

2008 Results Announcement

Sustainable Business in Challenging Times

Paul Chow
Chief Executive, HKEx
&
Archie Tsim
Chief Financial Officer, HKEx

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Agenda

❖ Overview

❖ Financial Review

❖ Business Review

❖ HKEx Strategic Initiatives – Achievements and Future Plans

❖ Conclusion

Overview: Performance of HKEx and its Markets

Financial

- **\$7.5 billion revenue and other income – down 12% YoY, CAGR 30% over past five years**
(Note)
- **\$5.1 billion profit attributable to shareholders – down 17% YoY, CAGR 49% over past five years**
- **Cost to income ratio of 21% – one of the lowest among global exchanges**
- **Dividend payout ratio of 90% in the past five years**

Operation

- **\$10.3 trillion market capitalisation – down 50% YoY**
- **\$66 billion IPO fund raised – down 77% YoY**
- **\$361 billion secondary financings raised – up 21% YoY**
- **\$72 billion average daily turnover – down 18% YoY**
- **CBBC average daily turnover surged 14 times from 2007**
- **432,126 options & futures contracts traded daily on average – up 20% YoY**

Source: HKEx statistics (Dec 2008)

Note: Includes one-off gain on disposal of an associate and properties, and share of profits less losses of associates

Hong Kong – A Major International Financial Centre

HKEx is one of the top three largest listed exchanges by market capitalisation

Among global exchanges...

- #1 in derivative warrants turnover**
- #1 in stock options turnover in Asia and Australia**
- #1 in ETF turnover in Asia and Australia**
- #4 in capital raised**
- #7 in market capitalisation**
- #8 in derivatives turnover in Asia and Australia**
- #10 in equity turnover**



Accolades

**Gold Award in the Hang Seng Index Category,
Best Corporate Governance Disclosure Awards 2008**

Hong Kong Institute of Certified Public Accountants

**One of Hong Kong's five most admired companies
in terms of financial reputation**

Wall Street Journal Asia Reader's Survey 2008

Gold Award in the General Category, 2008 HKMA Best Annual Reports Awards

The Hong Kong Management Association

Best Company in Hong Kong in terms of Corporate Governance 2008

The Asset Magazine

Stock Exchange of the Year

The Asset Triple A Transaction Banking Awards 2009

Agenda

❖ Overview

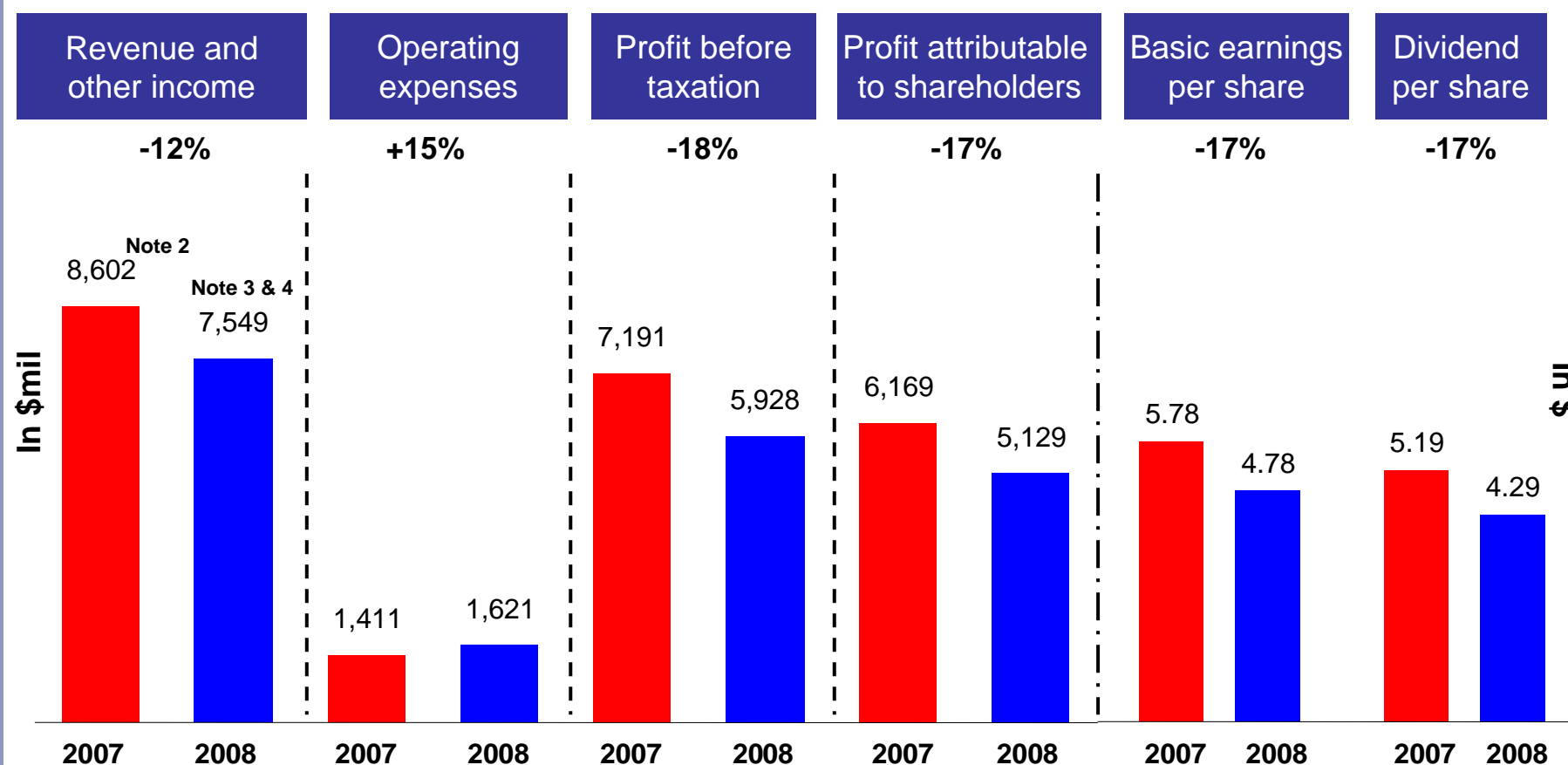
❖ **Financial Review**

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❖ **HKEx Strategic Initiatives – Achievements and Future Plans**

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2008 Results Overview - Financial



Note 1: Percentages are calculated based on actual results rounded to the nearest thousand dollars.

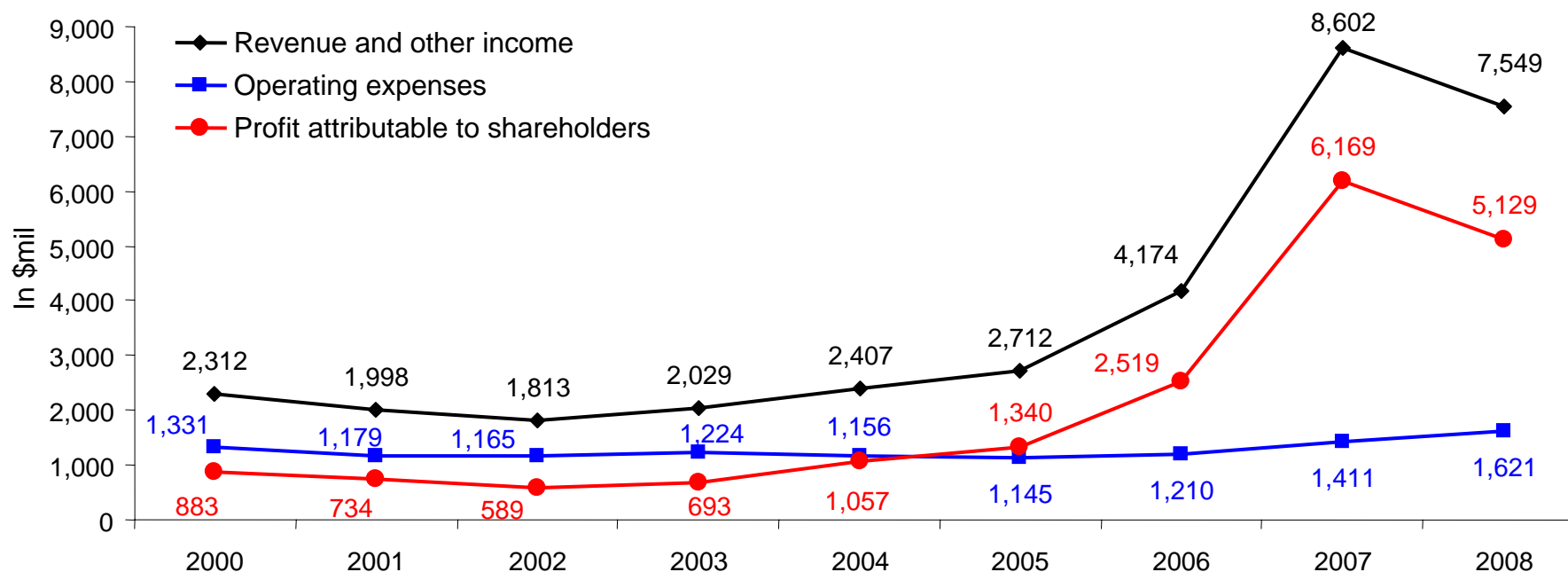
Note 2: Includes one-off gain on disposal of an associate of \$206 million and share of profit of an associate of \$6 million

Note 3: Includes one-off gain on disposal of two properties of \$69 million

Note 4: Excluding the one-off gain on disposal of an associate and the one-off gain on disposal of two properties, revenue and other income dropped by 11 per cent YoY

Source: 2008 HKEx Annual Report

Results Since Merger

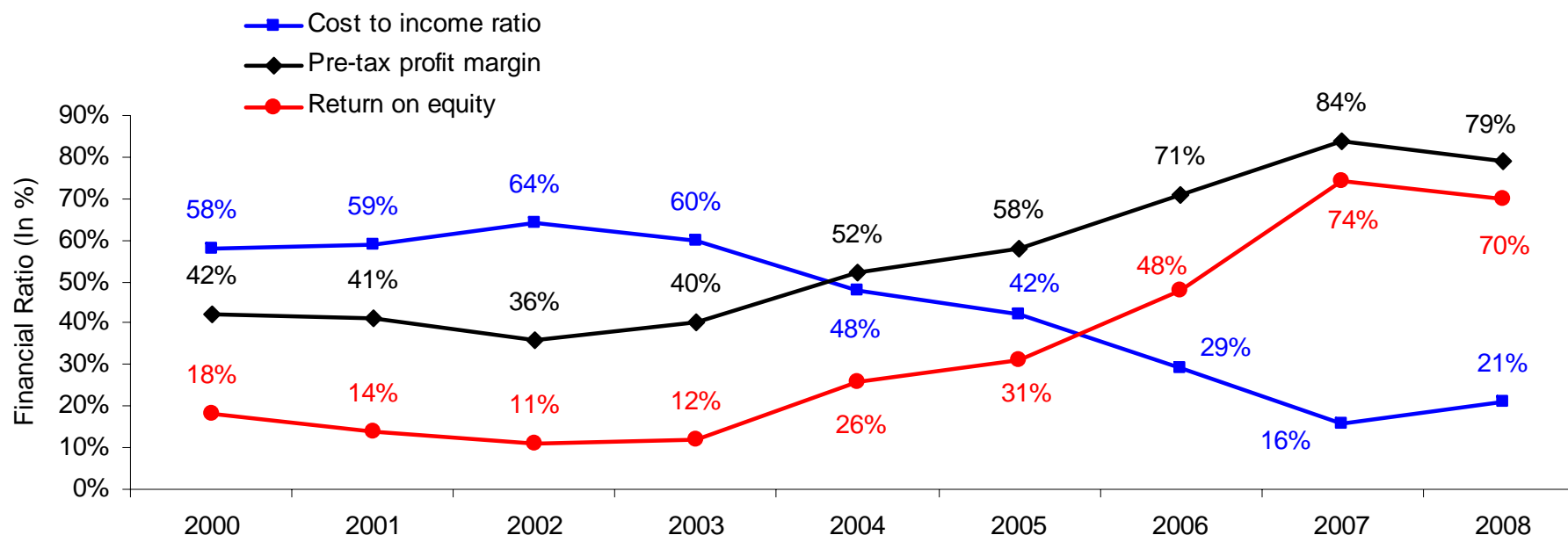


In \$mil

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue and other income (Note)	2,312	1,998	1,813	2,029	2,407	2,712	4,174	8,602	7,549
Operating expenses	1,331	1,179	1,165	1,224	1,156	1,145	1,210	1,411	1,621
Profit attributable to shareholders	883	734	589	693	1,057	1,340	2,519	6,169	5,129

Note: Includes one-off gains on disposal of an associate and properties, and share of profits less losses of associates
 Source: HKEx Annual Reports

Key Performance Indicators



In \$mn

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue and other income (Note 3)	2,312	1,998	1,813	2,029	2,407	2,712	4,174	8,602	7,549
Operating expenses	1,331	1,179	1,165	1,224	1,156	1,145	1,210	1,411	1,621
Profit before taxation	981	819	648	805	1,251	1,567	2,964	7,191	5,928
Profit attributable to shareholders	883	734	589	693	1,057	1,340	2,519	6,169	5,129

Note 1: Financial ratios are calculated based on actual results rounded to the nearest thousand dollars

Note 2: Return on equity is calculated based on total shareholders' funds at 31 December

Note 3: Includes one-off gains on disposal of an associate and properties, and share of profits less losses of associates

Source: HKEx Annual Reports

Financial Highlights

	2008 \$ mil	2007 \$ mil	Change
Results			
Revenue and other Income	7,549	8,390	-10%
Operating expenses	1,621	1,411	+15%
	5,928	6,979	-15%
Gain on disposal of an associate	-	206	-100%
Share of profit of an associate	-	6	-100%
Profit before taxation	5,928	7,191	-18%
Taxation	(799)	(1,022)	-22%
Profit attributable to shareholders	5,129	6,169	-17%
Basic earnings per share	\$4.78	\$5.78	-17%
Diluted earnings per share	\$4.75	\$5.72	-17%
Interim dividend declared per share	\$2.49	\$1.79	+39%
Final dividend proposed per share	\$1.80	\$3.40	-47%
	\$4.29	\$5.19	-17%
Dividend payout ratio	90%	90%	N/A

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Breakdown of Revenue and Other Income

	2008 \$ mil	2007 \$ mil	Change
Income affected by market turnover:			
Trading fees and trading tariff	2,803	3,086	-9%
Clearing and settlement fees	1,405	1,577	-11%
Depository, custody and nominee services fees	497	627	-21%
	4,705	5,290	-11%
Stock Exchange listing fees	712	689	+3%
Income from sale of information	673	679	-1%
Other revenue	391	489	-20%
	6,481	7,147	-9%
Net investment income	999	1,238	-19%
Other income	69	5	+1301%
Total revenue and other income	7,549	8,390	-10%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Net Investment Income

	Corporate Funds	Margin Funds	Clearing House Funds	HKEx Group Total
	2008			
Investment income (\$mil)	84	964	27	1,075
Interest rebates to participants (\$mil)	(1)	(69)	(6)	(76)
Net investment income (\$mil)	83	895	21	999
Average amount of funds available for investment (\$mil)	9,776	50,916	1,577	62,269
Gross return	0.86%	1.89%	1.72%	1.73%
Net return	0.85%	1.76%	1.33%	1.60%
	2007			
Investment income (\$mil)	385	1,473	92	1,950
Interest rebates to participants (\$mil)	(12)	(675)	(25)	(712)
Net investment income (\$mil)	373	798	67	1,238
Average amount of funds available for investment (\$mil)	7,423	39,976	2,330	49,729
Gross return	5.19%	3.69%	3.94%	3.92%
Net return	5.03%	2.00%	2.88%	2.49%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Breakdown of Expenses

	2008 \$ mil	2007 \$ mil	Change
Staff costs and related expenses	803	827	-3%
Information technology and computer maintenance expenses			
Cost of services and goods consumed by the Group	142	135	+5%
Cost of services and goods directly consumed by Participants	97	73	+34%
	239	208	+15%
Premises expenses	150	132	+14%
Product marketing and promotion expenses	17	14	+21%
Legal and professional fees	25	27	-8%
Depreciation	109	79	+37%
Other operating expenses	278	124	+123%
Total	1,621	1,411	+15%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

Second & First Half Year Comparison

	H2 2008	H1 2008	Change
	\$ mil	\$ mil	
Results			
Revenue and other income	3,338	4,211	-21%
Operating expenses	852	769	+11%
Profit before taxation	2,486	3,442	-28%
Taxation	(331)	(468)	-29%
Profit attributable to shareholders	2,155	2,974	-28%

Note : Percentages are calculated based on actual results rounded to the nearest thousand dollars.

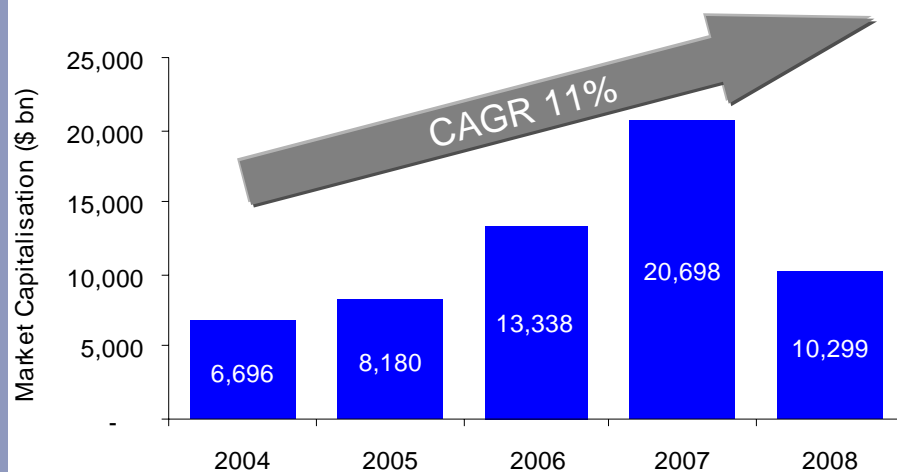
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Market Capitalisation and Funds Raised

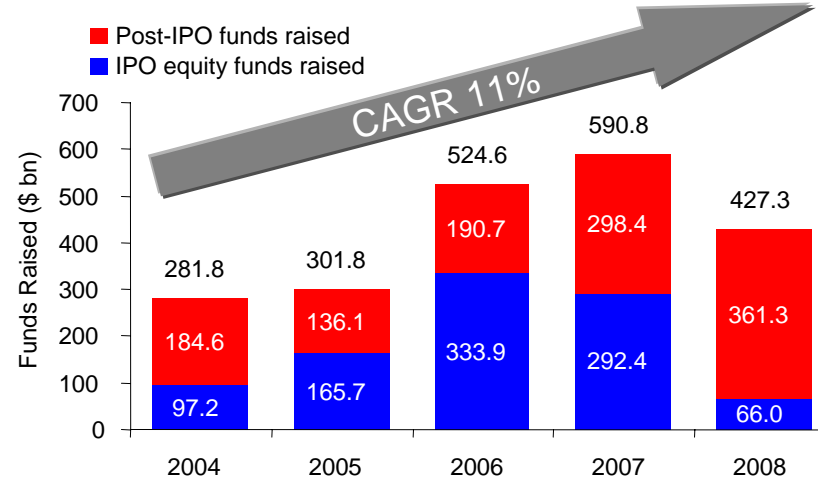
- 1,261 companies were listed in Hong Kong as of 31 Dec 2008
- 29 Main Board companies and 2 GEM companies were newly listed in 2008
- China Railway Construction Corporation (Stock Code: 1186), which listed in Hong Kong in March last year, was the second largest IPO in the world in 2008
- A total of 137 new listing applications were accepted during 2008
- Secondary fund raised increased 21% YoY

Market Capitalisation



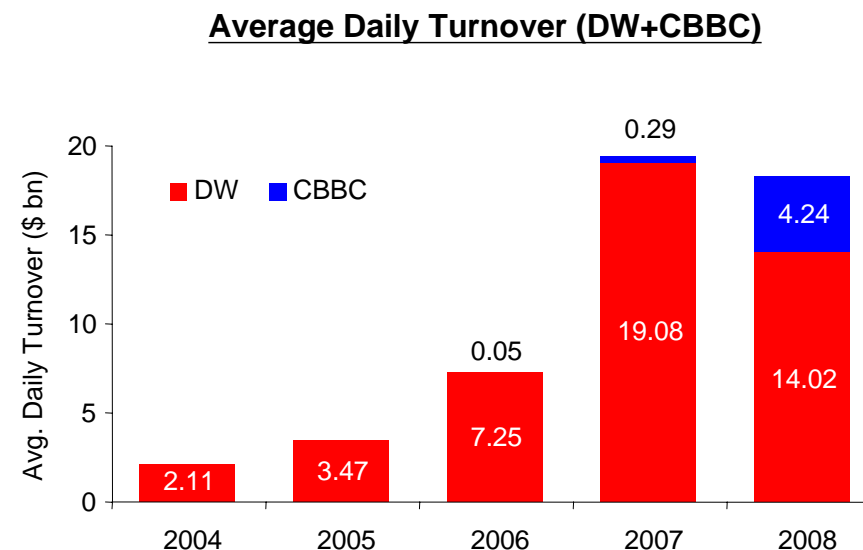
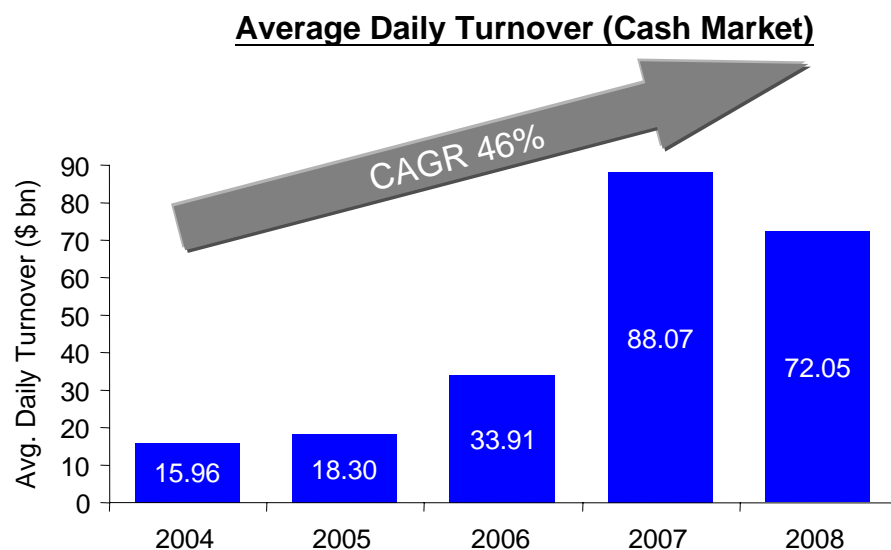
Source: HKEx statistics

IPO & Post-IPO Funds Raised



Cash Market Trading (Jan-Dec 2008)

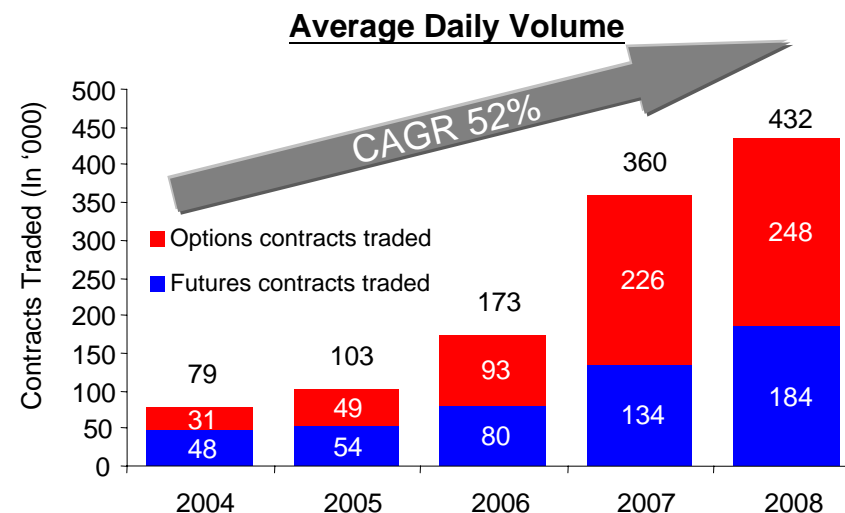
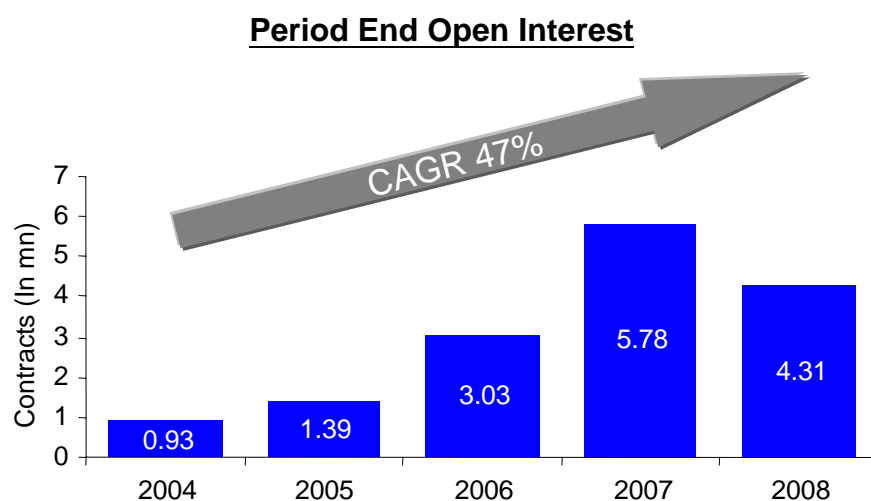
- Average daily securities market turnover fell 18% YoY
- Turnover velocity maintained at 119%
- Combined average daily turnover of CBBC and DW accounted for 25% of market total
- Substantial increase in interest in CBBC – with product issuance up nine times and trading up 14 times YoY
- Market remained open with 100% system uptime throughout period of market volatility



Source: HKEx statistics

Derivatives Market Trading (Jan-Dec 2008)

- Average daily turnover sustained growth momentum with 20% YoY increase despite market downturn
 - YTD HSI futures & Mini H-shares Index futures trading volume hit new heights in October 2008
 - Annual turnover exceeded 100 million contracts for the first time on 10 December 2008
- Stock options volume increased 19% YoY and accounted for 52% of total derivatives trading
 - Mainland related options and futures contributed half of total contracts traded
- Explore new product and service areas: CER futures, futures on more precious metals, flexible options, OTC derivatives clearing, etc
- Improve market access and implement marketing plan to attract overseas institutional investors



Source: HKEx statistics

Mainland Enterprises Continue to Contribute to Market Growth

	Unit	Total	Mainland Enterprises	% of total
<u>As of 31 Dec 2008</u>				
No. of listed companies	Number	1,261	465	37%
H Share	Number		150	
Red Chip	Number		93	
Non H-share Mainland Private Enterprises	Number		222	
Market capitalisation	\$ bn	10,299	6,161	60%
<u>Jan-Dec 2008</u>				
Total equity funds raised	\$ bn	427.2	294.1	69%
Funds raised through IPOs	\$ bn	66.0	47.7	72%
Funds raised in secondary market	\$ bn	361.3	246.5	68%
Average daily turnover - equity	\$ bn	51.8	36.6	71%

Since 1993, Mainland enterprises have raised over \$2 trillion in Hong Kong, representing over 58% of total funds raised in the market during the period.

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HKEx's Principles Amid These Turbulent Times

***“Continue to strengthen fundamentals
and enhance market quality”***

***“Leverage on our strengths, focus on
our core businesses”***

***“System reliability, accessibility
and serviceability”***

Enhance Market Quality – Corporate Governance Standards and Transparency

Achievements

- Commenced Web Proof Information Pack pilot scheme (Jan 2008)
- Introduced the HKExnews website, a designated website for issuer news and regulatory filings (Feb 2008), implemented the revised suspension policy (Mar 2008) and completed the final phase of the Electronic Disclosure Project (Jun 2008)
- Introduced CCASS Shareholding Disclosure Service (Apr 2008)
- Finalised 15 out of 18 substantive policy issues in Combined Consultation Paper (Nov 2008)
- Launched two Listing Enforcement initiatives – Publication of listing enforcement guidance letters and posting of Request for Assistance Announcements on HKEx website (Nov 2008)
- Finalised rule amendments for extension of black out period, during which a director is prohibited from dealings in the company's securities (Feb 2009)
- Announced plans to shorten deadlines for half-year and annual reporting in Jun/Dec 2010

Future Plans

- Introduce possible rule changes on reporting on a quarterly basis following consultation
- Enhance monitoring of share dealings by directors
- Support SFC in implementing electronic submission of Disclosure of Interests notices
- Provide support to FSTB and SFC for the early implementation of statutory obligation to disclose price sensitive information by listed companies

Focus on Core Businesses – Mainland Positioning

Achievements

- Actively promoted services to Mainland enterprises and overseas companies with Mainland business connections
- Introduced three new option classes on Mainland stocks listed in Hong Kong (Jun 2008)
- Commenced Market Data Collaboration Programme with Shanghai Stock Exchange (SSE) (Jan 2009)
- Signed Closer Cooperation Agreement with SSE (Jan 2009)

Future Plans

- Consider possible harmonisation in cross-border market operations and regulation
- Consider accepting financial statements of Mainland companies audited by Mainland audit firms
- Further expand Mainland market data business

Focus on Core Businesses – Primary Market Development

Achievements

- Included Australia, British Columbia, Republic of Cyprus, Singapore and Grand Duchy of Luxembourg as acceptable jurisdictions for listing
- Visited Australia, Canada, India, Japan, Kazakhstan, Macau, Malaysia, the Middle East, Outer Mongolia, Russia, Singapore, South Korea, Taiwan, the US, UK, Ukraine and Vietnam to promote listing in Hong Kong
- Repositioned GEM as a second board (Jul 2008)
- Introduced Hong Kong Depositary Receipts framework (Jul 2008)
- Commissioned a strategic review of listing regime (Nov 2008)

Future Plans

- Complete a review of Chapter 18 of the Listing Rules applicable to mining and resources companies
- Consider the action plan resulting from the strategic review of listing regime

Focus on Core Businesses – Secondary Market Development

Achievements

- Introduced five-digit stock codes (May 2008)
- Implemented the Closing Auction Session (May 2008)
- Revised market maker obligations (Jul 2008)
- Reviewed shortselling restrictions with the SFC (3Q2008)
- Revised position limit regime for index futures and options to help EPs and their clients serve customer needs (Jan 2008)

Future Plans

- Introduce a percentage based price control mechanism during the Closing Auction Session (Jun 2009)
- Admit remote derivatives market participants
- Consider admitting registrars as CCASS Participants
- Study the T+2 finality for money settlement of CNS positions, Isolated Trade and Settlement Instruction transactions in CCASS
- Continue to explore implementation of the scripless market

Focus on Core Businesses – Secondary Market Product Development

Achievements

- Facilitated issuance of Market Access Products (Jan 2008)
- Launched Mini H-shares Index Futures (Mar 2008)
- Listed seven ETFs during 2008 including gold ETF listed in Jul 2008
- Re-launched gold futures (Oct 2008)

Future Plans

- Continue to facilitate listings of ETFs
- Launch futures and options on A-share ETFs (iShares FTSE/Xinhua A50 China Tracker and W.I.S.E. – CSI 300 China Tracker)
- Study the feasibility of Certified Emission Reduction futures and emissions trading
- Study introduction of options with flexible features (4Q2009)
- Explore provision of nominee/custody services for unlisted ELI/ELN
- Broaden distribution network for HKEX market data

Focus on Core Businesses – Service Enhancement

Achievements

- Streamlined Exchange Participant admission and registration procedures (Jun 2008)
- Formalised real-time information vendor admission procedures
- Gave CCASS Participants the option to receive settlement monies for CNS transactions in good funds on T+2 settlement day (Oct 2008)
- Enabled CCASS Participants to use eIPO refund monies on IPO refund day (Dec 2008)
- Started requiring fewer hard copies of issuer documents (Aug 2008)

Future Plans

- Conclude joint consultation with the SFC on issue of paper application forms with electronic prospectuses (2Q2009)
- Automate collection of stamp duty
- Offer free real-time last trade price of HKEx securities market on Hong Kong and Mainland websites (2H2009)
- Revamp the HKEx website (4Q2009)

Focus on Core Businesses – Service Delivery and Quality Improvements

Achievements

- Completed technology and capacity upgrades of core market systems in 2008
- Completed independent review of IT governance and the Electronic Disclosure System (Sep 2008)
- Continued to work closely with market participants to prepare for system changes
- Maintained 100% uptime for all mission critical systems
- Conducted an independent review of HKEx's Corporate Social Responsibility (CSR) policy and measures, and a green audit of HKEx's operations

Future Plans

- Consolidate the derivatives IT offices and data centres in Quarry Bay (Jun 2009)
- Upgrade derivatives trading and information dissemination systems (2009)
- Implement Listing's MIS and automate Listing's internal processes (2009-10)
- Implement a three-year plan for technical revamp of AMS/3 (2009) and development of next generation cash market trading and information dissemination systems (2009- early 2012)
- Develop an Enterprise Risk Management system for HKEx (2009)
- Implement various CSR initiatives
- Conduct an independent review of derivatives market systems (2009)

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Solid Fundamentals, Strong Long-term Growth Potential

As a Market

- A world recognised quality market
- Highly liquid market with participation by international and local investors and intermediaries
- Solid position as Mainland's premier international capital formation centre

As an Exchange

- Vertically integrated business model
 - Strengthening position Vs potential competitors
 - Facilitating expansion to trading &/or clearing of traditional OTC products
- Robust IT systems and risk management infrastructure
- Proven mega-IPO experience

As a Listed Company

- Only stock exchange operator in Hong Kong
- Well-managed cost structure
- High operating leverage
- Low cost-income ratio – one of the lowest among world exchanges
- Consistently high dividend payout ratio
- Clear long-term strategies with strong fundamentals

Thank you

The Results Announcement, Consolidated Financial Statement, Corporate Governance Report and Remuneration Committee Report are available on the following websites today. HKEx's first Corporate Social Responsibility Report will be published on the websites on 16 March 2009.

**HKEx Website: www.hkex.com.hk
HKExnews Website: www.hkexnews.hk**