

**HKEx Chief Executive Charles Li's Elaboration
on HKEx's Strategic Plan 2010-2012
4 March 2010**

1. What are the key distinguishing factors between the Strategic Plan 2010-2012 and prior HKEx strategic plan?

- HKEx will be more proactive in taking advantage of Hong Kong's relationship with and expected developments in the Mainland, including internationalisation of the RMB.
- HKEx recognises that it has to be globally competitive with respect to technology, as well as trading and clearing structures.
- HKEx is now more open to developing capabilities externally rather than relying primarily on internal resources, which may result in strategic alliances and partnerships, as long as they help HKEx achieve its objectives.

2. The Strategic Plan 2010-12 contains 19 key initiatives. Is the plan too ambitious?

- The external environment, with the opening of the Mainland market and the rise of competing alternative trading venues, has become more complex. HKEx has to set out a plan to address these challenges in the near to medium term, if it wants to maintain its competitive edges, meet changing demands of its customers and position itself to capture long term growth opportunities. The strategic plan has defined HKEx's vision amid the new market landscape.
- The plan is a roadmap for HKEx to engage stakeholders with respect to the future of its markets and other operations.
- HKEx will remain focused on improving the quality and efficiency of its core operations. New initiatives will be implemented with prudence with flexibility as adjustments may be needed due to changes in external factors. Additional resources and capability will also be required. As a result, the initiatives in the plan do not necessarily have to be completed in three years.

3. Why doesn't the plan contain any specifics about key initiatives?

- It is a strategic plan, hence only indicates high-level direction. Details will be worked out through the annual operating plan and budgeting process. The market and stakeholders will be consulted on initiatives as and when appropriate.
- Implementation of these initiatives will be subject to market readiness, policy environment and many other factors.
- Specifics of these initiatives are subject to change as HKEx engages stakeholders in discussions and implementation.

4. How will the strategic plan affect HKEx's capital expenses?

- In 2010, HKEx will focus on building capabilities to deliver strategic initiatives.
- HKEx does not expect capital expenditure, or capex, to increase significantly.
- Initially, HKEx will focus on market system technology and capacity and other information technology (IT) initiatives. Other capex will depend on implementation of the initiatives.
- The Next Generation Data Centre in Tseung Kwan O is being developed with a preliminary total project cost estimate of \$700 million over the next three years.
- AMS/3.8, a technology and capacity upgrade of HKEx's securities market systems, will cost approximately \$100 million; the project is scheduled to start in the second quarter of this year, but will span across 2011-2012, so the cash flow and profit and loss impact will be smoothed out.
- The technology and capacity upgrade of HKEx's derivatives market systems cost about \$47 million and is expected to be completed, for the most part, by end of this year.
- Further IT capex will depend on:
 - When the next generation platforms are rolled out and their technology arrangements (latency, capacity and functionality); and
 - The implementation timetable for strategic initiatives which require heavy IT investments (for example: OTC clearing, Mainland connectivity).
- HKEx will conduct further studies to determine the timetable and approach for implementation for various initiatives and will inform the market of the details at an appropriate time.

5. How will the new hiring required for the implementation of the strategic plan affect HKEx's spending?

- HKEx expects a modest impact of \$20 million this year related to the hiring of around 20 new staff for the Market Development Division.
- HKEx will encourage job rotation and expects to transfer some staff from existing divisions and departments to the Market Development Division.
- HKEx anticipates a modest increase in headcount which should not have a major impact on premises requirements and related expenditure.

6. How will HKEx's new initiatives affect its dividend policy?

- HKEx will fund new initiatives under the strategic plan, such as the data centre in Tseung Kwan O and AMS/4 internally.
- The Board affirmed at its meeting today a dividend payout ratio of 90 per cent.
- At this stage, HKEx does not expect any change in its dividend policy
- Any change in dividend policy is likely to be driven by investment for growth, either for attractive anticipated returns or strategic reasons.

7. With red-chip companies said to be planning to list on the Mainland, more Mainland companies listing on the A-share market, and the Shanghai Stock Exchange planning to introduce an international board, it appears HKEx could suffer from new issuers and reduced market liquidity. How does the strategic plan address this situation?

- HKEx is confident that the further opening and advancement of the Mainland market will create new opportunities for HKEx that will be global in scale and scope, and will broaden HKEx's international prospects.
- HKEx will continue to encourage international issuers to list in Hong Kong while further improving its competitiveness to maintain the support of market users (including issuers and investors).

8. The strategic plan seems to imply HKEx thinks Mainland investors will use Hong Kong as a gateway to invest overseas. What makes you believe that will happen and when do you expect it to happen? Moreover, what are the specific renminbi (RMB) products HKEx has in mind?

- With economic advancement, the opening of the Mainland market is the trend. This will provide HKEx with growth opportunities and HKEx expects it can make the most of the opportunities by complementing and cooperating with the Mainland.
- Hong Kong can work with regulators, exchanges and other institutions to design and introduce properly approved systems and market practices appropriate for the growing participation of Mainland investors in offshore markets.
- HKEx will position itself as the market of choice for Mainland individuals and institutions interested in investing in securities and derivatives offshore although policy changes in this area are not likely in the very near term.
- HKEx sees the internationalisation of the RMB as a priority of China and an area where Hong Kong can contribute significantly to the country's further success.

- HKEx aims to support the internationalisation of the RMB by offering RMB investment products in its well-regulated, international markets. Hong Kong and its markets are well-positioned to be a leading provider of RMB products outside the Mainland since the city is both an international financial centre and part of China.
- HKEx is exploring RMB products but it is not in a position to give a timetable on product launch as timing will depend on the development of regulatory policy, market readiness and other external factors.

9. How does HKEx see the emerging competition in the secondary market?

- HKEx has been open to competition in the secondary market – not so much within Hong Kong but from overseas with other markets. In the near to medium term, HKEx does not expect Alternative Trading Systems (ATS) will have much impact in Hong Kong, as is the case in other Asian markets.
- Stamp duty is an impediment to ATS' entry to the Hong Kong market. The size of the local market also makes it hard for an ATS to make sustainable profits. That said, the Hong Kong market's growth opportunities will result in increased market size, which will in turn attract rival trading facilities in the region and elsewhere to Hong Kong. HKEx will face more intense competition as the Hong Kong market grows.
- Therefore, the capability, efficiency and competitiveness of HKEx and its markets must be increased so they will be in a strong position to face emerging rivals.

10. Where does HKEx stand on mergers and alliance now, have its views changed as a result of the new strategic plan?

- Although HKEx has not identified any significant synergistic opportunities, it is open to possible cooperation, joint efforts, etc.
- Due to changes in the financial market landscape, HKEx will consider international opportunities for alliances, partnerships and other relationships that present strategically compelling benefits consistent with its focus on markets in China.
- HKEx will consider selected opportunities in the areas where it can enhance its capability and strengths in technology, business and services.
- HKEx will not pursue alliances, partnerships or other relationships purely for investment gains.

11. Why was HKEx's organisational structure reorganised at this time? What will be the responsibilities of the Market Development Division?

- HKEx wants to align its structure with the strategic direction set out in its strategic plan.

- Key drivers of the existing business remain largely unchanged in the new structure as HKEx plans to continue developing its core business and operational excellence and benefiting from its strengths in those areas.
- The main changes reflect HKEx's desire to extend and expand its business to capture opportunities and preserve its competitive advantage.
- HKEx expects modest hiring in the Market Development Division, which was created to support evaluating and implementing opportunities critical to the long term growth of HKEx's markets.
- The Market Development Division will focus on capturing future China opportunities, broadening HKEx's issuer base, assessing new product development concepts and enhancing the competitiveness of HKEx's market structure and market systems. The division will work with different business units on further development and implementation of the initiatives in the new strategic plan.
- The new structure will help HKEx collaborate more with its constituents and counterparts and develop stronger ties with them as it moves to the next phase of its development.

12. A number of senior employees have been at HKEx for a long time and no longer have to wait to exercise any of their stock options, so do you expect more departures of your senior employees? If such happens, how would that affect HKEx's operations and growth plans?"

- HKEx does not foresee the need for a major management reshuffle in the near future.
- HKEx has a strong and established management structure to ensure its operations continue running smoothly, its systems remain stable and reliable, and its plans will be implemented when senior executives retire or leave.
- HKEx engages in succession planning to ensure smooth transitions when there are changes in its senior management.
- As a listed company committed to good corporate governance practices, HKEx will address any succession issues that come up at an appropriate time.
- The staff turnover rate at HKEx in the last five years has been in the range of 3.5-10 per cent, depending on grade and market conditions, which is low when compared with its industry's benchmarks.