



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

2012 Interim Report

Stock Code: 388

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

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FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Change	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011	Change
KEY MARKET STATISTICS						
Average daily turnover value on the Stock Exchange (\$bn)	56.7	73.6	(23%)	50.2	71.1	(29%)
Average daily number of derivatives contracts traded on the Futures Exchange	265,609	250,353	6%	276,109	254,175	9%
Average daily number of stock options contracts traded on the Stock Exchange	231,856	288,455	(20%)	225,266	276,966	(19%)

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m	Change
RESULTS						
Revenue and other income	3,770	3,972	(5%)	1,895	2,065	(8%)
Operating expenses	1,032	916	13%	519	474	9%
Operating profit	2,738	3,056	(10%)	1,376	1,591	(14%)
Costs relating to proposed acquisition of LME Group	110	–	N/A	91	–	N/A
Profit before taxation	2,628	3,056	(14%)	1,285	1,591	(19%)
Taxation	(412)	(472)	(13%)	(217)	(245)	(11%)
Profit attributable to shareholders	2,216	2,584	(14%)	1,068	1,346	(21%)
Basic earnings per share	\$2.06	\$2.40	(14%)	\$0.99	\$1.25	(21%)
Diluted earnings per share	\$2.05	\$2.39	(14%)	\$0.99	\$1.25	(21%)
Interim dividend per share	\$1.85	\$2.16	(14%)	\$1.85	\$2.16	(14%)
Dividend payout ratio	90%	90%	–	–	–	–

	At 30 Jun 2012	At 31 Dec 2011	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	9,282	9,159	1%
Total assets ¹ (\$m)	47,996	54,028	(11%)
Net assets per share ² (\$)	8.60	8.50	1%

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,078,867,625 shares as at 30 June 2012, being 1,080,801,575 shares issued and fully paid less 1,933,950 shares held for the Share Award Scheme (31 December 2011: 1,077,670,473 shares, being 1,079,906,640 shares issued and fully paid less 2,236,167 shares held for the Share Award Scheme)

MAJOR EVENTS

13 February

Launched the Hosting Services Founding Members Programme

14 February

Hong Kong's first RMB ETF, Hang Seng RMB Gold ETF, listed on SEHK

20 February

Introduced HSI Volatility Index Futures

5 March

Implemented the second phase of the new trading hours

11 March

Published consultation conclusions on HKEx Clearing House Risk Management Reform Measures

28 March

Announced HKEx Orion, a transformative programme of technology initiatives



30 March

Began cross-listing benchmark equity index derivatives under the BRICS Exchanges Alliance

10 April

Launched HKEx Mobile, a new version of the HKEx website designed for smartphones

27 April

The Chief Executive of the HKSAR approved the appointment of Mr Chow Chung Kong as HKEx's Chairman



28 May

Received regulatory approval to launch the first exchange-traded RMB currency futures settled in RMB

7 – 8 June

Hosted the Exchange Technology Forum which focused on the impact of technology on the day-to-day business of exchanges

15 June

Announced a recommended cash offer for The London Metal Exchange Limited



22 June

Signed an MOU with the Ministry of Finance of the PRC on the listing and trading of RMB-denominated sovereign bonds in Hong Kong

28 June

Signed an agreement with the Shanghai Stock Exchange and the Shenzhen Stock Exchange to set up a joint venture for new products and services



CHAIRMAN'S STATEMENT



The global economic unrest – and the European sovereign debt crisis in particular – continues to be a key focus of the financial markets. The lower risk appetite of investors drove market activity levels down in the first half of 2012. While the average daily turnover value and the average daily number of stock options contracts traded on the Stock Exchange declined by 23 per cent and 20 per cent respectively, the average daily number of derivatives contracts traded on the Futures Exchange increased by 6 per cent year-on-year. The Group's profit attributable to shareholders was \$2.2 billion, a decrease of 14 per cent compared with the corresponding period of last year. The Board declared an interim dividend of \$1.85 per share for the year ending 31 December 2012, representing a payout ratio of 90 per cent of the profit attributable to shareholders for the six months ended 30 June 2012.

After a competitive auction process, we have successfully signed a framework agreement with LME Holdings Limited (LMEH) setting forth the terms of a recommended acquisition for cash of the entire issued ordinary share capital of LMEH by way of a scheme of arrangement. The offer price is £107.60 (approximately \$1,292.55*) for each LMEH ordinary share, which values LMEH at £1.388 billion (approximately \$16.673 billion*). The acquisition was approved by LMEH's ordinary shareholders on 25 July 2012. Completion of the acquisition will be conditional upon the satisfaction of certain conditions and is currently expected during the fourth quarter of 2012. Whilst we continue to strenuously promote the breadth and depth of our markets for future growth, the acquisition of LMEH is a key strategic initiative for HKEx to become a global horizontally and vertically integrated exchange group, expanding beyond equities into additional asset classes. In particular, the Board sees the significant and growing demand in Asia for an exchange targeting the needs of metals market participants in Asia, especially in China. The Board is confident that the addition of a strong commodities component to HKEx's existing businesses will help diversify our earnings base, strengthen our foundation for future growth, and reinforce Hong Kong's status as an international financial centre.

* Based on the exchange rate of £1.00 to HK\$12.0125 as per the announcement of 15 June 2012

At home, notable progress has been made on various fronts including the development of our Mainland-related business. On 28 June 2012, we announced the establishment of a joint venture company with the Shanghai Stock Exchange and the Shenzhen Stock Exchange with a view to promoting the development of China's capital markets, enhancing the competitiveness of these markets, and facilitating the internationalisation of the three exchanges. With the Central Government's support, we saw the inaugural listing of RMB sovereign bonds totalling RMB23 billion and RMB Qualified Foreign Institutional Investor (RQFII) A-share ETF on the Exchange, and the grant of approval to launch ETFs on the Mainland that track Hong Kong-listed stocks. In addition, we plan to introduce the first exchange-traded currency futures settled in RMB in the third quarter of this year. All these initiatives will undoubtedly add impetus to the development of our RMB products, and the interaction between the Hong Kong and the Mainland capital markets.

The success of the above developments and other projects in progress under the Strategic Plan 2010-2012 as detailed in the Chief Executive's Review and the Business Review is the result of extensive collaboration with regulators, issuers and market participants in the pursuit of a highly transparent and effective regulatory market. Meanwhile, as the operator of a listing platform, we welcome the enhanced sponsor regulatory regime as proposed by the SFC in May this year and the disclosure regime for inside information under the Securities and Futures (Amendment) Ordinance 2012, which will take effect on 1 January next year. It is encouraging that our issuers and other market participants continue to give their support to our proposed Environmental, Social and Governance Reporting Guide to promote the sustainability of our markets.

Amid the uncertain and challenging market environment, we are mindful of the obligations we have towards the investing public and our Shareholders in exploring every available opportunity. We are confident that the progress we are making will pave the way towards a sustainable and balanced development for the Group.

CHOW Chung Kong

Chairman

Hong Kong, 8 August 2012

CHIEF EXECUTIVE'S REVIEW



The past six months have seen significant progress in the implementation of our strategic plan: not only did we carry out initiatives in platform infrastructure and market structure, we also announced a landmark agreement to acquire The London Metal Exchange Limited (the LME), reached another milestone by setting up a joint venture with the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE), and launched the first phase of the BRICS (Brazil, Russia, India, China and South Africa) Exchanges Alliance. In addition, we made good progress in building our OTC clearing house and launching new RMB products. These efforts will result in a greatly enhanced and transformed HKEx to serve as *the* gateway market between China and the rest of the world.

Agreement to Acquire the LME

We announced on 15 June 2012 that HKEx had made a cash offer to LME Holdings Limited (LMEH, the holding company of the LME) for its entire issued ordinary share capital. The proposed transaction was approved by LMEH's ordinary shareholders on 25 July 2012 and we expect it to be completed before the end of the year, subject to the satisfaction of certain conditions including regulatory approval. (More information about the proposed transaction is set out in note 9 to the condensed consolidated financial statements of this Interim Report.) The acquisition is a ground-breaking transaction for us and a transformative event for both parties in many ways.

First of all, we have two highly complementary businesses: the LME is the world's leading base metals exchange and HKEx is the international exchange of choice for Mainland China, the largest consumer of base metals. The LME enjoys global market share estimated to be approximately 80 per cent in the trading of base metal futures and options contracts. It has a market infrastructure that is deeply ingrained in the world's commodities market but is short on access to the Asian market, especially the China market. HKEx, on the other hand, is one of the largest equity exchanges in the world and the primary offshore fundraising platform for Mainland China. By combining our advantages, we will be well-positioned to tap into Asia, especially China's commodity derivatives sector.

Secondly, it will kick-start our “Chapter 3” strategy, which is to go beyond equities into new asset classes. Acquiring the LME will give us an immediate scale presence in the commodity derivatives sector. Building a presence from scratch would be much harder.

Last but not the least, the acquisition will provide a platform for significant revenue growth as the LME's business and operations will be expanding in Asia using our regional resources, infrastructure and network.

Together, HKEx and the LME will focus on the following three key areas:

1. Preserving and enhancing the LME's existing business model;
2. Expanding the presence of the LME in China and other parts of Asia; and
3. Developing the LME over time in accordance with the needs of its members and market participants, including the establishment of self-clearing.

In the long term, we believe the combination of HKEx and the LME will offer further upside in the following ways:

- Further enhance Hong Kong's relevance to Mainland China and bring intangible but important benefits to our existing business;
- Provide a pathway into other commodities and a springboard to a full commodities platform; and
- Make RMB-traded commodity derivatives one of the key components of the offshore RMB ecosystem and position us to enjoy the full benefit of RMB internationalisation.

Joint Venture of HKEx, SHSE and SZSE

One of our other major initiatives in the first half of the year will enhance our cooperation with the stock exchanges in Mainland China. On 28 June, we formally entered into agreement with SHSE and SZSE to establish a joint venture in Hong Kong with an aim of developing financial products and related services, including cross-border equity indices. We hope this new venture will help promote the development of China's capital markets, enhance each partner's competitiveness, and promote the internationalisation of HKEx, SHSE and SZSE. The new venture also serves as a platform for the joint development of new Greater-China indices and related products in the long term.

BRICS Exchanges Alliance

The cross-listing of benchmark equity index derivatives on trading platforms of the BRICS exchanges – HKEx, Brazil's BM&FBOVESPA, India's BSE Limited, Russia's Open Joint Stock Company “Moscow Exchange MICEX-RTS” (formerly known as Open Joint Stock Company MICEX-RTS) and South Africa's JSE Limited – began on 30 March 2012. The alliance has expanded members' product offerings to other markets and given each exchange's investors exposure to the dynamic, emerging, and increasingly important BRICS economies. The alliance also provides a platform for further collaboration. We have started working on the second phase of this collaboration – the development of an index representing the BRICS economies, from which new equity index-related products will be developed.

OTC Clearing

Development of our OTC clearing house to respond to regulatory developments has been progressing well. On 27 June 2012, a notice was gazetted to include OTC derivatives in Section 392 of the SFO to facilitate voluntary clearing. System development for our OTC clearing house has been completed and integration testing has now commenced, with user application testing to commence in the third quarter. The OTC clearing house will initially cover interest rate and currency swap contracts, and we will leverage Hong Kong's advantages as a leading offshore RMB centre. On-boarding seminars have been carried out with over 150 banks and licensed corporations and we expect to commence operations by the end of this year.

RMB Business Development

In the past six months, our RMB product offering has been further diversified, including the launch of the first RMB Gold ETF in February, and the first listed RMB sovereign bond as well as the first RMB Qualified Foreign Institutional Investor (RQFII) A-share ETF in July. We are also planning to introduce USD/CNH (ie, RMB traded in Hong Kong) futures contract in the third quarter of this year. Currently, there are a total of 41 debt securities, 2 ETFs, and 1 REIT available for trading in RMB on the Exchange. We believe the more diversified RMB product offering will attract and retain more RMB in the offshore market and will facilitate the development of RMB internationalisation.

Platform Infrastructure and Market Structure Improvement

Our acquisition and joint venture opportunities did not distract from our efforts to increase market efficiency and build infrastructure to maintain our long-term competitiveness.

In terms of platform infrastructure enhancement, we announced the "HKEx Orion Programme" on 28 March 2012. The programme is aimed at delivering connectivity networks, a state-of-the-art data centre and systems providing order matching, market data dissemination and market access services. The branding aspect of the programme will help promote awareness and recognition in the market of the need for long-term investment in technology. Technology is at the heart of our operations; it is one of the keys to success in our industry; and it is a major priority for us.

Under the "HKEx Orion" umbrella, we continue to move ahead on the following initiatives:

- **HKEx Orion Market Data Platform (OMD):** The OMD will be the first building block of our next generation core platforms. We aim to provide an integrated low-latency platform to deliver market data for all asset classes traded in our markets in a common message format. The OMD is expected to be rolled out for our securities market data and derivatives market data by the second and fourth quarter of 2013 respectively.
- **Orion Central Gateway:** The Orion Central Gateway will significantly reduce costs for brokers by offering access to our securities market without the need for any gateway equipment to be deployed in brokers' premises. The project is tentatively targeted for launch in the fourth quarter of 2013.
- **Hosting Services:** We recruited 22 Founding Member organisations to participate in our Hosting Services Ecosystem. We have also received encouraging responses from prospective users regarding their demand for Hosting Services. The official launch is scheduled for the fourth quarter of this year.
- **New Data Centre:** I am pleased to report the superstructure work for our new Data Centre was completed and the data hall for the enterprise data centre was handed over to us in the first half of this year. The testing and relocation work is on schedule and we expect the first phase of relocation will be completed in the fourth quarter of this year.

In terms of market structure improvements, we continue to work closely with our Participants on reforms that will strengthen our markets and enhance Hong Kong's competitiveness. Two ongoing projects are:

- **Clearing Houses' Risk Management Reform Measures:** We published our consultation conclusions in March this year and implemented revised collateral assumption for SEOCH's Reserve Fund calculation in the second quarter. The remaining measures are scheduled to be implemented later this year, subject to market readiness.
- **After-hours Futures Trading (AHFT):** Since publishing our consultation conclusions in December 2011, we have done a lot of work to prepare for the launch of AHFT. We are now seeking regulatory approval for various rule changes and will announce the rollout date in due course.

Conclusion

This is the last year covered by our current strategic plan, yet it is more a beginning than an end. We have set on a new course, but there is a long journey ahead before we reach our destination and enjoy the full benefits of our endeavours. Externally, the market uncertainty brought by the global economic slowdown and Europe's sovereign debt problems continues to linger. On one hand, now is a reasonably good time to make long-term investments. On the other hand, this is a challenging period for us because low market turnover is putting pressure on our short-term profitability. With the view that the investments we are making now are crucial to our long-term competitiveness, we are prepared to weather any short-term storms we encounter.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 8 August 2012

BOARD AND COMMITTEES

Board

Independent Non-executive Directors

CHOW Chung Kong * ¹ (Chairman)
Ronald Joseph ARCULLI * ² GBM, GBS, JP (ex-Chairman)
CHA May-Lung, Laura * ³ GBS, JP
CHAN Tze Ching, Ignatius ⁴ BBS, JP
CHENG Mo Chi, Moses * ³ GBS, JP
Timothy George FRESHWATER * ⁵
John Barrie HARRISON *
HUI Chiu Chung, Stephen * JP
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael * JP
John Estmond STRICKLAND GBS, JP
John Mackay McCulloch WILLIAMSON ⁴
WONG Sai Hung, Oscar

Executive Director, Chief Executive

LI Xiaojia, Charles

Committees

Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius ⁶
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON ⁶

Environmental, Social and Governance Committee

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ⁸ (ex-Chairman)
CHA May-Lung, Laura ³
John Barrie HARRISON
LEE Tze Hau, Michael
LI Xiaojia, Charles

Executive Committee

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON ⁶

Committees (continued)

Investment Advisory Committee

John Estmond STRICKLAND (Chairman)
WONG Sai Hung, Oscar (Deputy Chairman)
HUI Chiu Chung, Stephen
LEE Tze Hau, Michael
LUI Yin Tat, David

Nomination Committee

CHOW Chung Kong ⁹ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
CHAN Tze Ching, Ignatius ⁶
CHENG Mo Chi, Moses ³
Timothy George FRESHWATER ⁹
John Estmond STRICKLAND
WONG Sai Hung, Oscar

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius ⁹ (Chairman)
CHA May-Lung, Laura ³ (ex-Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael
WONG Sai Hung, Oscar

Remuneration Committee

CHOW Chung Kong ⁹ (Chairman)
Ronald Joseph ARCULLI ⁸ (ex-Chairman)
CHA May-Lung, Laura ³
CHENG Mo Chi, Moses ³
Timothy George FRESHWATER ⁹
John Barrie HARRISON
John Mackay McCulloch WILLIAMSON ⁶

Risk Management Committee ^Δ

CHOW Chung Kong ⁷ (Chairman)
Ronald Joseph ARCULLI ³ (ex-Chairman)
CHAN Ngai Hang **
HE Guangbei ** ¹⁰
KWOK Chi Piu, Bill
LAU Ying Pan, Edmond ** ¹¹
LEE Tze Hau, Michael
LIU Swee Long, Michael **
LUI Kei Kwong, Keith ** ¹²

Company Secretary

MAU Kam Shing, Joseph

Notes:

- | | | |
|---|--|---|
| * Government Appointed Director | 4 Re-elected on 23 April 2012 | 10 Appointment effective 20 January 2012 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited |
| ** Appointed by the Financial Secretary | 5 Appointment effective 23 April 2012 | 11 By virtue of being the Executive Director (Monetary Management) of the Hong Kong Monetary Authority effective 20 January 2012 (formerly ad personam) |
| Δ Established under Section 65 of the SFO | 6 Re-appointment effective 24 April 2012 | 12 By virtue of being the SFC's Executive Director (Supervision of Markets) effective 20 January 2012 (formerly ad personam) |
| 1 Appointed as Director effective 23 April 2012 and as Chairman effective 27 April 2012 | 7 Appointment effective 27 April 2012 by virtue of being HKEx's Chairman | |
| 2 Ceased chairmanship and re-appointed as Director effective 23 April 2012 | 8 Ceased chairmanship effective 23 April 2012 and re-appointed as member effective 24 April 2012 | |
| 3 Retired on 23 April 2012 | 9 Appointment effective 24 April 2012 | |

Board of Directors

On 10 April 2012, the Government announced the appointment of Messrs C K Chow and Tim Freshwater as Directors each for a term of approximately 2 years from the close of the 2012 AGM until the conclusion of the AGM to be held in 2014, and the re-appointment of Mr Ronald Arculli as a Director for a term of approximately 1 year from the close of the 2012 AGM until the conclusion of the AGM to be held in 2013. Mrs Laura Cha and Dr Moses Cheng retired from the Board after the conclusion of the 2012 AGM. At the 2012 AGM, Messrs Ignatius Chan and John Williamson were re-elected as Directors by Shareholders each for a term of approximately 3 years from 23 April 2012 until the conclusion of the AGM to be held in 2015.

The Board on 24 April 2012 appointed Mr C K Chow as HKEx's Chairman for a term to be coterminous with his directorship, and the Chief Executive of the HKSAR approved his appointment which took effect on 27 April 2012.

Committees and Consultative Panels

The Financial Secretary appointed the Executive Director (Monetary Management) of the Hong Kong Monetary Authority, the SFC's Executive Director (Supervision of Markets), and the Chairman of Hong Kong Interbank Clearing Limited, namely Messrs Edmond Lau, Keith Lui, and He Guangbei respectively, as members of the Risk Management Committee, which took effect on 20 January 2012.

Following the changes in the Board composition that took effect on 23 April 2012, the Board considered and announced new appointments to various Committees on 24 April 2012. The term of service of each Director on each Committee shall be coterminous with the individual's term of directorship with HKEx.

On 7 May 2012, the Board re-appointed and appointed certain market practitioners as members of the Cash Market Consultative Panel, Derivatives Market Consultative Panel and Clearing Consultative Panel, each for a term of 3 years from 1 June 2012 until 31 May 2015. On 1 June 2012, the Board further appointed Messrs Choy Sze Chung, Jojo and David Rabinowitz as members of the Cash Market Consultative Panel with immediate effect until 31 May 2013 and 31 May 2015 respectively to fill the casual vacancies arising from the resignation of Messrs Cham Yau Nam and Hon Sau Yee, Kenneth.

The updated member lists of the various Committees and Consultative Panels are available on the HKEx website.

Non-executive Directors' Remuneration

At the 2012 AGM, the Shareholders approved the (i) remuneration of \$900,000 and \$600,000 per annum be payable to the Chairman and each of the other Non-executive Directors of HKEx respectively; (ii) remuneration of \$120,000 and \$90,000 per annum be payable to the chairman and each of the other members (excluding any Executive Director) respectively of the Audit Committee, Executive Committee, Investment Advisory Committee and Remuneration Committee (collectively referred as Committees); and (iii) attendance fee of \$3,000 be payable to each member of the Committees (excluding any Executive Director) for each meeting of the Committees. The above remuneration took effect from the conclusion of the 2012 AGM and will remain in effect until Shareholders in general meeting otherwise determine.

Other Changes in Directors' Information

Other changes in Directors' information since the date of the 2011 Annual Report are set out below.

	Appointment (effective)	Cessation of Office (effective)
Ronald J Arculli		
• King & Wood, where Mr Arculli is a senior partner, renamed as King & Wood Mallesons following a merger with Mallesons Stephen Jaques effective 1 March 2012.	–	–
• Executive Council of the HKSAR – convenor of the non-official members	–	1 Jul 2012
– non-official member	–	1 Jul 2012
• Honours Committee – member	–	1 Jul 2012
• Non-official Justices of the Peace Selection Committee – member	–	1 Jul 2012
Ignatius T C Chan		
• Advisory Committee on Bond Market Development – member	–	1 Jul 2012
C K Chow		
• The Hong Kong General Chamber of Commerce – chairman	24 May 2012	–
– deputy chairman	–	24 May 2012
• Commission on Strategic Development – member	–	1 Jul 2012
• Executive Council of the HKSAR – non-official member	1 Jul 2012	–
John B Harrison		
• The Hong Kong Cricket Club – president	–	29 May 2012
Vincent K H Lee		
• Brewin Trust Fund Committee – member	–	1 Apr 2012
Michael T H Lee		
• Police Children's Education Trust Management Committee – chairman	1 Jul 2012	–
• Police Education and Welfare Trust Management Committee – chairman	1 Jul 2012	–
Charles X Li		
• Consulting Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen – member	6 Aug 2012	–
Oscar S H Wong		
• ICBC (Asia) Investment Management Company Limited – business adviser	–	1 Jul 2012
• China Bio-Med Regeneration Technology Limited * – chairman	6 Aug 2012	–
– vice-chairman	–	6 Aug 2012

* Currently listed on the Stock Exchange

The updated biographies of Directors are available on the HKEx website.

Save for those disclosed above, there is no other information in respect of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

BUSINESS REVIEW

Listing

Environmental, Social and Governance Reporting Guide

Encouraging responses to the consultation paper on the proposed Environmental, Social and Governance Reporting Guide were received, and the conclusions will be released later this year. The Guide may be implemented as a recommended best practice.

Consultation Paper on Trading Halts Proposal

HKEx published a consultation paper on 27 July 2012 to seek views on its proposal to implement trading halts that would allow listed companies to publish announcements with price sensitive information during trading hours. Under the proposal, a listed company will be able to release a price sensitive information announcement on the HKExnews website during the Exchange's trading hours provided there is a short halt in trading of the company's shares to enable investors to digest the contents of the announcement.

The deadline for responses to the consultation paper is 8 October 2012.

Guide on Enhancing Regulation of the Listed Structured Products Market

HKEx published its Guide on Enhancing Regulation of the Listed Structured Products Market on 27 July 2012. The Guide serves to foster high standards across structured products issuers, enhance service levels of liquidity providers, and promote the healthy long-term development of Hong Kong's listed structured products market.

The Guide covers a number of regulatory enhancement measures in three main areas: (i) enhancement of issuers' internal controls and standardisation of listing documents; (ii) improvement of liquidity provision standards; and (iii) management of issuers' credit risks. The proposed measures are in line with ongoing efforts to strengthen protection for investors and support market development. The Guide also includes the Industry Principles on Liquidity Provision for Listed Structured Products which were developed jointly by a working group of listed structured products issuers, the SFC and HKEx after extensive discussions.

Both the Guide and the Industry Principles are accessible from the HKEx website.

Consultation Paper on Rule Changes Consequential on Statutory Backing of Continuing Obligation for Listed Companies to Disclose Inside Information

HKEx published a consultation paper on 3 August 2012 to seek views on Rule changes to complement the introduction of a statutory obligation to disclose inside information.

The Securities and Futures (Amendment) Ordinance 2012 implements a statutory obligation on listed corporations to disclose price sensitive information (termed "inside information" under the SFO). The statutory disclosure regime will take effect from 1 January 2013.

The Exchange still has a statutory obligation to maintain an orderly, informed and fair market for the trading of securities listed on the Exchange under Section 21 of the SFO.

In connection with the implementation of the statutory disclosure regime, changes to the Listing Rules will be necessary to minimise duplication and overlap with the new law. The main change will be to remove the existing continuing disclosure obligations which will become part of the statutory regime. In addition, a range of amendments will be made consequential on the removal of these core provisions.

The deadline for responses to the consultation paper is 3 October 2012.

RMB Business Development

RMB Products

HKEx welcomed the Mainland's approval in April this year of the use of the RMB Qualified Foreign Institutional Investor (RQFII) quota of RMB50 billion by the qualified Mainland fund management companies and securities companies to issue RMB-denominated ETFs tracking A-share indices for listing on the Exchange. As a support to this initiative, a seminar was organised in June 2012 to provide potential RQFII ETF managers and related market participants with more information about the listing of RQFII ETFs including trading- and clearing-related issues. On 17 July 2012, ChinaAMC CSI 300 Index ETF, the first RQFII A-share ETF, was listed on the Exchange.

In May 2012, the SFC approved the launch of RMB currency futures and the related rule amendments to support the trading and clearing of the product. Subject to market readiness, the first contract with deliverable currency pair USD vs CNH will be launched in the third quarter of this year. The USD/CNH futures contract will be the world's first deliverable RMB currency futures to be quoted, margined and settled in RMB, and it will be an efficient and cost-effective trading and hedging instrument for managing RMB exchange rate risk exposure. It will also be an anchor product for HKEx to expand the offering of RMB-denominated products.

Following a system and operational readiness test for RMB-denominated futures and options in January 2012, a readiness test in handling USD/CNH futures contracts was conducted for EPs, CPs and potential market makers on 30 June. Meanwhile, HKEx is rolling out a comprehensive marketing and educational programme to enhance the market's understanding of RMB currency futures.

As at 30 June 2012, there were 27 RMB-denominated debt securities, 1 RMB-denominated ETF, and 1 RMB-denominated REIT listed for trading on the Exchange.

System Enhancements

HKEx continues enhancing its trading and clearing infrastructure to improve its service capability for RMB products. In the first half of 2012, HKEx completed: (i) the RMB Equity Trading Support Facility (TSF) suspension function to support the partner banks' requirements under extreme market volatility; and (ii) the automated order rejection by AMS/3.8 upon full consumption of the TSF funding pool. Effective 6 August 2012, HKEx extended the coverage of the TSF beyond RMB-traded shares to equity-related ETFs and REITs traded in RMB.

Following the introduction of the Dual Tranche Dual Counter model (DTDC model) last year, CCASS has been further enhanced to facilitate file uploading of multi-counter transfer instructions by Participants with high transaction volume effective 28 May 2012. Subsequently, a two-day practice session on the trading, clearing, settlement and multi-counter transfer activities for securities traded and cleared under the DTDC model was held in June 2012 with 250 attendees representing about 70 per cent market share.

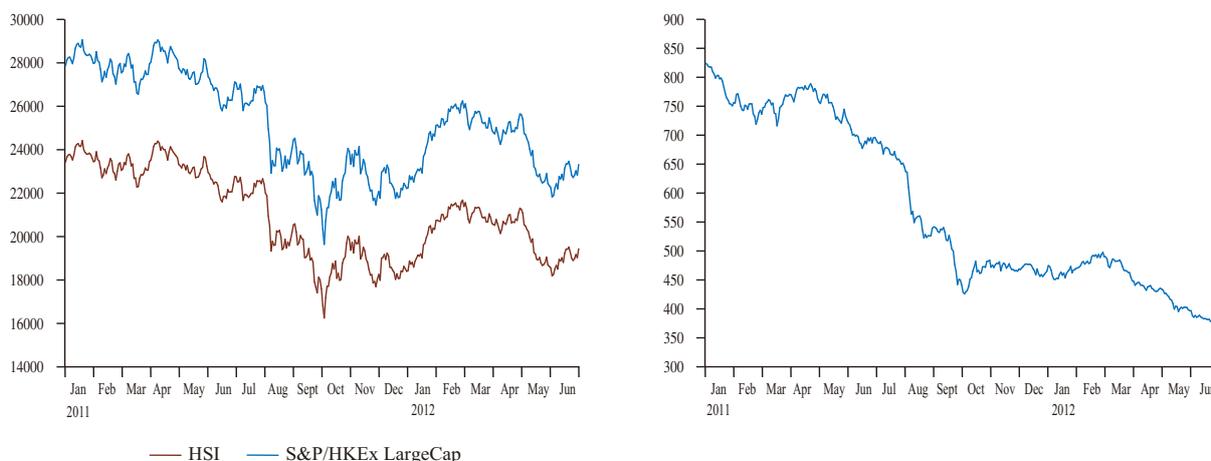
Further enhancements to facilitate margin offset between products of different settlement currencies are planned in late 2012.

Cash Market

Market Performance

In the first half of 2012, 25 companies were newly listed on the Main Board (no transfers from GEM), and 7 on GEM. Total capital raised, including post-listing funds, reached \$128.3 billion. As at 30 June 2012, 1,342 and 177 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$18,429 billion. In addition, there were 4,032 DWs, 1,021 CBBCs, 9 REITs, 92 ETFs and 231 debt securities listed as at 30 June 2012. The average daily turnover value in the first half of 2012 was \$56.5 billion on the Main Board and \$156.6 million on GEM, a decline of 14 per cent and 3 per cent respectively against those for the second half of 2011.

HSI and S&P/HKEx LargeCap Index (01/2011 – 06/2012) S&P/HKEx GEM Index (01/2011 – 06/2012)



Number of Listed Companies by Industry Classification * – Main Board and GEM

	As at 30 Jun 2012	As at 31 Mar 2012	As at 30 Jun 2011	Change	
				Mar 2012	Jun 2011
Energy	65	65	59	0%	10%
Materials	136	134	126	1%	8%
Industrial Goods	120	120	118	0%	2%
Consumer Goods	386	386	371	0%	4%
Services	235	235	219	0%	7%
Telecommunications	18	18	18	0%	0%
Utilities	43	42	41	2%	5%
Financials	120	117	115	3%	4%
Properties & Construction	209	207	197	1%	6%
IT	164	163	161	1%	2%
Conglomerates	23	23	23	0%	0%
Total	1,519	1,510	1,448	1%	5%

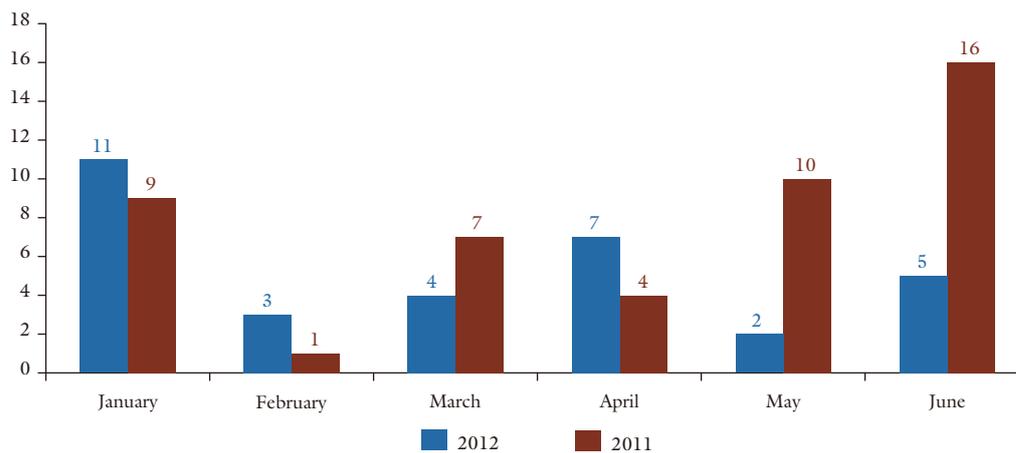
* According to Hang Seng Indexes Company Limited

Market Capitalisation of Listed Companies by Industry Classification * – Main Board and GEM

	As at	As at	As at	Change	
	30 Jun 2012 \$bn	31 Mar 2012 \$bn	30 Jun 2011 \$bn	Mar 2012	Jun 2011
Energy	1,428.5	1,573.7	1,713.1	(9%)	(17%)
Materials	475.2	515.5	691.0	(8%)	(31%)
Industrial Goods	252.4	302.0	414.7	(16%)	(39%)
Consumer Goods	1,995.9	2,230.2	2,330.0	(11%)	(14%)
Services	1,633.0	1,912.4	1,880.8	(15%)	(13%)
Telecommunications	2,097.8	2,205.6	1,963.3	(5%)	7%
Utilities	765.5	782.2	796.9	(2%)	(4%)
Financials	5,604.2	5,945.2	6,648.6	(6%)	(16%)
Properties & Construction	2,409.8	2,362.6	2,627.5	2%	(8%)
IT	761.5	870.5	885.7	(13%)	(14%)
Conglomerates	1,005.5	1,075.4	1,152.4	(6%)	(13%)
Total	18,429.2	19,775.3	21,103.9	(7%)	(13%)

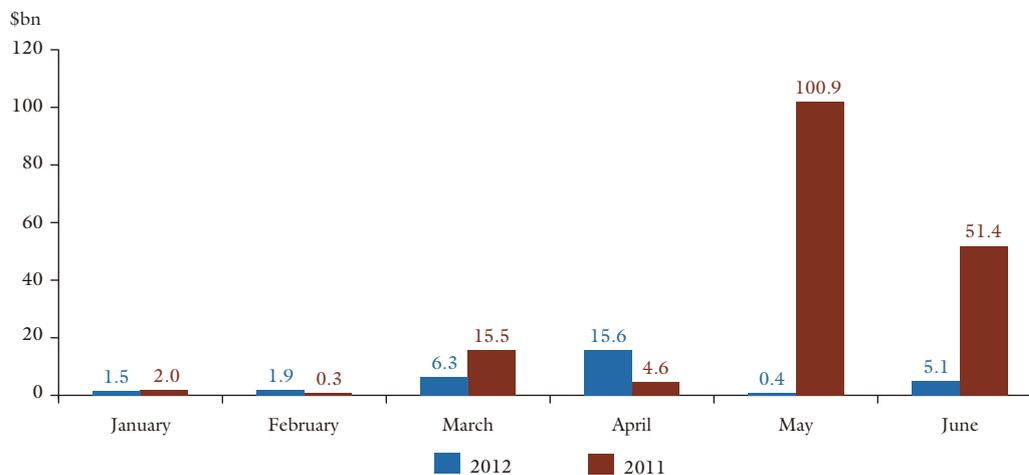
* According to Hang Seng Indexes Company Limited
Note: Figures have been rounded and may not add up to the total.

Number of Newly Listed Companies – Main Board * and GEM



* Included transfers from GEM (2012: 0; 2011: 10)

IPO Funds Raised by Newly Listed Companies – Main Board and GEM



Number of Listed Securities – Main Board and GEM

	As at 30 Jun 2012	As at 31 Mar 2012	As at 30 Jun 2011	Change	
				Mar 2012	Jun 2011
Ordinary Shares	1,520	1,511	1,449	1%	5%
Preference Shares	3	3	3	0%	0%
Warrants	4,048	4,109	4,853	(1%)	(17%)
Equity Warrants	16	15	17	7%	(6%)
DWs	4,032	4,094	4,836	(2%)	(17%)
CBBCs	1,021	1,097	711	(7%)	44%
Unit Trusts	103	100	87	3%	18%
ETFs	92	89	76	3%	21%
REITs	9	9	9	0%	0%
Others	2	2	2	0%	0%
Debt Securities	231	209	173	11%	34%
Total	6,926	7,029	7,276	(1%)	(5%)

Market Value by Type of Securities – Main Board and GEM

	As at 30 Jun 2012 \$bn	As at 31 Mar 2012 \$bn	As at 30 Jun 2011 \$bn	Change	
				Mar 2012	Jun 2011
Equities	18,429.2	19,775.3	21,103.9	(7%)	(13%)
Warrants	65.2	95.0	97.3	(31%)	(33%)
Equity Warrants	0.4	0.4	0.8	0%	(50%)
DWs	64.9	94.6	96.5	(31%)	(33%)
CBBCs	46.7	55.1	32.6	(15%)	43%
Unit Trusts	850.3	893.6	852.5	(5%)	0%
ETFs	711.8	759.7	712.5	(6%)	0%
REITs	136.2	131.6	137.0	3%	(1%)
Others	2.4	2.4	3.0	0%	(20%)
Debt Securities *	754.2	651.8	523.5	16%	44%
Total	20,145.8	21,470.9	22,609.7	(6%)	(11%)

* Nominal value

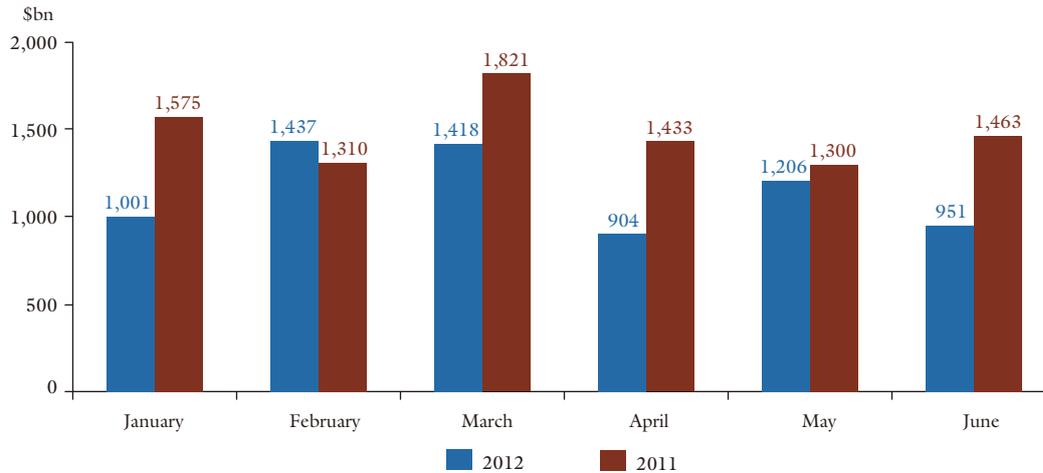
Note: Figures have been rounded and may not add up to the sub-total or the total.

Turnover Value by Type of Securities – Main Board and GEM

	Six months ended 30 Jun 2012 \$bn	Six months ended 30 Jun 2011 \$bn	Change
	Equities	4,918.3	
Warrants	908.7	1,466.6	(38%)
Equity Warrants	0.1	0.8	(88%)
DWs	908.6	1,465.8	(38%)
CBBCs	849.7	692.9	23%
Unit Trusts	238.9	316.2	(24%)
ETFs	208.5	285.6	(27%)
REITs	30.3	30.3	0%
Others	0.1	0.3	(67%)
Debt Securities	1.5	0*	N/A*
Total	6,917.1	8,902.9	(22%)

* Approximately \$3 million, the percentage change is irrelevant.

Note: Figures have been rounded.

Turnover Value of Listed Securities – Main Board and GEM**ETF Market**

We continued to promote our ETF market to both retail and institutional investors by organising and actively participating in various events held in Hong Kong, the Mainland and overseas in the first half of 2012.

In the first half of 2012, 27 ETFs, including the first RMB-denominated ETF, were newly listed on the Exchange. The new ETFs track a diversified range of underlying benchmarks, such as individual Asian markets, global and Asian industry sectors, and gold. In March, 12 ETFs issued by a fund manager were voluntarily delisted and in June, another ETF voluntarily ceased trading. As at 30 June 2012, there were 92 listed ETFs, 15 ETF managers and 22 ETF market makers.

We are honoured to receive 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. The number of trading hours in the Cash Market for a normal trading day is now 5.5 hours.

Tightening of Eligibility Criteria for Designated Securities for Short Selling

Following a review of the eligibility criteria conducted earlier this year, the market capitalisation and turnover velocity requirements for Designated Securities were increased from \$1 billion to \$3 billion and from 40 per cent to 50 per cent respectively effective 3 July 2012. The changes were to reflect the corresponding growth of the average market capitalisation of listed companies in Hong Kong and the increase in market turnover velocity in the past decade.

Derivatives Market

Market Performance

In the first half of 2012, a total of 24,104,856 futures contracts and 36,585,864 options contracts were traded in the Derivatives Market with the daily average at 197,581 and 299,884 contracts respectively. On 29 June 2012 (the last trading date in June 2012), the total open interest was 6,114,843 contracts, comprising 315,102 futures contracts and 5,799,741 options contracts.

Record High Volume and Open Interest for Major Derivatives in the First Half of 2012

Product	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
Mini H-shares Index Futures	–	–	24 Apr	6,684
HSI Dividend Point Index Futures	31 Jan	1,850	–	–
HSCEI Dividend Point Index Futures	24 May	20,802	1 Jun	59,548
HSI Options	–	–	27 Jun	560,087
Mini-HSI Options	18 May	13,917	29 May	32,651
H-shares Index Options	17 May	47,645	27 Jun	565,194
Flexible HSI Options	–	–	26 Apr	11,010

Average Daily Volume of Major Derivatives

Contracts	Six months ended	Three months ended	Six months ended	Change	
	30 Jun 2012	31 Mar 2012	30 Jun 2011	Mar 2012	Jun 2011
HSI Futures	86,446	84,278	89,272	3%	(3%)
HSI Options	39,554	35,475	43,637	11%	(9%)
Mini-HSI Futures	37,931	38,515	35,994	(2%)	5%
Mini-HSI Options	4,677	3,617	3,447	29%	36%
H-shares Index Futures	64,209	63,286	54,590	1%	18%
H-shares Index Options	23,734	21,077	15,148	13%	57%
Mini H-shares Index Futures	6,947	6,535	6,305	6%	10%
Stock Futures	1,140	1,293	1,749	(12%)	(35%)
Stock Options	231,856	238,445	288,455	(3%)	(20%)
3-Month HIBOR Futures	1	2	2	(50%)	(50%)
1-Month HIBOR Futures	0	0	1	N/A	(100%)
Gold Futures	0	0	19	N/A	(100%)
Flexible HSI Options	29	0	45	N/A	(36%)
Flexible H-shares Index Options	35	21	22	67%	59%
HSI Dividend Point Index Futures	80	89	74	(10%)	8%
HSCEI Dividend Point Index Futures	818	916	49	(11%)	1,569%
HSI Volatility Index Futures *	10	10	N/A	0%	N/A
Sensex Index Futures #	3	5	N/A	(40%)	N/A
Market Total	497,465	493,555	538,808	1%	(8%)

* Launched on 20 February 2012

Launched on 30 March 2012

Open Interest of Major Derivatives

Contracts	As at	As at	As at	Change	
	30 Jun 2012	31 Mar 2012	30 Jun 2011	Mar 2012	Jun 2011
HSI Futures	103,069	99,821	95,917	3%	7%
HSI Options	346,519	284,586	222,085	22%	56%
Mini-HSI Futures	6,063	6,653	10,213	(9%)	(41%)
Mini-HSI Options	12,617	5,195	5,681	143%	122%
H-shares Index Futures	127,099	117,764	114,333	8%	11%
H-shares Index Options	361,728	291,787	163,542	24%	121%
Mini H-shares Index Futures	3,236	2,575	2,945	26%	10%
Stock Futures	10,510	14,178	19,267	(26%)	(45%)
Stock Options	5,060,742	4,971,657	5,622,028	2%	(10%)
3-Month HIBOR Futures	65	95	83	(32%)	(22%)
1-Month HIBOR Futures	0	0	55	N/A	(100%)
Gold Futures	0	0	41	N/A	(100%)
Flexible HSI Options	11,010	7,510	5,410	47%	104%
Flexible H-shares Index Options	7,125	4,400	2,600	62%	174%
HSI Dividend Point Index Futures	5,412	5,453	5,644	(1%)	(4%)
HSCEI Dividend Point Index Futures	59,548	49,815	4,111	20%	1,349%
HSI Volatility Index Futures *	77	39	N/A	97%	N/A
Sensex Index Futures #	23	4	N/A	475%	N/A
Market Total	6,114,843	5,861,532	6,273,955	4%	(3%)

* Launched on 20 February 2012

Launched on 30 March 2012

New Futures Products and Stock Option Classes

HSI Volatility Index Futures commenced trading on 20 February 2012 to provide investors with a trading and hedging instrument in relation to the volatility of Hong Kong's stock market. To help promote the product, we supported the HSI Volatility Index Futures Simulation Game organised jointly by 4 HKFE EPs.

On 30 March 2012, the Futures Exchange introduced 4 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 HKD-denominated contracts enable investors to get exposure to the BRICS markets locally. Over 90 per cent of the trades on these products on the Futures Exchange were on the Sensex Index futures, reflecting that a greater overlap in trading hours (ie, 4.5 hours between HKEx and BSE Limited) could heighten market activity. From the trading record, the Sensex Index futures traded on the Futures Exchange tracked both Sensex Index futures at BSE Limited and Sensex ETF on the Exchange well with high price trend correlations, indicating that it may serve as an alternative Sensex Index investment product as well as an appropriate hedging instrument for ETF investors and liquidity providers. Amongst these products as well as the HSI and H-shares Index futures which are cross-listed on each of the BRICS exchanges, the HSI futures have been the most traded contract.

To further broaden the option classes, 3 new stock option classes were introduced for trading on 11 June 2012, namely Galaxy Entertainment Group Limited, Sands China Ltd, and Standard Chartered PLC.

During the first half of 2012, we continued with our effort to promote HKEx's derivatives to participants from different parts of the world through participation in various activities including, the seminar on HKFE Derivative Products in Taipei, and the IDX International Derivatives Expo in London.

After-hours Futures Trading

Briefing sessions had been organised for EPs and CPs to prepare them for the after-hours futures trading. HKEx will announce the implementation date after obtaining the SFC's approval of the related rule amendments as well as ascertaining market readiness.

Clearing

CCASS Statistics (six months ended 30 June)

	2012	As restated 2011	Change
Average daily Exchange Trades handled by CCASS			
Number of trades	807,344	863,419	(6%)
Value of trades (\$bn)	56.7	73.6	(23%)
Share quantity involved (bn)	147.8	161.0	(8%)
Average daily SIs handled by CCASS			
Number of SIs	75,194	86,986	(14%)
Value of SIs (\$bn)	180.0	219.0	(18%)
Share quantity involved (bn)	42.3	48.3	(12%)
Average daily ISIs handled by CCASS			
Number of ISIs	340	524	(35%)
Value of ISIs (\$m)	262.7	277.4	(5%)
Share quantity involved (m)	92.2	144.1	(36%)
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	7	(43%)
Number of buy-ins	5	8	(38%)
Value of buy-ins (\$m)	1.4	3.2	(56%)
Shares deposited in the CCASS depository			
Number of shares (bn)	3,713.6	3,707.1	0%
Percentage of the total issued shares of the admitted securities	70%	69%	–
Value of shares (\$bn)	10,006.9	11,612.9	(14%)
Percentage of the total market capitalisation of the admitted securities	50%	50%	–

Note: The above statistics include transactions in all currencies.

CCASS Service Enhancement

Effective 28 May 2012, new features were introduced to improve the SIs' operational efficiency. Participants can now opt to settle SIs in any eligible currency (ie, HKD, RMB or USD) instead of in the trading currency of the underlying securities only. In addition, a new reference field was added during SI input, which allows Participants to handle IPOs with better control and higher efficiency.

Scripless Securities Market

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

Participant Services

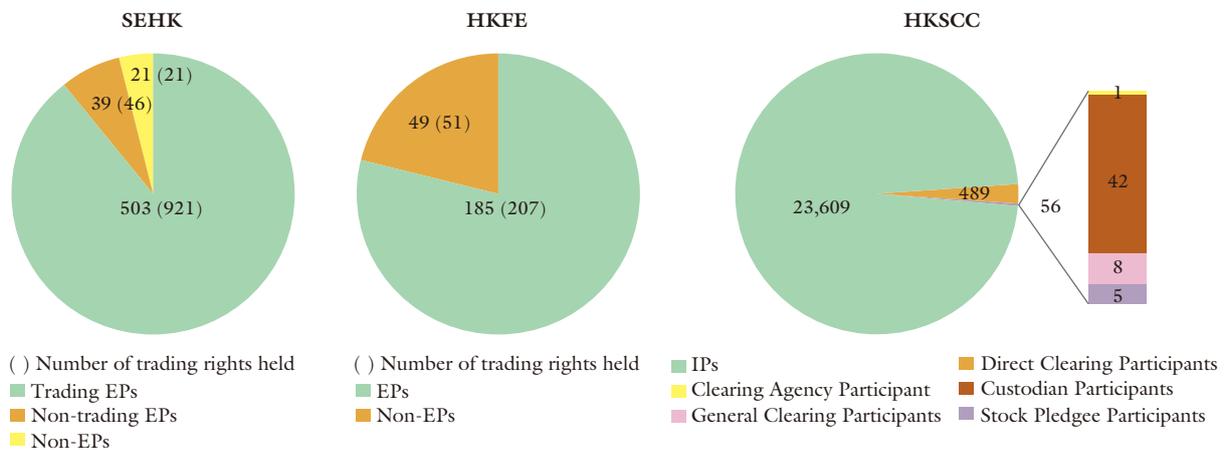
Participant Training and Market Education

In the first half of 2012, HKEx and the Hong Kong Securities Institute jointly organised 2 Continuous Professional Training courses on HKATS operations and trading procedures. There were also 4 training courses related to AMS/3, and 13 related to CCASS or DCASS. In addition, over 1,400 people participated in 13 briefing sessions and 3 seminars on derivatives organised under HKEx's joint promotion programme with EPs.

Participant Recruitment

In the first six months of 2012, there were 9 new SEHK Participants and 8 new HKFE Participants, including those from the Mainland and overseas. In the same period, 287 IPs were newly admitted as CCASS Participants.

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



Market Data

HKEx Mainland Market Data Hub

In view of the substantial growth of Mainland IVs, HKEx will establish a point of presence for market data distribution on the Mainland, which will extend to other financial centres in the longer term, with a view to reducing costs and improving quality of market data for customers in different regions. The first market data hub is scheduled for launch in Shanghai, tentatively in the third quarter of 2013, through which securities market and index datafeed products will be offered initially.

Risk Management

Clearing Houses' Risk Management Reform Measures

Following the consultation conclusions on the HKEx Clearing House Risk Management Reform Measures published in March 2012, HKEx successfully implemented the revised collateral assumption of SEOCH's Reserve Fund calculation as of 30 June 2012.

The remaining measures are scheduled to be implemented later this year, subject to market readiness. These measures include (i) the introduction of a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) the revision to certain price movement assumptions in the clearing houses' stress testing; (iii) the revision to the counterparty default assumption in the stress testing; (iv) the revision to the collateral assumption at HKCC; and (v) the introduction of various means of financial support to reduce the impact on CPs. They also include certain operational refinements in response to the feedback received during the consultation.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred 12 cases involving possible violations of Hong Kong laws, SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during the six months ended 30 June 2012.

Information Technology

Production Systems' Stability and Reliability

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

Technology Upgrade

HKEx upgraded the HKATS capacity in June 2012 to support a throughput of 28,000 order book changes per second for organic growth and new business initiatives of the Derivatives Market.

Independent Review

HKEx engaged an external security consultant to conduct an IT security risk and infrastructure review during the first quarter of 2012. The consultant concluded that there are no material issues that call for immediate action but recommended a number of security improvements for further enhancement of HKEx's security. Various improvement initiatives have been initiated as planned.

New Data Centre and IT Office Consolidation

Construction of the superstructure of the new Data Centre in Tseung Kwan O, Hong Kong was completed and the data hall for the enterprise data centre was handed over to HKEx at the end of March 2012. The provisioning of network infrastructure and installation of IT equipment were completed, and the testing of IT systems and relocation procedures started in May 2012. The first phase of relocation, covering the IT office and primary data centre for the Cash Market, will take place in the fourth quarter of 2012. The consolidation of all data centres will be completed in phases in 2013.

HKEx Mobile

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

HKEx Orion Programme

In March 2012, HKEx commenced the phased implementation of the HKEx Orion technology programme which will progressively transform HKEx's market platforms to improve market access, connectivity, speed, and functionality.

The programme has started with the migration of network circuits for Cash Market Participants and IVs to SDNet/2 to provide higher bandwidth scalability and offer the choice of multiple network carriers for diversity and competitive pricing, which was completed in mid-July 2012. The migration of Participants and IVs network circuits for Derivatives Market and Cash Clearing is planned in the first half and second half of 2013 respectively.

The implementation of Orion Market Data Platform (OMD) is underway to provide a low-latency data feed for all asset classes traded in the HKEx markets in a common message format. It will improve HKEx customers' market data experience by providing a suite of market data product feeds with content, market depth, and bandwidth requirements tailored to suit the needs of different types of customers. It will also enable HKEx to establish points of presence for market data distribution outside of Hong Kong, such as on the Mainland. The OMD rollout is scheduled for the second quarter of 2013 for the Cash Market and with further extension to the derivatives market data by the end of 2013.

HKEx will also start the development of the Orion Central Gateway for the Cash Market in the third quarter of 2012. The new gateway will significantly reduce brokers' costs by offering market access without the need for any gateway equipment to be deployed in brokers' premises as well as offering additional features such as FIX (Financial Information eXchange) support and "drop-copy". The vendor evaluation has been completed and the project is tentatively targeted for launch in the fourth quarter of 2013.

To prepare for the development of Orion Trading Platform (OTP) which is a new Cash Market trading system aimed to provide low latency, high capacity and new business functionality, a proof-of-concept (POC) exercise is in progress to (i) evaluate the key technology components that will be used to build the OTP, (ii) project the performance of the OTP, and (iii) determine the functionality that the OTP will support. We plan to complete the POC by late 2012 before HKEx proceeds to the implementation stages in 2013 and 2014.

For the Derivatives Market, the migration of HKATS/DCASS to a new technology platform (Genium INET) has also been initiated. The project will facilitate technology alignment with vendor 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.

Market Development

Hosting Services

Following the introduction of the Founding Members Programme in February 2012 to allow selected hosting ecosystem service providers to participate in the early set-up of the hosting ecosystem and joint marketing efforts with HKEx, an Ecosystem Founding Members Conference was held in May 2012 with over 400 attendees from EPs, IVs and technology vendors. The event provided an overview of service offerings by the Founding Members at the Hosting Data Centre as well as HKEx's recent and upcoming developments. HKEx also participated in the Asia Pacific Trading Summit in order to promote the Hosting Services to the trading community.

HKEx completed an Expression of Interest process in May 2012 by which prospective users were invited to indicate their demand for the Hosting Services and an encouraging response was received. The initial capacity of 320 racks to be launched this year will satisfy the indicated demand.

Technical infrastructure implementation including the construction of a low-latency local area network has started and is expected to be completed by September 2012. A dust-free environment for the Hosting Services data hall was handed over to HKEx at the end of May 2012. Customers' equipment installation and roll out tests will be performed in the fourth quarter of 2012.

OTC Derivatives Clearing House

As an interim measure to support the voluntary clearing of OTC derivatives transactions, pending the introduction of a full-fledged regulatory regime for the OTC derivatives market in Hong Kong, the Securities and Futures (Futures Contracts) Notice 2012 under Section 392 of the SFO to prescribe certain OTC derivatives transactions to be regarded as futures contracts and accordingly enjoy the insolvency override protection was gazetted on 4 May and came into operation on 27 June 2012. The measure lays down the necessary regulatory framework for HKEx's OTC derivatives clearing house to provide central clearing for OTC derivatives, in particular trades denominated in HKD and RMB, by the end of 2012.

The preparation of the clearing rules and procedures is currently underway. Industry views on the draft clearing rules were sought through soft consultation with some market players, and the draft rules were issued to potential clearing members for comments in June 2012.

To prepare for the OTC clearing services, we are developing a platform to support the clearing and settlement of asset classes. User acceptance tests will commence in the third quarter, which will be followed by market rehearsals in the last quarter of 2012.

In March and May 2012, HKEx organised 4 on-boarding seminars to introduce the operating and risk management models of the planned OTC clearing services. One-on-one meetings were also held with individual banks to address their questions. We also participated in a number of events to promote our OTC clearing services to the market, including the Local Bank Round Table, the OTC Derivatives Regulators' Forum, the HKEx OTC Clearing Payment Flows Workshop, and the "OTC Clearing – Is Hong Kong Cleared for Take Off" seminar.

Further training workshops for potential clearing members will be scheduled in the second half of 2012 to facilitate their participation in our new OTC clearing house – OTC Clearing Hong Kong Limited.

Mainland Development

HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange signed an agreement on 28 June 2012 to establish a joint venture company in Hong Kong to develop financial products and related services with an initial focus on cross-border indices. The joint venture's principal business will include without limitation (i) the development and franchising of index-linked and other equity derivatives; (ii) the compilation of cross-border indices based on products traded on the three markets; (iii) the development of industry classification for listed companies, information standards and information products; and (iv) market promotion, customer services, technical services and infrastructure development.

HKEx also continues to broaden and deepen its relationships with the Mainland authorities (at both central and provincial levels), regulators, exchanges, and market participants. HKEx has signed MOUs with all the major Mainland exchanges.

HKEx is working on more tailored-made training programmes on Hong Kong's securities markets to be held in the second half of this year for the relevant Mainland regulators. These programmes aim to foster closer dialogue and potential cooperation with its Mainland stakeholders.

MOUs signed in 2012

• On cooperation and exchange of information	
Jan	– China Financial Futures Exchange
Mar	– Shanghai Futures Exchange
	– Heilongjiang Province's Financial Affairs Office
Apr	– Hebei Province's Financial Affairs Office
May	– Shandong Financial Services Office
• On listing and trading of RMB-denominated sovereign bonds in Hong Kong	
Jun	– Ministry of Finance of the PRC

Issuer Marketing

In line with our core strategy to generate additional growth in the listing business, we have continued our marketing efforts to promote HKEx as the listing venue of choice for Mainland and international companies seeking capital, branding awareness and a liquid secondary market by meeting with potential listing applicants and delivering speeches at events held locally as well as in the Mainland and overseas.

In addition, offshore RMB fundraising in Hong Kong remains our key focus and we continue to have substantive conversations with individual issuers and influential intermediaries in Hong Kong and the Mainland.

During the first half of 2012, HKEx organised and/or participated in 60 promotional activities around the globe to promote listing in Hong Kong as well as the products available for trading in Hong Kong.

	Number of activities
Africa	2
Asia (excluding Mainland & Hong Kong)	4
Europe (including Russia)	3
Mainland & Hong Kong	47
Middle East	1
North America	3

BRICS Exchanges Alliance

To promote the cross-listing of benchmark equity index futures and/or options on trading platforms of the BRICS exchanges, the member exchanges have been sharing information on market maker recruitment, incentive schemes and investor education resources with a view to enhancing liquidity and investor demand at each exchange. A website will be built for easy access to market and education information on the 5 exchanges for investors. The exchanges have also agreed to organise joint education events for market participants and investors. Other initiatives include encouraging ETF providers to consider listing ETFs on the benchmark equity indices at the member exchanges, which is expected to help increase demand for the cross-listed futures contracts for hedging.

In regard to the second phase of the alliance, the member exchanges have commenced preparatory works for the development of an index representing the BRICS economies, from which new equity index-related products will be developed. The major tasks include developing the index methodology and operational model.

Research and Corporate Development

HKEx published the Cash Market Transaction Survey 2010/11 in March 2012. The survey findings revealed that overseas investors contributed 46 per cent to the total securities market turnover value in 2010/11, surpassing the contribution from local investors for the second consecutive year. In addition, HKEx published the findings of the Retail Investor Survey 2011 in April 2012 which showed that about 2.15 million Hong Kong adults were stock investors, which is a new high, and the usage of online stock trading continued to grow and banks remained the major stock trading channel. The published survey reports are available on the HKEx website. HKEx will continue to keep track of the trends and characteristics of investors' participation in and perceptions of its markets for product and service improvement and ensuring their competitiveness.

Other Promotional Activities

HKEx, as a recognised exchange controller, acts in the interest of the public, focuses on building value for its Shareholders, and works to ensure sustainable financial markets in Hong Kong. We, including our Directors, from time to time participate in events organised by different international and local organisations to help promote the financial industry and introduce the regulatory requirements in Hong Kong. Some events held during the first half of 2012 are highlighted below.

Date & Place	Event & Organiser(s)	Details of Event
March, Shanghai	Forum of Corporate Governance for Listed Companies by The Chamber of Hong Kong Listed Companies	Mr Ronald Arculli in his capacity as HKEx's Chairman and HKEx's Chief Executive delivered a speech respectively on the importance of corporate governance to the Mainland and Hong Kong's markets.
March, Hong Kong	(i) Chairmen's Breakfast by The Women's Foundation in partnership with Standard Chartered Bank; and (ii) Women on Boards Executive Forum by The Women's Foundation in partnership with Community Business – both events were part of Women On Boards Week	In the former event, Mr Ronald Arculli in his capacity as HKEx's Chairman participated in the meeting that discussed the under-representation of women on the boards of HSI constituents and what leading companies are doing to address the issue. In the latter, HKEx's Chief Executive delivered a welcome speech to support the importance of gender diversity on boards.
April, Hong Kong	Captains of Industry Luncheon by The British Chamber of Commerce in Hong Kong	HKEx's Chief Executive delivered a speech introducing HKEx's strategic visions and latest developments in the context of the current environment of the Hong Kong financial markets.
April, Hong Kong	Panel Discussion – “The Expanding Silk Road: Russia and East Asia in the 21 st Century” by the St. Petersburg International Economic Forum Foundation	Mr Ronald Arculli in his capacity as a Director gave opening remarks and participated in the panel discussion on the potential for Russia to expand trade and investment in Asia.
May, Taipei	Seminar on Financial Market Cooperation by the Hong Kong-Taiwan Business Co-operation Committee	HKEx's Chief Marketing Officer delivered a speech on opportunities for Taiwanese companies in the Hong Kong capital market.
May, Hong Kong	China Conference 2012 by the American Chamber of Commerce in Hong Kong	HKEx's Chief Executive gave an opening keynote on China economic development trend and Hong Kong's role and opportunities in the opening up of China.
June, Hong Kong	Exchange Technology Forum 2012 organised by HKEx	HKEx's Chairman gave opening remarks on HKEx's new technology initiatives.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$45.5 billion on average for the six months ended 30 June 2012 (first half of 2011: \$45.1 billion).

As compared with 31 March 2012, the overall size of funds available for investment as at 30 June 2012 decreased by 7 per cent or \$3.1 billion to \$41.5 billion (31 March 2012: \$44.6 billion). Details of the asset allocation of the investments as at 30 June 2012 against those as at 31 March 2012 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits		Global Equities	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
Corporate Funds	9.7	10.9	49%	48%	46%	48%	5%	4%
Cash collateral	3.6	4.3	0%	0%	100%	100%	0%	0%
Margin Funds	26.7	27.4	17%	21%	83%	79%	0%	0%
Clearing House Funds	1.5	2.0	11%	14%	89%	86%	0%	0%
Total	41.5	44.6	23%	25%	76%	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 cash collateral, Margin Funds and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 30 June 2012 and 31 March 2012), which have no maturity date, the maturity profiles of the remaining investments as at 30 June 2012 (\$41.1 billion) and 31 March 2012 (\$44.2 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	
	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar	Jun	Mar
	Corporate Funds	9.3	10.5	21%	18%	12%	20%	33%	32%	17%	14%	17%
Cash collateral	3.6	4.3	73%	72%	9%	7%	18%	21%	0%	0%	0%	0%
Margin Funds	26.7	27.4	14%	17%	19%	26%	61%	51%	3%	3%	3%	3%
Clearing House Funds	1.5	2.0	48%	60%	15%	10%	37%	30%	0%	0%	0%	0%
Total	41.1	44.2	22%	25%	16%	22%	50%	42%	6%	5%	6%	6%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 30 June 2012, had a weighted average credit rating of Aa3 (31 March 2012: Aa3) and a weighted average maturity of 2.1 years (31 March 2012: 1.9 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

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

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar	Apr-Jun	Jan-Mar
	Corporate Funds	21.7	24.3	24.1	27.2	18.5
Cash collateral	0.1	0.1	0.1	0.2	0.1	0.1
Margin Funds	1.3	2.2	1.6	3.3	1.0	1.5
Clearing House Funds	0.1	0.2	0.1	0.2	0.1	0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 6 to the condensed consolidated financial statements of this Interim Report.

FINANCIAL REVIEW

Overall Performance

	Note	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	2,381	2,686	(11%)
Stock Exchange listing fees	(B)	462	467	(1%)
Market data fees	(C)	286	332	(14%)
Other revenue	(D)	244	246	(1%)
Net investment income	(E)	392	241	63%
Other income		5	–	N/A
		3,770	3,972	(5%)
Operating expenses		1,032	916	13%
		2,738	3,056	(10%)
Operating profit		110	–	N/A
Costs relating to proposed acquisition of LME Group				
		2,628	3,056	(14%)
Profit before taxation		(412)	(472)	(13%)
Taxation				
		2,216	2,584	(14%)
Profit attributable to shareholders				

Profit attributable to shareholders decreased to \$2,216 million in the first six months of 2012 against \$2,584 million for the same period in 2011. The drop was mainly due to lower turnover-related income and higher operating expenses, but partly offset by an increase in net investment income.

Economic uncertainty around the world and the sovereign debt problems in Europe caused market sentiment to remain weak in the first half of 2012. Although the average daily turnover on the Cash Market dropped by 23 per cent, income affected by market turnover only fell 11 per cent due to higher depository, custody and nominee services fee income in the first six months of 2012 compared with the corresponding period in 2011. Net investment income rose 63 per cent, mainly due to higher net fair value gains on investments and a rise in interest income due to increases in bank deposit rates.

Operating expenses increased over the same period in 2011 mainly due to higher staff costs and premises expenses.

The Group incurred \$110 million of expenses, mainly on professional fees, for the proposed acquisition of the LME Group.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Trading fees and trading tariff	1,239	1,465	(15%)
Clearing and settlement fees	723	827	(13%)
Depository, custody and nominee services fees	419	394	6%
Total	2,381	2,686	(11%)

The decrease in trading fees and trading tariff was mainly attributable to lower turnover on the Cash and Derivatives Markets in the first six months of 2012 against the same period in 2011.

Clearing and settlement fees are derived predominantly from Cash Market transactions and are affected by the volume of SIs. Despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction. Therefore, they may not always move exactly with changes in the turnover of the Cash Market. In the first six months of 2012, the percentage decrease in clearing and settlement fees was lower than that of the turnover of the Cash Market compared with the corresponding period in 2011 as a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee and the volume of SIs dropped by a smaller percentage.

Depository, custody and nominee service fees, comprised largely of scrip fees, corporate action fees, dividend collection fees, and stock custody and withdrawal fees, rose mainly due to an increase in scrip fees.

Key Market Indicators

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Change
Average daily turnover value on the Stock Exchange (\$bn)	56.7	73.6	(23%)
Average daily number of derivatives contracts traded on the Futures Exchange	265,609	250,353	6%
Average daily number of stock options contracts traded on the Stock Exchange	231,856	288,455	(20%)

(B) Stock Exchange Listing Fees

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Annual listing fees	232	216	7%
Initial and subsequent issue listing fees	228	248	(8%)
Others	2	3	(33%)
Total	462	467	(1%)

Despite weak market sentiment, Stock Exchange listing fees only fell marginally compared with the first half of 2011.

Due to a slowdown in IPOs and fewer newly listed DWs, initial and subsequent issue listing fees dropped by \$20 million, but the decline was largely offset by an increase in annual listing fees attributable to a rise in the number of listed companies.

Key Drivers for Annual Listing Fees

	At 30 Jun 2012	At 30 Jun 2011	Change
Number of companies listed on Main Board	1,342	1,284	5%
Number of companies listed on GEM	177	164	8%
Total	1,519	1,448	5%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Change
Number of newly listed DWs	2,953	3,662	(19%)
Number of newly listed CBBCs	2,949	2,380	24%
Number of newly listed companies on Main Board	25	42	(40%)
Number of newly listed companies on GEM	7	5	40%
Total equity funds raised on Main Board			
– IPOs (\$bn)	30.0	174.1	(83%)
– Post-IPO (\$bn)	96.5	125.5	(23%)
Total equity funds raised on GEM			
– IPOs (\$bn)	0.8	0.6	33%
– Post-IPO (\$bn)	1.0	4.1	(76%)

(C) Market Data Fees

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Market data fees	286	332	(14%)

Market data fees dropped as there was a decline in certain fees charged on a per quote basis from the same period in 2011, which was in line with the lower turnover on the Cash Market.

(D) Other Revenue

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Network, terminal user, dataline and software sub-license fees	198	194	2%
Participants' subscription and application fees	18	17	6%
Trading booth user fees	6	8	(25%)
Sales of Trading Rights	9	13	(31%)
Miscellaneous revenue	13	14	(7%)
Total	244	246	(1%)

Network, terminal user, dataline and software sub-license fees rose mainly due to increases in Cash Market trading system line rental income and Derivatives Market trading system sub-license fees which were partly offset by decreases in sales of throttle, hardware and software.

(E) Net Investment Income

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Gross investment income	393	242	62%
Interest rebates to Participants	(1)	(1)	0%
Net investment income	392	241	63%

The higher net investment income was primarily attributable to a rise in net fair value gains on investments and higher deposit rates.

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

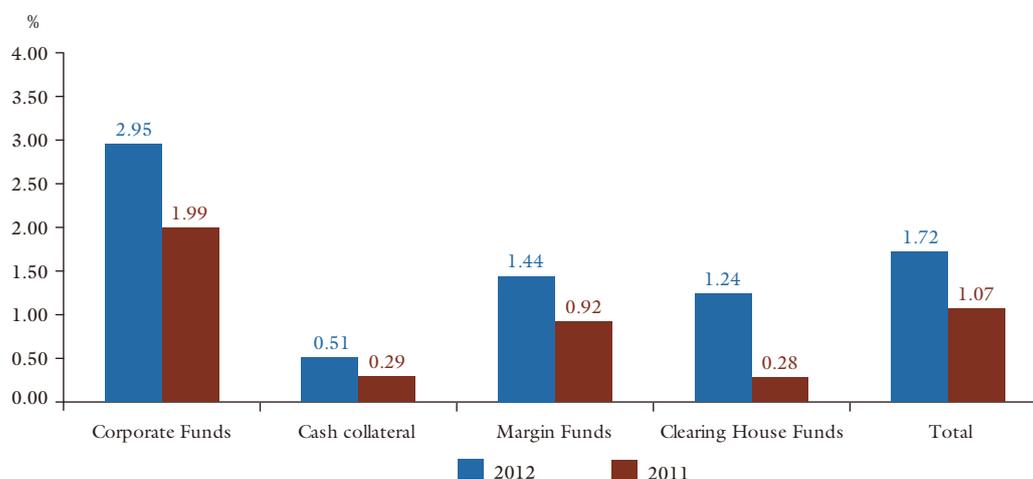
	Six months ended 30 Jun 2012 \$bn	Six months ended 30 Jun 2011 \$bn	Change
Corporate Funds	10.8	10.7	1%
Cash collateral	3.4	4.4	(23%)
Margin Funds	29.6	26.9	10%
Clearing House Funds	1.7	3.1	(45%)
Total	45.5	45.1	1%

The rise in the average amount of Margin Funds during the period was mainly caused by increases in open positions, which were partly offset by the lower margin rates required per contract.

The decline in the average amount of Clearing House Funds was mainly due to a drop in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants during the first six months is set out below.

Annualised Net Return on Funds Available for Investment



The higher net returns of the Corporate Funds, Margin Funds and Clearing House Funds were mainly attributable to an increase in net fair value gains on investments (including certain principal-guaranteed structured notes) and higher bank deposit rates during the period in 2012.

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

The increase in net return on cash collateral was mainly attributable to increases in bank deposit rates and a larger portion of funds invested in longer-term time deposits for yield enhancement.

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

Operating Expenses

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Staff costs and related expenses	593	518	14%
IT and computer maintenance expenses	158	149	6%
Premises expenses	120	106	13%
Product marketing and promotion expenses	13	9	44%
Legal and professional fees	23	17	35%
Depreciation	56	50	12%
Other operating expenses	69	67	3%
Total	1,032	916	13%

Staff costs and related expenses increased by \$75 million mainly as a result of an increase in permanent staff (from 894 at 30 June 2011 to 1,013 at 30 June 2012) primarily for 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.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$81 million (2011: \$74 million), were \$77 million (2011: \$75 million). The increase in the costs directly consumed by the Participants was mainly due to higher Cash Market trading system line rental fees following a bandwidth upgrade.

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

Legal and professional fees rose mainly due to various initiatives under the Strategic Plan 2010-2012.

Depreciation increased mainly due to the effect of the capacity and technology upgrade of the Cash Market trading system (AMS/3.8) and the Market Data system (MDS/3.8) rolled out in December 2011, which was partly offset by lower depreciation as certain fixed assets had become fully depreciated.

Taxation

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Change
Taxation	412	472	(13%)

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

Comparison of 2012 Second Quarter Performance with 2012 First Quarter Performance

	Three months ended 30 Jun 2012 \$m	Three months ended 31 Mar 2012 \$m	Change
Revenue and other income:			
Income affected by market turnover:			
Trading fees and trading tariff	580	659	(12%)
Clearing and settlement fees	334	389	(14%)
Depository, custody and nominee services fees	338	81	317%
	1,252	1,129	11%
Stock Exchange listing fees	218	244	(11%)
Market data fees	139	147	(5%)
Other revenue	117	127	(8%)
Net investment income	165	227	(27%)
Other income	4	1	300%
	1,895	1,875	1%
Operating expenses	519	513	1%
Operating profit	1,376	1,362	1%
Costs relating to proposed acquisition of LME Group	91	19	379%
Profit before taxation	1,285	1,343	(4%)
Taxation	(217)	(195)	11%
Profit attributable to shareholders	1,068	1,148	(7%)

Profit attributable to shareholders fell from \$1,148 million in the first quarter of 2012 to \$1,068 million in the second quarter. The decrease was mainly driven by a decline in trading and clearing fees, a drop in net investment income and an increase in costs relating to the proposed acquisition of the LME Group, which were partly offset by an increase in depository, custody and nominee services fees.

Trading and clearing fees fell in the second quarter mainly due to lower turnover on the Cash Market. Depository, custody and nominee services fees rose significantly as a result of an increase in scrip fee income due to seasonal fluctuations.

Net investment income dropped in the second quarter mainly due to lower net fair value gains on investments.

Key Market Indicators

	Three months ended 30 Jun 2012	Three months ended 31 Mar 2012	Change
Average daily turnover value on the Stock Exchange (\$bn)	50.2	63.2	(21%)
Average daily number of derivatives contracts traded on the Futures Exchange	276,109	255,110	8%
Average daily number of stock options contracts traded on the Stock Exchange	225,266	238,445	(6%)

Working Capital

Working capital fell by \$151 million or 2 per cent to \$7,488 million as of 30 June 2012 (31 December 2011: \$7,639 million). The decline was primarily due to the 2011 final dividend, net of scrip dividend, of \$2,150 million in May 2012 and an increase in fixed assets of \$500 million. The decrease was partly offset by the profit of \$2,216 million generated during the six months ended 30 June 2012, a drop in non-current financial assets of \$205 million and an increase in other working capital of \$78 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At 30 June 2012, the Group's total available banking facilities for its daily operations amounted to \$13,010 million (31 December 2011: \$13,010 million), which included \$4,000 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 obtained banking facilities of more than \$20 billion in relation to the proposed acquisition of the LME Group.

Borrowings by the Group have been rare and are mostly event driven, with little seasonality. At 30 June 2012 and 31 December 2011, the Group had zero gearing.

At 30 June 2012, 99 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.

Capital Expenditures and Commitments

During the first six months of 2012, the Group incurred capital expenditures of \$572 million (2011: \$233 million) mainly on the new Data Centre at Tseung Kwan O with Hosting Services capability.

The Group's capital expenditure commitments at 30 June 2012, including those authorised by the Board but not yet contracted for, amounted to \$1,384 million (31 December 2011: \$1,605 million) and were mainly related to the construction of the new Data Centre, the development of a new market data system, a clearing system for OTC derivatives and the Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market trading and clearing systems. The Group has adequate resources to fund its capital expenditure commitments.

In addition, 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. In accordance with the agreement, HKEx had a commitment to invest \$100 million in the joint venture.

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

Save for those disclosed in this Interim Report, there were no other significant investments held, material acquisitions, or disposals of subsidiaries during the period under review. Apart from those disclosed in this Interim Report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this Interim Report.

Charges on Assets

None of the Group's assets was pledged as of 30 June 2012 or 31 December 2011.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

At 30 June 2012, the aggregate net open foreign currency positions amounted to HK\$1,927 million, of which HK\$528 million was non-USD exposure (31 December 2011: HK\$2,116 million, of which HK\$427 million was non-USD exposure) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$2,654 million (31 December 2011: HK\$5,180 million). All forward foreign exchange contracts will mature within 3 months (31 December 2011: 3 months).

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies. Unhedged investments in USD should not exceed 20 per cent of the Margin Funds.

Contingent Liabilities

Details of contingent liabilities are included in note 28 to the condensed consolidated financial statements of this Interim Report.

Changes since 31 December 2011

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2011.

OPERATIONAL REVIEW

Organisational Changes

A number of personnel changes took place in the first half of 2012, including the appointment of (i) Ms Xu Chun Meng as the Acting Chief Representative of the Beijing Representative Office upon resignation of Mr Ren Guang Ming; (ii) Mr Steve Ong as Head of Accounting Affairs of the Listing Division upon the retirement of Mr Colin Chau; (iii) Mr James Fok as the Chief of Staff responsible for internal and external liaisons as well as the planning and organisation of work within the Chief Executive's Office; (iv) Mr Stephen Marzo to succeed Mr Samuel Wong as the Chief Financial Officer to assume full responsibility for the financial and treasury functions and investor relations; and (v) Mr Henry Ingrouille to succeed Mr Joseph Meyer as the Chief Administrative Officer to oversee the Human Resources Department, the Administration Department and the firm-wide project management of business initiatives and projects.

HKEx thanked Messrs Colin Chau, Joseph Meyer, Ren Guang Ming, and Samuel Wong for their invaluable contributions to HKEx.

The updated organisational chart is available on the HKEx website.

Employees

As at the end of June 2012, the Group had 1,083 employees, including 70 temporary staff (31 December 2011: 997 employees, including 57 temporary staff). HKEx's remuneration policy has remained unchanged since the 2011 Annual Report. Information regarding employees' remuneration and benefits for the six months ended 30 June 2012 is set out in note 7 to the condensed consolidated financial statements of this Interim Report.

Long-term Incentive Schemes

HKEx currently operates a Share Award Scheme for the purpose of recognising the contributions of certain employees and retaining them for the Group's operations and further development. Prior to the adoption of the Share Award Scheme, HKEx had implemented 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which expired on 30 May 2010.

Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme. The unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the respective exercise periods.

Movements in the outstanding share options granted under the Post-Listing Scheme during the six months ended 30 June 2012 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2012	Issued upon ¹ subscription during the six months ended 30 Jun 2012	Cancelled/ lapsed during the six months ended 30 Jun 2012	As at 30 Jun 2012	
Employees						
31 Mar 2004	16.96	382,000	4,000	–	378,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	577,600	30,000	–	547,600	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$111.43.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2nd anniversary and became fully vested on the 5th anniversary of the grant.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The rules and trust deed of the scheme are available on the HKEx website. Since the Adoption Date, a total of 3,720,060 shares had been awarded up to the date of this Interim Report, representing 0.35 per cent of HKEx's issued share capital as at the Adoption Date.

Details of the awards (save for those which had been fully vested or lapsed as of 31 December 2011), including the number of shares which were awarded and vested according to the terms of the Share Award Scheme during the six months ended 30 June 2012, are set out below.

Date of approval by Board	Date of ¹ award	Awarded sum \$'000	Number of shares purchased	Number of Awarded Shares	Average ² fair value per share \$	Number of Awarded Shares vested during the six months ended 30 Jun 2012	Vesting period ³
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	1,375	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	488	12 Dec 2009 – 12 Dec 2012
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	14,975	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 ⁴	123.29	304,516 ⁵	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	3,450	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039 ⁴	176.75	4,442	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	–	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	–	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	–	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	–	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	–	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	–	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	–	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	–	3 Oct 2013 – 3 Oct 2014
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	–	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 ^{4,6}	124.75	11,524	14 Dec 2013 – 14 Dec 2014
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	–	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	–	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	–	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	–	2 May 2014 – 2 May 2015

Notes:

- 1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 2 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
 - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board, and
 - (b) for shares purchased from the market: average cost per share.
- 3 Effective 13 May 2010, the vesting period of the Awarded Shares has been changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2nd and 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to 5th year, the arrangement prior to the change.
- 4 The relevant awards included an aggregate of 184,568 shares awarded to HKEx's Chief Executive.
- 5 It included 36,608 Awarded Shares vested and transferred to HKEx's Chief Executive according to the terms of the Share Award Scheme.
- 6 The Share Award Scheme's trustee applied 344,706 shares held under the scheme, which were unallocated or forfeited pursuant to the Share Award Scheme, to partly satisfy the relevant award.

As at 30 June 2012, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 1,933,950 shares held in trust under the Share Award Scheme.

Corporate Governance

Throughout the six months ended 30 June 2012, HKEx complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Main Board Listing Rules) and the CG Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012), with the exception of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

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

On 30 March 2012, HKEx was included in the Best Investor Relations (Hong Kong Company) category and HKEx's Chief Executive, Mr Charles Li, was chosen as one of Asia's Best CEOs (Investor Relations) in *Corporate Governance Asia's* Asian Excellence Recognition Awards for the second consecutive year.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. During the first half of 2012, they received a total of over 140 hours of training, including internally-facilitated sessions as well as external seminars/programmes on topics relevant to their duties as Directors.

As of 1 August 2012, the Global and Home Market ESG Ratings assigned to HKEx by the GMI Ratings, an independent provider of global corporate governance and ESG ratings and research, were both A (superior).

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

Corporate Social Responsibility

During the period under review, HKEx continued to address sustainability in the marketplace, workplace quality, community development and environmental protection.

Details of the latest marketplace initiatives, including the development of the Environmental, Social and Governance Reporting Guide, are set out in the Business Review of this Interim Report.

To support employees' continuous learning and development, HKEx provided relevant training on a range of topics including HKEx's products and services, market development in the Mainland, ethical and responsible conduct, health and safety in the workplace, technical and language skills, leadership and interpersonal effectiveness, and career development. In the first half of 2012, 60 in-house courses were organised, which collectively attracted more than 3,000 participants. Moreover, a total of 178 employees attended external seminars, while 56 employees participated in HKEx's e-learning scheme.

In the first half of 2012, HKEx continued to participate in various external charitable events and organise its own employee volunteering activities to improve the quality of life for the elderly, the underprivileged, the disabled and the ethnic minorities in Hong Kong, and address climate change issues. Collectively, about 860 participants, including HKEx's Chief Executive and employees' family members, took part and helped raise donations of over \$1.3 million for the above community causes. In particular, nearly 50 HKEx volunteers, including senior executives, contributed about 130 hours of community service during the Give & Gain Day campaign which benefited 1,200 short-term food assistance service users of St. James' Settlement People's Food Bank and 300 beneficiaries, including low-income families, the elderly and disadvantaged youth, of the Maxim's Bread Program conducted by Foodlink Foundation Limited. The Exchange's Listing Committee had also raised more than \$900,000 by organising a "Pedal Power" event for sponsoring local secondary school students to participate in Outward Bound leadership courses.

At HKEx's new Data Centre, a number of features are being adopted to meet best practice standards for environmental protection. These include the installation of LED lighting in the office areas, high-efficiency E&M equipment and automatic lighting control schedule to reduce energy consumption and prevent unnecessary energy wastage, and high-efficiency water fittings to reduce potable water use. The new Data Centre achieved precertification under the US Green Building Council's Leadership in Energy and Environmental Design (LEED) at the gold level in August 2011, and will come into operation in the fourth quarter of 2012.

In recognition of HKEx's commitment to best sustainability practices and continuous improvement, the Company was awarded the "5 Years Plus Caring Company Logo" for 2011/12 by The Hong Kong Council of Social Service for the second consecutive year, and continues to be included in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index Series. To uphold accountability and transparency, HKEx published its 2011 CSR Report, which achieved a Global Reporting Initiative application level A+, on the HKEx website in March 2012, and responded to the Carbon Disclosure Project annual investor information request in May 2012.

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

DISCLOSURE OF INTERESTS

Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2012.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares of HKEx

As at 30 June 2012, the interests and short positions of Directors and HKEx's Chief Executive in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code are set out below.

Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of issued ¹ share capital
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 ²	–	–	–	15,000	0.00
Charles X Li	192,029 ³	–	–	–	192,029	0.01
John E Strickland	18,000 ⁴	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,080,801,575 HKEx shares in issue as at 30 June 2012
- 2 Mr Chow was the beneficial owner of those shares.
- 3 It included Mr Li's interest in 147,960 Awarded Shares and 5,253 shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Operational Review of this Interim Report.
- 4 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 30 June 2012, none of the Directors or HKEx's Chief Executive had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Award Scheme, at no time during the period under review, was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate. Save for the disclosed, none of the Directors or HKEx's Chief Executive (including their spouses and children under the age of 18), during the six months ended 30 June 2012, held any interests in or was granted any right to subscribe for the securities of HKEx and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEx

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller (ie, a person who either alone or with any associated person or persons is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller) except with the SFC's approval in writing after consultation with the Financial Secretary.

Since 7 September 2007, the Government has become a Minority Controller. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance the provisions of Section 61 of the SFO, requiring a person becoming a Minority Controller to obtain the SFC's approval, do not affect the right of and are not binding on the Government.

As at the date of this Interim Report, the SFC has granted approval to 8 entities to be Minority Controllers on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 30 June 2012, the 8 approved Minority Controllers in aggregate held approximately 55 per cent of HKEx's issued share capital.

As at 30 June 2012, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange are set out below.

Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	36,757,529	71,047,000 ²	6.57
	Investment manager	1,921,635		
	Person having a security interest in shares	31,321,865		
	Custodian corporation/ approved lending agent	1,045,971		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	62,919,500 ³	62,919,500	5.82

Short positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of issued ¹ share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	35,755,547	65,261,888 ⁴	6.03
	Person having a security interest in shares	29,506,341		

Notes:

- 1 Based on 1,080,801,575 HKEx shares in issue as at 30 June 2012
- 2 It included an aggregate interest in 34,452,154 underlying shares through its holding of certain physically settled listed equity derivatives (141,975 underlying shares) and cash settled unlisted equity derivatives (34,310,179 underlying shares). It also included 1,045,971 shares in the lending pool.
- 3 Based on a disclosure of interest filing made by the Government on 10 September 2007 which it stated was voluntary
- 4 It included an aggregate interest in 35,362,285 underlying shares through its holding of certain physically settled listed equity derivatives (324,506 underlying shares) and cash settled unlisted equity derivatives (35,037,779 underlying shares).

Save for those disclosed above, as at 30 June 2012, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the six months ended 30 June 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 21,700 HKEx shares at a total consideration of about \$2.5 million.

INFORMATION FOR STAKEHOLDERS

Interim Report

This Interim Report is printed in English and Chinese and is available in the Investor Relations section of the HKEx website. Shareholders can elect to receive a printed or electronic version. Should Shareholders elect the electronic version, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. Shareholders are encouraged to access HKEx's corporate communications electronically via the HKEx website, which helps conserve the environment. Shareholders may at any time change their choice of language or means of receiving HKEx's corporate communications free of charge by giving not less than 7 days' notice in writing to HKEx's registrar, Hong Kong Registrars Limited (by post to 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at hkex.ecom@computershare.com.hk).

Stakeholders who are interested in receiving information about HKEx may register at the Investment Service Centre on the HKEx website. Upon successful registration, they will receive alerts when HKEx publishes its corporate communications on the HKExnews website.

Interim Dividend

The Board has declared an interim dividend of \$1.85 per share (2011: \$2.16 per share), amounting to a total of about \$2,000 million (2011: \$2,331 million) for the year ending 31 December 2012 which includes dividends of about \$4 million (2011: \$4 million) for shares held in trust under the Share Award Scheme.

Scrip Dividend Alternative

The interim dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Friday, 24 August 2012. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares in HKEx to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative together with an election form will be despatched to Shareholders on or about Thursday, 30 August 2012. Definitive share certificates in respect of the scrip dividend and dividend warrants will be despatched to Shareholders on or about Friday, 21 September 2012.

Closure of ROM

The ROM will be closed and no transfer of shares will be registered from Thursday, 23 August 2012 to Friday, 24 August 2012, both dates inclusive, for the purpose of determining Shareholders' entitlement to the interim dividend.

To qualify for the interim 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 4:30 pm on Wednesday, 22 August 2012.

Financial Calendar

2012 AGM	23 April 2012
Announcement of 1 st quarter results	7 May 2012
Announcement of interim results	8 August 2012
Ex-dividend date for interim dividend	21 August 2012
Closure of ROM	23 to 24 August 2012
Record date for interim dividend	24 August 2012
Despatch of scrip dividend circular and election form	on or about 30 August 2012
Despatch of dividend warrants/definitive share certificates	on or about 21 September 2012
Announcement of 3 rd quarter results (tentative)	November 2012
Announcement of final results (tentative)	February 2013

Share Information

Share Listing

First listed on the Stock Exchange	27 June 2000
As a FTSE4Good Index Series constituent company	Since September 2005
As a HSI constituent stock	Since 11 September 2006
As a Hang Seng Corporate Sustainability Index Series constituent company	Since 26 July 2010
As a Dow Jones Sustainability Asia Pacific Index component stock	Since 20 September 2010

Board Lot

100 shares

Market Capitalisation as at 30 June 2012

Public float capitalisation	\$118.9 billion
Number of issued shares	1,080,801,575 shares
Closing price at 29 June 2012 (the last trading date in June 2012)	\$110 per share

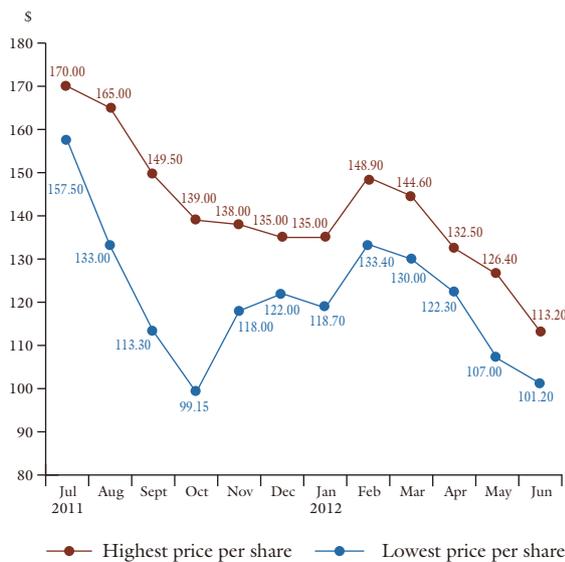
Stock Codes

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0NJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478

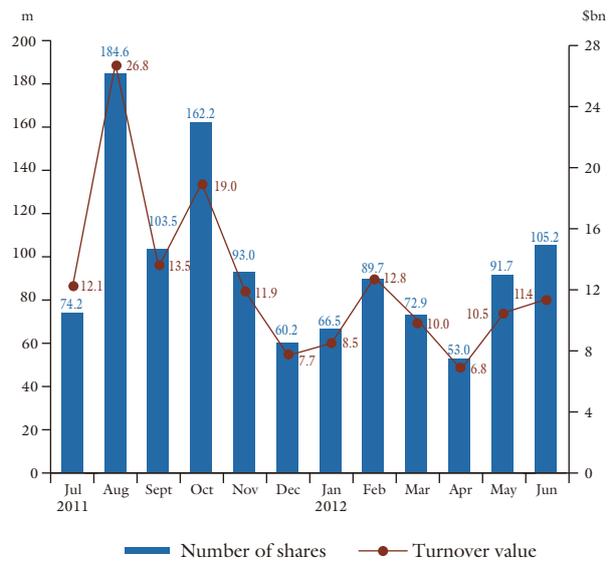
American Depositary Receipt

Ticker Symbol	HKXCY
CUSIP	43858F109

Price of HKEx shares (07/2011 – 06/2012)



Turnover of HKEx shares (07/2011 – 06/2012)



Note: Figures have been rounded.

HKEx's Registrar and Transfer Office

Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel. No.: +852 2862 8555
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AUDIT COMMITTEE REPORT

The Audit Committee (AC) comprises 5 Independent Non-executive Directors appointed by the Board, who have extensive experience in financial matters. Among them, Messrs John Harrison, Vincent Lee and Ignatius Chan are certified public accountants, and Mr John Williamson is a chartered accountant. None of the members is employed by or otherwise affiliated with the former or existing auditors of HKEx.

The AC is delegated by the Board with the responsibility to provide an independent review and supervision of financial reporting and to ensure the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. To perform its duties, the AC is provided with sufficient resources and is supported by the Internal Audit Department (IAD) to examine all matters relating to the Group's adopted accounting principles and practices and to review all material financial, operational and compliance controls. The external auditor, HKEx's Chief Executive and senior executives are invited to attend the AC meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC's terms of reference are available on the HKEx website.

At its meeting held on 22 February 2012, the AC reviewed the 2011 internal audit activities summary, assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings, and approved the updated internal audit plan for 2012. At its meeting held on 24 April 2012, the AC reviewed and approved the external auditor's proposed audit fees for the financial year 2012.

On 2 August 2012, the AC reviewed HKEx's 2012 Interim Report, including the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012, in conjunction with HKEx's external and internal auditors. It also reviewed the independent review report of the external auditor as set out on page 48 of this Interim Report.

Based on these reviews and discussions with the management, the AC was satisfied that the condensed consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2012. The AC therefore recommended the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 be approved by the Board.

Members of the Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Hong Kong, 2 August 2012

AUDITOR'S INDEPENDENT REVIEW REPORT

Report on Review of Interim Financial Information to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 49 to 74, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the “Company”) and its subsidiaries as at 30 June 2012 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Trading fees and trading tariff	3	1,239	1,465	580	700
Stock Exchange listing fees	4	462	467	218	221
Clearing and settlement fees		723	827	334	409
Depository, custody and nominee services fees		419	394	338	322
Market data fees		286	332	139	164
Other revenue	5	244	246	117	119
REVENUE AND TURNOVER		3,373	3,731	1,726	1,935
Investment income		393	242	165	130
Interest rebates to Participants		(1)	(1)	-	-
Net investment income	6	392	241	165	130
Other income		5	-	4	-
	2	3,770	3,972	1,895	2,065
OPERATING EXPENSES					
Staff costs and related expenses	7	593	518	299	274
Information technology and computer maintenance expenses	8	158	149	78	77
Premises expenses		120	106	63	54
Product marketing and promotion expenses		13	9	7	5
Legal and professional fees		23	17	13	7
Depreciation		56	50	27	24
Other operating expenses		69	67	32	33
	2	1,032	916	519	474
OPERATING PROFIT	2	2,738	3,056	1,376	1,591
Costs relating to proposed acquisition of LME Group	2, 9	110	-	91	-
PROFIT BEFORE TAXATION	2	2,628	3,056	1,285	1,591
TAXATION	10	(412)	(472)	(217)	(245)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		2,216	2,584	1,068	1,346
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		2,216	2,584	1,068	1,346
Basic earnings per share	12(a)	\$2.06	\$2.40	\$0.99	\$1.25
Diluted earnings per share	12(b)	\$2.05	\$2.39	\$0.99	\$1.25

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Jun 2012			At 31 Dec 2011		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS							
Cash and cash equivalents	13	21,974	–	21,974	18,221	–	18,221
Financial assets measured at fair value through profit or loss	14	9,065	182	9,247	11,169	180	11,349
Financial assets measured at amortised cost	15	10,115	196	10,311	15,848	403	16,251
Accounts receivable, prepayments and deposits	16	4,968	23	4,991	7,210	23	7,233
Fixed assets		–	1,448	1,448	–	948	948
Lease premium for land		–	24	24	–	25	25
Deferred tax assets		–	1	1	–	1	1
Total assets		46,122	1,874	47,996	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	18	26,671	–	26,671	31,359	–	31,359
Cash collateral from HKSCC Clearing Participants	19	3,550	–	3,550	3,233	–	3,233
Accounts payable, accruals and other liabilities	20	6,651	–	6,651	8,456	–	8,456
Deferred revenue		311	–	311	524	–	524
Taxation payable		444	–	444	262	–	262
Other financial liabilities		78	–	78	60	–	60
Participants' contributions to Clearing House Funds	21	891	–	891	880	–	880
Provisions		38	47	85	35	27	62
Deferred tax liabilities		–	33	33	–	33	33
Total liabilities		38,634	80	38,714	44,809	60	44,869
Equity							
Share capital	22			1,081			1,080
Share premium	22			746			639
Shares held for Share Award Scheme	22			(259)			(296)
Employee share-based compensation reserve	23			120			106
Designated reserves	21, 24			583			577
Retained earnings	25			7,011			7,053
Shareholders' funds				9,282			9,159
Total liabilities and equity				47,996			54,028
Net current assets				7,488			7,639
Total assets less current liabilities				9,362			9,219

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 22) \$m	Employee share-based compensation reserve (note 23) \$m	Designated reserves (note 24) \$m	Retained earnings (note 25) \$m	Total equity \$m
At 1 Jan 2012	1,423	106	577	7,053	9,159
Profit attributable to shareholders	–	–	–	2,216	2,216
2011 final dividend at \$2.09 per share	–	–	–	(2,252)	(2,252)
Unclaimed HKEx dividends forfeited	–	–	–	3	3
Shares issued upon exercise of employee share options	1	–	–	–	1
Shares issued in lieu of cash dividends	102	–	–	–	102
Shares purchased for Share Award Scheme	(2)	–	–	–	(2)
Vesting of shares of Share Award Scheme	44	(41)	–	(3)	–
Employee share-based compensation benefits	–	55	–	–	55
Transfer of reserves	–	–	6	(6)	–
At 30 Jun 2012	1,568	120	583	7,011	9,282
	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	–	–	–	2,584	2,584
2010 final dividend at \$2.31 per share	–	–	–	(2,487)	(2,487)
Unclaimed HKEx dividends forfeited	–	–	–	3	3
Shares issued upon exercise of employee share options	5	–	–	–	5
Shares issued in lieu of cash dividends	103	–	–	–	103
Shares purchased for Share Award Scheme	(4)	–	–	–	(4)
Vesting of shares of Share Award Scheme	2	(2)	–	–	–
Employee share-based compensation benefits	–	41	–	–	41
Transfer of reserves	1	(1)	1	(1)	–
At 30 Jun 2011	1,382	94	581	6,865	8,922

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	26	2,503	3,500
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(627)	(114)
Net decrease/(increase) in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		673	649
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		–	(1,079)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		80	1,191
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		453	–
Interest received from financial assets measured at amortised cost (excluding time deposits)		10	8
Interest received from financial assets measured at fair value through profit or loss		44	85
Net cash inflow from investing activities		633	740
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		1	5
Purchases of shares for Share Award Scheme		(2)	(4)
Dividends paid		(2,137)	(2,366)
Net cash outflow from financing activities		(2,138)	(2,365)
Net increase in cash and cash equivalents		998	1,875
Cash and cash equivalents at 1 Jan		2,340	1,945
Cash and cash equivalents at 30 Jun		3,338	3,820
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks		3,338	3,820

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (HKAS) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2011 annual consolidated financial statements. Except as described below and the change in the presentation as described in notes 2 and 4, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements and segment information are consistent with those used in the annual consolidated financial statements and segment information for the year ended 31 December 2011.

Early adoption of new/revised Hong Kong Financial Reporting Standards (HKFRSs)

In 2012, Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (collectively the Group) have 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
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

The amendments to HKAS 1 (Revised) require companies to classify items within other comprehensive income under two 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) does not have any impact to the Group as it currently does not have any other comprehensive income items.

HKAS 19 (2011) eliminates the option of deferring the recognition of gains and losses arising from defined benefit plans, and enhances the disclosure requirements for defined benefit plans. The early adoption of HKAS 19 (2011) does not have any impact to the Group as it does not have a defined benefit plan.

Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under HKAS 27 (Revised) (for companies) or exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities). The adoption of HKFRS 10 does not have any financial impact to the Group as all entities within the Group are wholly-owned and satisfy the requirements for control under HKFRS 10.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new requirements for unconsolidated structured entities. The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

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 affects certain disclosures of the Group's financial statements.

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

1. Basis of Preparation and Accounting Policies (continued)

Change in useful lives of leasehold buildings and leasehold improvements

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

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

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

2. Operating Segments

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

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

The Group has four reportable segments (“Corporate Items” is not a reportable segment). The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

The **Cash Market** business mainly refers to the operations of The Stock Exchange of Hong Kong Limited (Stock Exchange), which covers all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the listing function are included in the Cash Market. Stock Exchange listing fees and costs of the listing function are further explained in note 4.

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited 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 income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

2. Operating Segments (continued)

The **Clearing Business** refers to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

The **Market Data** business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily market data fees of the Cash and Derivatives Markets.

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

	Six months ended 30 Jun 2012					
	Cash Market	Derivatives Market	Clearing Business	Market Data	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m
Income from external customers	1,474	393	1,218	288	–	3,373
Net investment income	–	213	19	–	160	392
Other income	–	–	5	–	–	5
	1,474	606	1,242	288	160	3,770
Operating expenses	362	96	188	44	342	1,032
Reportable segment operating results	1,112	510	1,054	244	(182)	2,738
Costs relating to proposed acquisition of LME Group	–	–	–	–	110	110
Reportable segment profit before taxation	1,112	510	1,054	244	(292)	2,628
	As restated					
	Six months ended 30 Jun 2011					
	Cash Market	Derivatives Market	Clearing Business	Market Data	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m
Income from external customers	1,695	403	1,300	333	–	3,731
Net investment income	–	124	11	–	106	241
	1,695	527	1,311	333	106	3,972
Operating expenses	335	88	182	36	275	916
Reportable segment profit before taxation	1,360	439	1,129	297	(169)	3,056

3. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	822	1,033	369	492
Derivatives contracts traded on the Derivatives Market	417	432	211	208
	1,239	1,465	580	700

4. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of listing function comprised the following:

	Six months ended 30 Jun 2012				As restated Six months ended 30 Jun 2011			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	218	12	2	232	203	12	1	216
Initial and subsequent issue listing fees	48	5	175	228	39	3	206	248
Other listing fees	2	-	-	2	3	-	-	3
Total	268	17	177	462	245	15	207	467
Direct costs of listing function	140	34	10	184	127	28	8	163
Contribution to Cash Market segment operating results	128	(17)	167	278	118	(13)	199	304

	Three months ended 30 Jun 2012				As restated Three months ended 30 Jun 2011			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	109	6	1	116	102	6	1	109
Initial and subsequent issue listing fees	18	2	81	101	24	1	85	110
Other listing fees	1	-	-	1	2	-	-	2
Total	128	8	82	218	128	7	86	221
Direct costs of listing function	68	17	5	90	65	15	4	84
Contribution to Cash Market segment operating results	60	(9)	77	128	63	(8)	82	137

4. Stock Exchange Listing Fees (continued)

Listing fee income is primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The costs listed above are regulatory in nature, which comprise costs of the listing function on vetting Initial Public Offerings and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies.

Previously, 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 as indirect costs of listing function. As a result of the change in the format of management information provided to the chief operating decision-maker (note 2), these costs are no longer included as costs of the listing function. Comparative figures have been restated to conform with current period's presentation.

5. Other Revenue

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Network, terminal user, dataline and software sub-license fees	198	194	95	93
Participants' subscription and application fees	18	17	9	8
Trading booth user fees	6	8	3	4
Sales of Trading Rights	9	13	4	6
Miscellaneous revenue	13	14	6	8
	244	246	117	119

6. Net Investment Income

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Gross interest income	182	103	92	62
Interest rebates to Participants	(1)	(1)	-	-
Net interest income	181	102	92	62
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	203	133	67	64
Others	8	6	6	4
Net investment income	392	241	165	130

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Salaries and other short-term employee benefits	496	443	251	236
Employee share-based compensation benefits	55	41	26	21
Termination benefits	2	–	2	–
Retirement benefit costs (note 29(b))	40	34	20	17
	593	518	299	274

8. Information Technology and Computer Maintenance Expenses

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Costs of services and goods:				
– consumed by the Group	77	75	37	40
– directly consumed by Participants	81	74	41	37
	158	149	78	77

9. Costs Relating to Proposed Acquisition of LME Group

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Legal and professional fees	108	–	90	–
Others	2	–	1	–
	110	–	91	–

The costs above are solely incurred for the proposed acquisition of LME Holdings Limited (LMEH) and its subsidiary, The London Metal Exchange Limited (LME), collectively referred to as the LME Group. LME is a leading exchange for the trading of base metals forward and options contracts. Both LMEH and LME are companies incorporated in England and Wales.

9. Costs Relating to Proposed Acquisition of LME Group (continued)

On 15 June 2012, HKEx, HKEx Investment (UK) Limited (HKEx Investment) and LMEH entered into an agreement under which HKEx Investment made an offer to acquire the entire issued ordinary share capital of LMEH for cash by way of a scheme of arrangement and a capital reduction under the United Kingdom Companies Act. The offer price is £1.388 billion (\$16.89 billion) based on 12,900,000 LMEH shares at £107.60 (\$1,309.09) per share. The consideration was determined on an arm's length basis. The Group has obtained banking facilities of more than \$20 billion in relation to the proposed acquisition.

Under the agreement, the acquisition is conditional upon the satisfaction of certain conditions (including the approval of LMEH shareholders, the approval of The Financial Services Authority of the United Kingdom (FSA) and sanction by the High Court of Justice of England and Wales). Completion of the proposed acquisition is expected to be during the fourth quarter of 2012 (note 32).

HKEx Investment has agreed to pay LMEH a break fee of (i) £25 million (\$304 million) if the agreement is terminated in the event that FSA does not grant approval for the change of control or (ii) £30 million (\$365 million) if HKEx is in material breach of its warranty or the agreement and such breach is not capable of remedy within 10 business days. LMEH has agreed to pay HKEx Investment a break fee of £25 million (\$304 million) if the agreement is terminated in certain circumstances and an offer or proposal by a third party competitor to acquire more than 50% of LMEH, LME or any material part of the business or assets of the LME Group completes or becomes unconditional within 12 months after the termination of the agreement.

10. Taxation

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

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%)	412	462	212	245
Deferred taxation	-	10	5	-
	412	472	217	245

11. Dividends

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Interim dividend declared of \$1.85 (2011: \$2.16) per share at 30 Jun	2,000	2,331	2,000	2,331
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(4)	(4)	(4)	(4)
	1,996	2,327	1,996	2,327

12. Earnings Per Share

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

(a) Basic earnings per share

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011
Profit attributable to shareholders (\$m)	2,216	2,584	1,068	1,346
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,933	1,076,687	1,078,175	1,076,876
Basic earnings per share (\$)	2.06	2.40	0.99	1.25

(b) Diluted earnings per share

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011
Profit attributable to shareholders (\$m)	2,216	2,584	1,068	1,346
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,933	1,076,687	1,078,175	1,076,876
Effect of employee share options (in '000)	838	1,177	822	1,098
Effect of Awarded Shares (in '000)	2,083	1,391	1,984	1,380
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,080,854	1,079,255	1,080,981	1,079,354
Diluted earnings per share (\$)	2.05	2.39	0.99	1.25

13. Cash and Cash Equivalents

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Cash and cash equivalents:		
– Clearing House Funds (note 21)	835	835
– Margin Funds (note 18)	14,703	12,719
– Cash collateral (note 19)	3,098	2,327
(note (a))	18,636	15,881
– Corporate Funds (note 17)	3,338	2,340
	21,974	18,221

- (a) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral are held for specific purposes and cannot be used by the Group to finance other activities. Therefore, they are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.

14. Financial Assets Measured at Fair Value through Profit or Loss

	At 30 Jun 2012			
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Corporate Funds (note 17) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	135	135
– listed outside Hong Kong	–	–	311	311
	–	–	446	446
Debt securities:				
– listed in Hong Kong	–	–	272	272
– listed outside Hong Kong	128	–	1,474	1,602
– unlisted	44	4,483	2,386	6,913
	172	4,483	4,132	8,787
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	14	14
	172	4,483	4,592	9,247
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	172	4,483	4,410	9,065
More than twelve months	–	–	182	182
	172	4,483	4,592	9,247

14. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	At 31 Dec 2011			
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Corporate Funds (note 17) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	–	102	102
– listed outside Hong Kong	–	–	284	284
	–	–	386	386
Debt securities:				
– listed in Hong Kong	–	–	217	217
– listed outside Hong Kong	125	283	1,914	2,322
– unlisted	159	5,982	2,251	8,392
	284	6,265	4,382	10,931
Derivative financial instruments:				
– forward foreign exchange contracts	–	–	32	32
	284	6,265	4,800	11,349
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	284	6,265	4,620	11,169
More than twelve months	–	–	180	180
	284	6,265	4,800	11,349

- (a) Included financial assets maturing after twelve months of \$1,776 million (31 December 2011: \$1,867 million) attributable to the Margin Funds that could readily be liquidated to meet liquidity requirements of the Funds.

16. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 87 per cent (31 December 2011: 90 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two 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 three months.

17. Corporate Funds

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 13)	3,338	2,340
Financial assets measured at fair value through profit or loss (note 14)	4,592	4,800
Financial assets measured at amortised cost (note 15)	1,868	2,610
	9,798	9,750

18. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,230	5,302
HKCC Clearing Participants' margin deposits	22,441	26,057
	26,671	31,359
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 13)	14,703	12,719
Financial assets measured at fair value through profit or loss (note 14)	4,483	6,265
Financial assets measured at amortised cost (note 15)	7,472	12,368
Margin receivable from Clearing Participants	13	7
	26,671	31,359

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin.

19. Cash Collateral from HKSCC Clearing Participants

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Cash collateral from HKSCC Clearing Participants (note (a))	3,550	3,233
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 13)	3,098	2,327
Financial assets measured at amortised cost (note 15)	452	906
	3,550	3,233

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash collateral.

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 65 per cent (31 December 2011: 77 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

21. Clearing House Funds

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' cash contributions (note (a))	891	880
Designated reserves (note 24)	583	577
	1,474	1,457
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 13)	835	835
Financial assets measured at fair value through profit or loss (note 14)	172	284
Financial assets measured at amortised cost (note 15)	519	367
	1,526	1,486
Less: Other financial liabilities of Clearing House Funds	(52)	(29)
	1,474	1,457
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	228	226
SEOCH Reserve Fund	407	578
HKCC Reserve Fund	839	653
	1,474	1,457

(a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.

22. Share Capital, Share Premium and Shares Held for Share Award Scheme

			At 30 Jun 2012 \$m	At 31 Dec 2011 \$m	
Authorised:					
2,000,000,000 shares of \$1 each			2,000	2,000	
Issued and fully paid:					
	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (a))	470	–	8	–	8
Shares issued in lieu of cash dividends (note (b))					
– total	1,345	2	213	–	215
– to Share Award Scheme	(47)	–	–	(7)	(7)
	1,298	2	213	(7)	208
Transfer from employee share-based compensation reserve upon exercise of employee share options	–	–	2	–	2
Shares purchased for Share Award Scheme (note (c))	(628)	–	–	(80)	(80)
Vesting of shares of Share Award Scheme (note (d))	94	–	–	10	10
At 31 Dec 2011	1,077,670	1,080	639	(296)	1,423
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon exercise of employee share options (note (a))	34	–	1	–	1
Shares issued in lieu of cash dividends (note (b))					
– total	861	1	106	–	107
– to Share Award Scheme	(37)	–	–	(5)	(5)
	824	1	106	(5)	102
Shares purchased for Share Award Scheme (note (c))	(21)	–	–	(2)	(2)
Vesting of shares of Share Award Scheme (note (d))	361	–	–	44	44
At 30 Jun 2012	1,078,868	1,081	746	(259)	1,568

22. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

- (a) During the six months ended 30 June 2012, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 34,000 shares (year ended 31 December 2011: 469,900 shares) in HKEx at an average consideration of \$18.98 per share (year ended 31 December 2011: \$18.29 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the six months ended 30 June 2012, 860,935 new fully paid HKEx shares (year ended 31 December 2011: 1,344,394 shares) were issued and allotted at \$124.46 per share (year ended 31 December 2011: weighted average price of \$159.12 per share) to the shareholders (including 37,053 new shares (year ended 31 December 2011: 46,895 shares) allotted to the Share Award Scheme) who elected to receive HKEx shares in lieu of cash pursuant to the scrip dividend scheme.
- (c) During the six months ended 30 June 2012, the Share Award Scheme acquired 21,700 HKEx shares (year ended 31 December 2011: 627,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$2 million (year ended 31 December 2011: \$80 million).
- (d) During the six months ended 30 June 2012, the Share Award Scheme transferred 360,970 HKEx shares (year ended 31 December 2011: 94,421 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$44 million (year ended 31 December 2011: \$10 million).

23. Employee Share-based Compensation Reserve

The Group operates two employee share option schemes and a Share Award Scheme. The employee share-based compensation expenses in relation to the options and share awards were charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

No share options were granted during the six months ended 30 June 2012. Details of Awarded Shares awarded during the six months ended 30 June 2012 are set out below:

Date of approval by Board	Date of award	Awarded Sum \$'000	Number of shares purchased	Number of shares awarded	Average fair value per share \$	Vesting period
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	2 May 2014 – 2 May 2015

24. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	124	123
– SEOCH Reserve Fund reserve	110	110
– HKCC Reserve Fund reserve	349	344
	583	577

25. Retained Earnings (Including Proposed Dividend)

	2012 \$m	2011 \$m
At 1 Jan	7,053	6,766
Profit attributable to shareholders	2,216	5,093
Transfer (to)/from Clearing House Funds reserves	(6)	3
Dividends:		
2011/2010 final dividend	(2,252)	(2,487)
2011 interim dividend	–	(2,327)
Unclaimed HKEx dividends forfeited	3	6
Vesting of shares of Share Award Scheme	(3)	(1)
At 30 Jun 2012/31 Dec 2011	7,011	7,053
Representing:		
Retained earnings	5,015	4,801
Proposed dividend	1,996	2,252
At 30 Jun 2012/31 Dec 2011	7,011	7,053

26. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from operating activities:

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m
Profit before taxation	2,628	3,056
Adjustments for:		
Net interest income	(181)	(102)
Dividend income	(7)	(6)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(203)	(133)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(5)	–
Depreciation	56	50
Employee share-based compensation benefits	55	41
Gain on disposal of fixed assets	(1)	–
Provision for impairment losses of trade receivables	1	3
Changes in provisions	4	3
Net decrease/(increase) in Margin Fund financial assets	4,720	(3,640)
Net (decrease)/increase in Margin Fund financial liabilities	(4,688)	3,630
Net increase in Clearing House Fund financial assets	(36)	(1,181)
Net increase in Clearing House Fund financial liabilities	34	1,178
Net increase in financial assets of cash collateral	(317)	(944)
Net increase in cash collateral received from HKSCC Clearing Participants	317	944
Net (increase)/decrease in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(218)	243
Decrease in accounts receivable, prepayments and deposits	2,285	2,328
Decrease in other current liabilities	(1,945)	(1,921)
Net cash inflow from operations	2,499	3,549
Dividends received	7	5
Interest received from bank deposits	174	94
Interest received from financial assets measured at fair value through profit or loss	54	61
Interest paid	(1)	(1)
Hong Kong Profits Tax paid	(230)	(208)
Net cash inflow from operating activities	2,503	3,500

27. Capital Expenditures and Commitments

During the six months ended 30 June 2012, the Group incurred capital expenditures of \$572 million (2011: \$233 million) and disposed of fixed assets with net book value of \$16 million (2011: less than \$1 million). The capital expenditures incurred were mainly on the new Data Centre at Tseung Kwan O with Hosting Services capability.

In addition to that disclosed in note 9, the Group had the following commitments at 30 June 2012:

(a) Capital commitments

At 30 June 2012, the Group's commitments in respect of capital expenditures were as follows:

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Contracted but not provided for	500	729
Authorised but not contracted for	884	876
	1,384	1,605

The commitments in respect of capital expenditures were mainly related to the construction of the new Data Centre at Tseung Kwan O, the development of the next generation market data system, the over-the-counter derivatives clearing system and Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market's trading and clearing systems.

(b) Investment commitments

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. In accordance with the agreement, HKEx had a commitment to invest \$100 million in the joint venture.

28. Contingent Liabilities

In addition to that disclosed in note 9, the Group's material contingent liabilities at 30 June 2012 were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2011: \$71 million). Up to 30 June 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 503 trading Participants covered by the indemnity at 30 June 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$101 million (31 December 2011: \$100 million).

28. Contingent Liabilities (continued)

- (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.

29. Material Related Party Transactions

- (a) Key management personnel compensation

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Salaries and other short-term employee benefits	38	36	19	19
Employee share-based compensation benefits	15	12	8	6
Retirement benefit costs	3	3	1	1
	56	51	28	26

- (b) Post-employment benefit plans

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme). The retirement benefit costs charged to the condensed consolidated statement of comprehensive income represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees (note 7).

- (c) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

30. Changes in Group Structure

On 26 March 2012, The Stock Exchange Nominee Limited, a dormant indirect subsidiary of HKEx held by the Stock Exchange, was renamed as HKEx Hosting Services Limited. On 2 April 2012, all of the shares of HKEx Hosting Services Limited were transferred to HKEx at a consideration of \$2. There is no financial impact to the Group on the share transfer. The principal activity of HKEx Hosting Services Limited is the provision of hosting services.

On 16 May 2012, OTC Clearing Hong Kong Limited, a new direct wholly-owned subsidiary of HKEx, was incorporated. The company will act as a clearing house for over-the-counter derivatives.

On 5 June 2012, HKEx International Limited, a new direct wholly-owned subsidiary of HKEx, was incorporated and will act as an investment holding company. On 14 June 2012, HKEx Investment (UK) Limited, a company with limited liability and registered in England and Wales, was acquired by HKEx International Limited at a consideration of £1. HKEx Investment (UK) Limited will act as the holding company for the proposed acquisition of the LME Group (note 9).

31. Fair Value of Financial Assets and Financial Liabilities

(a) Financial assets and financial liabilities carried at fair value

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

	At 30 Jun 2012		
	Level 1 \$m	Level 2 \$m	Total \$m
Recurring fair value measurements:			
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	446	–	446
– debt securities	–	8,787	8,787
– forward foreign exchange contracts	14	–	14
	460	8,787	9,247
Recurring fair value measurements:			
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	6	–	6

31. Fair Value of Financial Assets and Financial Liabilities (continued)

(a) Financial assets and financial liabilities carried at fair value (continued)

	At 31 Dec 2011		
	Level 1 \$m	Level 2 \$m	Total \$m
Recurring fair value measurements:			
Assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	386	–	386
– debt securities	–	10,931	10,931
– forward foreign exchange contracts	32	–	32
	<u>418</u>	<u>10,931</u>	<u>11,349</u>
Recurring fair value measurements:			
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	11	–	11
	<u>11</u>	<u>–</u>	<u>11</u>

During the six months ended 30 June 2012, no financial assets or financial liabilities were classified under Level 3 and there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input is market interest rates.

The Group's policy is to recognise transfer into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

31. Fair Value of Financial Assets and Financial Liabilities (continued)

(b) Fair values of financial assets and financial liabilities not reported at fair value

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the condensed consolidated statement of financial position at their fair values. The carrying amounts of short-term receivables (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	At 30 Jun 2012		At 31 Dec 2011	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
– debt securities ¹	624	626	706	710
– other financial assets maturing over one year ²	62	59	49	48
Financial liabilities				
Financial guarantee contract ³	20	101	20	86

¹ The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

² The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. Assets without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.84 per cent to 1.75 per cent at 30 June 2012 (31 December 2011: 0.83 per cent to 1.13 per cent).

³ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 0.96 per cent at 30 June 2012 (31 December 2011: 1.46 per cent).

32. Events after the Reporting Period

Subsequent to 30 June 2012, the proposed scheme of arrangement to implement the acquisition of LMEH by HKEx was approved, and the relevant special resolutions were passed, by the requisite majorities of the ordinary shareholders of LMEH on 25 July 2012. The proposed acquisition remains subject to the approval of FSA and the sanction of the scheme of arrangement and capital reduction by the High Court of Justice of England and Wales. The acquisition is expected to complete during the fourth quarter of 2012.

GLOSSARY

2012 AGM	HKEx's annual general meeting held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3	Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
Cash Market	HKEx's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	The Central Clearing and Settlement System
CG Code	Corporate Governance Code, Appendix 14 to the Main Board Listing Rules
CNS	Continuous Net Settlement
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)
DWs	Derivative Warrants
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company 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
IVs	Information Vendors
JP	Justice of the Peace
Listing Rules or Rule	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME Group	LME Holdings Limited and its subsidiary, The London Metal Exchange Limited

Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOU(s)	Memorandum(s) of Understanding
OTC	Over-the-counter
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
PRC	People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
REIT(s)	Real Estate Investment Trust(s)
RMB	Renminbi
ROM	HKEx's Register of Members
SDNet	The Securities and Derivatives Network
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
SI(s)	Settlement Instruction(s)
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million
£	Pounds sterling

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