2010	2009	2008
Investigations [1, 2]	**91** [3, 4]	142	133	147	171
Public censures [5]	**8**	6	7	4	10
Public statements/criticisms [5]	**0**	3	1	4	5
Private reprimands	**4**	0	1	1	0
Warning/caution letters [6]	**20** [7]	42	27	28	68

Notes:

1 Figures cover investigations in progress carried forward from the preceding year but concluded during the year; and investigations commenced during the year.
2 The average time for completion of an investigation (at which point in time a decision as to the level of regulatory action (if any) is taken) was 10.8 months for cases in which the investigation commenced in 2011 and 2012 (5.6 months, as disclosed last year, for cases in which investigations commenced in 2010 and 2011).
3 Due to the increased complexity of the suspected breaches and parties (including individuals and corporations) involved in investigations in 2012, there were 37 outstanding cases (89 per cent of which commenced in 2012) as at the end of 2012 as compared to 31 cases (all commenced in 2011) as at the end of 2011.
4 In 2012, 1 case originating from a complaint was subject to enforcement investigation, and which might give rise, after investigation, to disciplinary proceedings.
5 Figures represent only the primary regulatory action from a disciplinary matter, and exclude any other actions taken at a lower level, eg, private reprimand in the same case.
6 The warning and caution letters were primarily delivered by the Listing in circumstances where action before the Listing Committees was not considered appropriate.
7 The reduction in the number of warning and caution letters issued in 2012 as compared to 2011 was primarily due to the fact that in 2011 the Exchange conducted investigations into a number of cases involving possible directors' securities dealings in breach of the Listing Rules, which accounted for a larger number of investigations conducted and a significant proportion of the warning or caution letters issued in 2011.

Number of directors subject to disciplinary sanctions as a result of contested or settlement cases

	2012	2011	2010	2009	2008
Executive directors	**37**	17	30	20	67
Non-executive directors	**12**	7	4	10	17
Independent non-executive directors	**17**	15	18	16	26
Total	**66** *	39	52	46	110

* As at the end of 2012, a total of 51 executive directors, non-executive directors, and independent non-executive directors were subject to ongoing disciplinary action in which their cases were at various stages of the process or subject to settlement negotiations.

To further improve the efficiency of investigations, training on investigation techniques was offered to staff of the Listing in 2012. Improvements continue on the internal decision-making structures so as to enable earlier identification of serious misconduct and breaches of the Listing Rules. This helps facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process. Continued improvements have been made to enhance transparency of the disciplinary process by providing the market with increasing details in the announcements of any disciplinary actions taken. The relevant information as to the imposed public sanctions is available on the HKExnews website.

In addition, the Exchange continues to make recommendations to the Listing Committees on remedial action to correct breaches and to improve corporate governance in the future, including: (i) an obligation to retain external assistance in the creation of adequate and effective compliance structures or revisions resulting in such structures; and (ii) a requirement for directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of, and performance in, compliance matters. Proposed revisions to the procedures for the disposal of disciplinary matters were submitted to the Listing Committees for their consideration in November 2012, after which a soft consultation involving legal practitioners has been commenced. The consultation findings will be reported to the Listing Committees who will decide how and when to proceed.

Number of contested or settlement cases

	2012	2011	2010	2009	2008
Involving "Internal Control Review" direction	**4**	1	1	6	4
Involving "Retention of Compliance Adviser" direction	**7**	1	5	5	5
Involving "Training of Directors" direction	**10**	7	6	7	4

Listing Operations

During 2012, a total of 5,982 DW listing applications (2011: 7,089) and 6,090 CBBC listing applications (2011: 5,394) were processed. In addition, a total of 109 new debt securities (2011: 50), including Exchange Fund Notes and Government Bonds, were listed in 2012.

Number of DWs

	2012	2011	2010	2009	2008
Newly listed DWs	**5,886**	6,917	7,826	4,230	4,822
Further issues of DWs	**96**	172	410	204	209
Delisted DWs	**6,166**	8,038	6,045	3,874	6,294
DWs listed as at year-end	**3,747**	4,027	5,148	3,367	3,011
Percentage change in number of listed DWs	**(7%)**	(22%)	53%	12%	(33%)

Number of CBBCs

	2012	2011	2010	2009	2008
Newly listed CBBCs	**6,056**	5,334	6,541	8,072	4,231
Further issues of CBBCs	**34**	60	93	49	50
CBBC knockouts	**4,432**	4,087	4,835	5,899	2,837
Delisted CBBCs	**1,311**	1,410	2,334	1,795	211
CBBCs listed as at year-end	**1,214**	901	1,064	1,692	1,314
Percentage change in number of listed CBBCs	**35%**	(15%)	(37%)	29%	903%

The Latest Listed Company Information section, which housed a total of 1,523,305 archived issuer documents for public access free of charge as at the end of 2012, remained one of the most popular sections on the HKExnews website during 2012. The Exchange also administers the filing and publication of Disclosure of Interests (DI) notices through the HKExnews website in accordance with the SFC's requirements and specifications under Part XV of the SFO.

Primary market information statistics (Main Board and GEM)

	2012	2011	2010	2009	2008
Number of issuer news filings processed by the Exchange	**224,050** [1]	201,597	202,492	191,266	143,410
Hit rates for HKExnews website (m)	**341**	288	235	176	121
Number of searches for issuer documents (m)	**44** [2]	35	33	25	22
Number of DI filings processed by the Exchange	**49,905**	53,480	49,958	46,574	54,965
Hit rates for DI filings (m)	**168**	117	38	27	28

Notes:

1 The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control).
2 80 per cent of searches were responded to within 0.14 seconds (excluding the Internet transmission time which is beyond HKEx's control).

Enterprise Risk Management and Surveillance

Enterprise Risk Management Framework

In 2012, HKEx conducted regular reviews of all identified significant risks across the organisation based on the HKEx Enterprise Risk Management Framework as well as identified and assessed new significant risks on different areas such as credit, liquidity, market, operational and strategic, using a common platform and standardised process. All identified significant risks were scored in terms of their potential impact and likelihood, and were reported to the Senior Management Committee (renamed and restructured as Management Committee from 7 January 2013), the Risk Management Committee and the Board with associated action plans and controls designed to mitigate the risks, where applicable, at appropriate levels.

Counterparty Surveillance

In September 2012, HKEx enhanced the monitoring of EPs and CPs by introducing a dynamic risk-based participant surveillance tool, Counterparty Risk Ranking Methodology. EPs and CPs are analysed and ranked based on a set of quantitative and qualitative factors to determine their risk level and provide a structured and proactive approach in monitoring each of them.

Number of failures to comply with financial requirements and position limits requirements

	2012 *	2011	2010	2009	2008
Financial requirements					
EPs	**5**	5	3	11	7
CPs	**8**	9	11	16	8
Position limits requirements					
Derivatives contracts	**0**	0	1	0	3
Stock options contracts	**3**	5	2	3	1

* In 2012, 3 cases involving violation of the SFO were referred to the SFC; and other cases were issued compliance advice letters.

HKEx has continued to perform due diligence check on new applications for registration as EPs, CPs, and market makers, including reviewing applicants' financial and internal control capability and their compliance with HKEx requirements on market making affiliate and corporate entity.

Number of new applications

	2012	2011	2010	2009	2008
EPs and CPs	**43**	52	38	11	21
Market makers	**28**	10	13	8	8

Market Surveillance

HKEx conducted a number of investigations on the trading activities of EPs in 2012. Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred 24 cases to SFC for further investigation of possible violations of the codes, rules and regulations made by the SFC relating to HKEx's securities and derivative markets. These cases mainly involved suspected market manipulation and false trading activities.

In 2012, HKEx developed a Securities Market Automated Research, Training & Surveillance resilience system to enhance its surveillance capability and business continuity in monitoring market activities on a real-time and continuous basis.

Global Markets

Cash Trading

Market Performance

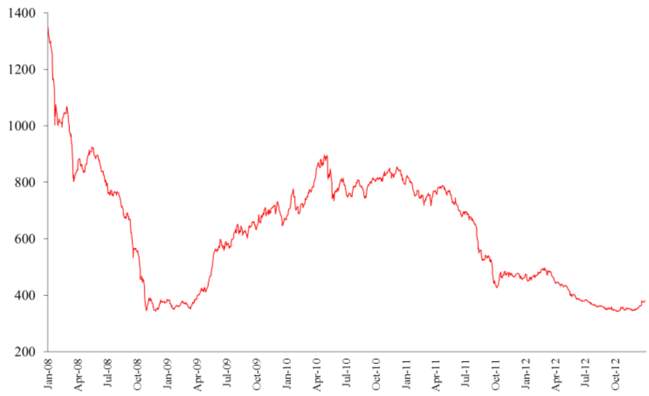
In 2012, 52 companies were newly listed on the Main Board (including 2 transfers from GEM), and 12 on GEM. Total capital raised, including post-listing funds, reached $305.4 billion. As at 31 December 2012, 1,368 and 179 companies were listed on the Main Board and GEM respectively with a total market capitalisation of $21,950.1 billion. In addition, there were 3,747 DWs, 1,214 CBBCs, 100 ETFs, 9 REITs, and 269 debt securities listed as at 31 December 2012. The average daily turnover value in 2012 was $53.7 billion on the Main Board and $135.8 million on GEM, a decline of 23 per cent and 47 per cent respectively as compared with 2011.

Closing indices (as at year-end)

	2012	2011	Change
HSI	**22656**	18434	23%
HSCEI	**11436**	9936	15%
Hang Seng China-affiliated Corporations Index	**4531**	3682	23%
S&P/HKEx LargeCap Index	**27082**	22252	22%
S&P/HKEx GEM Index	**381**	474	(20%)

HSI (01/2008 – 12/2012)

S&P/HKEx GEM Index (01/2008 – 12/2012)

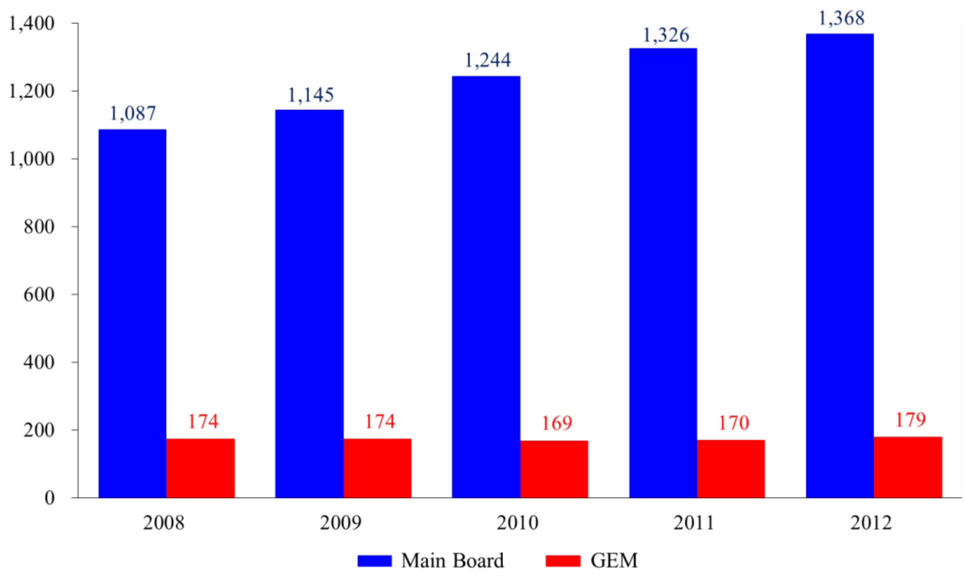


Market performance of Main Board and GEM

	Main Board			GEM		
	2012	2011	Change	**2012**	2011	Change
IPO funds raised ($bn)	**89**	259	(66%)	**1.1**	1.3	(16%)
Market capitalisation as at year-end ($bn)	**21,872**	17,453	25%	**78**	85	(7%)
Number of listed companies as at year-end	**1,368**	1,326	3%	**179**	170	5%
Number of listed securities as at year-end	**6,723**	6,551	3%	**180**	172	5%
Total turnover value ($bn)	**13,268**	17,091	(22%)	**34**	63	(46%)
Average daily turnover value ($m)	**53,715**	69,476	(23%)	**136**	256	(47%)

Note: Figures have been rounded.

Number of listed companies (as at year-end)

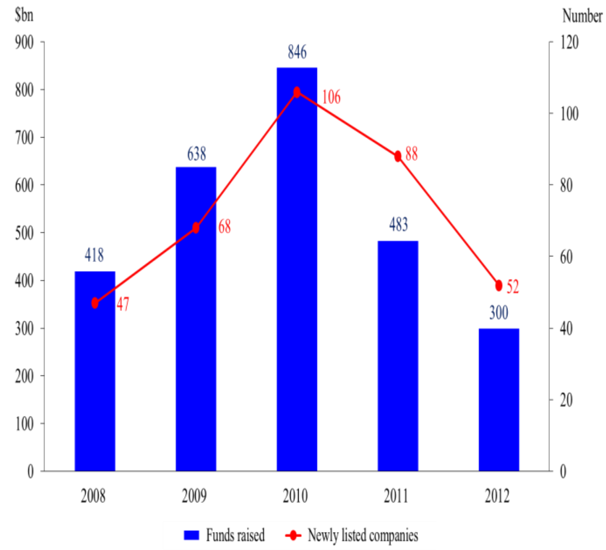


Number of listed companies by industry classification * – Main Board and GEM (as at year-end)

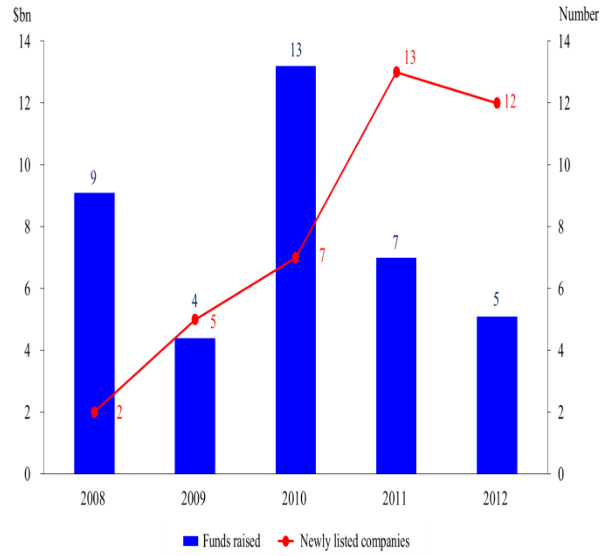
	2012	2011	2010	2009	2008
Energy	**74**	63	52	44	34
Materials	**140**	132	123	105	93
Industrial Goods	**140**	119	120	111	113
Consumer Goods	**370**	388	359	330	327
Services	**243**	230	212	209	198
Telecommunications	**18**	18	18	18	17
Utilities	**43**	43	39	32	24
Financials	**126**	117	109	102	100
Properties & Construction	**216**	203	198	191	174
IT	**163**	161	160	154	158
Conglomerates	**14**	22	23	23	23
Total	**1,547**	1,496	1,413	1,319	1,261

* According to the Hang Seng Indexes Company Limited

Main Board –
Total equity funds raised and number of newly listed companies *

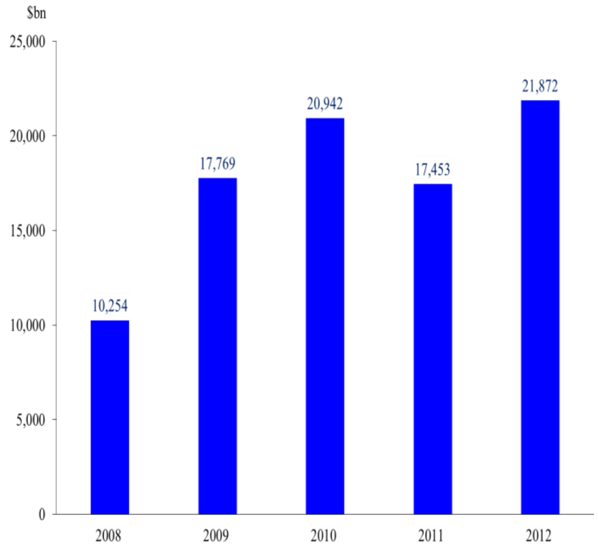


GEM –
Total equity funds raised and number of newly listed companies

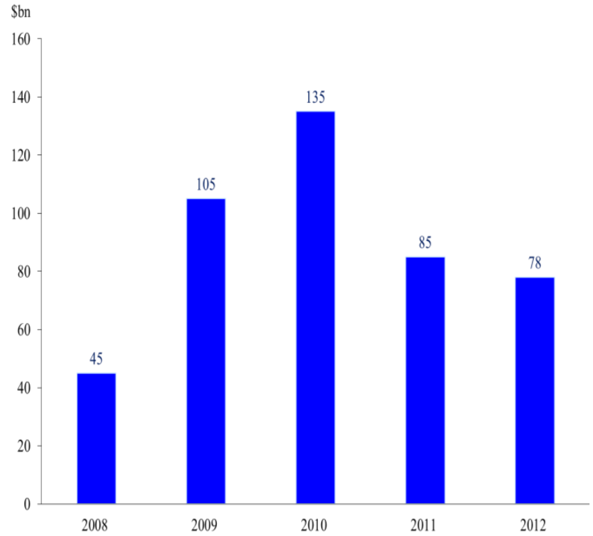


* Including the number of companies transferred from GEM

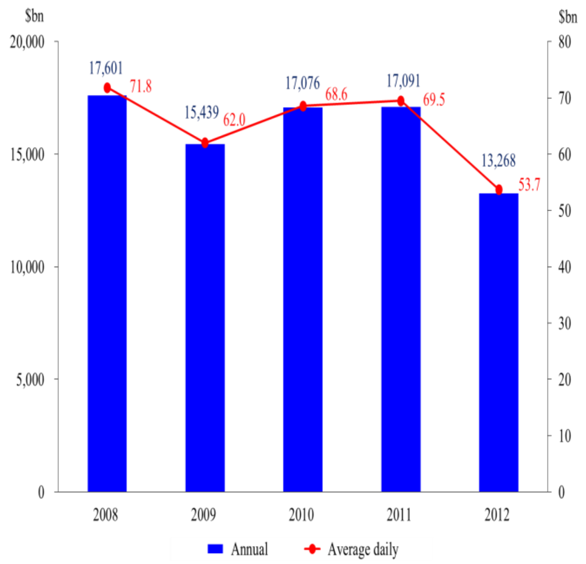
Main Board – Market capitalisation (as at year-end)



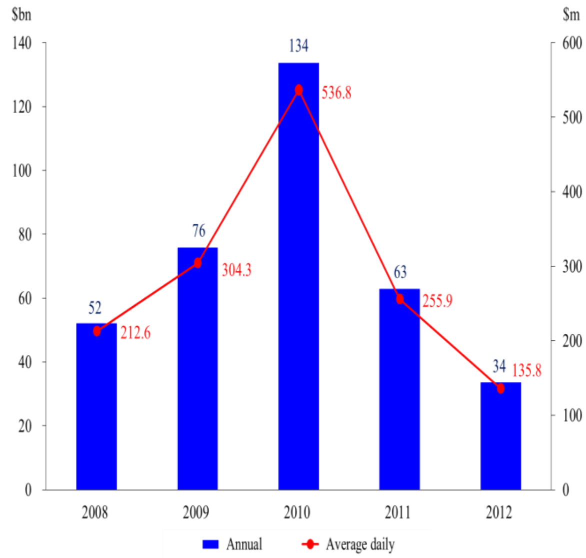
GEM – Market capitalisation (as at year-end)



Main Board – Total annual and average daily turnover value

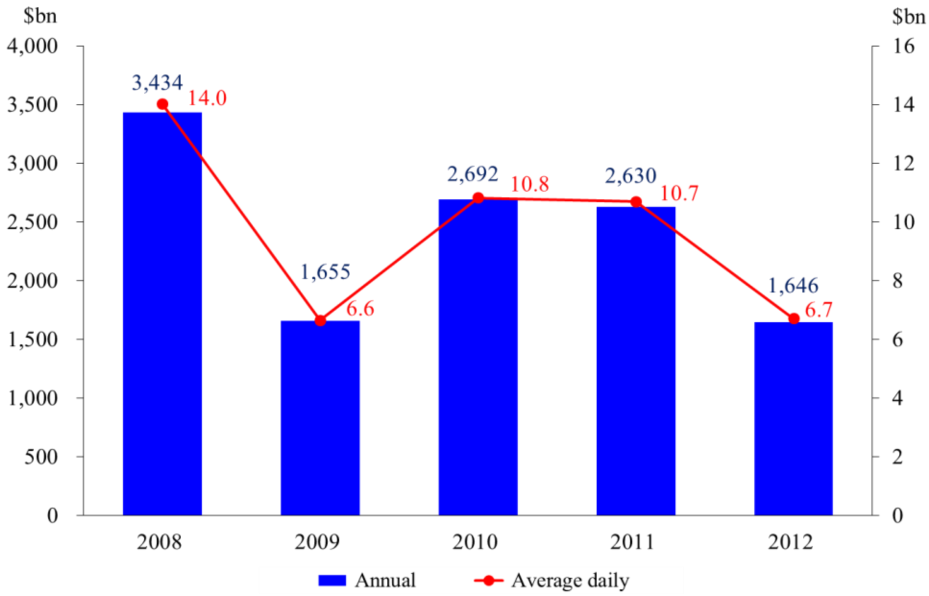


GEM – Total annual and average daily turnover value



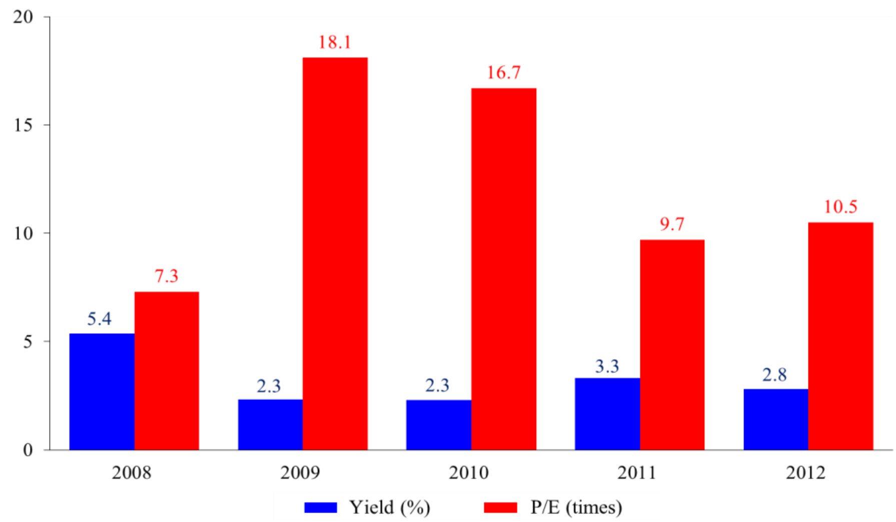
Note: Figures in the above diagrams have been rounded.

Main Board – Total annual and average daily turnover value of DWs



Note: Figures have been rounded.

Main Board – Average yield and P/E ratio (as at year-end)



Main Board – New listings

	2012	2011	2010	2009	2008
Listed Companies *	**52**	88	106	68	47
Preference Shares	**0**	0	1	0	0
Warrants	**5,889**	6,924	7,838	4,241	4,840
Equity Warrants	**3**	7	12	11	18
DWs	**5,886**	6,917	7,826	4,230	4,822
CBBCs	**6,056**	5,334	6,541	8,072	4,231
Debt Securities	**109**	50	38	23	20
Unit Trusts and Mutual Funds	**35**	9	27	19	7

* Including the number of companies transferred from GEM

ETF Market Development

Hong Kong's ETF market had a record year in 2012 in terms of both the number of new ETF listings as well as developments in product variety and trading mechanisms.

There were 35 ETFs newly listed on the Exchange during the year (2011: 8), including the first 4 RQFII ETFs, which are all traded in both RMB and HKD counters, and the first silver and platinum ETFs. The new ETFs track a diversified range of underlying benchmarks. As at 31 December 2012, HKEx had 100 listed ETFs, 21 ETF managers, and 24 ETF market makers.

Underlying benchmark of ETF newly listed in 2012	Number
Regional markets	15
Global and regional industry sectors	7
A-share markets	4
Hong Kong market	4
Precious metals	4
Money market	1

In 2012, the total turnover of ETFs amounted to $522 billion (2011: $545 billion), accounting for 4 per cent of the total market turnover (2011: 3 per cent). There was a higher turnover of ETFs in the fourth quarter of 2012 which contributed more than 6 per cent of total market turnover during the period (2011: 3 per cent). The increase was mainly attributed to a higher turnover of 4 RQFII ETFs after their HKD counters commenced trading in the fourth quarter and increased trading in the Tracker Fund of Hong Kong.

The Group is honoured to have received the "Best Asian Exchange for Listing ETFs" award for the second consecutive year from "etfexpress", a website that covers the ETF industry.

New Trading Hours

Following a series of market simulations in February 2012 to assist EPs and IVs in verifying their readiness, the second phase of the new trading hours in the Cash and Derivatives Markets was implemented smoothly on 5 March 2012.

Trading hours in Cash Market *	
Pre-opening session	09:00-09:30
Morning session	09:30-12:00
Afternoon session	13:00-16:00
Total trading hours	5.5

* For a normal trading day

Tightening of Eligibility Criteria for Designated Securities for Short Selling

As a result of the growth in the average market capitalisation of listed companies in Hong Kong and the increase in market turnover velocity in the past decade, HKEx implemented changes to the criteria for designated securities for short selling in July 2012. The new criteria are related to the minimum market capitalisation and turnover velocity, now $3 billion (previously, $1 billion) and 50 per cent (previously, 40 per cent) respectively.

Trade Reporting Requirements for Automated Trading Services Transactions

An automated trading services (ATS) transaction is a transaction executed or concluded or entered into through "automated trading services" provided by an EP under a licence granted by the SFC for trading in listed securities. To improve the market transparency of ATS transactions, EPs with ATS operations are required, with effect from October 2012, to report their ATS transactions with an identifier into AMS/3 immediately, and in any case, within 1 minute after the conclusion of the transactions. The aggregate ATS transaction turnover value is published on the HKEx website on a monthly basis.

Derivatives Trading

Market Performance

In 2012, the turnover of H-shares-related products was noteworthy, with all-time highs in some cases. Various other contracts also reached new record levels, setting new standards for one-day volume and open interest.

	% of year-on-year increase in turnover
H-shares Index Futures	6
HSCEI Dividend Point Index Futures	248
H-shares Index Options	67

Record high volume and open interest for major derivatives in 2012

	Volume		Open interest	
	Date	**Number of contracts**	**Date**	**Number of contracts**
H-shares Index Futures	27 Nov	227,986	21 Dec	260,943
Mini H-shares Index Futures	–	–	24 Apr	6,684
HSI Dividend Point Index Futures	1 Aug	3,000	28 Dec	8,024
HSCEI Dividend Point Index Futures	24 May	20,802	29 Oct	77,555
USD/CNH Futures *	14 Nov	950	14 Dec	3,850
HSI Options	–	–	27 Jun	560,087
Mini-HSI Options	18 May	13,917	29 May	32,651
H-shares Index Options	14 Sept	67,677	27 Dec	926,985
Flexible HSI Options	24 Oct	3,575	2 Nov	17,878

* Launched on 17 September 2012

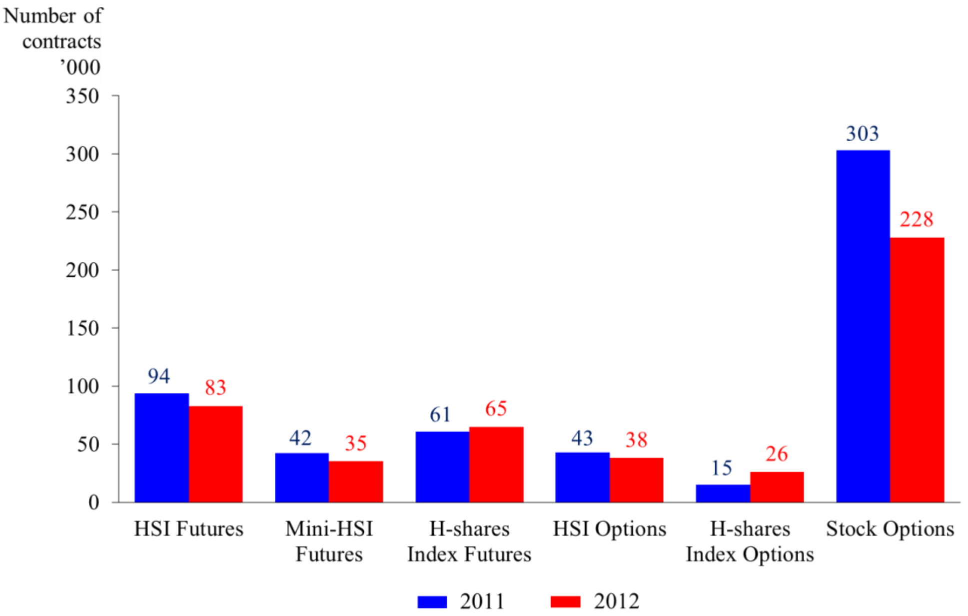
Derivatives Market statistics

	2012		2011	
	Volume	**Period-end open interest**	Volume	Period-end open interest
	Number of contracts	**Number of contracts**	Number of contracts	Number of contracts
Futures				
HSI Futures	**20,353,069**	**139,344**	23,085,833	86,409
Mini-HSI Futures	**8,545,847**	**6,638**	10,294,537	5,129
H-shares Index Futures	**15,923,813**	**181,909**	15,003,870	106,277
Mini H-shares Index Futures	**1,560,515**	**2,276**	1,845,116	1,520
HSI Dividend Point Index Futures	**20,793**	**1,969**	11,196	4,460
HSCEI Dividend Point Index Futures	**184,786**	**48,879**	53,054	34,270
HSI Volatility Index Futures [1]	**1,526**	**8**	–	–
IBOVESPA Futures [2]	**7**	**0**	–	–
MICEX Index Futures [2]	**8**	**0**	–	–
Sensex Index Futures [2]	**190**	**0**	–	–
FTSE/JSE Top40 Futures [2]	**0**	**0**	–	–
Stock Futures	**322,715**	**19,516**	444,014	11,277
1-Month HIBOR Futures	**10**	**0**	245	25
3-Month HIBOR Futures	**150**	**0**	414	24
3-Year Exchange Fund Note Futures	**0**	**0**	0	0
USD/CNH Futures [3]	**20,277**	**3,673**	–	–
Gold Futures	**2**	**0**	3,716	0
Total	**46,933,708**	**404,212**	50,741,995	249,391
Options				
HSI Options	**9,230,145**	**260,785**	10,667,426	184,402
Mini-HSI Options	**1,230,997**	**12,363**	954,414	3,873
H-shares Index Options	**6,300,889**	**589,342**	3,771,799	158,628
Flexible HSI Options	**14,183**	**9,468**	9,260	7,510
Flexible H-shares Index Options	**11,171**	**9,821**	23,510	3,500
Stock Options	**56,081,545**	**4,031,961**	74,325,068	5,329,494
Total	**72,868,930**	**4,913,740**	89,751,477	5,687,407
Total Futures and Options	**119,802,638**	**5,317,952**	140,493,472	5,936,798

Notes:

1 Launched on 20 February 2012
2 Launched on 30 March 2012
3 Launched on 17 September 2012

Average daily turnover of major derivatives



After-hours Futures Trading

In November 2012, HKATS introduced a Dynamic Price Banding mechanism for Mini-HSI Futures. This enhanced feature is aimed at mitigating risk arising from input errors by rejecting all limit buy/sell orders outside the prevailing upper/lower price band. With this system refinement in place, HKEx's trading and clearing systems are all ready for the implementation of AHFT. Simulation tests were held for EPs and CPs intending to participate in AHFT to verify the readiness of their trading and clearing activities and associated operations. With the SFC's approval of the related rule amendments, HKEx plans to introduce AHFT on 8 April 2013, under which HSI and H-shares Index Futures will be available for trading from 17:00 to 23:00 (after-hours trading) in addition to the regular trading sessions (ie, 9:15 to12:00 and 13:00 to 16:15). Mini futures contracts and Gold Futures will be considered for inclusion in AHFT at a later stage. HKEx will arrange briefing sessions for Participants in early March 2013 to explain the trading, clearing and risk management arrangements for AHFT.

Introduction of New Futures and Options Contracts

HSI Volatility Index Futures was introduced for trading in February 2012 to provide investors with a single futures contract for hedging volatility risk in, or obtaining pure volatility exposure to, Hong Kong's stock market.

On 30 March 2012, the Futures Exchange introduced 4 HKD-denominated benchmark equity index futures – Brazil's IBOVESPA futures, Russia's MICEX Index futures, India's Sensex Index futures, and South Africa's FTSE/JSE Top40 futures. These contracts enable investors to get exposure to the BRICS markets through HKEx. Meanwhile, HSI and/or H-shares Index futures were cross-listed on each of the BRICS exchanges.

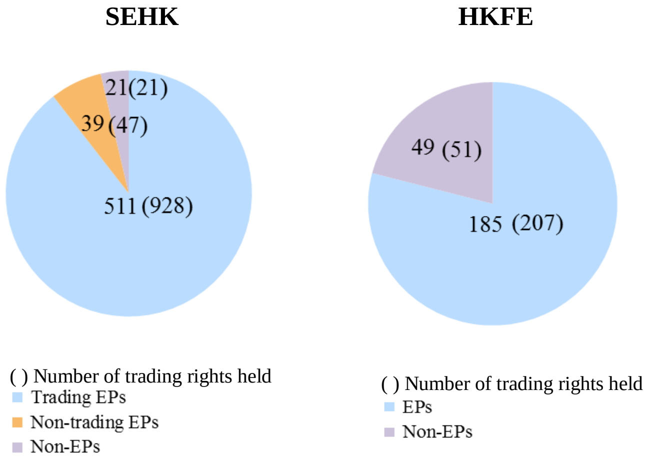
To further broaden the option classes at HKEx, 3 new stock option classes, Galaxy Entertainment Group Limited, Sands China Ltd, and Standard Chartered PLC, were introduced for trading in 2012, while stock options for the HKD-traded CSOP FTSE China A50 ETF and ChinaAMC CSI 300 Index ETF were introduced in early 2013.

Participant Services

At the end of 2012, there were 550 SEHK Participants and 185 HKFE Participants, including 22 SEHK Participants and 16 HKFE Participants admitted in 2012.

HKEx and the HKSI jointly organised 15 Continuous Professional Training courses on HKATS operations and trading procedures in 2012. There were also 7 training courses related to AMS/3. In addition, a total of over 6,400 people participated in 64 briefing sessions and 30 seminars on derivatives organised under HKEx's joint promotion programme with EPs.

Number of Participants/Trading Rights Holders (as at the end of 2012)



RMB Business

Introduction of RMB Products

In 2012, a number of milestones were set in HKEx's RMB product development which reinforced Hong Kong's position as a leading offshore RMB centre.

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

Following the Mainland's approval in April 2012 of the use of the RQFII quota to issue RMB-denominated ETFs tracking A-share indices for listing on the Exchange, 4 RQFII A-share ETFs were listed on the Exchange in 2012, and all of them are traded under the Dual Counter model (ie, HKD and RMB counters). The addition of RQFII A-share ETFs broadens HKEx's RMB product offerings and provides investors with an additional product choice of investment in A-shares. The Dual Counter model facilitates investors' trading in RMB.

In 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 the mainland of China. In December 2012, the first DW traded in RMB was listed on the Exchange.

The RMB Currency Futures contract introduced for trading by HKEx in September 2012 is based on the currency pair, USD and CNH, and was the world's first deliverable RMB currency futures to be quoted, margined and settled in RMB. The new futures contract provides RMB users a tool for managing RMB exchange rate risk exposure. Regulatory approval of the relevant rule amendments has been obtained for the introduction of RMB-traded options on RMB-traded equity securities listed on the Exchange, and those products will be introduced when opportunities arise.

Number of RMB products traded on SEHK or HKFE as at the end of 2012

Equity security [1]	1
Debt securities	47
ETFs [2]	5
DWs	3
REIT	1
Currency Futures	1

Notes:

1 Traded under the Dual Counter model
2 Including 4 ETFs traded under the Dual Counter model

Enhancements to trading and clearing infrastructure

In 2012, HKEx further enhanced its trading and clearing infrastructure to support the launch of RMB products.

Enhancements to improve HKEx's service capability for RMB products

- the TSF suspension function to support requirements of partner banks under extreme market volatility conditions
- the automated order rejection by AMS/3 upon full consumption of the TSF funding pool
- the extension of coverage of the TSF beyond RMB-traded shares to equity-related ETFs and REITs traded in RMB
- CCASS enhancement to facilitate file uploading of multi-counter transfer instructions by Participants with high transaction volume
- CCMS enhancement to facilitate margin offset between products of different settlement currencies including RMB

The registration process for TSF Participants was streamlined in January 2013, whereby EPs which fulfil the TSF registration criteria with overall readiness may apply to be TSF Participants directly without the need to complete the mandatory system testing prescribed by HKEx. As at the end of 2012, there were 6 TSF securities and 45 TSF Participants.

LME

Market Performance

Trading volume in LME contracts rose by almost 10 per cent in 2012 coming on the back of a 22 per cent increase in 2011 and resulting in truly impressive compound growth, especially when compared with the exchange industry more generally where any increase in turnovers was a rare event during 2012. This positive outcome was mainly due to the fact that commodities and metals in particular, are essential to the growth of emerging economies, and the work done to modernise and stabilise the IT aspects of the trading infrastructure, making LME more accessible to participants.

Implementation of the Exchange User Fee

Upon the approval of a new Exchange User Fee to be charged on client contracts in December 2011, the Exchange User Fee was refined to exclude short-dated carries (anything from Tom (ie, the next business day) to 15 days inclusive), and was set at US$0.79 per lot. Implementation of the new Exchange User Fee allows LME to maintain an appropriate investment programme, to maintain its regulatory capital requirements, and to continue to grow in an increasingly competitive market. The impact on LME of the introduction of the Exchange User Fee will be kept under constant review.

Operation of LME's Approved Warehouses

In April of 2012, the load out rate for the largest warehouses was doubled to 3,000 tonnes per day. As a consequence, the LME warehouse network delivered out 2.3 million tonnes of aluminium alone during 2012. Nevertheless, LME decided that a further revision to load out rates would be appropriate, requiring that in certain circumstances from 1 April 2013, an additional 500 tonnes per day of a metal other than the dominant metal in any given warehouse should be loaded out, and on top of that, up to 60 tonnes per day of nickel and tin (combined) should be loaded out. These, all amount, in some instances, to an increase in the load out rate of nearly 140 per cent since March 2012.

LME will keep the operation of the warehousing system under constant review and will continue to tune the system when such tuning is both necessary and effective.

Impact of New European Market Infrastructure Regulation

The introduction of the new European Market Infrastructure Regulation (EMIR) regulatory environment has had a major impact on LME and its members, though the full force of the changes will not be felt until 2014/2015. Certain assumptions that were made when LME Clear was first mooted have had to be dramatically revised, and the operation of LME's core systems is impacted by the need to make trading, and particularly clearing, EMIR compliant. From LME's perspective, there will be opportunity in the EMIR-driven changes, including the potential for the construction of a trade repository. EMIR mandates that all trades, both on-exchange and OTC, must be recorded the consequent positions be aggregated so that regulators can see clearly what is happening across markets. The regulatory push to clearing, to on-exchange execution, and to the registration of OTC business should strengthen the position of the LME in its markets.

Establishment of User Committee

LME members and the broader metals industry have always played a significant role in the running of LME through their participation in the operational committees. All the operational committees will continue to meet and their advice will continue to be important to the decision-making process. A User Committee has been newly created under the LME board to ensure that there remains a direct line of communication from LME's users to the board.

Number of LME members as at the end of 2012	
Category 1	11
Category 2	27
Category 3	2
Category 4	4
Category 5	49

Introduction of New Products

In January 2012, LME introduced LMEswaps for all LME non-ferrous contracts. An LMEswap is an on-exchange contract between two parties where the cash difference between the agreed fixed price and the floating Monthly Average Settlement Price (MASP) is financially settled at the end of the averaging period. LMEswaps are the first of their type in the world traded on-exchange and bring transparency to pre- and post-trade prices. They are designed specifically for members of the metal community who need to hedge against the monthly average price with the added security of clearing.

In response to a member consultation on LME's Closing Prices, LME on 6 February 2012 began publishing live forward prices for all metals traded in the last Ring session of the day (the afternoon Kerb) which adds further transparency to the procedures used to establish the Closing Prices. The forward curve is available for the key prompt dates and displayed on a daily basis from 16:15 by LME licensed data vendors and on the electronic wallboards in the Ring dealing area. As the prices for the forward curve change during the Kerb session, they will be amended and displayed accordingly.

Broadening Education and Outreach in Asia

LME has been broadening its education and outreach efforts in Asia amid growing interest in futures trading in the region.

In 2012, seminars were designed and run out of Asia for the purpose of providing traders, investors and industry players in the region with a greater understanding of how LME contracts can be used to manage the impact of price volatility and the regulation, pricing, hedging and delivery procedures for trading on LME.

In December 2012, visits were made to Mumbai and New Delhi as part of an educational tour of India. The sell-out tour, which consisted of day-long seminars for Indian delegates to familiarise them with metals price risk management tools, had received enormous support from the Indian industry.

Mainland Development

HKEx has continued to broaden and deepen its relationships with the Mainland authorities (at the Central Government level as well as the provincial and local levels) and market participants. It has signed MOUs with all 6 Mainland exchanges (ie, the China Financial Futures Exchange, the Dalian Commodity Exchange, the Shanghai Futures Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and the Zhengzhou Commodity Exchange). In 2012, over 130 meetings were conducted with the governments of 22 Mainland cities, including Beijing, Chongqing, Hunan, Liaoning, Nanjing, Shanghai, Sichuan, and Tianjin, as well as Central Government regulators and authorities.

MOUs signed in 2012

- at the Central Government level (on listing and trading of RMB-denominated sovereign bonds in Hong Kong)
  - Ministry of Finance of the PRC
- at provincial and local levels (on cooperation and exchange of information)
  - Financial Affairs Offices of Hebei, Heilongjiang, Shaanxi, and Shandong provinces
  - Beijing Xicheng District Government
- with Mainland counterparts (on cooperation and exchange of information)
  - China Financial Futures Exchange
  - Shanghai Futures Exchange

HKEx organises exchange programmes for the Mainland authorities to strengthen their understanding of its businesses and to forge closer working relationships. In 2012, it arranged exchange programmes for over 50 senior officials from various departments of China Securities Regulatory Commission, including Listed Company Supervision, Fund Supervision, and Futures Supervision, as well as the Enforcement Bureau. In addition, HKEx co-organised training workshops on corporate governance standards of listed issuers for about 100 senior Mainland executives. The training was in Hong Kong and the other co-organisers were The Hong Kong Polytechnic University and the Research Institute of Hong Kong and Macao Affairs Office of the State Council.

Issuer and Client Services

In line with its core strategy to generate organic growth, HKEx has continued to promote Hong Kong as a pre-eminent listing venue for Mainland and international companies seeking capital, brand awareness, Asia exposure, and a liquid secondary market. Throughout 2012, HKEx maintained a high level of marketing activity, including roadshows in the mainland of China and in many other markets around the world, to identify and meet with potential issuers. In addition, HKEx collaborated closely with the Mainland and Hong Kong governments to organise promotional activities in strategically important Mainland cities and regions to attract companies to list in Hong Kong.

In 2012, HKEx hosted over 20 events for potential issuers, ranging from large conferences to small roundtable discussions and workshops, in 10 Mainland cities and Hong Kong. HKEx also made 55 trips to different Mainland cities and 18 trips internationally to speak at listing promotion events and meet with government officials and potential issuers, including companies that are looking for a secondary listing and leading companies in a number of sectors and industries.

Major events in which HKEx participated in 2012 to promote Hong Kong as a pre-eminent listing venue

Event	Place	Target groups
• Mining Indaba	Cape Town	International mining and energy companies
• 3rd Annual Russia Investment Summit	Hong Kong	International investment community
• 5th Annual Mines & Money Hong Kong 2012	Hong Kong	Natural resources companies
• Brazil Invest	Hong Kong	Brazilian companies
• Capital Raising in Hong Kong Seminar	Kuala Lumpur	Malaysian and other South East Asian companies
• LME Week	London	Natural resources companies
• PDAC 2012	Toronto	Natural resources companies
• 6th Capital Raising & Investment Conference	Ulaanbaatar	Mongolian companies

RMB fundraising in Hong Kong remains a key focus as substantive discussions continue with potential and listed issuers as well as influential intermediaries. HKEx continued to promote RMB fundraising opportunities to listing prospects and market participants through roadshows and conferences.

Major events in which HKEx participated in 2012 to promote RMB fundraising opportunities in Hong Kong

Event	Place	Organiser(s)
• Hong Kong Business Seminars	Amsterdam & Milan	Hong Kong Trade Development Council
• 3rd ASIFMA-ISDA Offshore RMB Markets Conference	Hong Kong	Asia Securities Industry & Financial Markets Association
• Paris Europlace Financial Forum	Hong Kong	HKMA, and Banque de France
• Global Financial Centre Seminar	New York	HKMA, SFC, and InvestHK
• Think Global, Think Hong Kong	Tokyo	Hong Kong Trade Development Council

Market Data

Market Performance

As at the end of 2012, there were 158 and 87 real-time and delayed IV licences respectively (2011: 149 and 80). The licensed IVs altogether offered a total of 954 types (2011: 914) of real-time market data services.

Products subscribed	Number of real-time IVs 2012	2011
Securities market data	**146**	139
Derivatives market data	**66**	64
Issuer Information Feed Service	**12**	11
More than 1 data product group	**58**	57

End-user Licence for Market Data

In view of the positive market response to the introduction of an end-user licence for the Derivatives Market data in 2011, HKEx extended the end-user licence to cover the Cash Market data in December 2012 for licensees' internal usage of Cash Market datafeed – MDF 3.8. As at the end of 2012, there were 23 End-user Licensees (mainly EPs and market makers) for the Derivatives Market data.

Non-display Usage of Market Data

Traditionally, market data has been used mainly by people in a "display" mode on screens. With the advance of technology and the increasing popularity in automated trading in recent years, market data is increasingly being used by machines, or the so-called "non-display" mode. In response to changes in market behaviour, HKEx announced in July 2012 the introduction of a new policy for non-display usage of HKEx real-time's market data which took effect from January 2013.

Types of "non-display" usage of real-time market data
• "automated trading application" – any application that accesses HKEx's real-time market data for automatic calculation, processing, and analysis, and that application will determine the quantity, price, and timing of order execution • "derived data (with tradable products)" – the use of real-time market data to partly or wholly derive (i) the price of a tradable product; or (ii) the value of an underlying instrument of a tradable product • "others" – other non-display usages of real-time market data such as the use of data in risk management systems, portfolio management applications, back-office support, and creation of indices, excluding indices for tradable products and etc

Extension of Discount Programme of Real-time Market Data for Mainland Users and Mainland Television Subscribers

The discount programme for Mainland users of HKEx's real-time market data has been extended until the end of 2013. More than 10,300 individual investors and 3,500 institutional investors in the mainland of China registered under the programme will continue to enjoy the discounted rates of $80 and $120 respectively for HKEx securities market data along with a free derivatives data package without price depth.

The discount programme which enables Mainland television subscribers to provide HKEx's real-time securities market data to its viewers in the mainland of China has also been extended to the end of 2013. The subscriber fee remains at a flat rate of $10,000 per month.

Mainland Market Data Hub

In view of the substantial growth of demand for Hong Kong market data in the mainland of China and the growing number of Mainland IVs offering the data, HKEx established the Ganghui Financial Information Services (Shanghai) Limited, a wholly-owned subsidiary of HKEx, in Shanghai in 2012 to coordinate its market data distribution in the mainland of China. As part of the HKEx Orion programme, a market data hub will be launched in Shanghai in the third quarter of 2013. Initially, it will offer securities market and index datafeed products. This initiative will strengthen HKEx's Mainland connectivity, enable Mainland investors to access HKEx's market data through a reliable, scalable, and cost-effective infrastructure, and mark HKEx's first significant technical infrastructure footprint in the mainland of China. A Founding Members Programme was launched in February 2013 to allow IVs and other interested parties to participate in the early set-up of the market data hub and joint marketing efforts with HKEx.

CESC

In October 2012, the CESC officially commenced operations in Hong Kong, just 4 months after HKEx, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange announced the signing of a joint venture agreement. It brings together the experience and expertise of the 3 exchanges and aims to contribute to the further internationalisation of China's capital markets by providing global investors with exposure to the world's second largest economy through Hong Kong. On 10 December 2012, the CESC launched CES120, the first index in the new CESC Cross Border Index Series. CES120 is disseminated to the HKEx real-time MDF IVs for their redistribution free of charge. The CESC will develop sub-indices, including a pure A-shares index and a Hong Kong Mainland index based on CES120 constituents, and plans to introduce other cross-border indices as well as index-related products in early 2013.

Constituents of CES120
• 80 most liquid and largest* stocks listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange • 40 most liquid and largest* Mainland companies listed on SEHK

* In terms of market value

Product and Index Development

The member exchanges of the BRICS alliance (comprising Brazil's BM&FBOVESPA, Russia's Moscow Exchange MICEX-RTS, India's BSE Limited, HKEx, and South Africa's JSE Limited) listed local currency versions of benchmark equity index futures and/or options of other alliance members in the first half of 2012 and provided joint product education for respective market participants in the second half of 2012. The BRICS exchanges engaged major index vendors in developing a set of new composite indices comprising of local markets from each jurisdiction. The composite indices would reflect various asset classes as the basis for new products to serve investors globally in cash and derivatives markets and a vehicle to access existing BRICS liquidity pools internationally. The BRICS exchanges alliance initiated the efforts in developing and testing product concepts and work together with the selected vender to determine the scope of the next engagement in the first quarter of 2013.

Global Clearing

Cash and Derivatives Clearing

CCASS statistics

	2012	2011	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	**775,742**	873,654	(11%)
Value of trades ($bn)	**53.9**	69.7	(23%)
Share quantity involved (bn)	**137.5**	162.2	(15%)
Average daily SIs settled by CCASS			
Number of SIs	**73,247**	83,833	(13%)
Value of SIs ($bn)	**178.5**	211.2	(15%)
Share quantity involved (bn)	**44.2**	47.8	(8%)
Average daily ISIs settled by CCASS			
Number of ISIs	**343**	469	(27%)
Value of ISIs ($m)	**227.2**	261.1	(13%)
Share quantity involved (m)	**98.7**	123.7	(20%)
Average daily settlement efficiency of CNS stock positions on due day (T+2)	**99.91%**	99.88%	–
Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)	**99.99%**	99.99%	–
Average daily buy-ins executed on T+3			
Number of brokers involved	**4**	6	(33%)
Number of buy-ins	**4**	7	(43%)
Value of buy-ins ($m)	**1.5**	2.4	(38%)
Shares deposited in the CCASS depository			
Number of shares (bn)	**3,663.7**	3,694.2	(1%)
Percentage of the total issued shares of the admitted securities	**70%**	70%	–
Value of shares ($bn)	**12,330.1**	9,599.9	28%
Percentage of the total market capitalisation of the admitted securities	**52%**	50%	–

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 2013.

CCASS Service Enhancement

In May 2012, new features were introduced in CCASS to improve the SIs' operational efficiency. Participants can now opt to settle SIs in any eligible currency (HKD, RMB, and USD) instead of in the trading currency of the securities only. In addition, a new reference field was added for SI input which allows Participants to handle IPOs with better control and higher efficiency.

HKCC's Settlement Bank Arrangement

Money settlement arrangements with all Settlement Banks of HKCC were standardised in August 2012 to streamline the payment flows and to facilitate a higher level of the banks' participation in RMB settlement.

DCASS Enhancement

To prepare for the introduction of AHFT, DCASS was enhanced in November 2012 to allow CPs to support the clearing of HSI Futures, H-shares Index Futures, and Gold Futures during the after-hours trading session.

Self-assessment of Principles for Financial Market Infrastructures

In April 2012, the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions issued the report "Principles for financial market infrastructures" (PFMI Report) which contains new international standards for payment as well as clearing and settlement systems. These standards are designed to maintain and promote global financial stability, and are applicable to financial market infrastructures including central securities depositories, securities settlement systems, and central counterparties.

In order to stay on a par with international standards, HKEx is conducting self-assessment of HKSCC, HKCC, and SEOCH observance levels against the PFMI Report's principles in their capacities as either central counterparty, central securities depository, or securities settlement system. The assessment, through a gap analysis, is targeted to be completed in the first half of 2013, after which HKEx will develop plans for financial resources and enhancements to its systems, policies, and operations for ensuring compliance with these principles, as appropriate.

Participant Services

In 2012, there were 24,344 CCASS Participants, including 599 IPs admitted in 2012. HKEx organised 24 training courses related to CCASS or DCASS for CPs and market participants in 2012.

Number of CCASS Participants (as at the end of 2012)

Clearing Agency Participant	1
Custodian Participants	40
Direct CPs	493
General CPs	9
IPs	23,796
Stock Pledgee Participants	5

OTC Clear

In preparation for the development of a new regulatory regime for the OTC derivatives market in Hong Kong, the HKMA and the SFC are planning to introduce the legislative proposal to the Legislative Council in the first half of 2013.

With this backdrop, HKEx established OTC Clear, the clearing house for its OTC derivatives clearing business, in 2012. Feedback from discussions with potential clearing members has been positive. After incorporating market views and suggestions into the rules and procedures of OTC Clear, HKEx submitted them to the SFC for its review. Subject to the SFC's approval of OTC Clear as a recognised clearing house, HKEx is targeting to introduce its OTC derivatives clearing services in the second quarter of 2013. Initially, the product coverage will be interest rate swaps on RMB, HKD, USD and Euro, and non-deliverable forwards for RMB, Taiwan dollar, Korean Won and Indian Rupee.

As regards the OTC clearing and settlement system (OCASS), the system development work was largely completed in December 2012. OTC Clear is arranging for testing with clearing members in the first quarter of 2013. Before the official launch of the OTC derivatives clearing services, market rehearsals to simulate the operations in production will be conducted with clearing members.

In the last quarter of 2012, OTC Clear started promoting its OTC clearing services to individual banks and licensed corporations and working closely with them on the clearing membership applications. Discussion with a group of strategic partners on the proposal to offer them minority stakes in OTC Clear is in progress. HKEx also worked with middleware vendors to co-organise seminars and briefing sessions for market participants to raise their awareness and understanding of trade registration platforms' services and features.

To prepare for the launch of OTC clearing services, HKEx organised various events in 2012 for potential OTC Clear clearing members. Highlights are set out below.

Event	Purpose of event
• 4 HKEx OTC clearing briefing seminars	To provide the clearing structure, operational work flows and risk management framework of the OTC derivatives clearing services, and introduce the trade affirmation services provided by middleware vendors
• HKEx OTC clearing briefing seminar – system vendors	To present OTC clearing system solutions from 5 IT vendors
• HKEx OTC clearing MarkitWire and DS Match workshop	To present the functionalities of the trade matching and trade submission platform from IT vendors
• 3 OTC Clear – web portal training workshops	To introduce the OTC Account Services Information System (OASIS) web portal functionalities

HKEx also co-organised and/or participated in a number of events to promote its OTC clearing services to the market and the public.

LME Clear

The design and construction of LME Clear, LME's vertically integrated clearing house, continued during 2012. Implementation work for the clearing and risk management platform commenced in the third quarter, and 3 member working groups, covering legal, operations, and IT aspects, were formed in the fourth quarter. Since November 2012, regular member working group meetings on operations and IT have been held.

A high level service description and the technical specifications have been distributed to members for their readiness work. The risk management framework, detailed rulebook, and procedures are scheduled for members' consultation in the first quarter of 2013. It is expected to launch LME Clear in 2014.

Clearing Risk Management

In March 2012, HKEx published consultation conclusions on the HKEx Clearing House Risk Management Reform Measures with a view of strengthening its clearing house risk management regime. The consultation drew over 600 responses from CPs, professional and industry associations, market practitioners, and individuals. The responses were broadly supportive and the measures were successfully implemented in 2012.

The key measures were: (i) the introduction of a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) the revisions to certain price movement assumptions in the clearing houses' stress testing; (iii) the revisions to the counterparty default assumption in the stress testing; (iv) the revisions to the collateral assumptions at HKCC and SEOCH; and (v) the introduction of various means of financial support to reduce the impact of risk management reform on CPs.

For OTC clearing, to ensure the robustness of OTC Clear's risk management model and framework in line with the international standards, risk management reviews covering margin calculation, pricing, default management and guarantee fund stress testing were completed by independent third party consultants in 2012.

Information Technology

Production Systems' Stability and Reliability

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

IT Security Enhancements

HKEx has commenced a 2-year programme to implement various IT security enhancement initiatives following the completion of an IT security risk and infrastructure review in the first quarter of 2012. The programme involves enhancements in security technologies, people, and processes with an objective to raise IT security to a higher level of maturity. A number of key improvements were successfully completed in 2012. The target is to roll out the remaining initiatives in phases in 2013 and the first half of 2014.

New Data Centre and IT Office Consolidation

Construction of the TKO Data Centre was completed with occupancy permit obtained in August 2012. The relocation of the IT office to the new building and the first phase of data centre migration, involving the Cash Market, were conducted smoothly in October 2012. The relocation of all other primary data centres will be conducted in phases in 2013.

HKEx Orion Programme

The HKEx Orion technology initiatives programme was launched in March 2012. The programme comprises a set of projects which will progressively transform HKEx's market platforms to improve market access, connectivity, speed, and functionality.

The SDNet/2 provides higher bandwidth scalability for future business growth and offers the choice of multiple network carriers for diversity and competitive pricing. The backbone infrastructure was duly implemented as part of AMS/3.8 project. The first phase migration of network circuits for EPs and IVs of the Cash Market to the SDNet/2 was completed in July 2012. The migration of EP and IV network circuits for the Derivatives Market and the Cash Clearing is planned for the first quarter and second half of 2013 respectively.

The OMD is an integrated low-latency data feed adopting a common message format across all asset classes traded on the HKEx markets. The OMD 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 in the mainland of China. Implementation work for the OMD commenced in the first quarter of 2012, and customers were given access to the planned system for the Cash Market in December 2012. Rollout for the Cash Market is scheduled for the second quarter of 2013 and that for the Derivatives Market by the first quarter of 2014.

HKEx also commenced development of the OCG for the Cash Market in the third quarter of 2012. The OCG will significantly reduce EPs' costs by offering market access without the need for any gateway equipment to be deployed in their premises as well as offering additional features such as FIX (Financial Information eXchange) support and "drop-copy". BSS vendor exhibitions were organised to facilitate EPs' selection of BSS solutions for the OCG. The OCG is tentatively targeted for launch in the fourth quarter of 2013.

For the Cash Market trading system, HKEx is preparing for the eventual replacement of AMS/3 with the OTP. The OTP is a new Cash Market trading system aimed at providing low latency, high capacity, and new business functionality. A proof-of-concept exercise was completed in 2012. The development and implementation of the project are expected to take place in 2013 and 2014 respectively.

On the Derivatives Market front, HKEx is working on the migration of HKATS/DCASS onto a new technology platform (Genium INET) to facilitate technology alignment with vendor's product roadmap, and achieve significant improvement in capacity and reduction in order latency for further development of the Derivatives Market. The Genium INET platform is targeted to be rolled out in the fourth quarter of 2013.

Hosting Services

The Hosting Services offered by HKEx provide a local area network infrastructure in the TKO Data Centre which supports users' low latency connections to HKEx's systems. Total capacity of the hosting floors can support up to 1,200 racks of server space. The initial phase, comprising 320 racks, was implemented in the fourth quarter of 2012. About one-third of the capacity has been subscribed by about 60 companies including EPs, IVs, technology vendors, and telecommunication service providers. Support for Cash Market trading through the network was launched in December 2012, with approximately 20 hosting service users trading on the infrastructure.

With an open ecosystem approach to support Hong Kong's financial markets community, HKEx's Hosting Services enable users to interact with each other efficiently and conveniently subscribe for software services, market data feeds, and managed services provided by various technology vendors and IVs. Besides, 14 financial extranets and telecommunication service providers have set up networks at the carrier-neutral data centre. Global connectivity can be supported by the Hosting Services by simple cable patching. To promote the Hosting Services to the trading community and technology vendors, HKEx organised the HKEx Hosting Services Ecosystem Founding Members Conference and the Exchange Technology Forum and participated in the Asia Pacific Trading Summit and the Trading Architecture Asia event in 2012.

The Hosting Services will be extended to support the Derivatives Market trading and low-latency direct connection to the OMD by the third quarter of 2013.

HKEx Mobile and HKEx Group Website

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

In December 2012, the HKEx Group website (www.hkexgroup.com) was launched to give an overview of the Group, including LME and the CESC.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and cash collateral and Clearing House Funds, totalling $46.0 billion on average in 2012 (2011: $48.2 billion).

As compared with 31 December 2011, the overall size of funds available for investment as at 31 December 2012 increased by 3 per cent or $1.4 billion to $47.1 billion (31 December 2011: $45.7 billion). Details of the asset allocation of the investments as at 31 December 2012 against those as at 31 December 2011 are set out below.

	Investment Fund Size $bn		Bonds *		Cash or Bank Deposits		Global Equities	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Corporate Funds	**7.8**	9.7	**24%**	53%	**69%**	43%	**7%**	4%
Margin Funds and cash collateral	**36.8**	34.5	**6%**	18%	**94%**	82%	**0%**	0%
Clearing House Funds	**2.5**	1.5	**0%**	19%	**100%**	81%	**0%**	0%
Total	**47.1**	45.7	**9%**	25%	**90%**	74%	**1%**	1%

* Included certain principal-guaranteed structured notes

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Margin Funds and cash collateral and Clearing House Funds. Excluding equities held under the Corporate Funds ($0.5 billion as at 31 December 2012 and $0.4 billion as at 31 December 2011), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2012 ($46.6 billion) and 31 December 2011 ($45.3 billion) were as follows:

	Investment Fund Size $bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Corporate Funds	**7.3**	9.3	**44%**	20%	**3%**	4%	**33%**	42%	**10%**	17%	**10%**	17%
Margin Funds and cash collateral	**36.8**	34.5	**22%**	19%	**10%**	24%	**62%**	52%	**3%**	4%	**3%**	1%
Clearing House Funds	**2.5**	1.5	**67%**	49%	**7%**	7%	**26%**	44%	**0%**	0%	**0%**	0%
Total	**46.6**	45.3	**28%**	20%	**9%**	19%	**56%**	50%	**4%**	6%	**3%**	5%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 December 2012, had a weighted average credit rating of Aa3 (31 December 2011: Aa3) and a weighted average maturity of 2.7 years (31 December 2011: 1.8 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2012 and 2011 was as follows:

	Average VaR $m		Highest VaR $m		Lowest VaR $m	
	2012	2011	**2012**	2011	**2012**	2011
Corporate Funds	**19.4**	23.9	**27.2**	27.5	**7.9**	17.5
Cash collateral [1]	**0.1**	0.3	**0.2**	0.3	**< 0.1**	0.1
Margin Funds [1]	**1.4**	5.1	**3.3**	7.5	**0.6**	3.2
Margin Funds and cash collateral [2]	**1.0**	N/A	**1.5**	N/A	**0.6**	N/A
Clearing House Funds	**0.1**	0.7	**0.2**	1.8	**< 0.1**	0.1

Notes:

1 Up to October 2012

2 Following the HKEx Clearing House Risk Management Reform in November 2012, HKSCC introduced margining as a measure to safeguard against exposures to future market movements. Thereafter, "Margin Funds" and "Cash collateral" are combined as "Margin Funds and cash collateral".

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

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

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

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

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

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

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

Revenue and Other Income

(A) Revenue Affected by Market Turnover

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

Key Market Indicators

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

Trading Fees and Trading Tariff

	2012 $m	2011 $m	Change
Trading fees and trading tariff were derived from:			
Securities traded on the Cash Market	**1,583**	2,010	(21%)
Derivatives contracts traded on the Derivatives Market	**814**	926	(12%)
Base metals forward and options contracts traded on the LME	**51**	–	N/A
Total	**2,448**	2,936	(17%)

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

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

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

Clearing and Settlement Fees

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

Depository, Custody and Nominee Services Fees

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

(B) Stock Exchange Listing Fees

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

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

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

Key Drivers for Annual Listing Fees

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

Key Drivers for Initial and Subsequent Issue Listing Fees

	2012	2011	Change
Number of newly listed DWs	**5,886**	6,917	(15%)
Number of newly listed CBBCs	**6,056**	5,334	14%
Number of newly listed companies on Main Board [1]	**52**	88	(41%)
Number of newly listed companies on GEM	**12**	13	(8%)
Number of other newly listed securities on Main Board and GEM	**182**	118	54%
Total number of newly listed securities	**12,188**	12,470	(2%)

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

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

(C) Market Data Fees

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

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

(D) Other Revenue

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

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

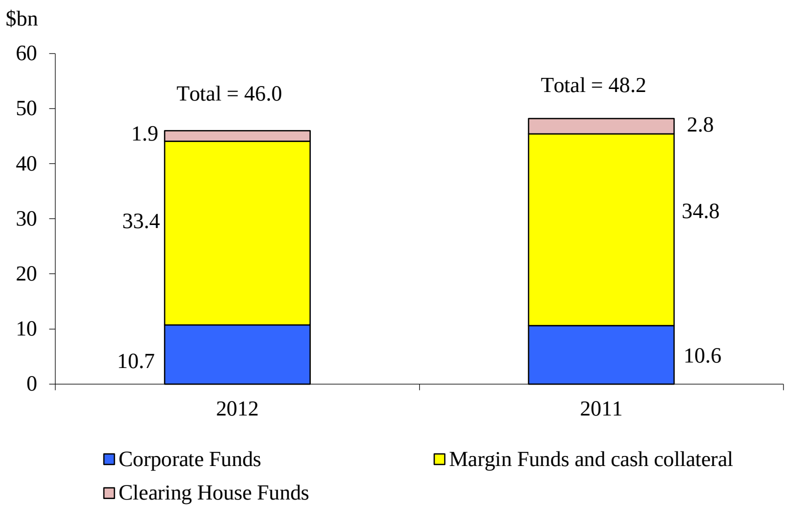
(E) Net Investment Income

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

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

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

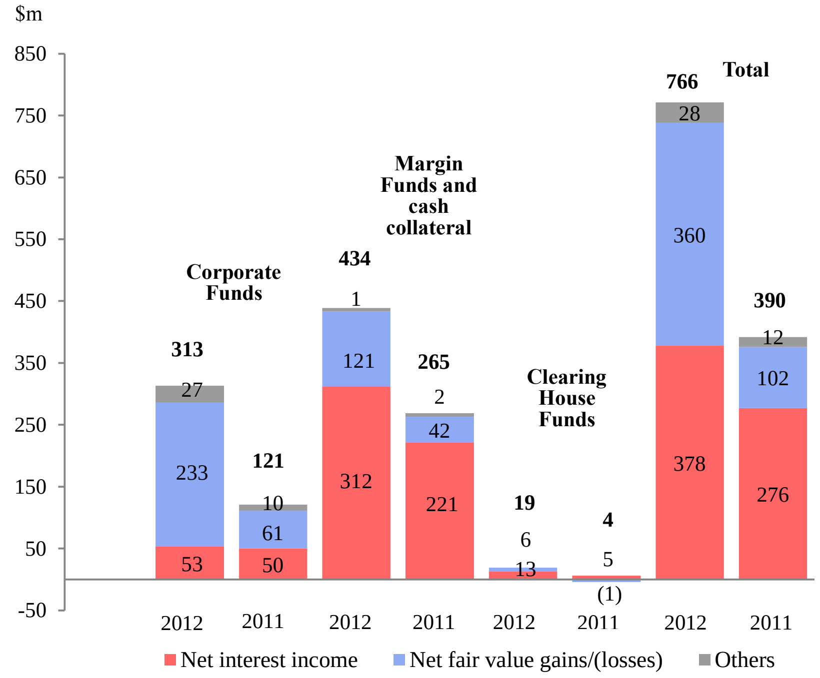
Average Amount of Funds Available for Investment



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

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

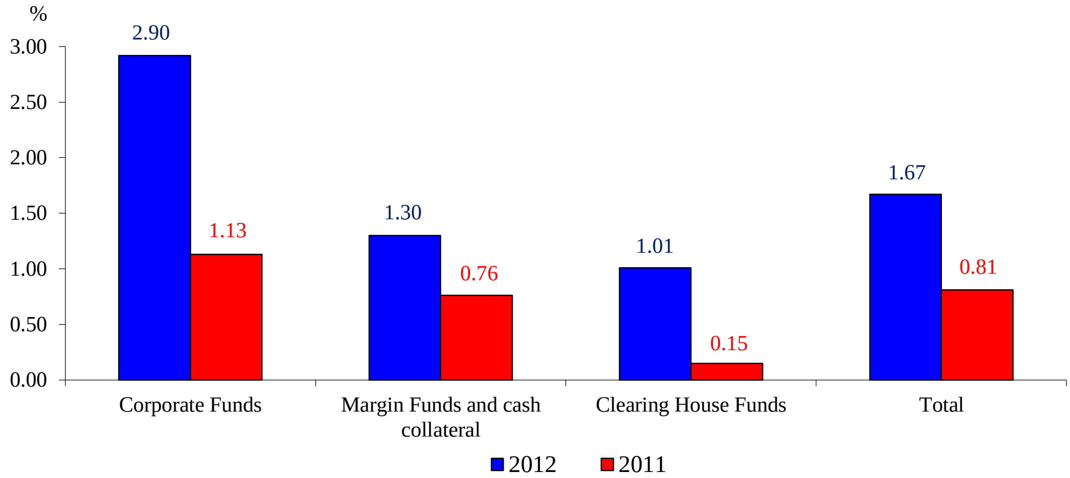
Net Investment Income by Funds



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

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

Annualised Net Return on Funds Available for Investment



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

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

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

(F) Sundry Income

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

(G) Operating Expenses (excluding Depreciation and Amortisation)

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

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

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

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

(H) Depreciation and Amortisation

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

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

(I) Costs relating to Acquisition of LME Group

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

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

(J) Finance Costs

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

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

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

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

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

(L) Taxation

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

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

Operating Segments

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

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

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

(i) The **Cash** segment will include all revenues associated with the listing, trading and market data of cash market products traded on the Stock Exchange (excluding derivatives such as CBBCs, DWs, warrants and stock options);

(ii) The **Equity and Financial Derivatives** segment will cover all revenues associated with derivatives traded on the Stock Exchange (ie, CBBCs, DWs, warrants and stock options) and the Futures Exchange;

(iii) The **Commodities** segment will represent the operations of the LME Group (excluding its clearing operations);

(iv) The **Clearing** segment will comprise the operations of HKSCC, SEOCH, HKCC, OTC Clear and LME Clear;

(v) The **Platform and Infrastructure** segment will include the operations of Hosting Services and other technology related services; and

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Additional Information on LME Group's 2012 Full Year Results

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

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

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

Notes:

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

2 Of which $86 million (1 Jan-31 Dec 2012) and $4 million (6 Dec-31 Dec 2012) respectively consisted of operating expenses related to the development of LME Clear.

3 Non-recurring items incurred during the 2012 full year period included $124 million of advisory and other costs related to the sale of the LME Group to HKEx and a $242 million incentive payout to certain members of LME's management team.

4 Below the EBITDA line, $11 million of post-acquisition depreciation and amortisation of the LME Group and $11 million of amortisation of intangible assets arising from the acquisition were included in the HKEx Group's 2012 results. At 31 December 2012, the LME Group had capital commitments totalling $73 million.

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

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

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

Note:

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

Fixed Assets, Intangibles and Capital Commitments

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

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

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

Acquisition of LME Group

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

Joint Venture with Shanghai Stock Exchange and Shenzhen Stock Exchange

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

Save for those disclosed in this announcement, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the year.

Liquidity, Financial Resources and Gearing

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

At 31 December 2012, the Group had borrowings of $3,100 million from a bank (31 December 2011: $Nil) and $3,515 million from convertible bonds issued (31 December 2011: $Nil), and a gearing ratio of 15 per cent (31 December 2011: zero per cent). The gearing ratio is defined as net debt (ie, total borrowings less cash and cash equivalents of Corporate Funds) divided by adjusted capital (which comprises all components of shareholders' equity other than designated reserves).

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

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

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

Charges on Assets

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

In June 2012, the Group has made an offer to acquire the entire LME Group at a consideration of £1,388 million. The Group designated certain forward foreign exchange contracts and bank deposits as cash flow hedges for hedging the foreign exchange risks of the consideration.

In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have also been used to hedge the currency exposure of the Group's non-HKD securities and liabilities to mitigate risks arising from fluctuations in exchange rates.

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies, but unhedged investments in USD may not exceed 20 per cent of the Margin Funds and cash collateral.

The LME Group is exposed to foreign exchange risk arising from various currency exposures (mainly USD and Euro). Its risk management policy in the normal course of events is to convert non-GBP currencies into GBP as soon as deemed appropriate. Foreign forward exchange contracts may be used to hedge the currency exposure of the USD portion of LME Group's revenue against GBP.

At 31 December 2012, the aggregate net open foreign currency positions amounted to HK$2,702 million, of which HK$1,112 million were non-USD exposures (31 December 2011: HK$2,116 million, of which HK$427 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$1,114 million (31 December 2011: HK$5,180 million). All forward foreign exchange contracts would mature within 3 months (31 December 2011: 3 months).

Contingent Liabilities

At 31 December 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 31 December 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 511 trading Participants covered by the indemnity at 31 December 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to $102 million (31 December 2011: 100 million).

(c) HKEx had given an undertaking in favour of HKSCC to contribute up to $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 $m	As restated 2011 $m
Trading fees and trading tariff		**2,448**	2,936
Stock Exchange listing fees		**916**	949
Clearing and settlement fees		**1,406**	1,663
Depository, custody and nominee services fees		**644**	685
Market data fees		**570**	637
Other revenue	4	**448**	487
REVENUE AND TURNOVER		**6,432**	7,357
Gains on disposal of financial assets measured at amortised cost		**1**	–
Other investment income		**768**	392
Interest rebates to Participants		**(3)**	(2)
Net investment income	5	**766**	390
Sundry income	6	**13**	108
REVENUE AND OTHER INCOME	3	**7,211**	7,855
OPERATING EXPENSES			
Staff costs and related expenses		**1,178**	1,030
IT and computer maintenance expenses		**299**	302
Premises expenses		**254**	217
Product marketing and promotion expenses		**19**	16
Legal and professional fees		**54**	35
Depreciation and amortisation		**158**	90
Other operating expenses	7	**153**	133
		2,115	1,823
OPERATING PROFIT		**5,096**	6,032
Costs relating to acquisition of LME Group	8	**(138)**	–
Finance costs	9	**(55)**	–
Fair value loss on derivative component of convertible bonds	16(b)	**(55)**	–
Share of loss of a joint venture		**(3)**	–
PROFIT BEFORE TAXATION	3	**4,845**	6,032
TAXATION	10	**(761)**	(939)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**4,084**	5,093
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences of foreign subsidiaries		**189**	–
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**189**	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**4,273**	5,093
Basic earnings per share	11(a)	**$3.75**	$4.71
Diluted earnings per share	11(b)	**$3.74**	$4.70
DIVIDENDS	12	**3,671**	4,579
EBITDA		**5,254**	6,122

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

		At 31 Dec 2012			As restated At 31 Dec 2011		
	Note	**Current $m**	**Non-current $m**	**Total $m**	Current $m	Non-current $m	Total $m
ASSETS							
Cash and cash equivalents	13	**34,077**	**–**	**34,077**	18,221	–	18,221
Financial assets measured at fair value through profit or loss	13	**4,369**	**123**	**4,492**	11,169	180	11,349
Financial assets measured at amortised cost	13	**8,442**	**131**	**8,573**	15,848	403	16,251
Accounts receivable, prepayments and deposits	13, 14	**13,689**	**7**	**13,696**	7,210	23	7,233
Interest in a joint venture		**–**	**97**	**97**	–	–	–
Goodwill and other intangible assets		**–**	**18,183**	**18,183**	–	–	–
Fixed assets		**–**	**1,675**	**1,675**	–	948	948
Lease premium for land		**–**	**24**	**24**	–	25	25
Deferred tax assets		**–**	**20**	**20**	–	1	1
Total assets		**60,577**	**20,260**	**80,837**	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	13	**36,786**	**–**	**36,786**	34,592	–	34,592
Accounts payable, accruals and other liabilities	15	**15,818**	**20**	**15,838**	8,456	–	8,456
Deferred revenue		**530**	**–**	**530**	524	–	524
Taxation payable		**178**	**–**	**178**	262	–	262
Other financial liabilities		**57**	**–**	**57**	60	–	60
Participants' contributions to Clearing House Funds	13	**1,924**	**–**	**1,924**	880	–	880
Borrowings	16	**–**	**6,615**	**6,615**	–	–	–
Provisions		**44**	**45**	**89**	35	27	62
Deferred tax liabilities		**–**	**1,056**	**1,056**	–	33	33
Total liabilities		**55,337**	**7,736**	**63,073**	44,809	60	44,869
Equity							
Share capital				**1,150**			1,080
Share premium				**8,731**			639
Shares held for Share Award Scheme				**(305)**			(296)
Employee share-based compensation reserve				**122**			106
Exchange reserve				**189**			–
Convertible bond reserve				**409**			–
Designated reserves				**587**			577
Retained earnings	17			**6,881**			7,053
Shareholders' funds				**17,764**			9,159
Total liabilities and equity				**80,837**			54,028
Net current assets				**5,240**			7,639
Total assets less current liabilities				**25,500**			9,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA.

Early adoption of new/revised HKFRSs

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

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
Amendments to HKFRS 10	Consolidated Financial Statements – Transition Guidance
HKFRS 11	Joint Arrangements
Amendments to HKFRS 11	Joint Arrangements – Transition Guidance
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 12	Disclosure of Interests in Other Entities – Transition Guidance
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 presentation of the 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 on 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 on the Group as all subsidiaries within the Group satisfy the requirements for control under HKFRS 10 and there are no new subsidiaries identified under the new guidance.

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. In accordance with HKFRS 11, a joint venture is accounted for by the Group using the equity method under HKAS 28 (2011), while assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement. As the Group's new investment in the 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). The Group's newly acquired subsidiary, LME, has an interest in a joint operation. Accordingly, assets, liabilities, revenue and expenses of the joint operation were apportioned in accordance with the agreement and included in the Group's consolidated financial statements.

HKAS 28 (2011) stipulates that the equity method shall 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 the Group's share of movements in other comprehensive income of the investee.

HKAS 27 (2011) was issued following the issuance of HKFRS 10. The revised HKAS 27 only deals with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. The adoption of HKAS 27(2011) does not have any impact on HKEx's financial statements as it already complies with the requirements of the standard.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities. The adoption of HKFRS 12 only affects the disclosures relating to the subsidiaries and the joint arrangements in the Group's consolidated 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 on 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 on financial assets and financial liabilities in the Group's and HKEx's financial statements.

<u>Change in presentation of Margin deposits from CPs on derivatives contracts and cash collateral from CPs of HKSCC</u>

In previous years, the obligation to refund margin deposits from CPs of HKCC and SEOCH was disclosed as Margin deposits from Clearing Participants on derivatives contracts and the obligation to refund the cash collateral received from HKSCC CPs was disclosed as Cash collateral from HKSCC Clearing Participants on the face of the consolidated statement of financial position. Details of the financial assets of Margin Funds and cash collateral were separately disclosed in the notes to the consolidated financial statements.

Following the HKEx Clearing House Risk Management Reform in November 2012, HKSCC introduced margining as a measure to safeguard against exposures to future market movements. Thereafter, the Group presents the combined balance of "Margin deposits from Clearing Participants on derivatives contracts" and "Margin deposits and cash collateral from HKSCC Clearing Participants" as "Margin deposits and cash collateral from Clearing Participants" on the face of the consolidated statement of financial position, with the breakdown of the balances shown in the notes to the consolidated financial statements. Similarly, the financial assets of the HKSCC Margin Funds and cash collateral and Margin Funds of SEOCH and HKCC are grouped together and disclosed in the details of the financial assets of "Margin Funds and cash collateral", a new caption replacing the previous captions, "Margin Funds" and "Cash collateral".

Comparative figures have been adjusted to conform with the changes in the revised presentation.

2. Turnover

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated statement of comprehensive Income.

3. Operating Segments

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

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 to the current year's presentation.

In December 2012, the Group completed the acquisition of the LME Group (note 18). Its results are included in a new separate reportable segment, commodities, as it is closely monitored as a separate business segment by the chief operating decision-maker.

After the acquisition, the Group has 5 reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment 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** segment 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 segment are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

The **Derivatives Market** segment 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 comprises trading fees, trading tariff and net investment income on the Margin Funds on derivatives contracts invested.

The **Clearing** segment 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 is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds and Margin Funds and cash collateral from HKSCC CPs.

The **Market Data** segment 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.

The **Commodities** segment refers to the operations of the LME Group, which operates an exchange in the UK for the trading of base metals forward and options contracts. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

The chief operating decision-maker assesses the performance of the operating segments based on their EBITDA. An analysis of the Group's EBITDA, profit before taxation and other selected financial information for the year by operating segment is as follows:

2012	Cash Market $m	Derivatives Market $m	Commodities $m	Clearing $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	**2,824**	**761**	**74**	**2,209**	**563**	**1**	**6,432**
Net investment income	**–**	**422**	**2**	**31**	**–**	**311**	**766**
Sundry income	**–**	**–**	**–**	**13**	**–**	**–**	**13**
Revenue and other income	**2,824**	**1,183**	**76**	**2,253**	**563**	**312**	**7,211**
Operating expenses (excluding depreciation and amortisation)	**647**	**178**	**41**	**332**	**76**	**683**	**1,957**
Reportable segment EBITDA	**2,177**	**1,005**	**35**	**1,921**	**487**	**(371)**	**5,254**
Depreciation and amortisation	**(42)**	**(13)**	**(22)**	**(46)**	**(13)**	**(22)**	**(158)**
Costs relating to acquisition of LME Group	**–**	**–**	**–**	**–**	**–**	**(138)**	**(138)**
Finance costs	**–**	**–**	**–**	**–**	**–**	**(55)**	**(55)**
Fair value loss on derivative component of convertible bonds	**–**	**–**	**–**	**–**	**–**	**(55)**	**(55)**
Share of loss of a joint venture	**–**	**(3)**	**–**	**–**	**–**	**–**	**(3)**
Reportable segment profit before taxation	**2,135**	**989**	**13**	**1,875**	**474**	**(641)**	**4,845**
Interest income	**–**	**303**	**1**	**26**	**–**	**51**	**381**
Interest rebates to Participants	**–**	**(2)**	**–**	**(1)**	**–**	**–**	**(3)**
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	**–**	**–**	**–**	**13**	**–**	**–**	**13**
Employee share-based compensation expenses	**(32)**	**(5)**	**–**	**(11)**	**(5)**	**(52)**	**(105)**
Reversal of provision for impairment losses	**1**	**–**	**–**	**–**	**–**	**–**	**1**

As restated 2011	Cash Market $m	Derivatives Market $m	Commodities $m	Clearing $m	Market Data $m	Corporate Items $m	Group $m
Revenue from external customers	3,344	855	–	2,519	639	–	7,357
Net investment income	–	250	–	19	–	121	390
Sundry income	–	–	–	108	–	–	108
Revenue and other income	3,344	1,105	–	2,646	639	121	7,855
Operating expenses (excluding depreciation and amortisation)	633	161	–	314	70	555	1,733
Reportable segment EBITDA	2,711	944	–	2,332	569	(434)	6,122
Depreciation and amortisation	(32)	(13)	–	(36)	(3)	(6)	(90)
Reportable segment profit before taxation	2,679	931	–	2,296	566	(440)	6,032
Interest income	–	207	–	21	–	50	278
Interest rebates to Participants	–	(2)	–	–	–	–	(2)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	–	–	–	108	–	–	108
Employee share-based compensation expenses	(20)	(3)	–	(6)	(3)	(29)	(61)
Provision for impairment losses	(1)	–	–	–	(1)	–	(2)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies.

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, finance costs and other costs not directly related to any of the operating segments) are not allocated to the operating segments and are included as "Corporate Items". Taxation charge/(credit) is not allocated to reportable segments.

(b) Geographical information

(i) Revenue

The Group's revenue from external customers is derived from its operations in the following geographical location:

	2012 $m	2011 $m
Hong Kong (place of domicile)	**6,358**	7,357
United Kingdom	**74**	–
	6,432	7,357

(ii) Non-current assets

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Hong Kong (place of domicile)	**1,966**	994
United Kingdom	**18,018**	–
China	**2**	2
	19,986	996

(c) Information about major customers

In 2012 and 2011, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

4. Other Revenue

	2012 $m	2011 $m
Network, terminal user, dataline and software sub-license fees	**334**	370
Participants' subscription and application fees	**36**	35
Brokerage on direct IPO allotments	**2**	23
Trading booth user fees	**11**	15
Sales of Trading Rights	**19**	20
Hosting services	**8**	–
Commodities stock levies and warehouse listing fees	**10**	–
Miscellaneous revenue	**28**	24
	448	487

5. Net Investment Income

	2012 $m	2011 $m
Interest income from financial assets measured at amortised cost		
- bank deposits	**369**	261
- listed securities	**5**	5
- unlisted securities	**7**	12
Gross interest income	**381**	278
Interest rebates to Participants	**(3)**	(2)
Net interest income	**378**	276
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
- listed securities	**191**	41
- unlisted securities	**179**	83
- exchange differences	**89**	115
	459	239
Net fair value losses on financial liabilities at fair value through profit or loss, held for trading		
- exchange differences	**(99)**	(137)
Gains on disposal of unlisted financial assets measured at amortised cost	**1**	–
Others	**27**	12
Net investment income	**766**	390

6. Sundry Income

In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of $13 million (2011: $108 million) held by HKSN which had remained unclaimed for a period of more than 7 years and recognised such dividends as sundry income. The Group has, however, undertaken to honour all claims if adequate proof of entitlement is provided by the beneficial owner claiming the dividends forfeited.

7. Other Operating Expenses

	2012 $m	2011 $m
Insurance	**5**	4
Financial data subscription fees	**9**	6
Custodian and fund management fees	**12**	13
Bank charges	**20**	19
Repair and maintenance expenses	**12**	10
License fees	**19**	19
Communication expenses	**8**	6
Overseas travel expenses	**9**	10
Contribution to Financial Reporting Council	**4**	4
Security expenses	**7**	3
Other miscellaneous expenses	**48**	39
	153	133

8. Costs Relating to Acquisition of LME Group

	2012 $m	2011 $m
Legal and professional fees	**129**	–
Others	**9**	–
	138	–

9. Finance Costs

	2012 $m	2011 $m
Financing related costs for acquisition of LME Group (note (a))	**30**	–
Interest expenses:		
- Bank borrowings not wholly repayable within five years	**3**	–
- Convertible bonds wholly repayable within five years	**21**	–
Net foreign exchange losses on financing activities	**1**	–
	55	–

(a) The costs were incurred for the purpose of establishing a banking facility for the acquisition of LME Group. Subsequently, the facility was not used and was cancelled. Accordingly, the costs are charged to profit or loss in 2012.

10. Taxation

Taxation charge in the consolidated statement of comprehensive income represented:

	2012 $m	2011 $m
Current tax – Hong Kong Profits Tax		
- Provision for the year	**740**	922
Current tax – Overseas Tax		
- Provision for the year	**10**	–
	750	922
Deferred tax	**11**	17
Taxation charge	**761**	939

(a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2011: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates.

(b) The weighted average applicable tax rate was 16.5 per cent (2011: 16.5 per cent).

11. Earnings Per Share

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

(a) Basic earnings per share

	2012	As restated 2011
Profit attributable to shareholders ($m)	**4,084**	5,093
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,088,346**	1,081,763
Basic earnings per share ($)	**3.75**	4.71

(b) Diluted earnings per share

	2012	As restated 2011
Profit attributable to shareholders ($m)	**4,084**	5,093
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,088,346**	1,081,763
Effect of employee share options (in '000)	**804**	1,035
Effect of Awarded Shares (in '000)	**1,961**	1,383
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	**1,091,111**	1,084,181
Diluted earnings per share ($)	**3.74**	4.70

(i) The effect of the outstanding convertible bonds was not included in the computation of diluted earnings per share for the year ended 31 December 2012 as it was anti-dilutive.

(ii) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount. The effect of the bonus element of the share placement has been included within the calculation of basic and diluted earnings per share. The effect of the share placement was an increase in the weighted average number of ordinary shares for 2012 and 2011 by 4,589,000 and 4,561,000 respectively.

12. Dividends

	2012 $m	2011 $m
Interim dividend paid:		
$1.85 (2011: $2.16) per share	**2,000**	2,331
Less: Dividend for shares held by Share Award Scheme (note (a))	**(4)**	(4)
	1,996	2,327
Final dividend proposed (note (b)):		
$1.46 (2011: $2.09) per share based on issued share capital at 31 Dec	**1,679**	2,257
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	**(4)**	(5)
	1,675	2,252
	3,671	4,579

(a) The results and net assets of the Share Award Scheme are included in HKEx's financial statements. Therefore, dividends for shares held by the Share Award Scheme were deducted from the total dividends.

(b) The final dividend proposed after 31 December was not recognised as a liability at 31 December.

(c) The 2012 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the SFC of the listing of and permission to deal in the new shares to be issued.

13. Financial Assets

As part of its day to day operations, the Group receives margin deposits and cash collateral from CPs and Participants' contributions to Clearing House Funds. The Group classifies the corresponding assets into the following funds:

Margin Funds and cash collateral - the Margin Funds and cash collateral are established by cash received or receivable from the CPs of the 3 clearing houses (i.e. HKSCC, HKCC and SEOCH) to cover their open positions. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Clearing House Funds - The Clearing House Funds are established under the Clearing House Rules. Assets contributed by the CPs and the Group are held by the respective clearing houses (ie, HKSCC, HKCC and SEOCH) (together with the accumulated income less related expenses) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the CPs fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting CPs arising from depositing defective securities into CCASS. These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Financial assets belonging to the Group for its own corporate use are classified as Corporate Funds.

The Margin Funds and cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents, financial assets measured at fair value through profit or loss and financial assets measured at amortised cost, details of which are as follows:

	At 31 Dec 2012 $m	As restated At 31 Dec 2011 $m
Clearing House Funds		
Cash and cash equivalents	**2,325**	835
Financial assets measured at fair value through profit or loss	**–**	284
Financial assets measured at amortised cost	**217**	367
	2,542	1,486
Margin Funds and cash collateral		
Cash and cash equivalents	**27,717**	15,046
Financial assets measured at fair value through profit or loss	**2,186**	6,265
Financial assets measured at amortised cost	**6,880**	13,274
Accounts receivable and deposits	**3**	7
	36,786	34,592
Corporate Funds		
Cash and cash equivalents	**4,035**	2,340
Financial assets measured at fair value through profit or loss	**2,306**	4,800
Financial assets measured at amortised cost	**1,476**	2,610
	7,817	9,750
	47,145	45,828

14. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's CNS money obligations under T+2 settlement, which accounted for 93 per cent (31 December 2011: 90 per cent) of the total accounts receivable, prepayments and deposits. CNS 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.

15. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable under T+2 settlement cycle, which accounted for 80 per cent (31 December 2011: 77 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

16. Borrowings

	At 31 Dec 2012 $m	At 31 Dec 2011 $m
Bank borrowings (note (a))	**3,100**	–
Convertible bonds (note (b))	**3,515**	–
Total borrowings	**6,615**	–

(a) Bank borrowings

Bank borrowings mature within 10 years and bear average coupons of 2.2 per cent per annum.

(b) Convertible bonds

On 23 October 2012, HKEx issued convertible bonds (the Bonds) in the principal amount of US$500 million (HK$3,875 million). The Bonds pay interest at the rate of 0.50 per cent per annum and mature on 23 October 2017. The redemption value of the Bonds at maturity is 102.56 per cent of their principal amount. At any time between 3 December 2012 and 13 October 2017, the Bonds can be converted into ordinary shares of HKEx 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 HKD 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. In addition, HKEx was entitled at its option to redeem the Bonds in whole if The Financial Services Authority of the UK (FSA) did not approve the acquisition of the LME Group.

HKEx used the proceeds of the Bonds to fund part of the acquisition of the LME Group.

Prior to the Substitution described below, the Bonds comprised 2 elements and were accounted for as follows:

- The debt element of HK$3,521 million was treated as a financial liability and measured at amortised cost and interest expense was recognised in profit or loss using the effective interest method.

- The share conversion option element of HK$354 million was treated as a derivative liability with subsequent changes in fair value being recognised in profit or loss.

With effect from 17 December 2012, HKEx has substituted in its place HKEx International Limited, a wholly-owned subsidiary of HKEx whose functional currency is USD, as the issuer and the principal obligor under the Bonds (the Substitution); all payments due under the Bonds will be unconditionally and irrevocably guaranteed by HKEx and HKEx remains obliged to issue and deliver HKEx shares on conversion of the Bonds. Following the Substitution and upon receipt of FSA approval for the acquisition of the LME Group, both the number of HKEx shares and the amount of cash that would be exchanged upon conversion of the Bonds became fixed. Accordingly, the share conversion option element of the Bonds was remeasured at its fair value on that date and was transferred from derivative liability to the convertible bond reserve under equity in the consolidated financial statements of the Group and will not be revalued thereafter.

The fair value loss of the derivative component of the convertible bonds during the period from issuance to the Substitution was HK$55 million.

17. Retained Earnings (Including Proposed Dividend)

	2012 $m	2011 $m
At 1 Jan	**7,053**	6,766
Profit attributable to shareholders	**4,084**	5,093
Transfer (to)/ from Clearing House Funds reserves	**(10)**	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	**(5)**	(1)
At 31 Dec	**6,881**	7,053
Representing:		
Retained earnings	**5,206**	4,801
Proposed dividend	**1,675**	2,252
At 31 Dec	**6,881**	7,053

18. Business Combination

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

The acquisition offers an opportunity for the Group to develop as a global horizontally and vertically integrated exchange group beyond equities. The addition of a strong commodities component to the Group's existing businesses through the acquisition is expected to support and enhance the Group's growth prospects while diversifying its earnings base thereby enhancing value mainly from the significant opportunities for revenue synergies.

The goodwill arising from the acquisition is attributable to diversity of earnings through new customers and introduction of new products in the future, buyer specific synergies in relation to the potential future value of expanding the LME business in China by leveraging HKEx's resources, infrastructure and network in China, and the benefit of skills and technical talents of the acquired work force. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the LME Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

	$m
Cash and cash equivalents	**451**
Financial assets measured at fair value through profit or loss	**289**
Accounts receivable, prepayments and deposits	**216**
Intangible assets	**4,445**
Fixed assets	**28**
Deferred revenue	**(5)**
Taxation payable	**(38)**
Provisions	**(1)**
Accounts payable, accruals and other liabilities	**(538)**
Net deferred tax liabilities	**(983)**
Total identifiable net assets	**3,864**
Goodwill	**13,341**
Total	**17,205**
Total consideration satisfied by cash	**17,298**
Less: net gains on cash flow hedges reclassified from hedging reserve	**(93)**
Total	**17,205**

Acquisition-related costs were disclosed as "Costs relating to acquisition of LME Group" (note 8) in the consolidated statement of comprehensive income for the year ended 31 December 2012.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS (PwC) HONG KONG

The financial figures in this announcement have been agreed by the Group's external auditor, PwC Hong Kong, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2012. The work performed by PwC Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC Hong Kong on this announcement.

REVIEW OF 2012 CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee (AC) reviewed the 2012 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2012.

DISTRIBUTABLE RESERVES

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

FINAL DIVIDEND

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

SCRIP DIVIDEND ALTERNATIVE

Subject to Shareholders' approval of the proposed final dividend and a general mandate to issue shares at the 2013 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Thursday, 2 May 2013. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEx to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form will be despatched to Shareholders on or about Wednesday, 8 May 2013. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Friday, 31 May 2013.

CLOSURE OF ROM

For the purposes of determining Shareholders' eligibility to attend and vote at the 2013 AGM, and entitlement to the final dividend, the ROM will be closed as set out below:

(i)	For determining Shareholders' eligibility to attend and vote at 2013 AGM:	
	Latest time to lodge transfer documents for registration	4:30 pm on Friday, 19 April 2013
	Closure of ROM	Monday, 22 April 2013 to Wednesday, 24 April 2013 (both dates inclusive)
	Record date	Wednesday, 24 April 2013
(ii)	For determining Shareholders' entitlement to final dividend	
	Latest time to lodge transfers documents for registration	4:30 pm on Monday, 29 April 2013
	Closure of ROM	Tuesday, 30 April 2013 to Thursday, 2 May 2013 (both dates inclusive)
	Record date	Thursday, 2 May 2013

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2013 AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2013 AGM will be held on Wednesday, 24 April 2013. The Notice of the 2013 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2012 Annual Report. The Notice of the 2013 AGM and the proxy form will also be available on the HKEx website.

All Shareholders are encouraged to attend the 2013 AGM and exercise their right to vote. They are invited to ask questions related to the business of the meeting, and will have an opportunity to meet with the Directors and the management following the conclusion of the meeting.

Apart from normal business at the 2013 AGM, the Board has proposed general mandates for the repurchase of HKEx shares and the issue of HKEx shares. Further details of business to be conducted at the 2013 AGM are set out in the circular to Shareholders to be sent together with the 2012 Annual Report and posted on the HKEx website.

APPOINTMENT AND ELECTION OF DIRECTORS

The service terms of 2 Elected Directors, namely Messrs John Strickland and Oscar Wong, and 4 Government Appointed Directors, namely Messrs Ronald Arculli, John Harrison, Stephen Hui and Michael Lee, will expire at the conclusion of the 2013 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as practicable.

On 31 January 2013, the Nomination Committee nominated Messrs John Strickland and Oscar Wong to the Board for it to recommend them to stand for election by Shareholders at the 2013 AGM. The nomination was made in accordance with the Nomination Policy and against the objective criteria, with due regard for the benefits of diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service). It had also taken into account their respective contributions to the Board and their firm commitment to their roles.

On 27 February 2013, the Committee's nomination was accepted by the Board. As a good governance practice, Messrs Strickland and Wong each abstained from voting at both the Committee meeting and Board meeting on the propositions of themselves for election by Shareholders. Messrs Strickland and Wong do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with the 2012 Annual Report.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2012, HKEx complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code (applicable to financial reports covering a period after 1 April 2012) and the former Code on Corporate Governance Practices, with the exceptions 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 shall, pursuant to Article 90(4) of HKEx's Articles, be coterminous with his employment with HKEx, and he is not subject to retirement by rotation.

In addition, to demonstrate HKEx's continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy in February 2013 to comply with a new Code Provision on board diversity which will be effective from September 2013. The Policy is available on the HKEx website.

CORPORATE SOCIAL RESPONSIBILITY

Being a responsible corporate citizen, HKEx is committed to the sustainable development of the marketplace, workplace, community and environment. A full report on HKEx's CSR performance in 2012 is set out in the 2012 CSR Report which will be available on the HKEx website in mid-March 2013.

Details of HKEx's remuneration policy and structure are available in the Corporate Governance section of the HKEx website.

As at 31 December 2012, the Group had 1,030 permanent employees (2011: 940) and 75 temporary employees (2011: 57).

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked, and their training and development opportunities are identified. Further employee training details will be set out in the 2012 CSR Report.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

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

PUBLICATION OF 2012 FINAL RESULTS AND ANNUAL REPORT

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/2013Results.htm. The 2012 Annual Report will be available on the HKExnews and HKEx websites, and despatched to Shareholders on or about Thursday, 14 March 2013.

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, 27 February 2013

Glossary

2012 AGM	Annual general meeting held on 23 April 2012 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2013 AGM	Annual general meeting to be held on 24 April 2013
AHFT	After-hours futures trading
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
BSS	The Broker Supplied System
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCMS	The Common Collateral Management System
CESC	China Exchanges Services Company Limited
CNH	RMB traded in Hong Kong
CNS	Continuous Net Settlement
Corporate Governance Code and Corporate Governance Report	Refers to Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DW(s)	Derivative Warrant(s)
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
FIC	Fixed income and currency
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary of the HKSAR pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standard
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities and Investment Institute (formerly known as Hong Kong Securities Institute)
HKSN	HKSCC Nominees Limited
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index

IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IV(s)	Information Vendor(s)
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange (formerly known as The London Metal Exchange Limited)
LME Clear	LME Clear 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
MDF	The Market Datafeed
MOU(s)	Memorandum(s) of Understanding
OCG	HKEx Orion Central Gateway
OMD	HKEx Orion Market Data Platform
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
OTP	HKEx Orion Trading Platform
PRC	People's Republic of China
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	HKEx's Register of Members
RQFII	RMB Qualified Foreign Institutional Investor
SDNet	The Securities and Derivatives Network
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI(s)	Settlement Instruction(s)
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
TKO Data Centre	New Data Centre at Tseung Kwan O
TSF	RMB Equity Trading Support Facility
UK	United Kingdom
US	United States of America
US$/USD	United States dollar
$/HKD	Hong Kong dollar
$bn/bn	Hong Kong dollar in billion/billion
$m/m	Hong Kong dollar in million/million
£/GBP	Pound sterling