



2012 Interim Results Announcement

Charles Li

Chief Executive

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8 August 2012



Agenda

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Business Review

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Financial Review

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LME Update

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Strategic Plan Update in Light of LME – A Holistic Approach

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Appendix

2012 1H – Highlights



Transformational acquisition of LME approved by LME shareholders

Set up of JV among HKEx, Shanghai Stock Exchange and Shenzhen Stock Exchange

Continued launch of diversified RMB products

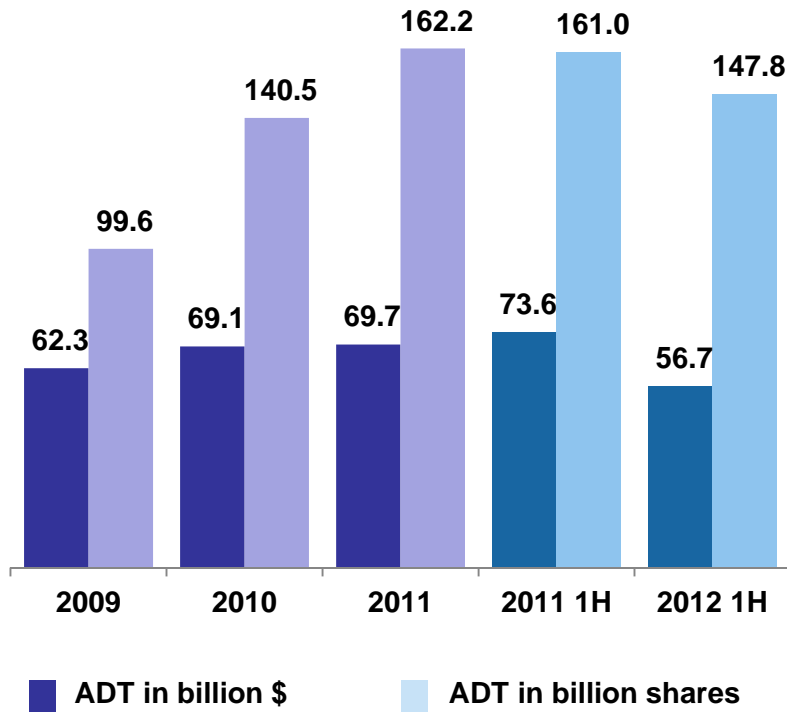
Milestones reached for essential infrastructure initiatives

Lower ADT and higher infrastructure investment puts pressure on current earnings

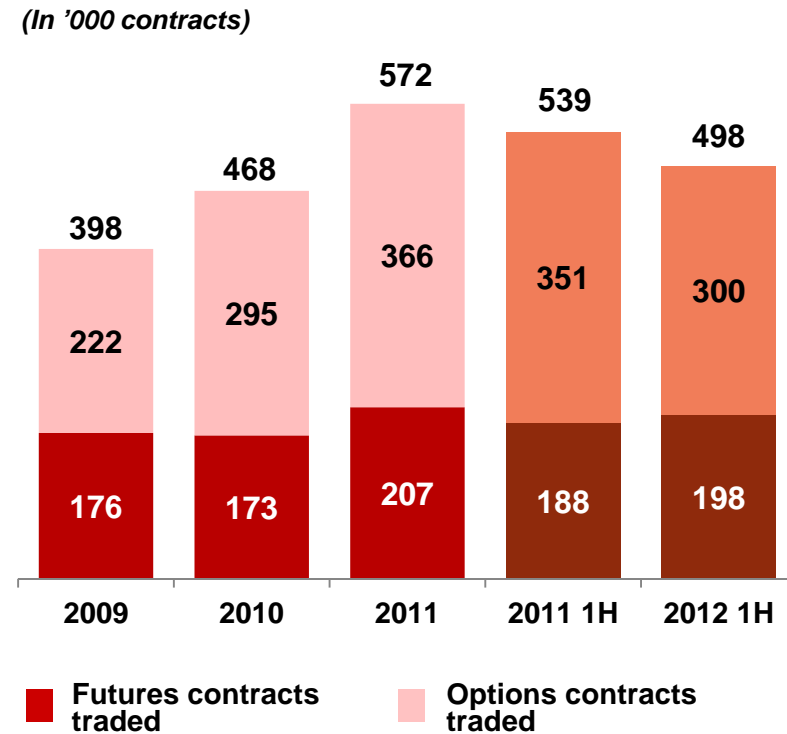
Securities and Derivatives Trading



2009-2012 Securities ADT



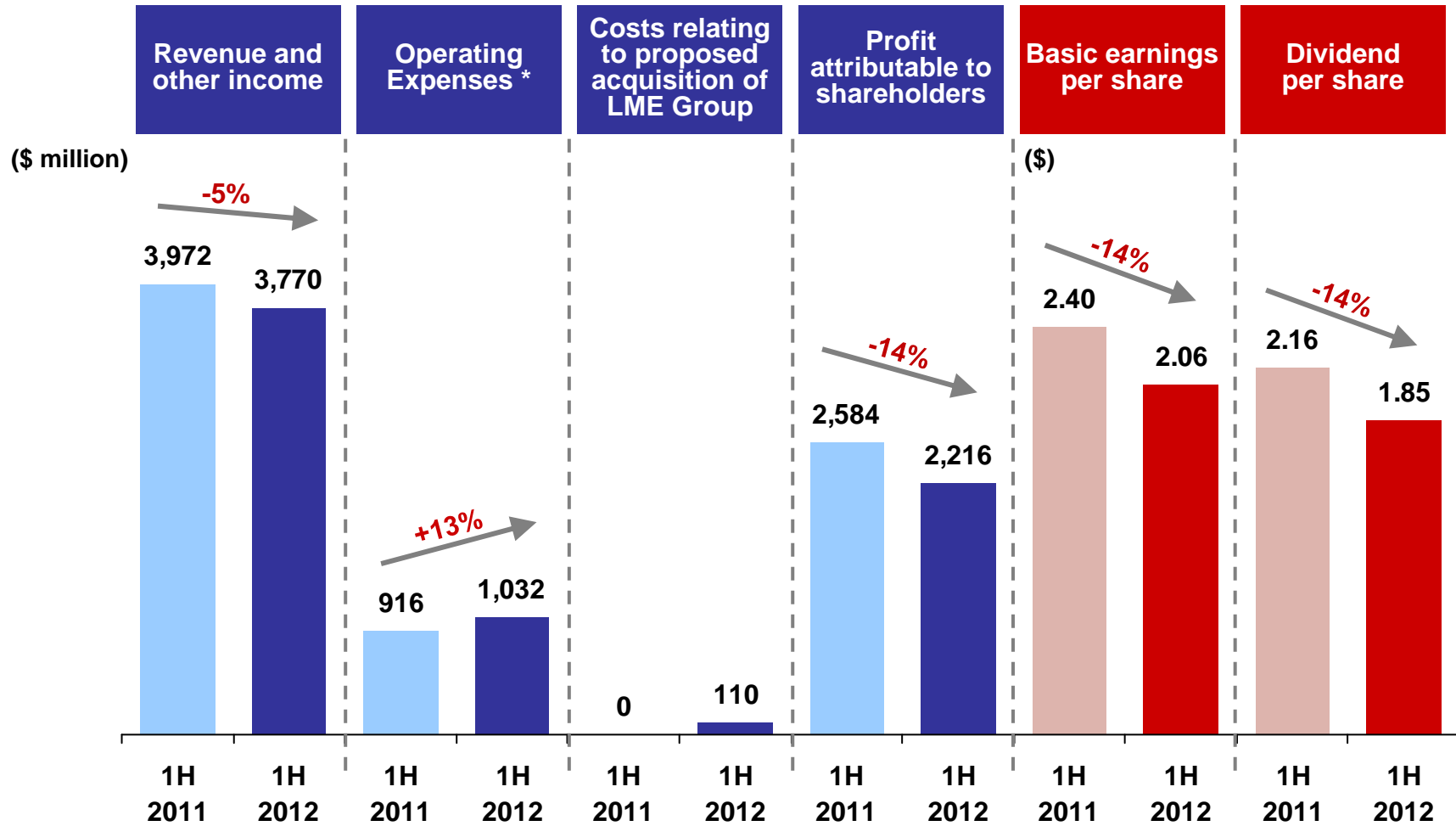
2009-2012 Derivatives ADV



Cash and derivatives ADT decreased by 23% and 8% y-o-y respectively in 2012 1H amidst lower trading volume around the globe

Source: HKEx statistics

2012 Interim Results



* Excluding costs relating to the proposed acquisition of the LME Group

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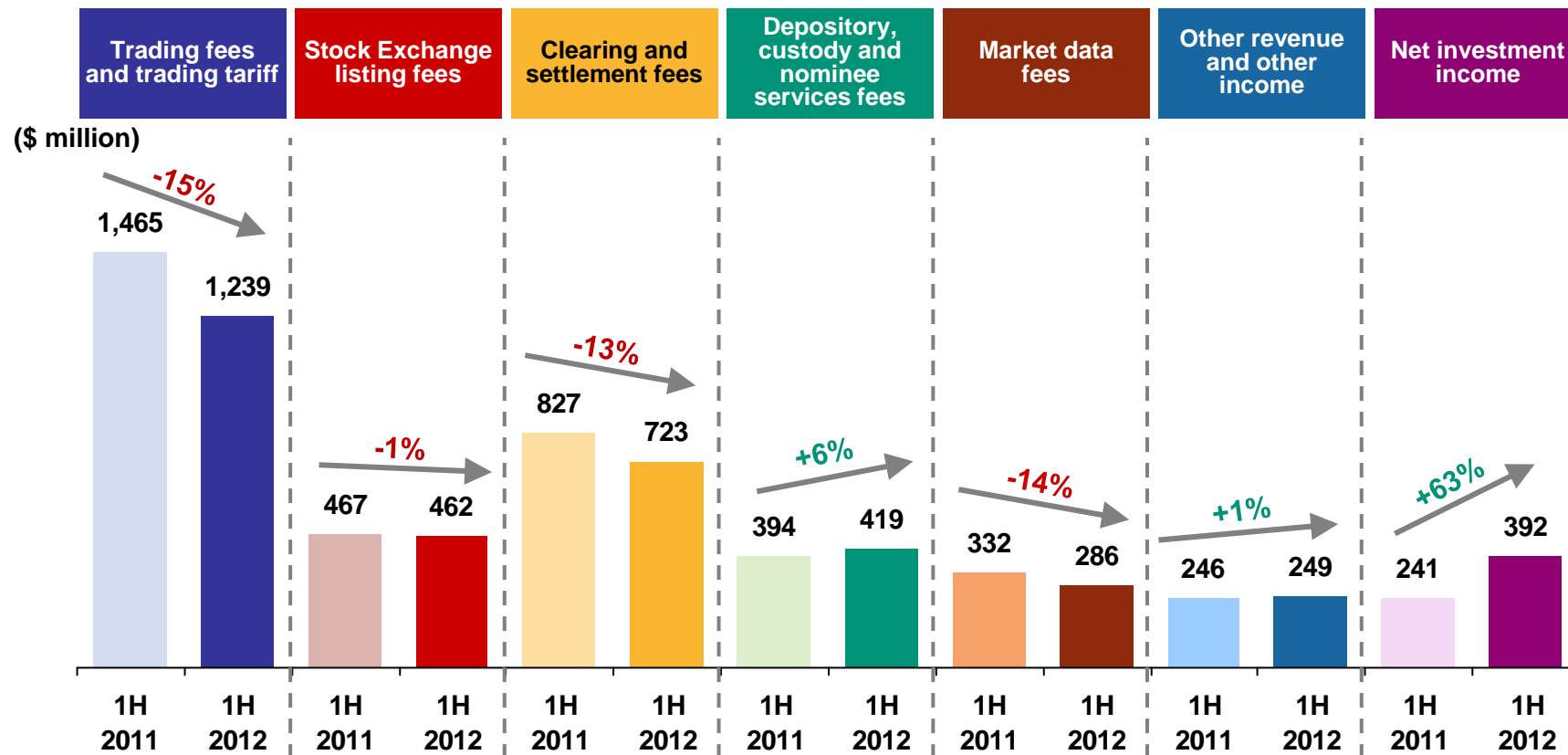
Financial Highlights



(\$ million, unless stated otherwise)	1H 2012	% of revenue & other income	1H 2011	% of revenue & other income	YoY Change
Results					
Revenue and other income	3,770	100%	3,972	100%	(5%)
Operating expenses	(1,032)	(27%)	(916)	(23%)	+13%
Operating profit	2,738	73%	3,056	77%	(10%)
Costs relating to proposed acquisition of LME Group	(110)	(3%)	-	-	N/A
Profit before taxation	2,628	70%	3,056	77%	(14%)
Taxation	(412)	(11%)	(472)	(12%)	(13%)
Profit attributable to shareholders	2,216	59%	2,584	65%	(14%)
Basic earnings per share	\$2.06		\$2.40		(14%)
Interim dividend per share	\$1.85		\$2.16		(14%)
Dividend payout ratio	90%		90%		N/A
Average daily turnover of Cash Market	56.7 bn		73.6 bn		(23%)
Capex for the period	572		233		+145%

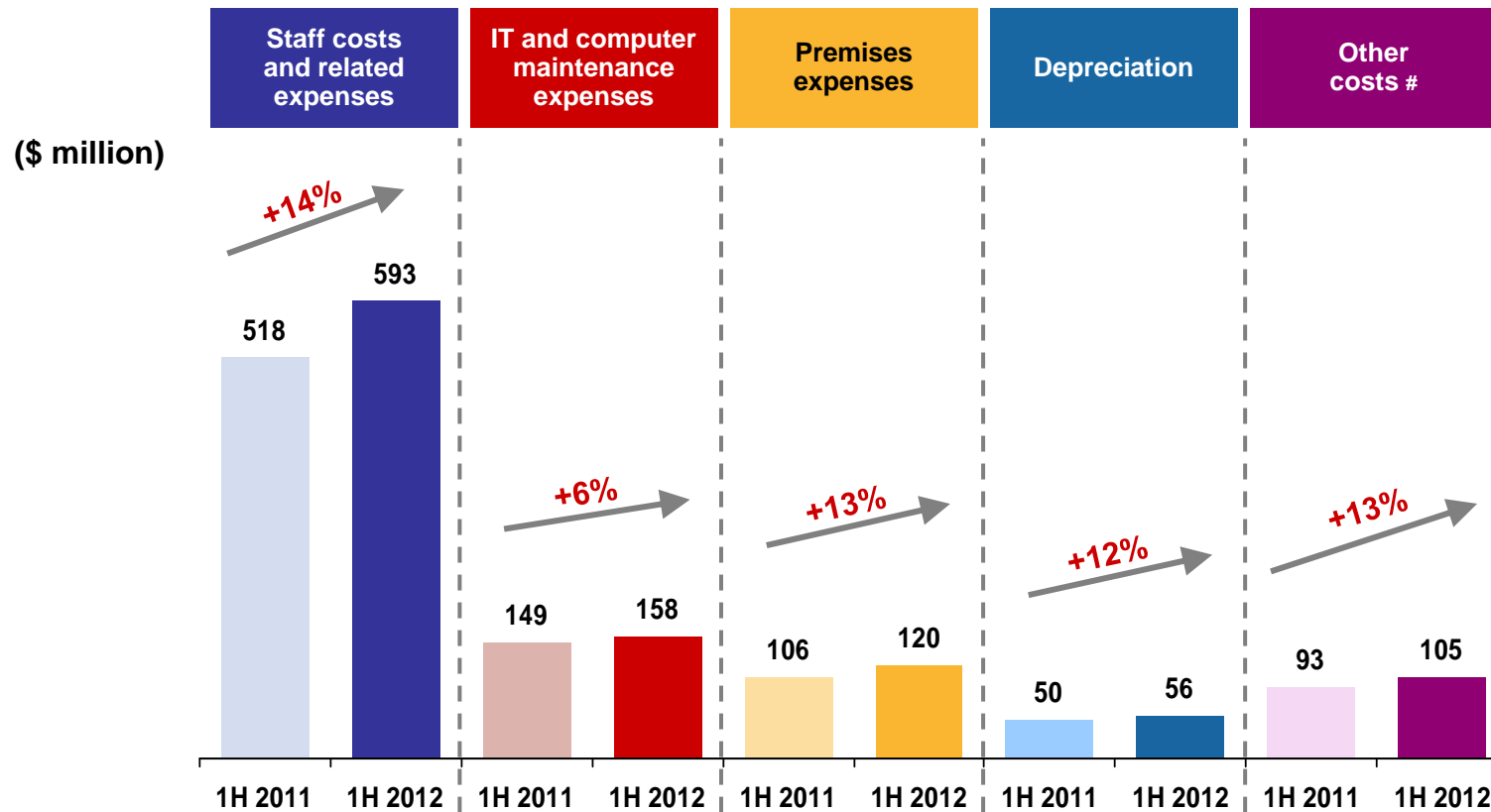
Although ADT dropped by 23%, profit attributable to shareholders only decreased by 14%. Capex and operating expenses rose due to implementation of various strategic initiatives

2012 Interim Results - Revenue and Other Income



**Although ADT of Cash Market fell by 23%,
total revenue and other income only decreased by 5%**

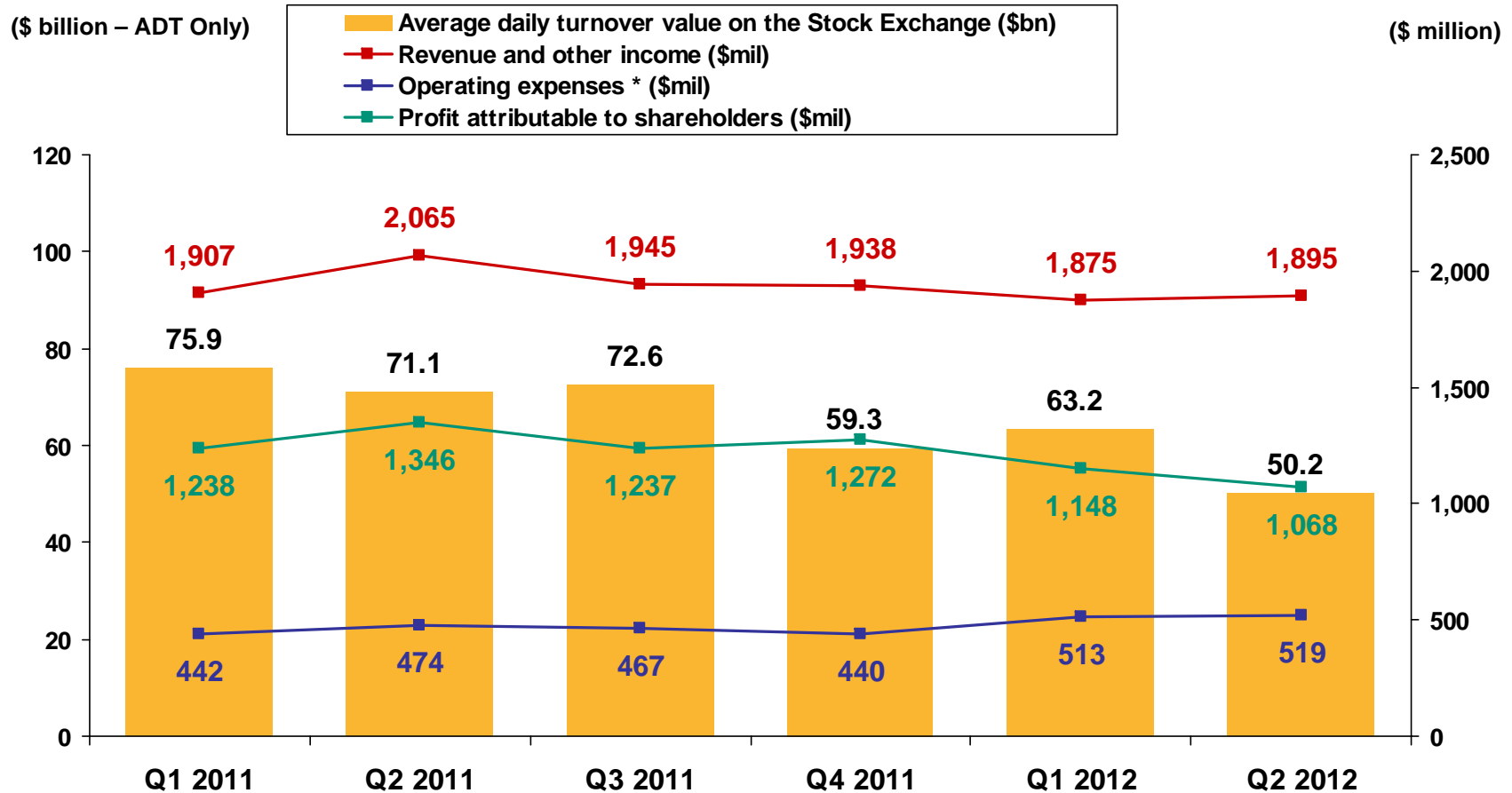
2012 Interim Results - Operating Expenses *



Operating costs rose due to an increase in headcount and implementation of strategic initiatives

* Excluding costs relating to the proposed acquisition of the LME Group
Other costs include product marketing and promotion expenses, legal and professional fees and other operating expenses

Quarterly Results Trend Summary



* Excluding costs relating to the proposed acquisition of the LME Group

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LME Update

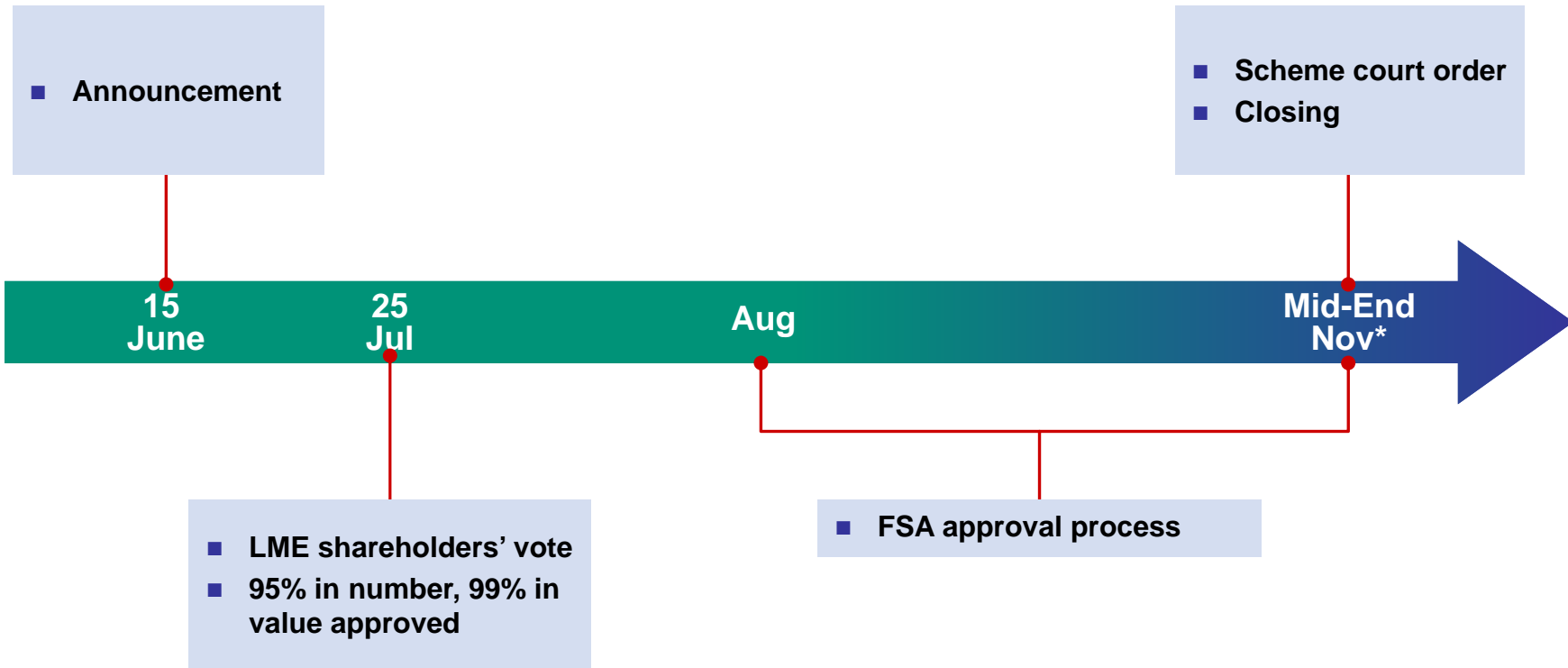
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Strategic Plan Update in Light of LME – A Holistic Approach

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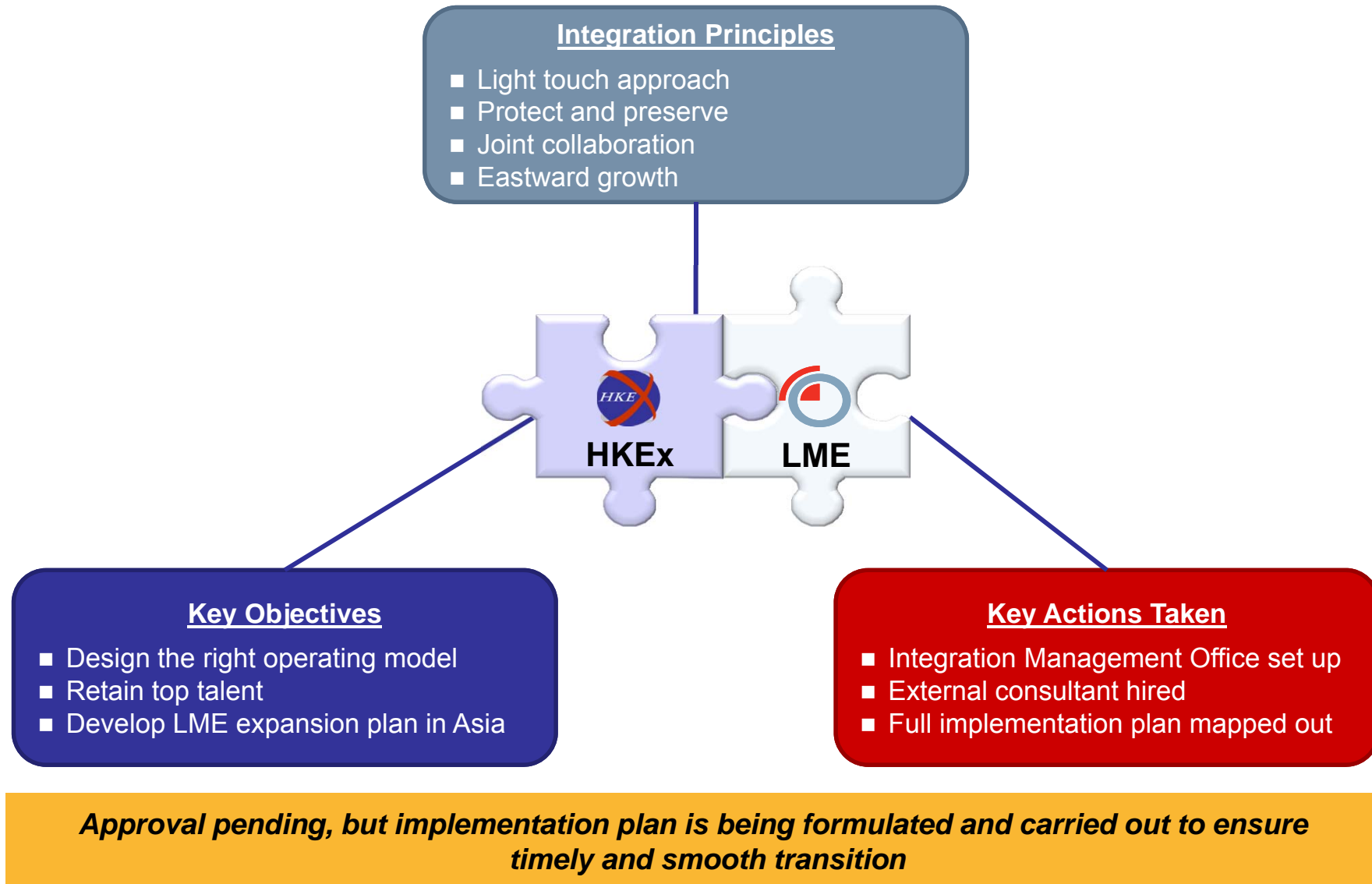
Transaction Update



Consideration will be funded by a combination of cash, debt and equity

Note: Estimate only.

Implementation Update



Key Business Developments



TRADING VOLUME

- Trading volume up by 16% in 1H 2012
- Growth led by Nickel (32%), Zinc (32%), Lead (29%) and Copper (16%)

FEE IMPLEMENTATION

- New Exchange User Fee for Client Contracts successfully introduced on 2 July 2012

SELF-CLEARING

- Technology partner selected – Cinnober
- Project on-schedule for Q1 2014 delivery

WAREHOUSES

- Recent announcement on 1 Aug 2012
 - New Nickel and/or Tin load out rates (minimum 60MT in total) effective on 1 April 2013

Key Market Development Update



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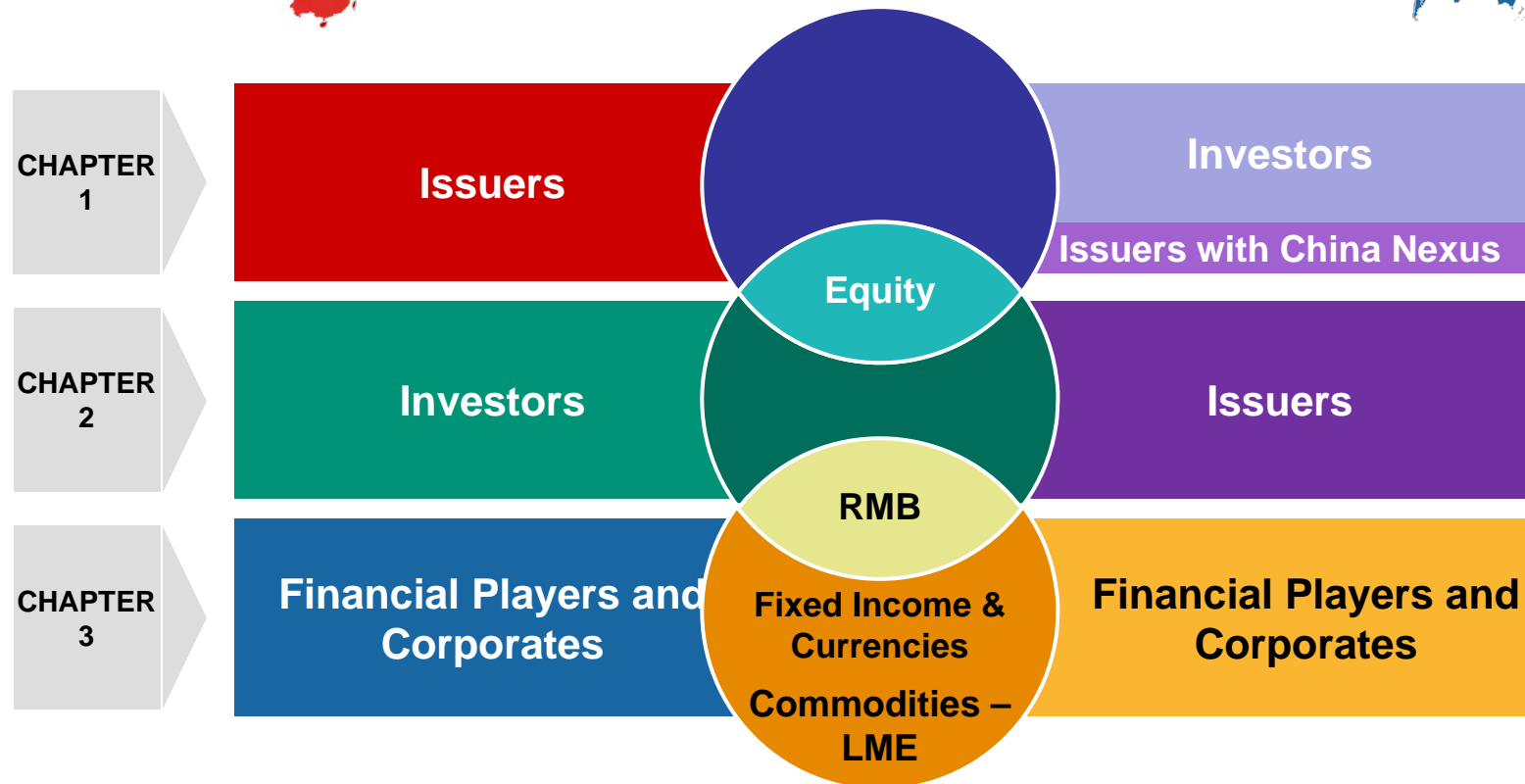
HKEx Strategic Vision

Diversifying HKEx's Businesses



China

International



Key Difference:

Chapter 1 – Money inflow to China (Capital Import)

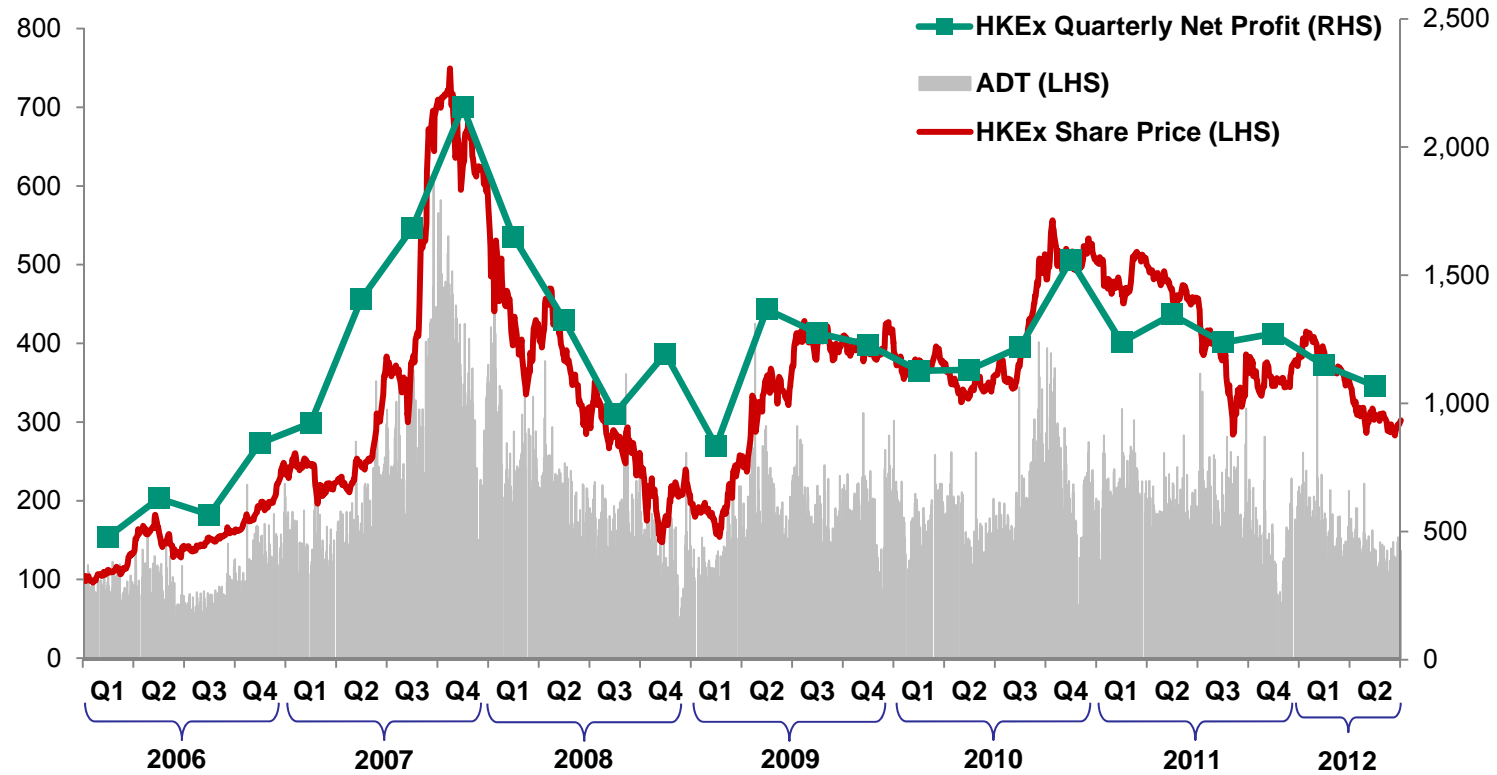
Chapter 2 & 3 – Money flows out of China (Capital Export)

Key Drivers of Our Chapter 1 – ADT Reflects IPOs and Global Equity Market Conditions



Rebased to 100 to 1 Jan 2006

HKD Million



- Highly successful, high margin business
- Susceptible to global market conditions
- Growth dependent on the pace of China market opening and cross-border access

Focus now is on diversifying growth opportunities and accelerating cross-border market access

Key Drivers of Chapters 2 & 3: Accelerated Opening of China's Capital Account



Drivers

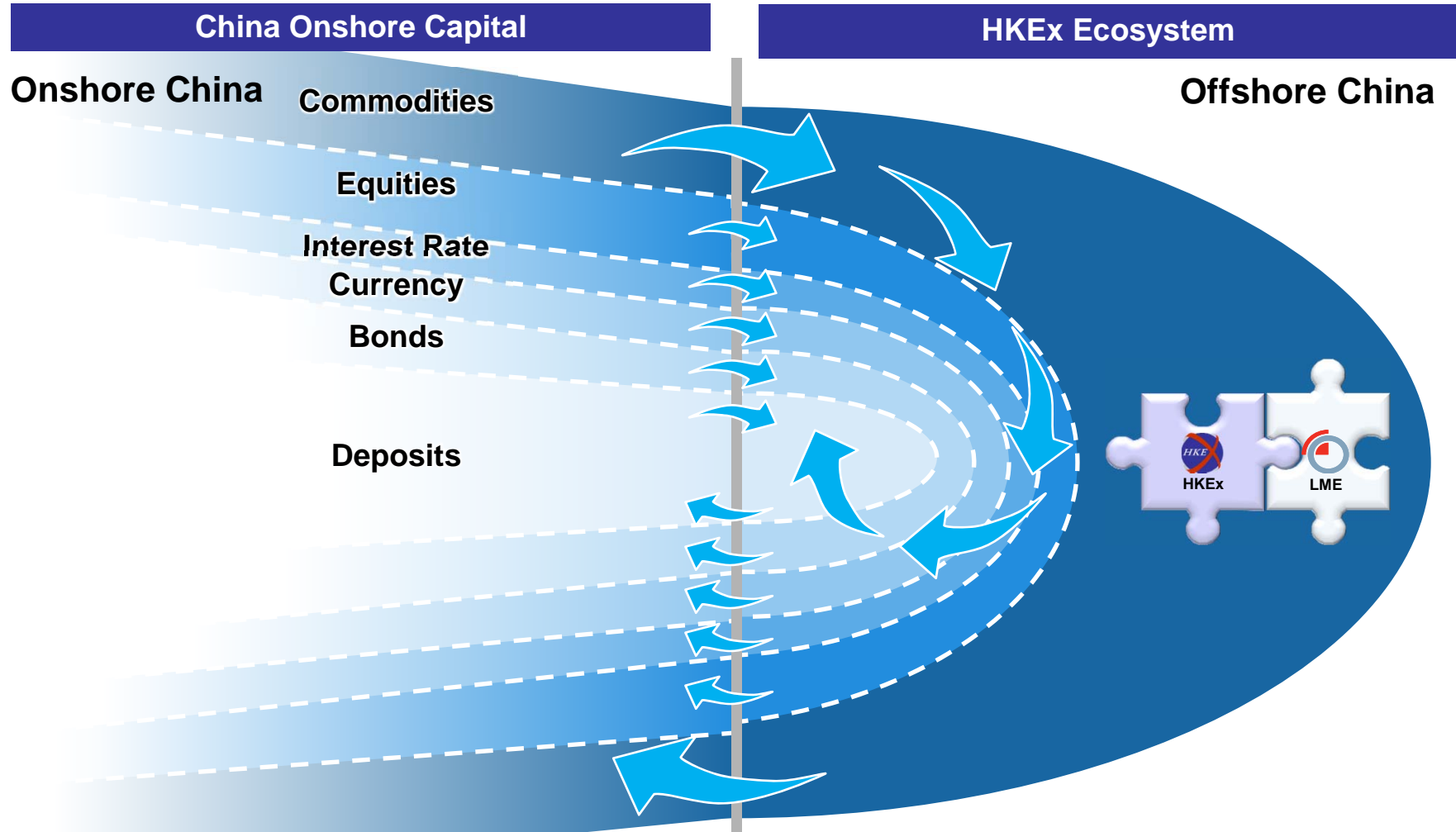
- Chinese investors to diversify offshore
- Chinese trades to be denominated in RMB
- Chinese financial & industrial players to trade, hedge and manage interest rate, exchange rate and commodity risks

Constraints

- Lack of suitable products offshore
- Lack of suitable platforms offshore
- Lack of comfort by China Inc. in managing the risks inherent in such outflow of capital

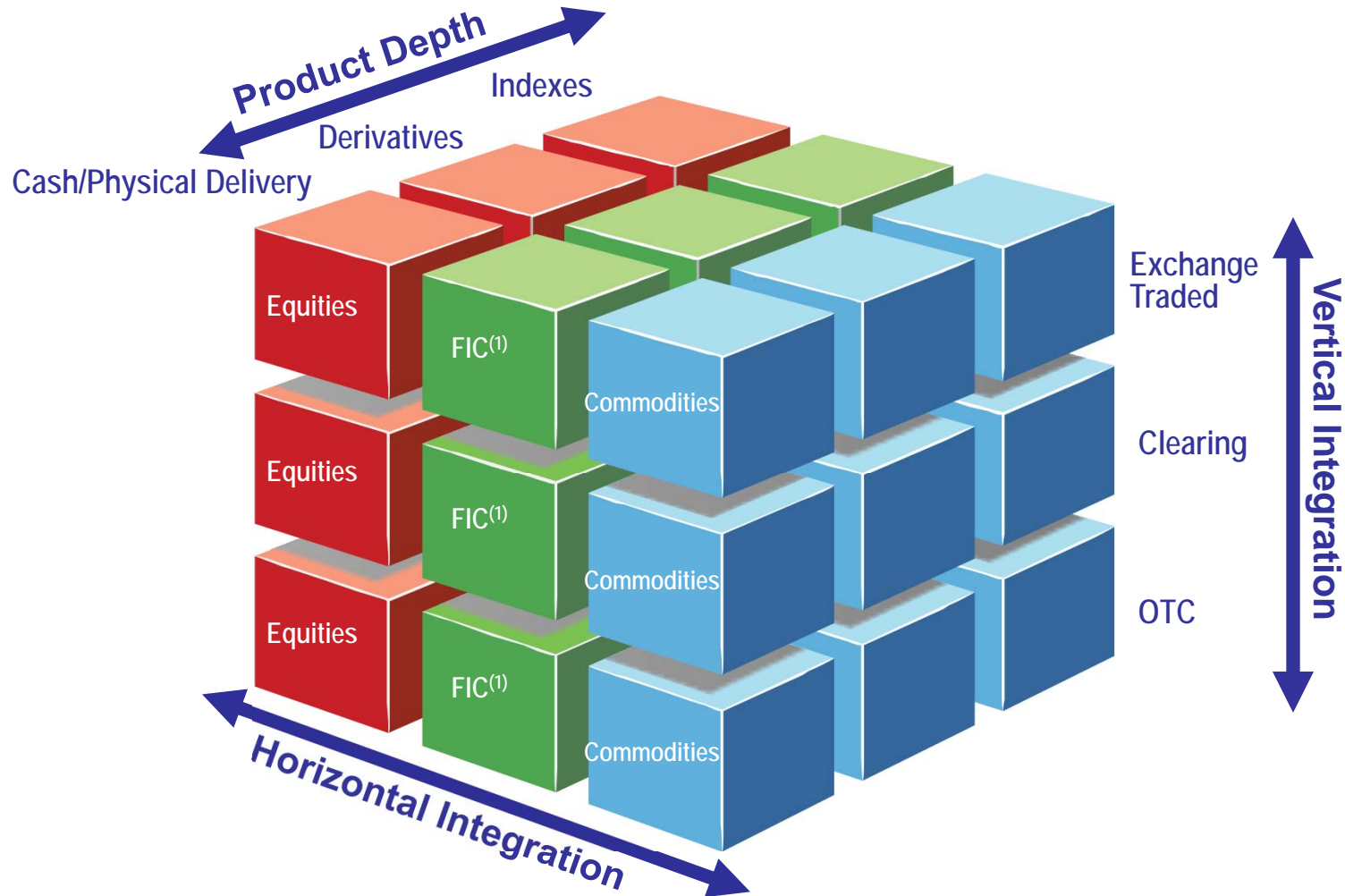
HKEx's challenge and opportunity: attract the capital, but provide the comfort

LME is a Breakthrough Platform for Internationalisation of the RMB and HKEx



LME is a catalyst for further expansion of offshore China capital / RMB pool across asset classes in HKEx ecosystem

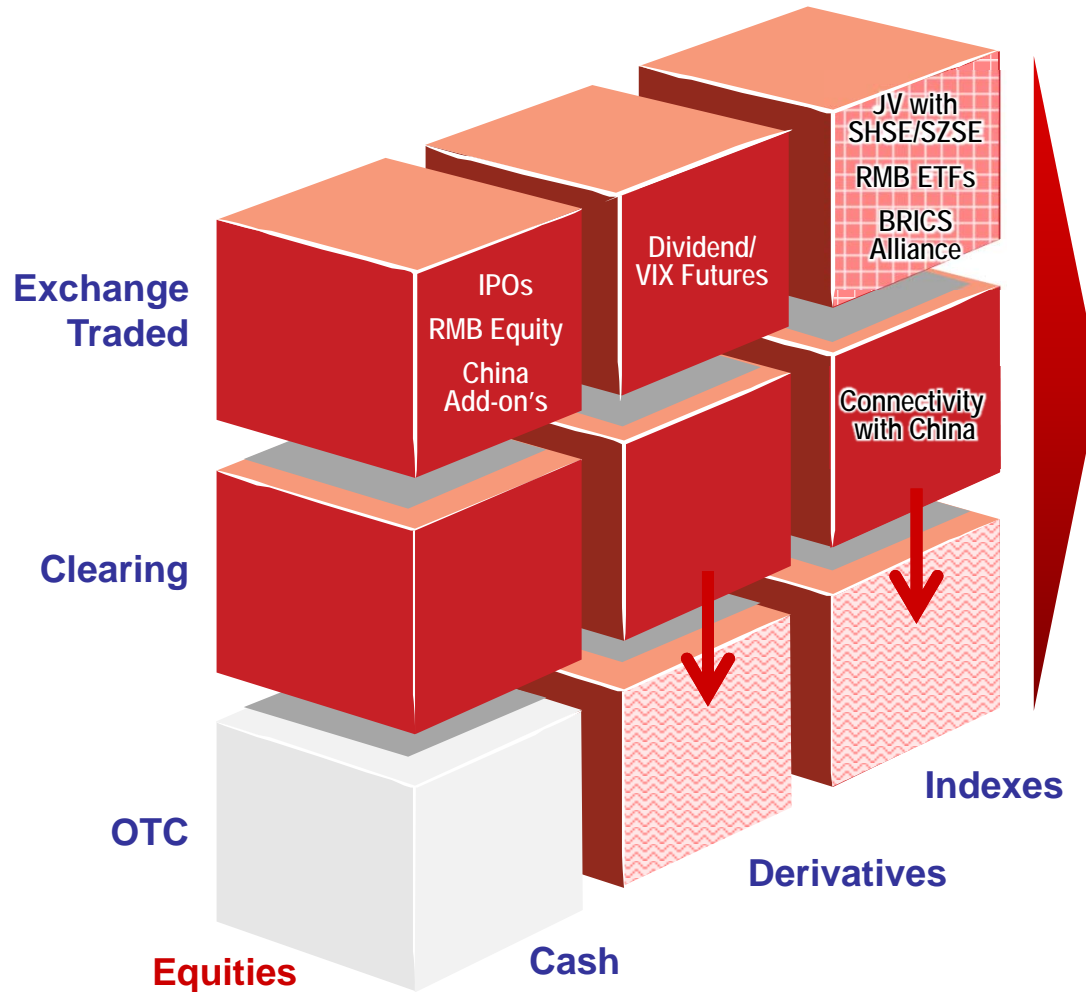
Building an Integrated Exchange Model



HKEx is building a vertically and horizontally integrated exchange model, with comprehensive product depth

1. Fixed income & currencies

Integrated Model: Equities

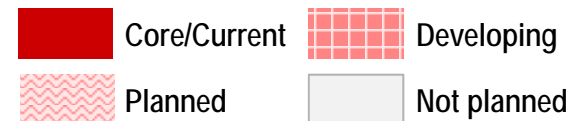


Cash Equities A Mature Business

- Foundation for further product and vertical expansion

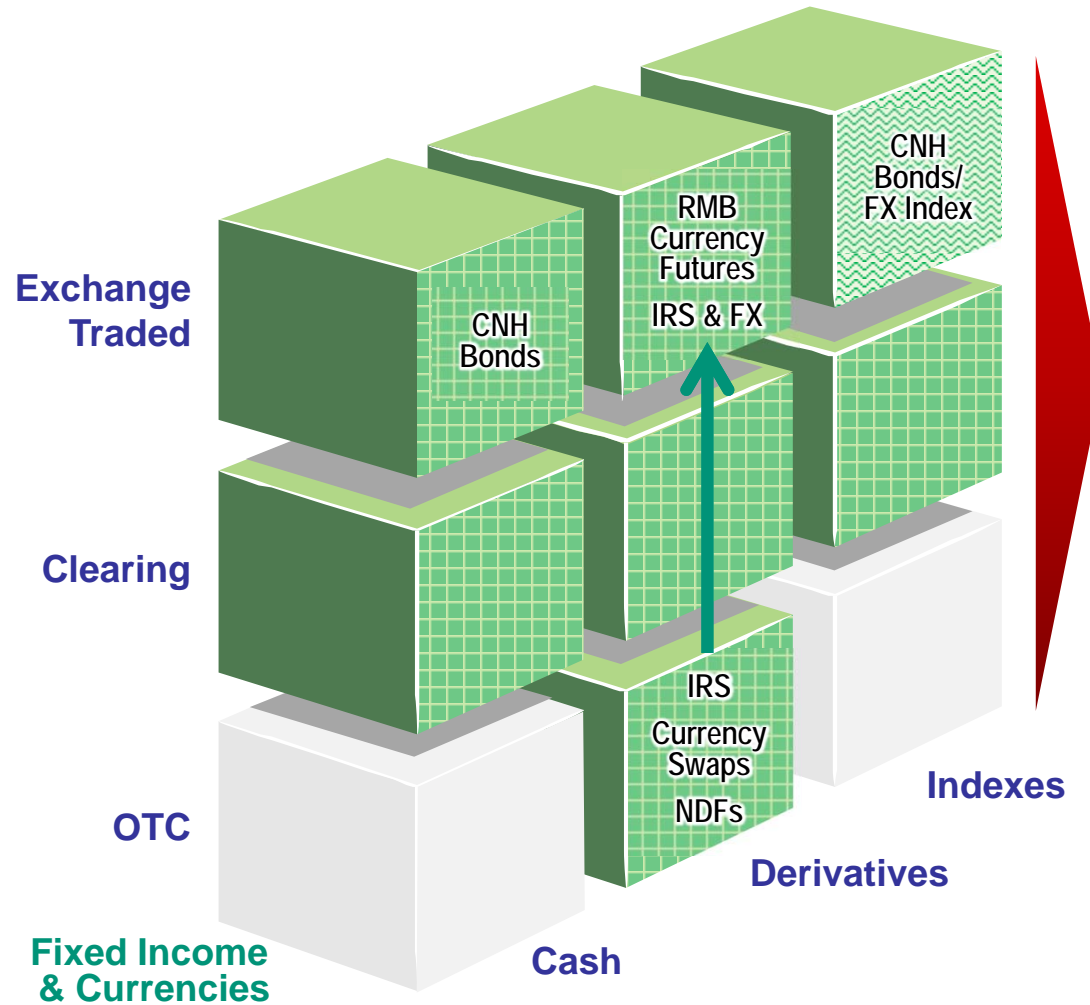
Further Growth Drivers

- Cross-border market access
- China secondary sell-down
- RMB equities
- Clearing OTC equity derivatives



Full product suite, mature business. Further growth geared to China market opening

Integrated Model: Fixed Income & Currencies

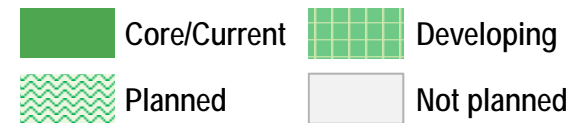


Organic Business Model

- Market entry leveraging on
 - Offshore RMB
 - OTC clearing as an enabler

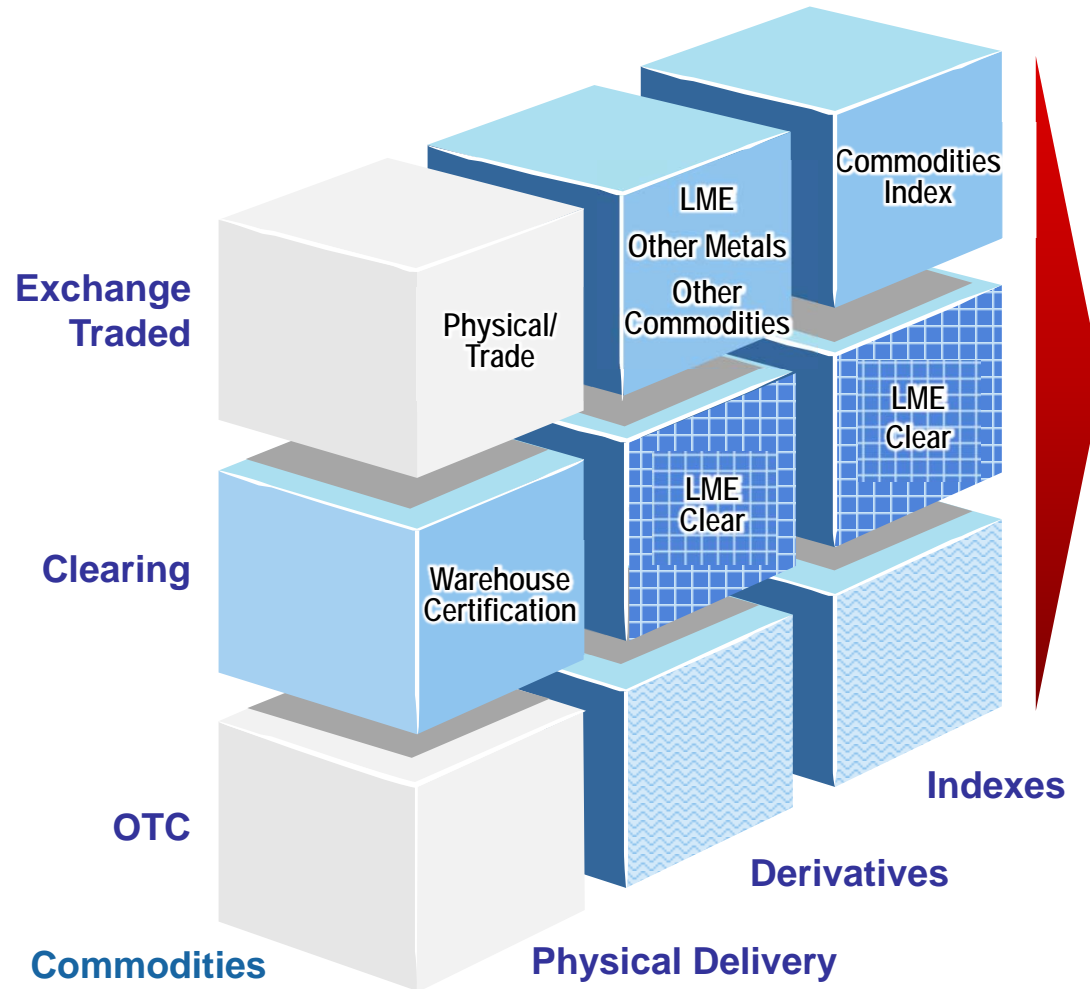
Key Growth Drivers

- RMB internationalisation – liquidity
- Mainland banks' risk management
- Development of benchmarks



Organic development from small base. Offshore RMB and OTC clearing for Mainland banks to drive growth

Integrated Model: Commodities







LME as Commodities Platform

- Warehousing critical...
- ...although we are not involved in physical commodities trading

Significant Further Organic Growth

- Mainland China
- Commercialisation of the LME
- Commodities clearing
- New products
- Other commodities

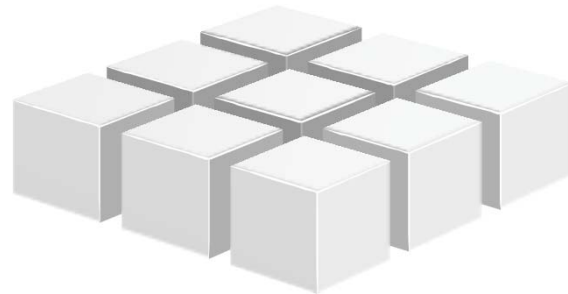
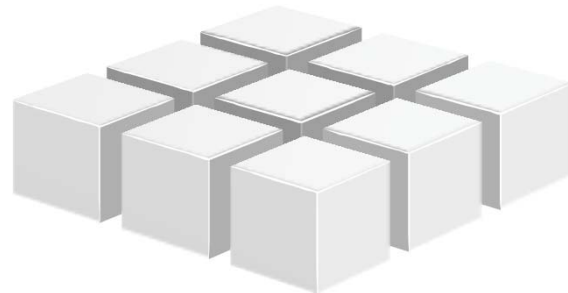
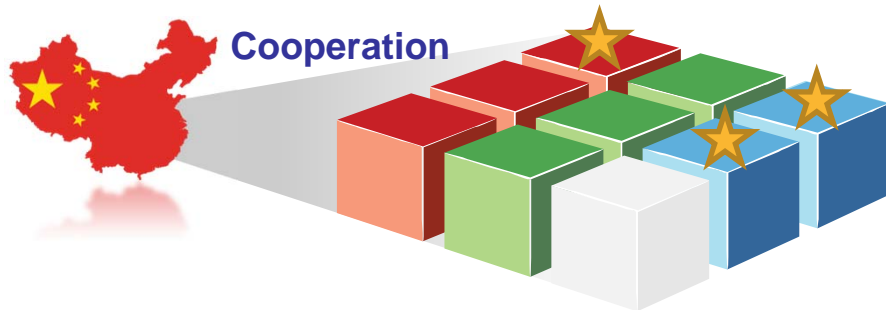
	Core/Current		Developing
	Planned		Not planned

Acquisition of LME to deliver commodities platform. Significant opportunities for product and vertical expansion

Product and Partnership Development at the *Exchange Layer*



Exchange Layer



Cooperation with China

- Product-driven opportunities
 - Offshore index & derivative JV with SHSE and SZSE

Capex Light

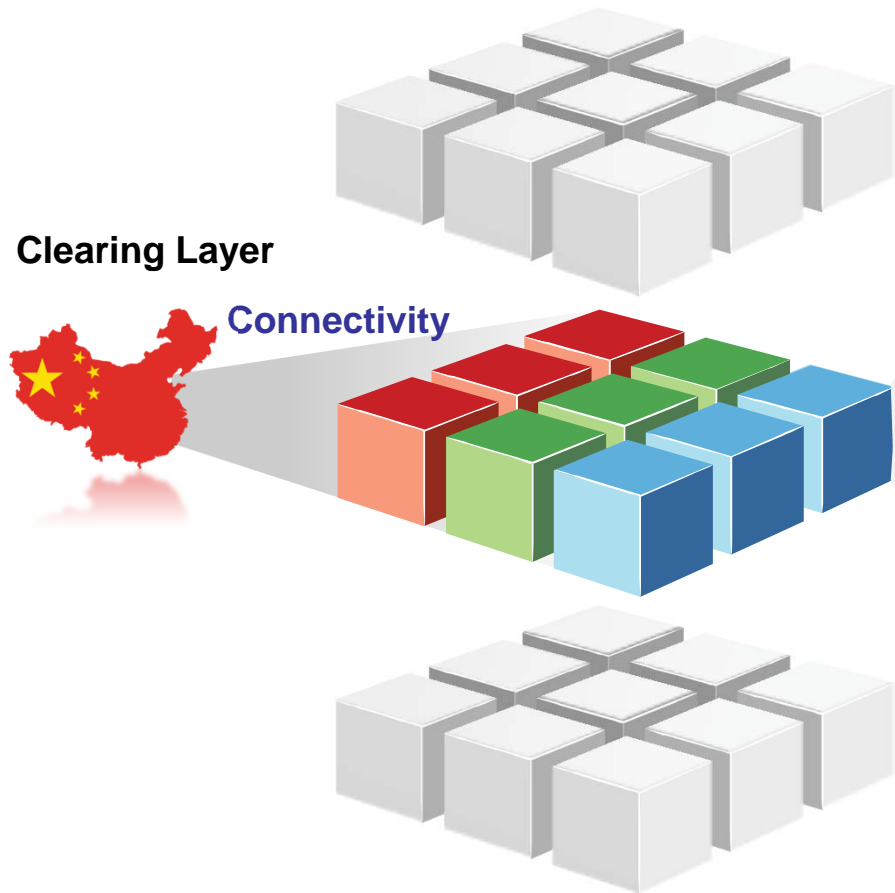
- No major infrastructure or platform investment needed

Moderate Opex

- Moderate Opex needed for people and product development

Extending asset class offering to maintain and enhance position as gateway between China and international markets

Connectivity and Earnings Protection at the Clearing Layer



Mainland Connectivity

- Establishing stronger connectivity at the clearing layer is critical for greater mutual market access across all asset classes
- Potential collaborations with China Clear, China Government Securities Depository Trust & Clearing, Shanghai Clear and China Futures Margin Monitoring Centre

Capex/Opex Required

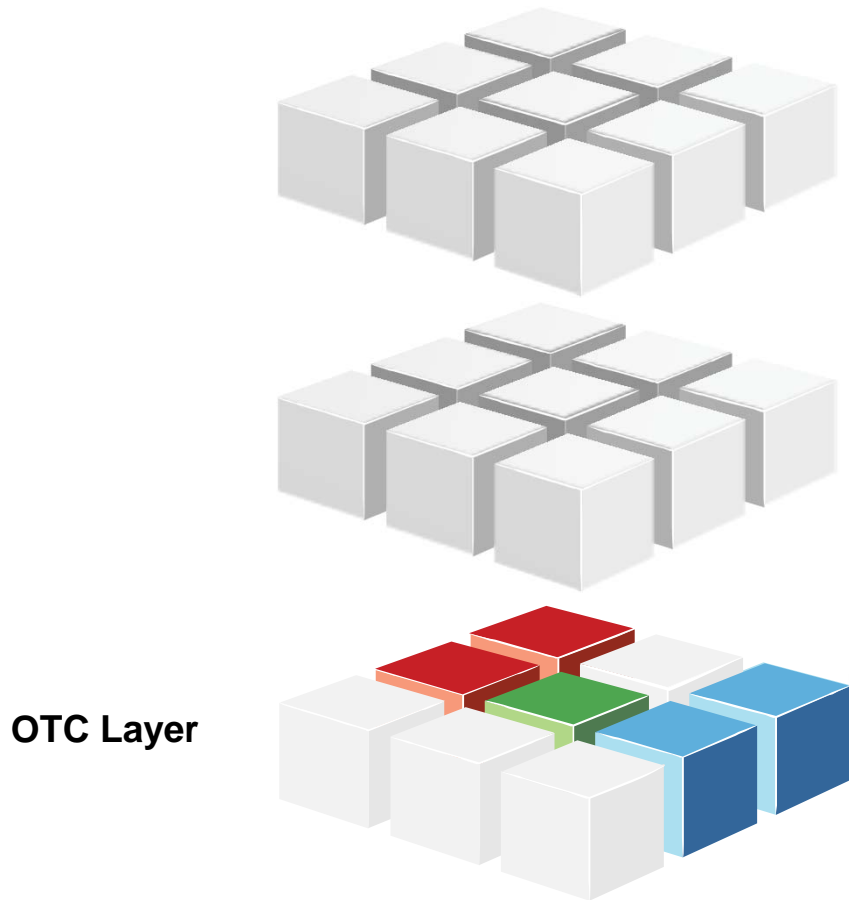
- Meaningful investment needed in the short term to build core connectivity infrastructure

LME Clear

- Strategically important in the vertical value chain and additional revenue stream

Critical enabler that provides connectivity as well as sustainable, sticky and defensible earnings streams

Substantial Revenue Possibilities by Leveraging Clearing at the *OTC Layer*



Huge Market Size

- Historically not accessible to exchanges

Recent Regulatory Trends

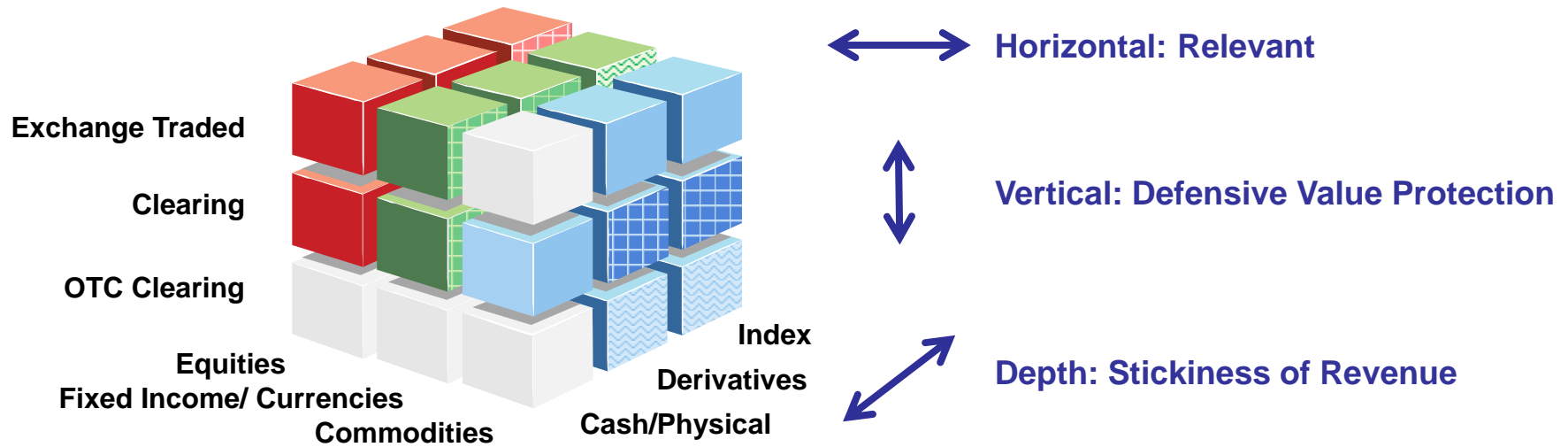
- Regulatory, capital and risk management requirements create opportunities for exchanges in OTC

LME

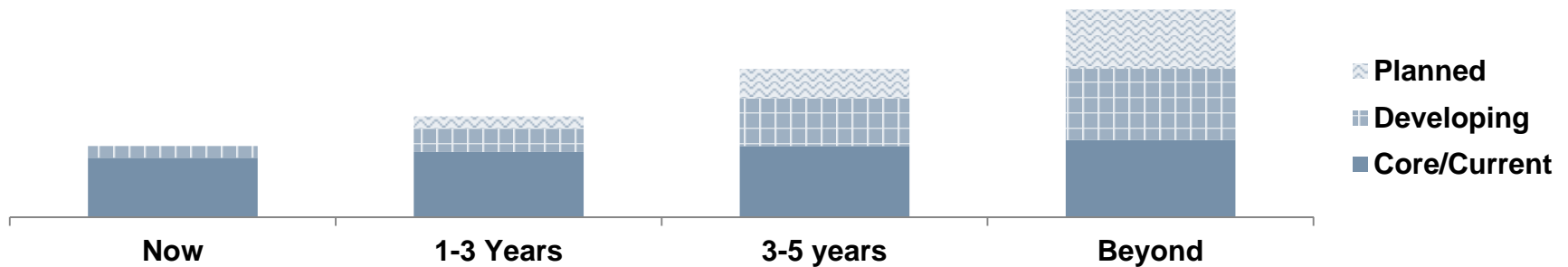
- Significant incremental revenue prospect in LME

OTC Clearing a primary lever to seek greater opportunistic value in selected Fixed Income, Currencies and Commodities

HKEx Integrated Business Model: Long-term Value



Realisation of Earnings Potential



Implementation will take time, but it will be well worth it

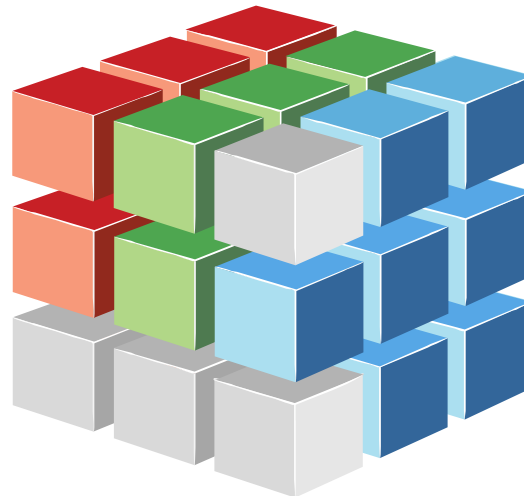
Conclusion: HKEx to Lock-in Diversified, Defensive and Sustainable Earning Portfolio



VALUE TO CHINA

Comprehensive product suite, diversified cooperation platform and risk management /clearing infrastructure with China connectivity

Integrated Exchange Model



LME AS A CATALYST

LME as a lever to facilitate the outflow of RMB and accelerate the building of the offshore RMB ecosystem

Structurally lock-in all opportunities brought by RMB internationalisation for HK and HKEx

VALUE TO HKEX



Questions and Answers

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Appendix – Additional Information

Update on Key Projects – Equities



RMB Equities

- First RMB Gold ETF – Hang Seng RMB Gold ETF
- First RQFII A-share ETF based on CSI 300 Index – ChinaAMC CSI 300 Index ETF
- Continued enhancement of RMB trading infrastructure
 - RMB Equity Trading Support Facility (TSF) expanded to cover ETFs and REITs
 - Practice session for Dual Tranche Dual Counter (DTDC) model

Offshore JV with SHSE and SZSE

- Agreement signed on 28 June 2012
- Business scope:
 - Development and franchising of index-linked and other equity derivatives
 - Compilation of cross-border indices
 - Development of industry classification for listed companies, information standards and information products

BRICS Exchanges Alliance

- Cross-listing of benchmark equity index derivatives launched on 30 March 2012
- Second phase of the alliance: development of an index representing the BRICS economies, from which new equity index-related products will be developed

Update on Key Projects – Fixed Income & Currencies



CNH Fixed Income and Currency Products

- First listed MOF RMB Bond of RMB 23bn
- RMB Currency Futures approved by the SFC
 - The world's first deliverable RMB currency futures to be quoted, margined and settled in RMB
 - To be launched in Q3 2012

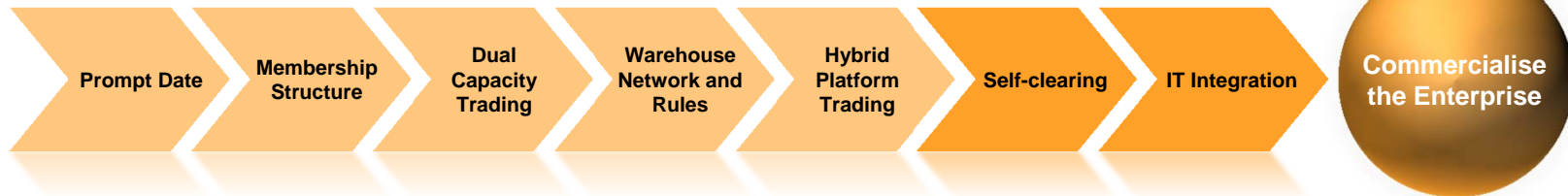
OTC Clearing

- Favourable regulatory development – A notice gazetted to include OTC derivatives in Section 392 of the SFO to facilitate voluntary clearing
- Implementing the clearing platform by selected system vendor (Calypso)
- Finalising risk management and operation model and consulting on clearinghouse rules
- Approaching key market participants as Founding Members to acquire minority shares
- Actively engaging international banks, Mainland banks, local and regional banks to join OTC CCP

Commodities – HKEx’s Strategic Plan Post Acquisition of the LME



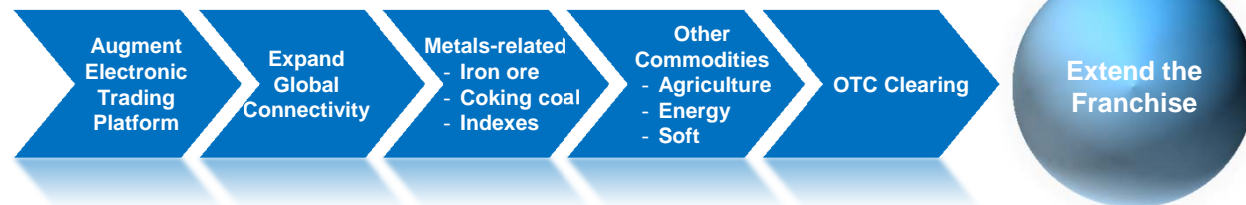
PRESERVE AND ENHANCE LME DNA



EXPAND LME TO ASIA AND CHINA

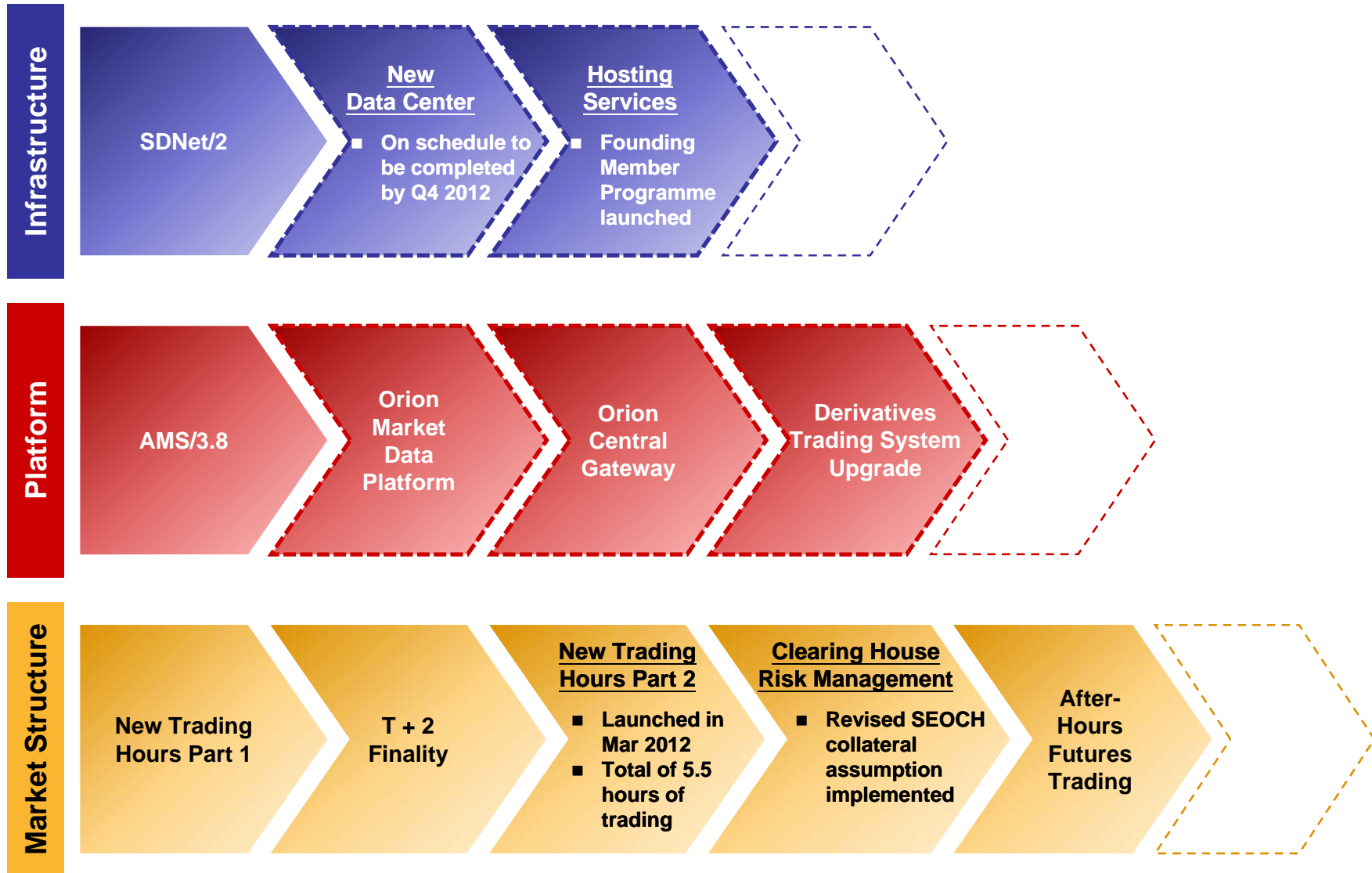


REALISE THE FULL POTENTIAL OF DEMUTUALISATION



***Incremental revenue growth from growing China and Asia volumes, self-clearing and new products.
EPS accretive to HKEx from 3rd year following completion***

Essential Infrastructure Investment – Progress Update



Update on Key Projects – Essential Infrastructure Investment



Infrastructure

- SDNet/2: Migration of network circuits for Cash Market Participants and IVs completed in mid-July 2012
- New Data Centre and IT Office Consolidation
 - Construction of superstructure completed
 - Data hall for enterprise data centre handed over to HKEx
 - Testing of IT systems and relocation procedures started in May 2012
- Hosting Services
 - Founding Members Programme launched in Feb 2012
 - Ecosystem Founding Members Conference held in May 2012
 - Expression of Interest process completed in May 2012 and responses in line with expectation

Platform

- Orion Market Data
 - Underway to provide a low-latency data feed for all asset classes traded in the HKEx markets in a common message format
 - Rollout scheduled for Q2 2013 for Cash Market and by the end of 2013 for Derivatives Market
- Orion Central Gateway
 - Development for Cash Market to be started in Q3 2012; vendor evaluation completed
 - Aim to reduce brokers' costs and offer additional features such as FIX support and "drop-copy"
- Derivatives Trading System Upgrade: Migration to Genium INET initiated

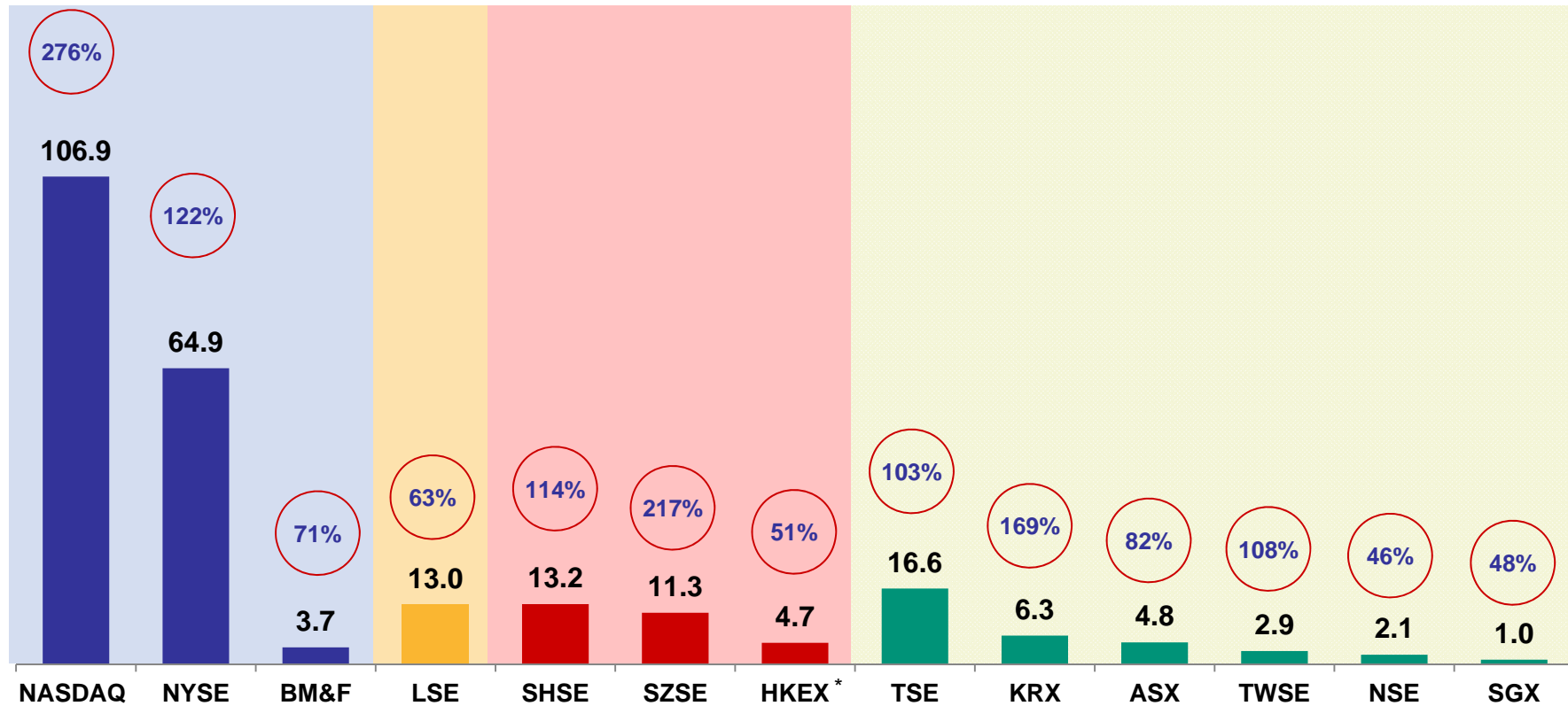
Market Structure

- New Trading Hours (Part 2): The second phase of the new trading hours implemented; the number of trading hours in the Cash Market for a normal trading day is now 5.5 hours
- Clearing House Risk Management Reform:
 - Successfully implemented the revised collateral assumption of SEOCH's Reserve Fund calculation by June 2012; other measures to be implemented later this year
- After-hours Futures Trading: Implementation date to be announced after obtaining the SFC's approval

Potential Impact of Mainland Investors



Last Twelve Months ADT & Velocity of Major Global Exchanges (in US\$bil)



Source: WFE, as of 30 June 2012

○ = LTM average velocity

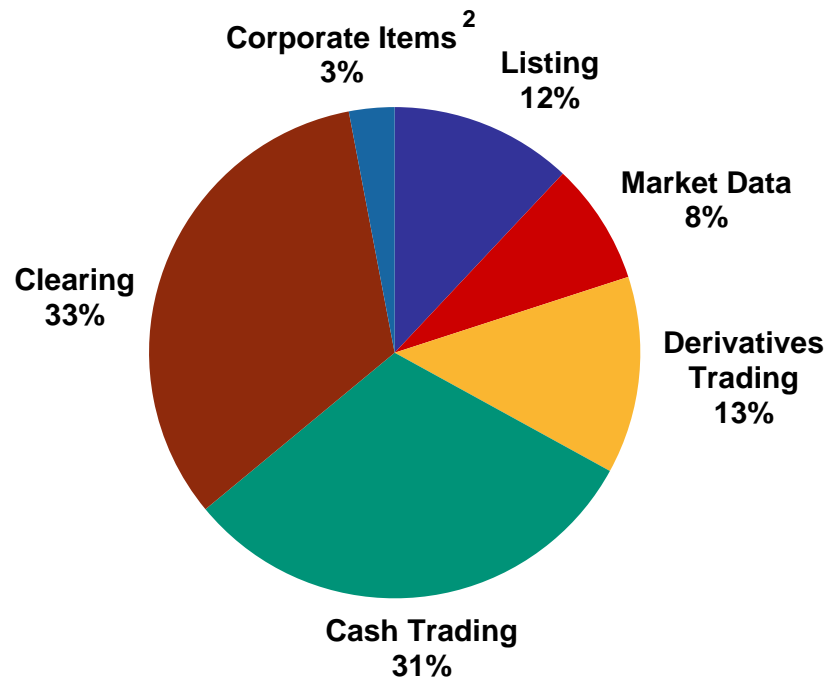
* Excludes structured products

HKEx has the potential to substantially increase velocity as China opens capital account

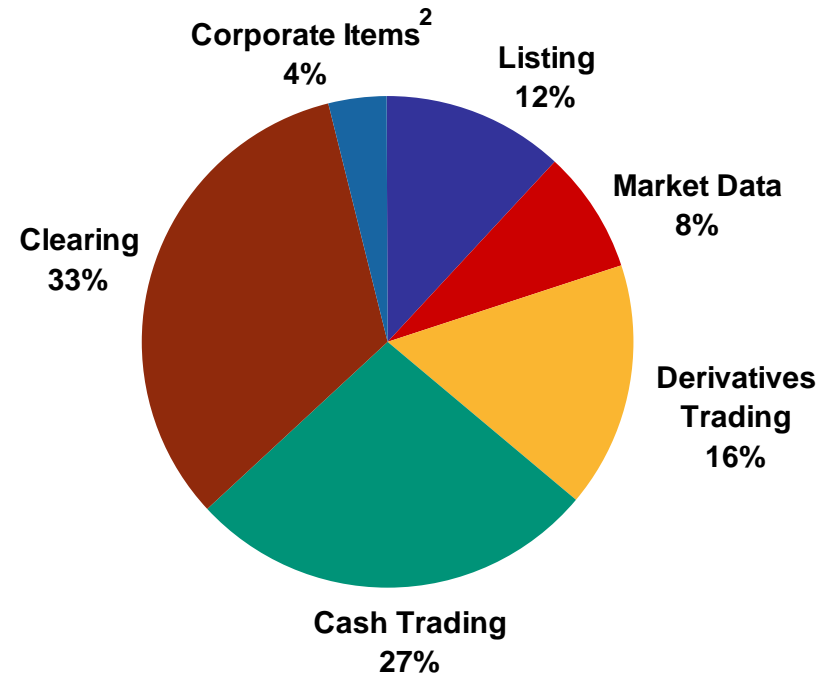
Revenue Contribution by Business Segments



1H 2011 ¹



1H 2012 ¹



- **Vertically integrated model with diverse and stable sources of revenue**
- **Increase in Derivatives Trading was mainly on account of higher net investment income of Margin Funds**
- **Decrease in Cash Trading was in tandem with lower ADT**

Note 1: Comprises income from external customers, net investment income and other income

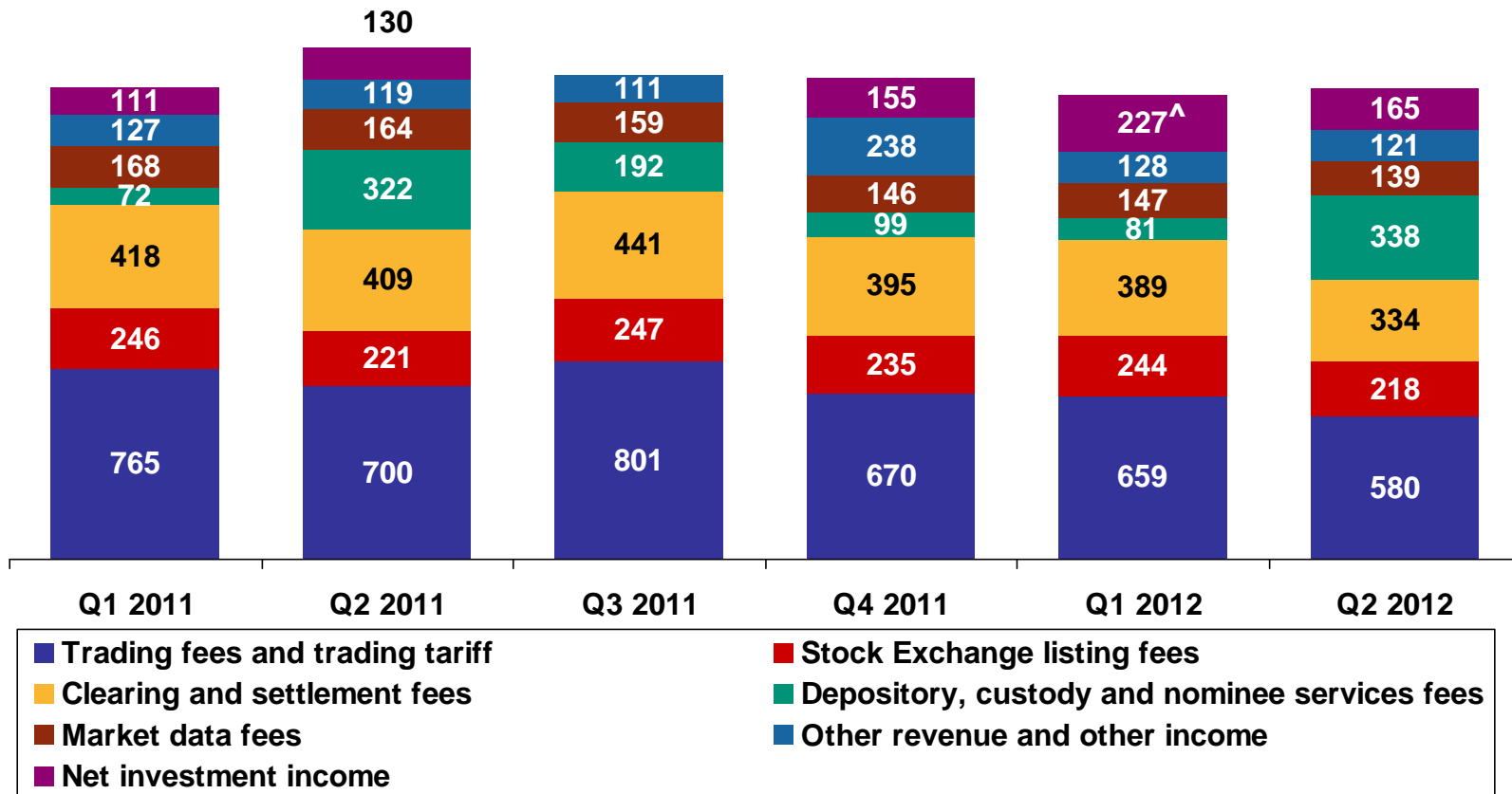
Note 2: Corporate Items include mainly net investment income of Corporate Funds

Quarterly Trend - Revenue and Other Income



(\$ million)

Total **1,907** **2,065** **1,945*** **1,938** **1,875** **1,895**



* Including net investment loss of \$6 million in the third quarter of 2011

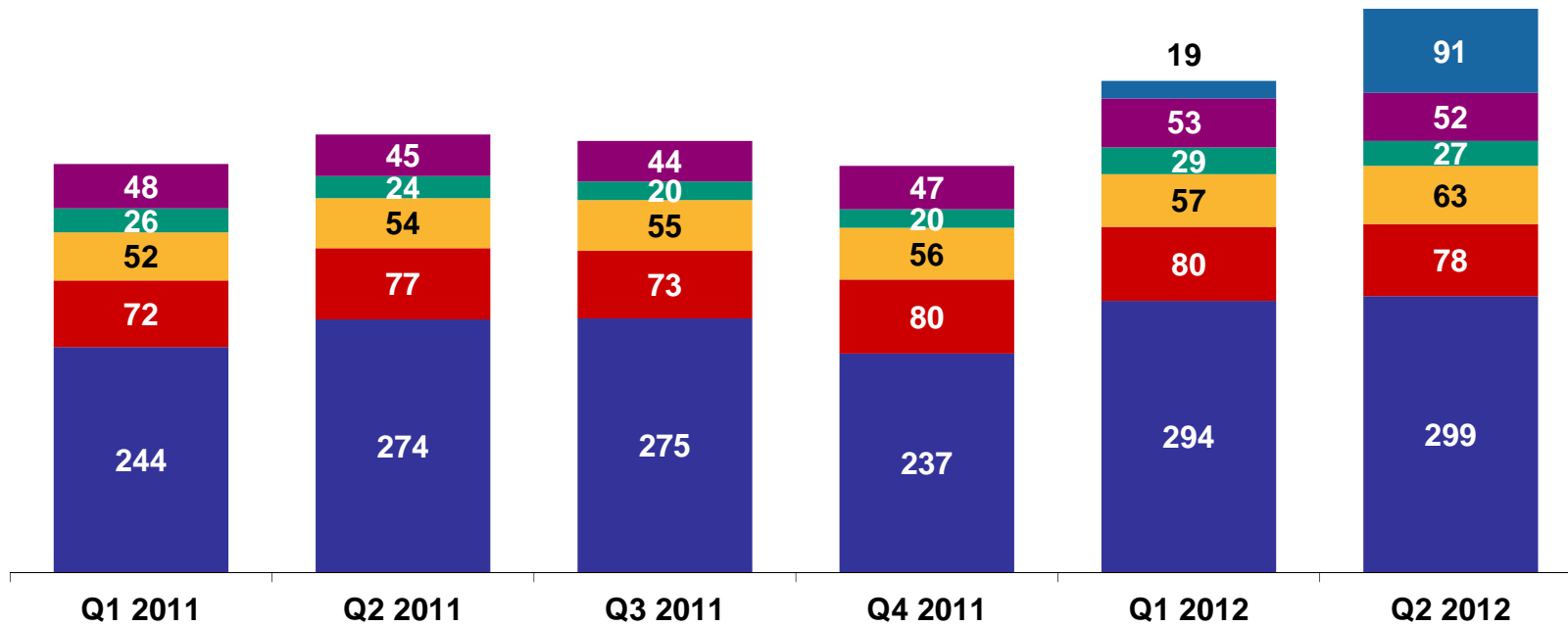
^ Including the forfeiture of unclaimed cash dividends of \$108 million held by HKSCC Nominees Limited in the fourth quarter of 2011.

Quarterly Trend - Operating Expenses



(\$ million)

Total **442** **474** **467** **440** **532 *** **610 ***



- Costs relating to proposed acquisition of LME Group
- Other costs #
- Depreciation
- Premises expenses
- IT and computer maintenance expenses
- Staff costs and related expenses

Other costs include product marketing and promotion expenses, legal and professional fees and other operating expenses

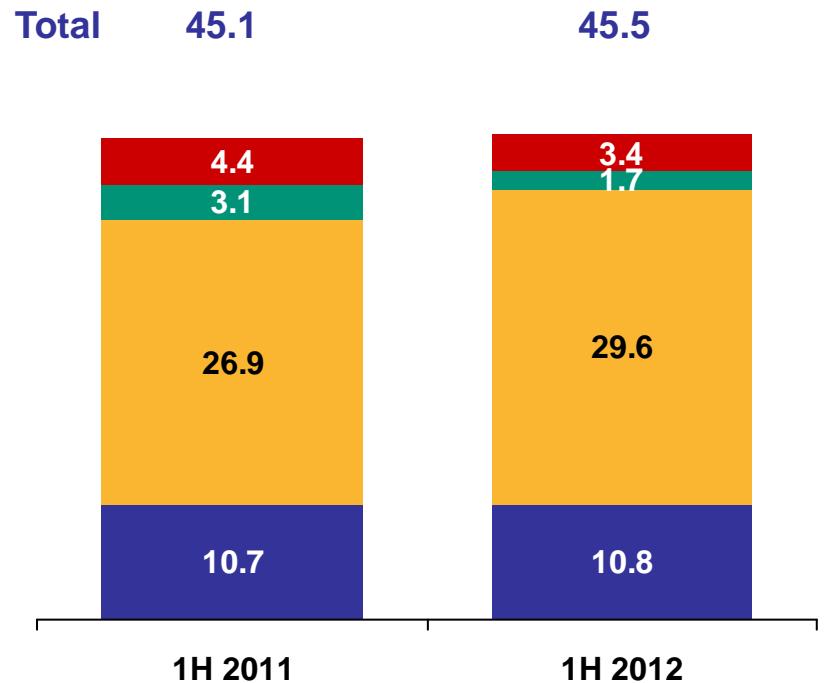
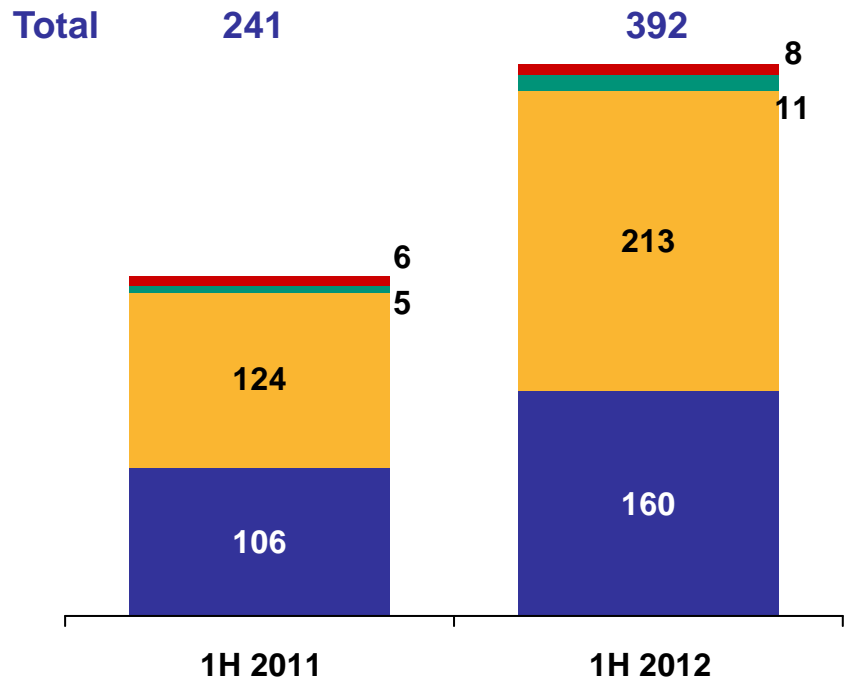
* Including costs relating to proposed acquisition of LME Group in Q1 2012 and Q2 2012

Net Investment Income by Funds



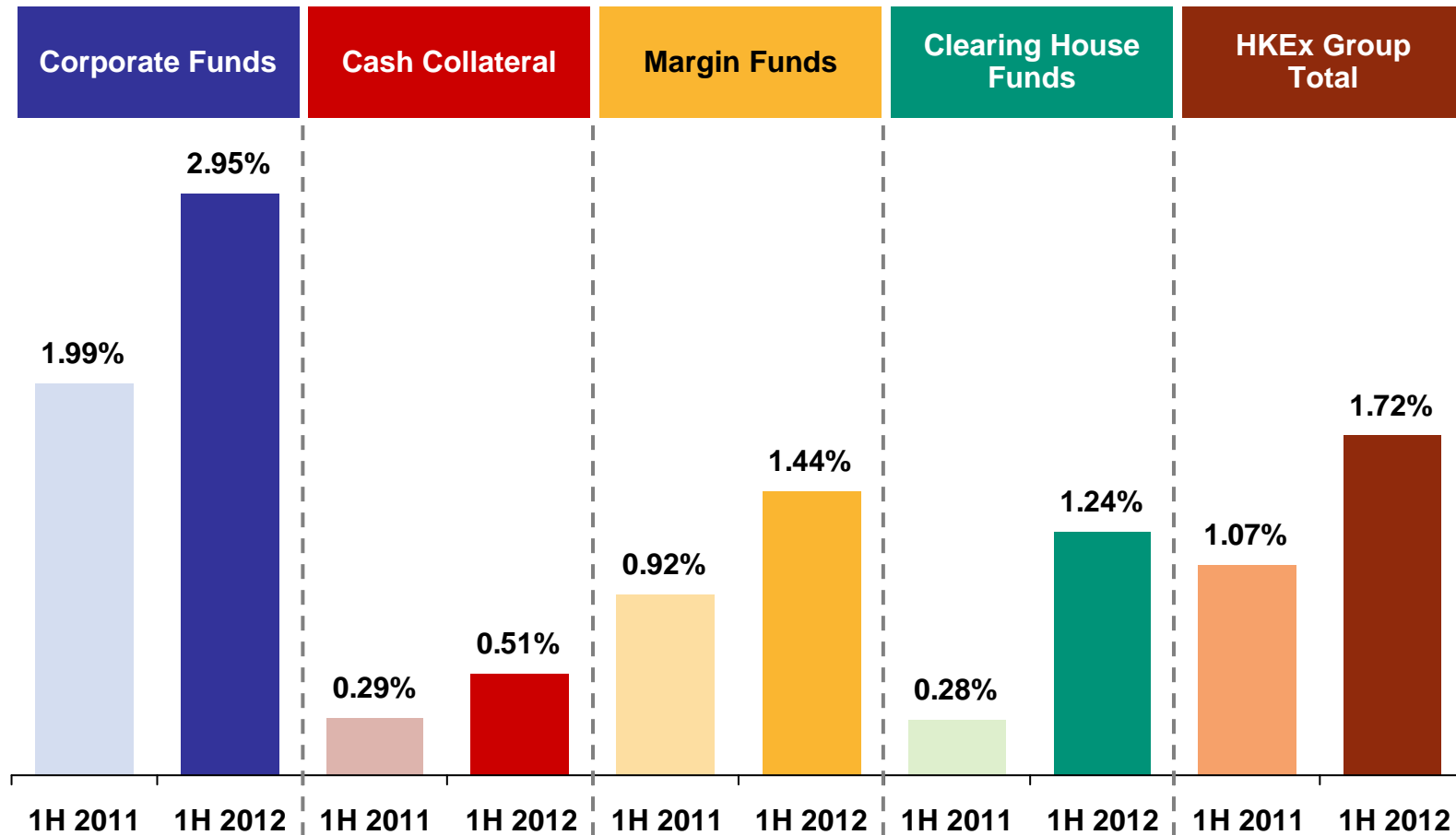
Net Investment Income (\$ million)

Average Amount of Funds Available For Investment (\$ billion)



■ Corporate Funds
 ■ Margin Funds
 ■ Clearing House Funds
 ■ Cash Collateral

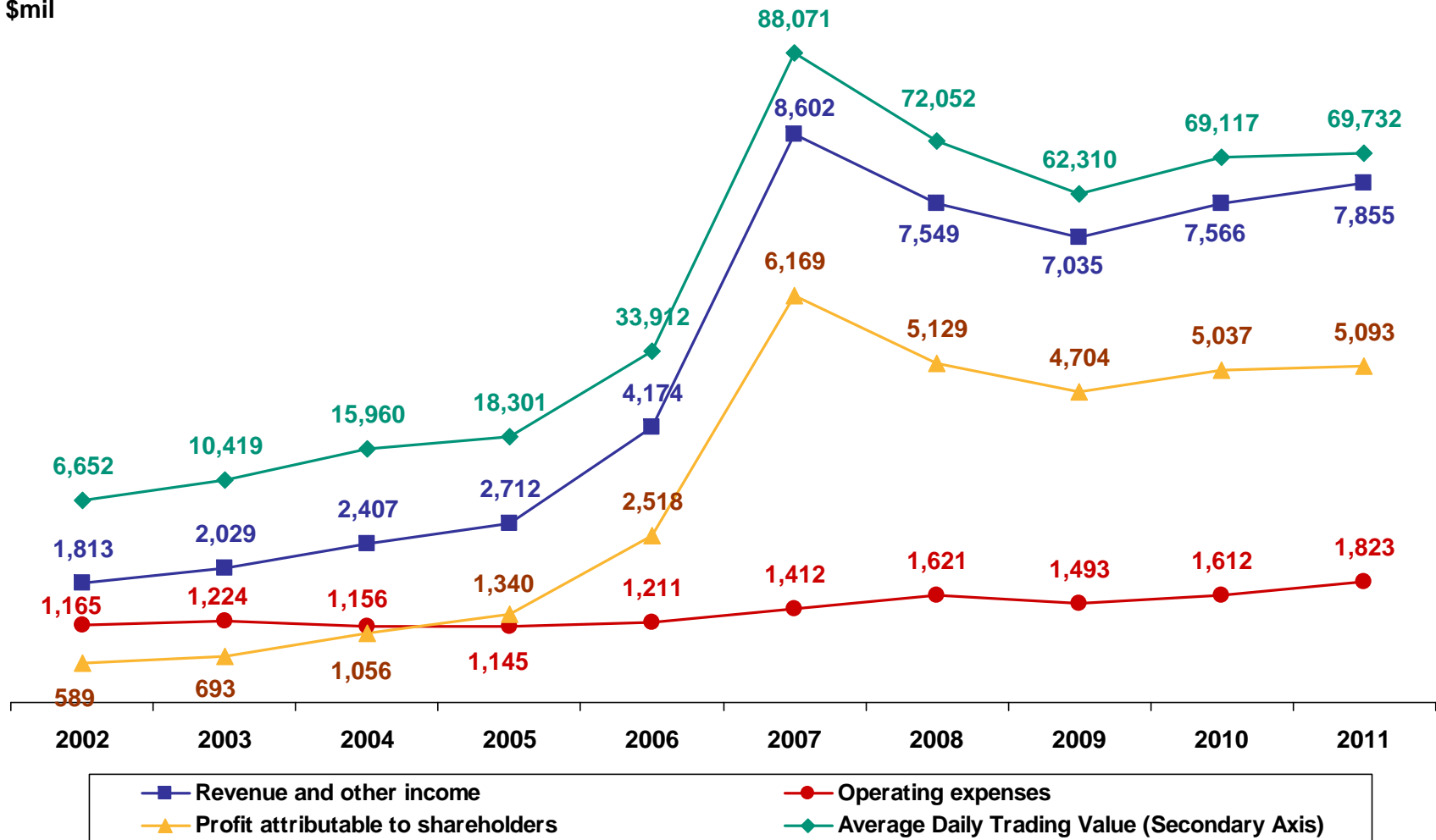
2012 Interim Results - Net Investment Return by Funds



Continued High Operating Leverage Despite Cyclical Markets



In \$mil



Note 1: Results of prior years have been restated to comply with the latest HKFRSs.

Note 2: Includes one-off gains on disposal of an associate and properties, and share of profits less losses of associates.

Source: HKEx Annual Reports