

**HKEx Chief Executive Charles Li's Elaboration
on HKEx's Strategic Plan 2013-2015
15 January 2013**

1. How do the new strategic plan and the previous one differ in terms of focus?

The new plan builds on the growth-oriented strategy of the past three years with the aim of taking us into a new phase of transformational development.

The focus of the previous plan was relatively general: making our exchange the leading global financial exchange by combining the best characteristics of Chinese and international markets.

The focus of the current plan is more specific: building our exchange into a leading global, vertically integrated multi-asset class exchange and preparing for the managed but accelerating opening of Mainland China's capital account.

The new plan's focus reflects two major developments since the previous plan was completed: our acquisition of the London Metal Exchange (LME) and further opening of the Mainland economy.

2. Why is HKEx pursuing its multi-asset class strategy?

There are three broad reasons behind our decision to pursue this strategy:

- (i) from a global exchange industry point of view;
- (ii) a diversification story – of revenue and growth; and
- (iii) leveraging our offshore status to build sustainable competitive advantages as the exchange of choice for our international investors seeking Mainland China exposure.

The best place to be in today's exchange industry is derivatives, in particular fixed income and commodities, because they are sticky (ie liquidity tends to stay where it is established). A very strong position in those assets can be created if an exchange owns the benchmarks as well as clearing services.

LME gives us the world's leading benchmarks for base metals. In fixed income and commodities we plan to build a first mover advantage in developing new benchmarks around renminbi (RMB) and Mainland China's fixed income market. From an exchange industry perspective this is absolutely the right thing to do.

With respect to growth and revenue diversification, today around 75 per cent of our revenues are from cash equity and 25 per cent from equity derivatives. Entering into fixed income and commodities will allow us to diversify our revenue base.

We are in a position to leverage our offshore status to build sustainable competitive advantages because of Hong Kong's unique position as a leading international financial centre and Special Administrative Region of China with its own economic and legal systems. Market players are increasingly concerned about risk management and sanctity of rules, particularly around counterparty risk and evolving regulatory regimes around the world. We believe our track record in strong corporate governance and compliance with international risk management standards will position us strongly in the clearing landscape, allowing us to become a leader in Greater China in fixed income, currency and commodities clearing.

In summary, we have adopted our multi-asset class strategy to bridge opportunities arising from Mainland China's capital account opening with our own competitive advantages; this strategy of extending beyond equities will also entrench Hong Kong as an international financial centre in the years to come.

3. Can HKEx elaborate on its implementation strategy for the commodities part of the new plan?

We plan to develop our commodities businesses in three principal dimensions:

First, we aim to grow LME's existing product suite and achieve strong growth in volume and geographic coverage by: (i) lowering the barriers to trading from Asia, particularly Mainland China; (ii) extending the LME's warehouse network in Asia, particularly the Mainland; (iii) developing Asia time zone clearing and possibly Asia time zone price benchmarks over time, and (iv) developing RMB clearing.

Second, we will leverage the LME brand, market leadership position and membership to extend our commodity platform into ferrous metals, such as iron ore; coking coal; and other commodities such as energy. In this regard, we will develop both proprietary benchmarks and trading platforms, as well as forming partnerships and collaborative relationships with both global and Mainland commodity leaders.

Third, we will develop LME's untapped potential by enhancing its electronic trading platform and infrastructure, expanding its contract types and making its business more commercial. In connection with the preceding initiatives, we will support the LME's effort to establish its own clearing house for base metals and help to equip it for Asian time zone clearing, RMB clearing and clearing of other products relevant to Asia.

4. With the acquisition of LME and with a new multi-asset class business profile, is cash equity still a core business HKEx will focus on and what is its strategy to further develop the business?

Cash equity is absolutely still a core business for HKEx. The strength of our cash equity business has been the primary driver for our success to date and will continue to serve as the foundation as we build and grow into a full asset class exchange leader in the coming years.

Our cash equity business is still strong compared with our global peers largely because of our leadership position not only in the Hong Kong market, but more importantly, underpinned by our role as China's primary offshore capital formation centre.

Our cash equity business has become, however, a growingly mature market in its current form, ie primary listing products are Mainland China-related equity issues and turnover is primarily international and Hong Kong investors. The two primary drivers of our growth, historically, have been underlying market capitalisation and average daily turnover (ADT). While new IPOs will continue to grow our market capitalisation, their impact will be limited by the growing base. New opportunities for growth will come from anticipated structural changes in the holdings of our listed companies from Mainland China as the Mainland, over time, begins to allow a much greater scale of sell-downs or other monetisation by their parents.

We aim to grow our ADT structurally via our strategy to develop much higher levels of mutual market access as the Mainland begins to accelerate the opening of its capital account and enhance the internationalisation of its domestic capital markets.

5. Can HKEx elaborate on its vision and plan for cooperation and/or partnership with the Mainland in cash equities and commodities?

We established relationships with Mainland regulators and stock exchanges in connection with Mainland enterprises' listings in Hong Kong and those relationships became stronger as our China Dimension grew.

In the past three years, we expanded our Mainland relationships by signing Memorandums of Understanding with the Mainland's four futures exchanges and setting up a joint venture with the two Mainland stock exchanges to develop indices and other new products and services.

In the next three years, we plan to extend our relationships on the Mainland across asset classes. In particular, we will be exploring partnerships or collaborative relationships to enhance mutual market access so that investors in our respective

markets can access investment products and opportunities in the others' markets across asset classes, and developing clearing and other infrastructure connectivity to enable such mutual market access.

6. How will the new strategic plan affect HKEx's capital expenditure?

We do not expect the plan to have a significant impact because we have already committed to major investments in our Hong Kong infrastructure through the HKEx Orion programme and our OTC clearing facilities, and the LME's building of LME Clear and some market infrastructure will be self-funded.

7. How will the new strategic plan affect HKEx's organisation structure?

We announced on 7 January an internal reorganisation to better align our resources to our strategic objectives, in light of our continuing transition towards a vertically and horizontally integrated multi-asset class exchange.

As our business has entered into a new stage of development with evolving changes in market coverage, asset classes, new products and regulatory interaction, we will continue to evaluate the soundness and effectiveness of our organisation and management structures so that we are able to stay ahead of the game and be competitive. While we will never change for the sake of change, we will not hesitate to make changes if and when such changes are warranted.

8. What is HKEx's current policy regarding mergers, acquisitions, alliances, etc?

We are always open to exploring opportunities that would create value for our shareholders. We are also very selective and will continue to limit ourselves to agreements that make strategic sense for the company.

The LME is a unique asset with a compelling fit for us, so it is unlikely that there will be many other such opportunities going forward.

In the future, any agreements we enter are likely to be along the lines of the BRICS Exchanges Alliance and our China Exchanges Services Company joint venture with the stock exchanges in Shanghai and Shenzhen.