



2012 HKEx Annual Media Luncheon

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Chief Executive
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Leading Hong Kong Markets

To New Horizons

2011 – Key Achievements



IPOs – Globally # 1 for 3rd year in a row



Established RMB equities trading infrastructure



Upgraded cash trading system to AMS/3.8



Launched BRICS alliance



Completed important market consultations

2011 Securities and Derivatives Trading

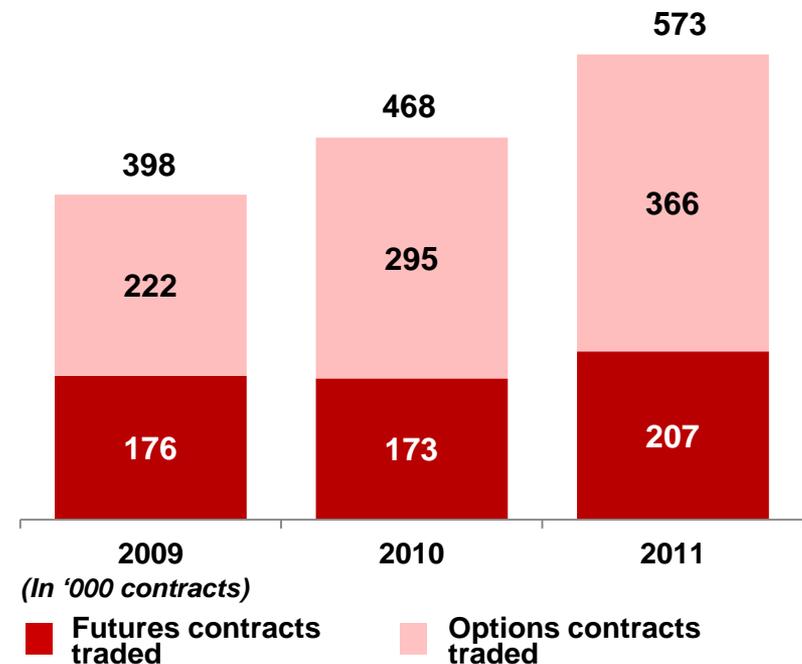
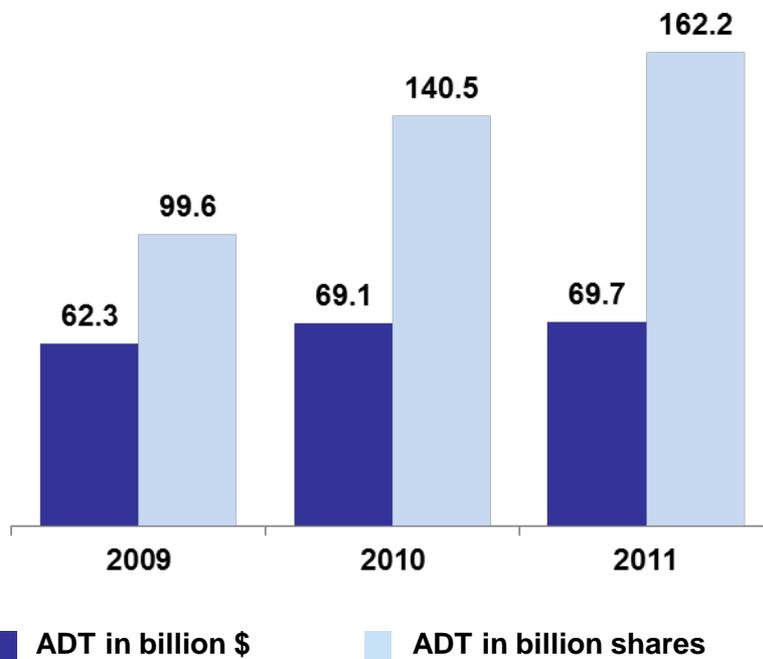


Trading volume of shares growing, but value flat due to market decline

Derivatives turnover reached all time high

2009-2011 Securities ADT

2009-2011 Derivatives ADV



2012 ADT levels will be heavily influenced by global and China market conditions

2010 – 2012 Strategic Plan Recap



Building Blocks for the Future – Two Key Components

Business Growth Drivers

Platform and Market Structure

2010

Conception and Incubation

2011

Project Development

2012

Critical Implementation Year

2012 – Key HKEx Strategies



Business Drivers



RMB and Moving Beyond Equities

Essential Infrastructure Investment



Critical Implementation Year

Hong Kong's Financial Markets – Future Vision



- n Hong Kong continues to rank as the world's top financial center
- n HKEx has the opportunity to lead Hong Kong into new asset classes

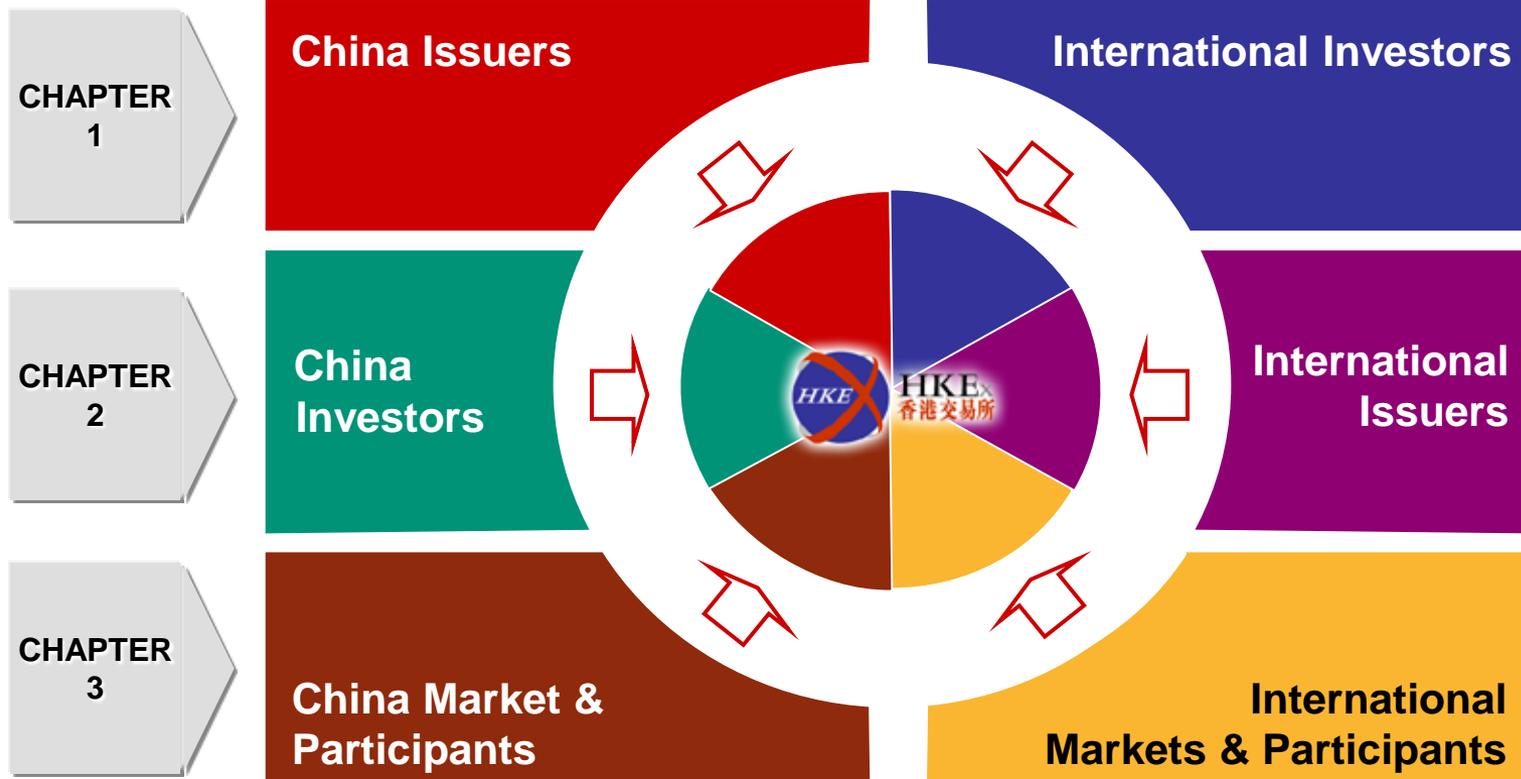


Equities

**Fixed Income
& Currency**

Commodities

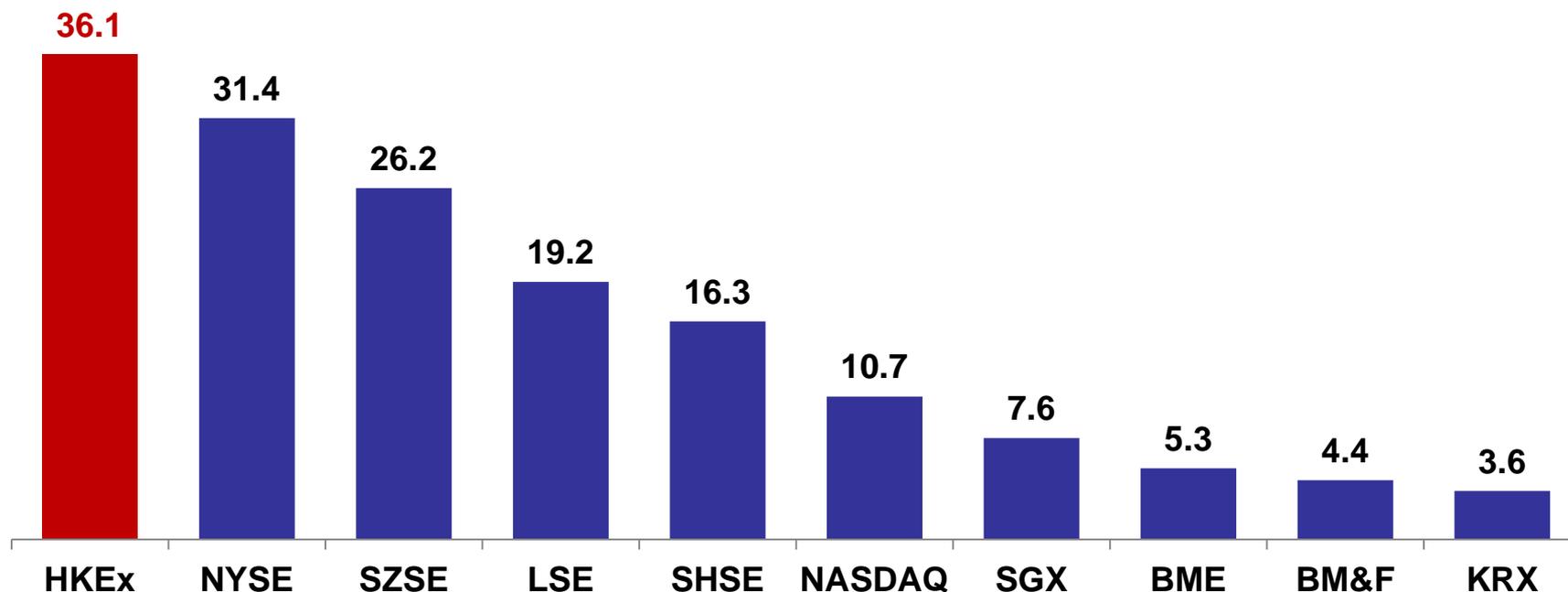
Business Drivers



Continued evolution of market players and asset classes

HKEx remains World's Largest IPO Exchange for the 3rd Year in a Row

IPO Funds Raised by Various Exchanges in 2011 (in US\$bil)



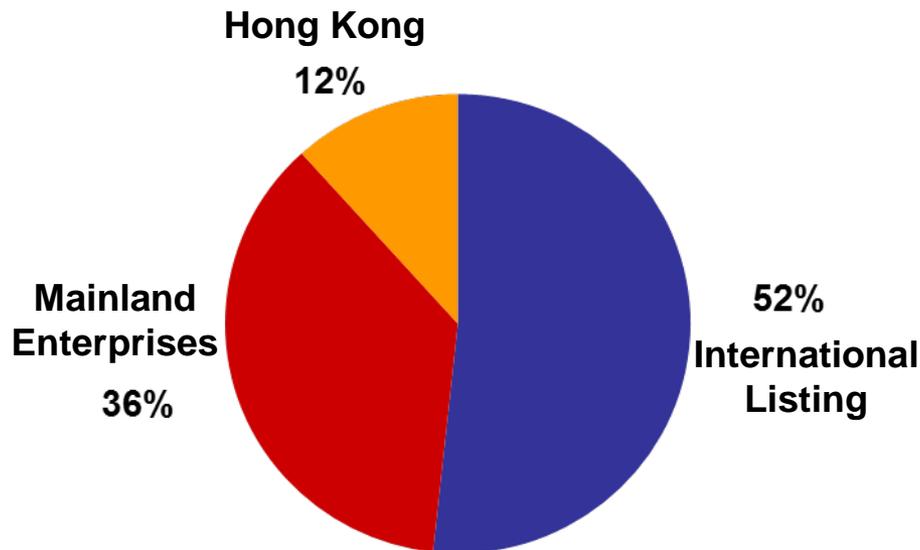
Source: Dealogic (figures include funds raised by REITs; full value of dual listing deals are allocated to the respective exchanges)

**2012 pipeline remains robust –
115 applications under review or approved as of 1 Jan 2012**

Strong IPO Volumes...but a Mature Growth Story

International Listings a Key Driver

2011 IPO Funds Raised



Selected International Listings

GLENCORE
INTERNATIONAL plc

US\$10.0bil
Switzerland



US\$2.5bil
Italy

Samsonite

US\$1.3bil
Luxembourg



US\$206mil
Japan



By Introduction
England & Wales



By Introduction
USA

Four overseas jurisdictions were recognised in 2011: Canada-Alberta, France, Guernsey and Italy

RMB Infrastructure

Largely Completed

- § Readiness of brokers, service providers, systems, regulations
- § About 90% of market is ready to trade RMB equity
- § RMB Equities Trading Support Facility (TSF)

Product Development

Launch slowed down by Market Conditions

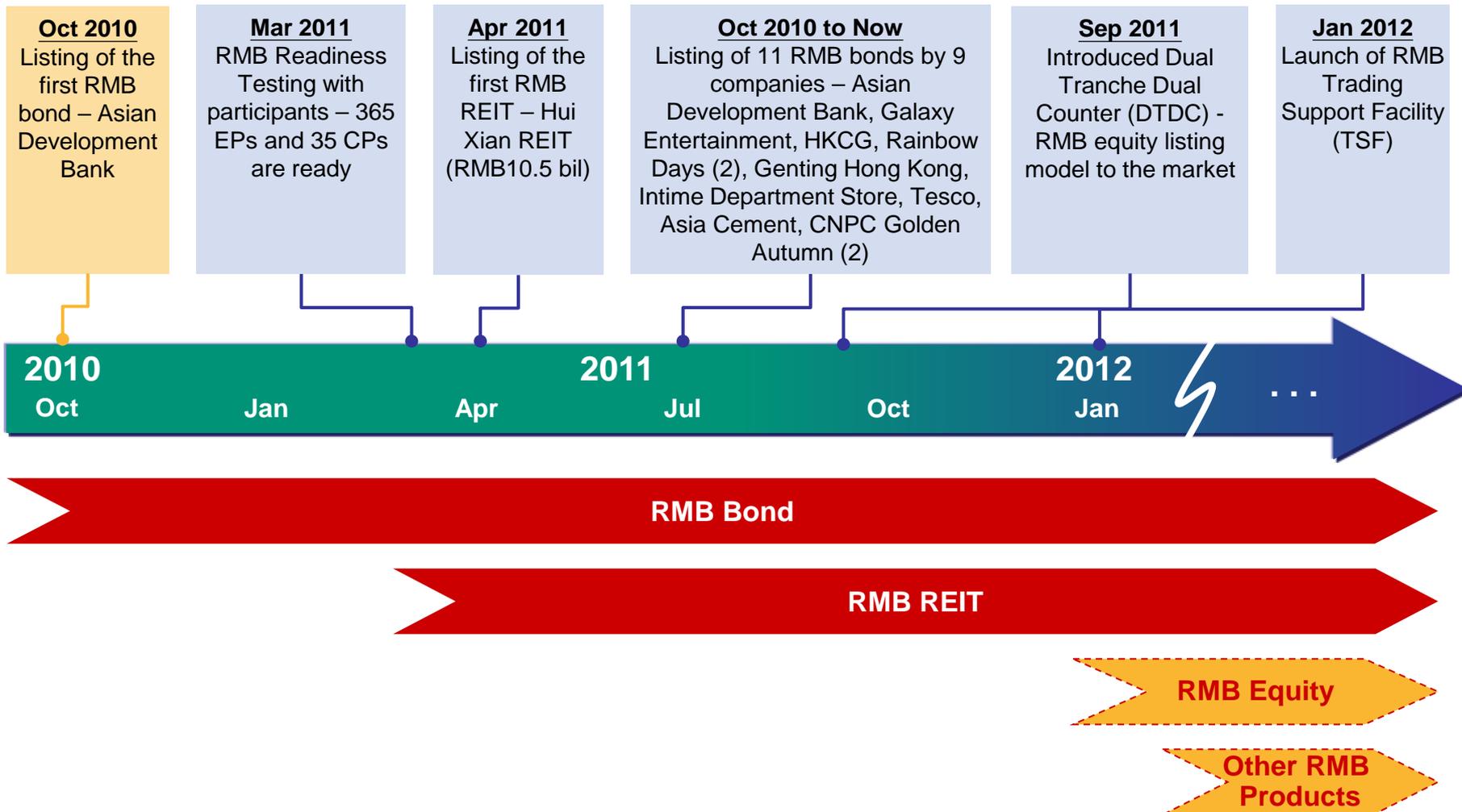
- § Dual Tranche Dual Counter (DTDC) RMB Equity Model
- § Potential issuance of RMB bonds and equity in Hong Kong by H-share companies
- § BRICS Alliance

Cross-Border Market Access

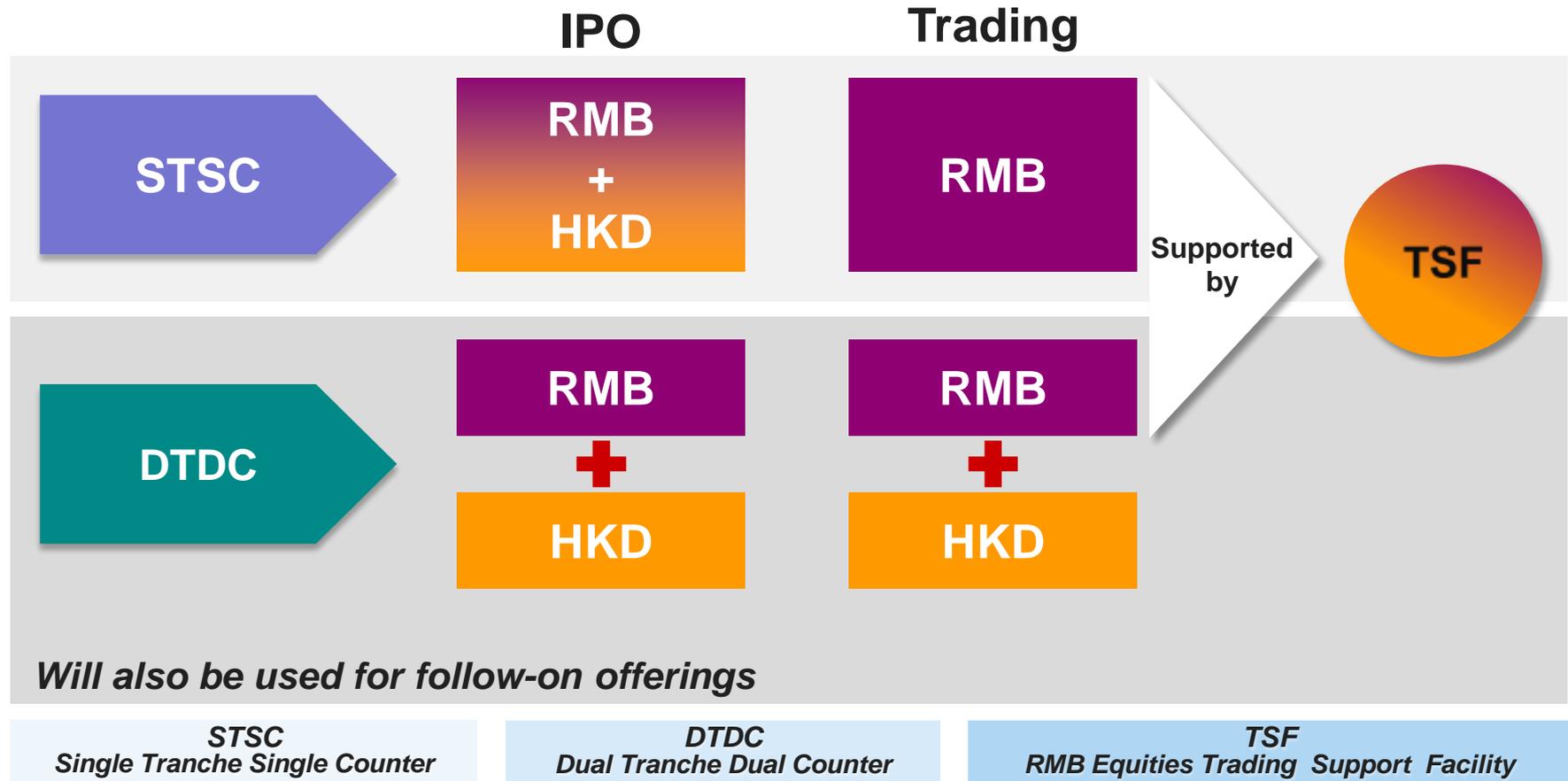
Coming Soon

- § RQFII, Cross-border ETFs
- § Potential JV with Shanghai Stock Exchange and Shenzhen Stock Exchange
- § Mainland intermediaries increasingly active in Hong Kong

RMB Capability – Laying the Foundation



Different Models & Facilities to Support the Listing & Trading of RMB Equities



Launch of RMB equities....awaiting market conditions to pick up

Cross-border Market Access – *Why is it Important?*

RQFII

- § Expands CNH product suite
- § Enhances yield on CNH
- § Facilitates RMB ETFs on A-Share underlying

Cross-border ETFs

- § Gives Mainland investors access to Hong Kong underlying at index level
- § Increases familiarity with HKEx equity market
- § HKEx-listed RMB ETFs on A-Share underlying provide currency neutrality

Potential JV

- § Landmark cooperation between three Chinese exchanges (HKEx, SHSE, SZSE)
- § Potentially gives HKEx access to futures on Mainland underlying

***Benefits of aligned opening hours will begin to emerge
as cross-market access increases***

Offshore RMB – Progress on 3 Critical Steps

Step 1 – RMB flows out of the Mainland

- CNH pool has grown to RMB 627 bil, 8.3% of Hong Kong deposits
- 8.9% of trade settlement executed in RMB in 1H 2011
- China's ODI in non-financial sectors reached US\$50 bil in the first 11 months of 2011

Step 2 – RMB circulates offshore

- Product curve: Moving from Deposits / Insurance / Bonds to Equity / Structured Products
- RMB 213 bil of Dim Sum Bonds outstanding to date
- Potential issuance of RMB products in Hong Kong by H-share companies
- HKMA eases regulations to allow banks to expand CNH business

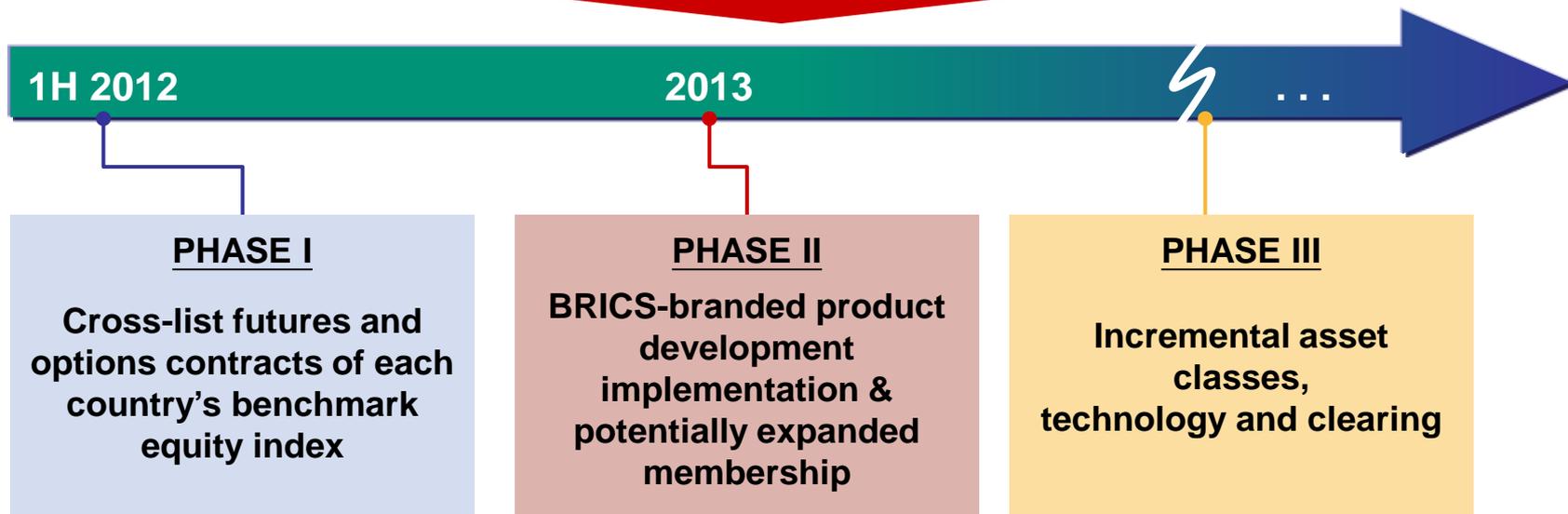
Step 3 – RMB flows back onshore

- Streamlined approval procedures to send RMB proceeds back to Mainland
- The first batch of RQFII quota to invest mainly in fixed income
- Expanded RQFII quota to facilitate RMB ETFs on A-share underlying

Source: Chinese Government's Official Web Portal; HKMA website

Substantial progress but still early days in a long march

BRICS Exchanges Alliance



What is Chapter 3

Moving beyond equities.....



Chapter 3 – Why Now?

China's influence and relevance in global market is larger

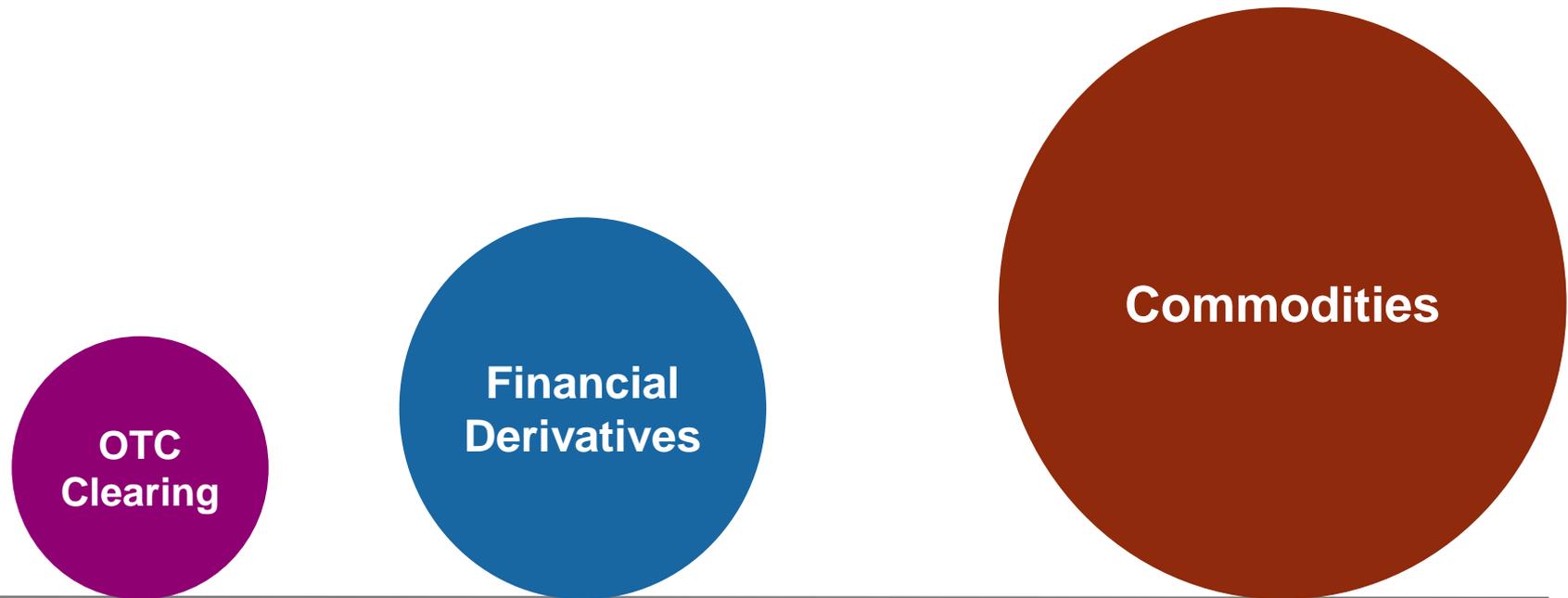
China needs access to financial and commodity derivatives markets in RMB and Asian time zone

China is internationalizing fast

Extension of Hong Kong value proposition
"China meets international" to new asset classes

Incremental driver of CNH growth

But these are also globally competitive sectors



Although commodities may prove to be the most difficult, the opportunity is also the greatest

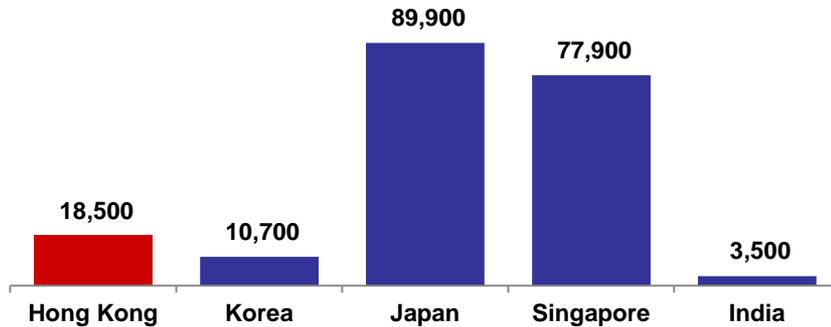
Hong Kong is not a major Asian Fixed Income and Currency Center

...Offshore RMB could be a transformational factor

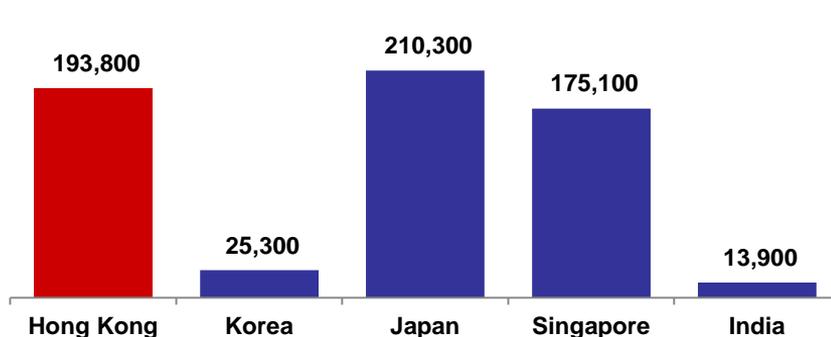
OTC

(ADV notional, in US\$ mil)

Interest Rate



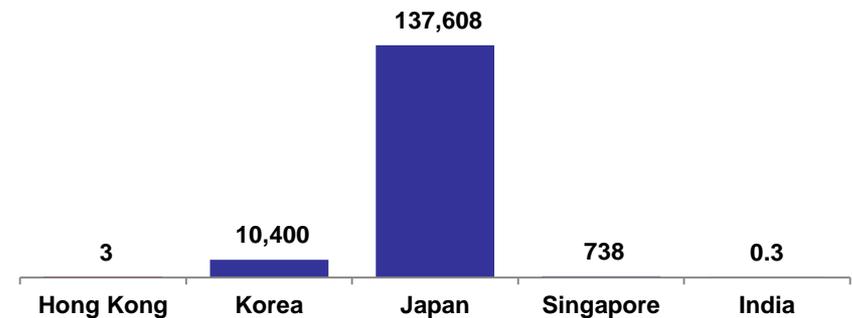
Currency



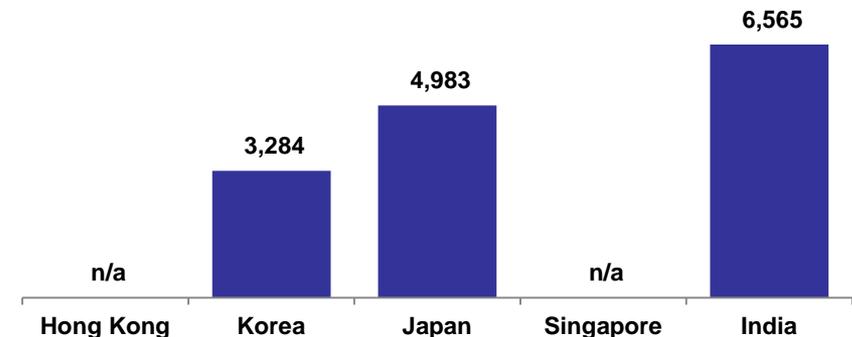
On-exchange

(ADV notional, in US\$ mil)

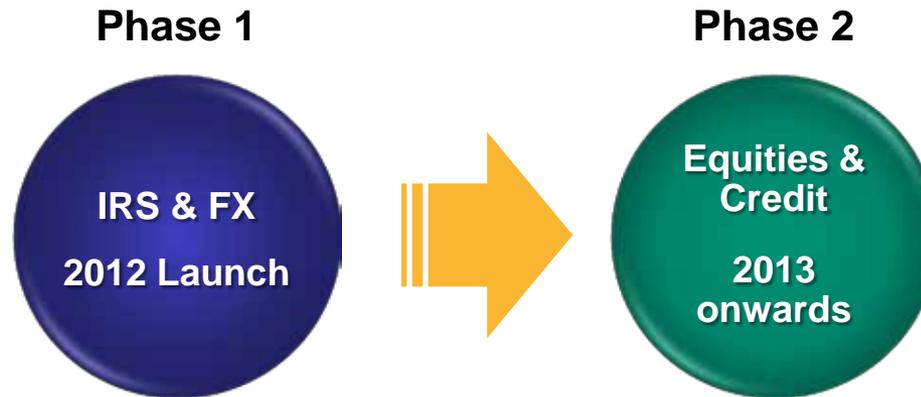
Interest Rate



Currency



Source: WFE annual statistics report 2010, Bank for International Settlements, Triennial Central Bank Survey (April 2010)
 N.B. Exchanges include KRX (Korea), TFX, TSE & OSE (Japan), SGX (Singapore), HKEx (Hong Kong), NSE & MCX-SX (India)

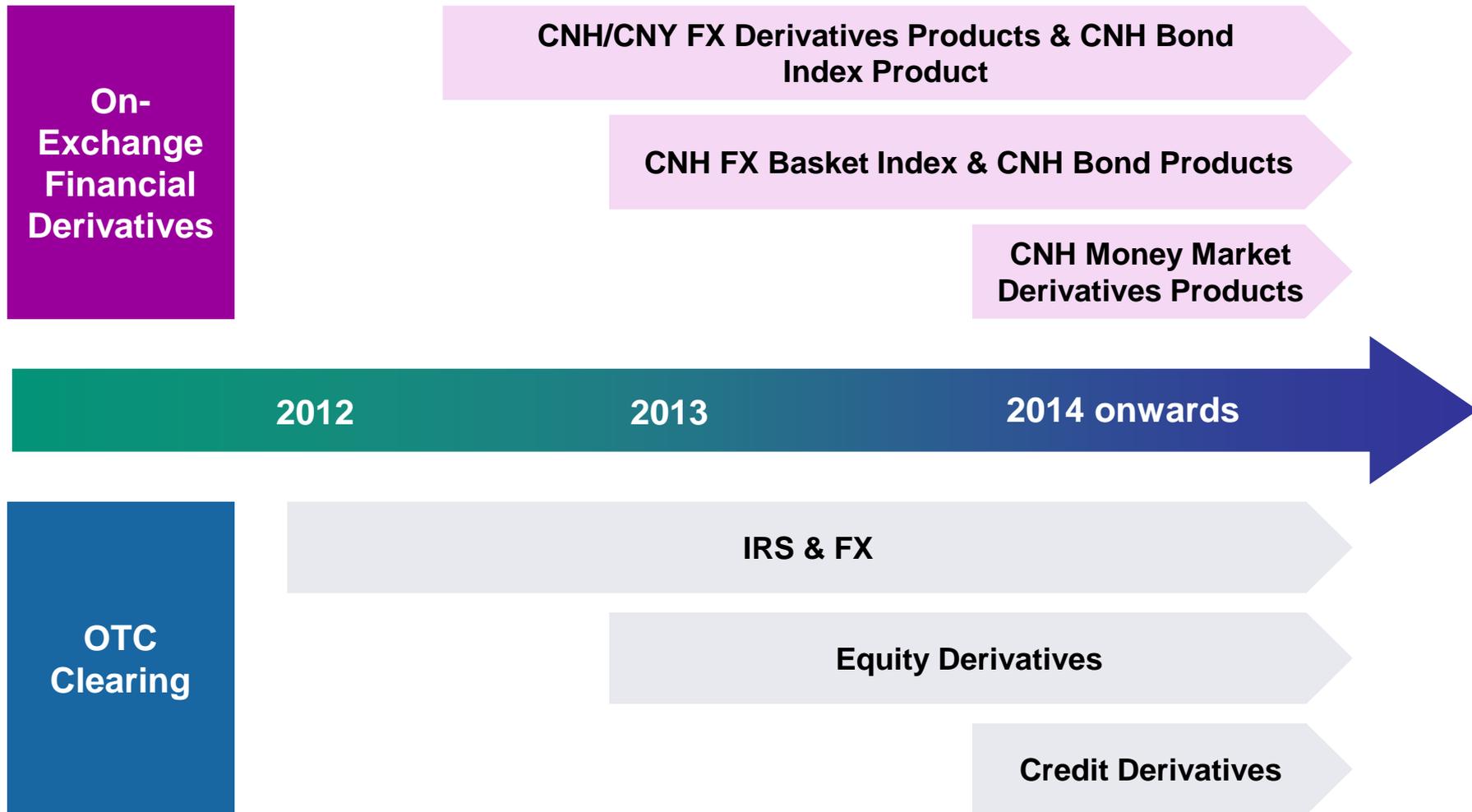


Current Status

- n Selected system vendor (Calypso) and started system implementation
- n Responded to consultation on legislative amendments
- n Engaging potential participants
- n Finalizing risk management and operation model

OTC Clearing business model is largely dependent on the growth of offshore RMB

Financial Derivatives – Significant Synergy with OTC Clearing

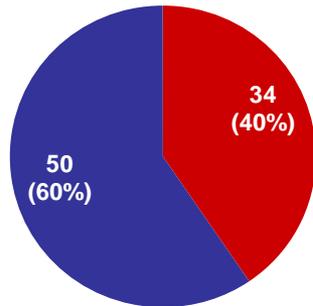


Mainland Dominates Global Commodities Consumption and Production

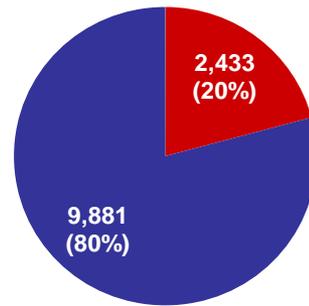
Commodity Consumption by Sectors

(in million metric tonnes)

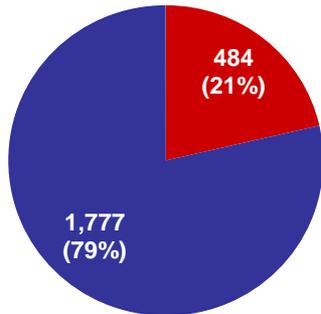
Metals



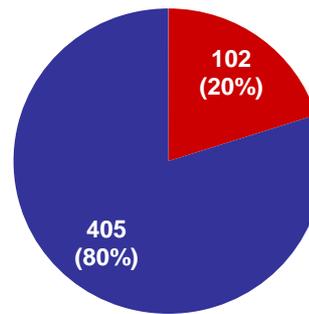
Energy



Agriculture



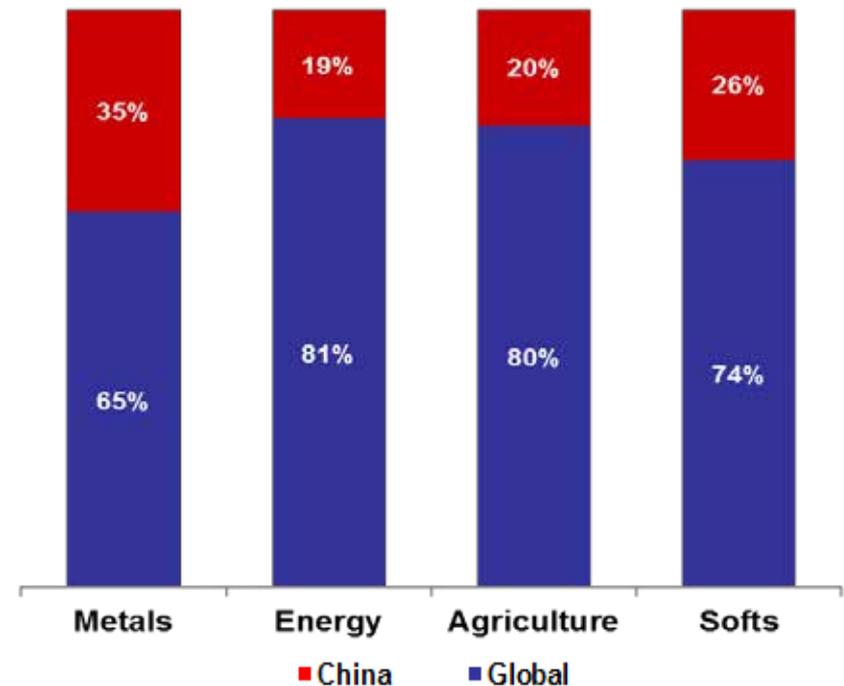
Softs



■ China ■ Global

Commodity Production by Sectors

(by percentage)



■ China ■ Global

§ ***In the last decade electronification and global distribution drove growth in commodities trading***

§ ***The driver for the next decade will be the Mainland's opening***

Key Requirements of Mainland Players

An HKEx Offshore Platform will Address these Needs

Key Benchmark Products

Warehouse Proximity to Physical Market Needs

Time Zone

Currency

Global Participants

Most offshore risk management done outside Asia

No Mainland warehouse certified internationally

Limited offshore liquidity during Asia trading hours

No offshore RMB commodities futures trading or clearing

Mainland players not yet major participants of international exchanges

HKEx needs to develop a customized model by product at different stages of the value chain

Product Pricing Opportunities

1. *Mainland Referenced Products*
2. *International Referenced Products*
3. *Commodity Index*

Trading & Execution

1. *Asia Trading Venue*
2. *Include Mainland Participants*

Clearing & Settlement Opportunities

1. *Asia Time Zone Clearing*
2. *RMB Clearing and Collateral*

Physical Delivery Logistics

1. *Physical Delivery in Mainland*
2. *Mainland Warehousing*

Infrastructure – 2012 is a Critical Implementation Year

Required Investment

- n Essential infrastructure investment to preserve current revenue
- n Building blocks for incremental revenue

- n Increased headcount and operating expenses
- n Strengthened project management

Fiscal Regime

- n Higher capex
- n Potential change in margin structure
- n Reduced cash flow in interim

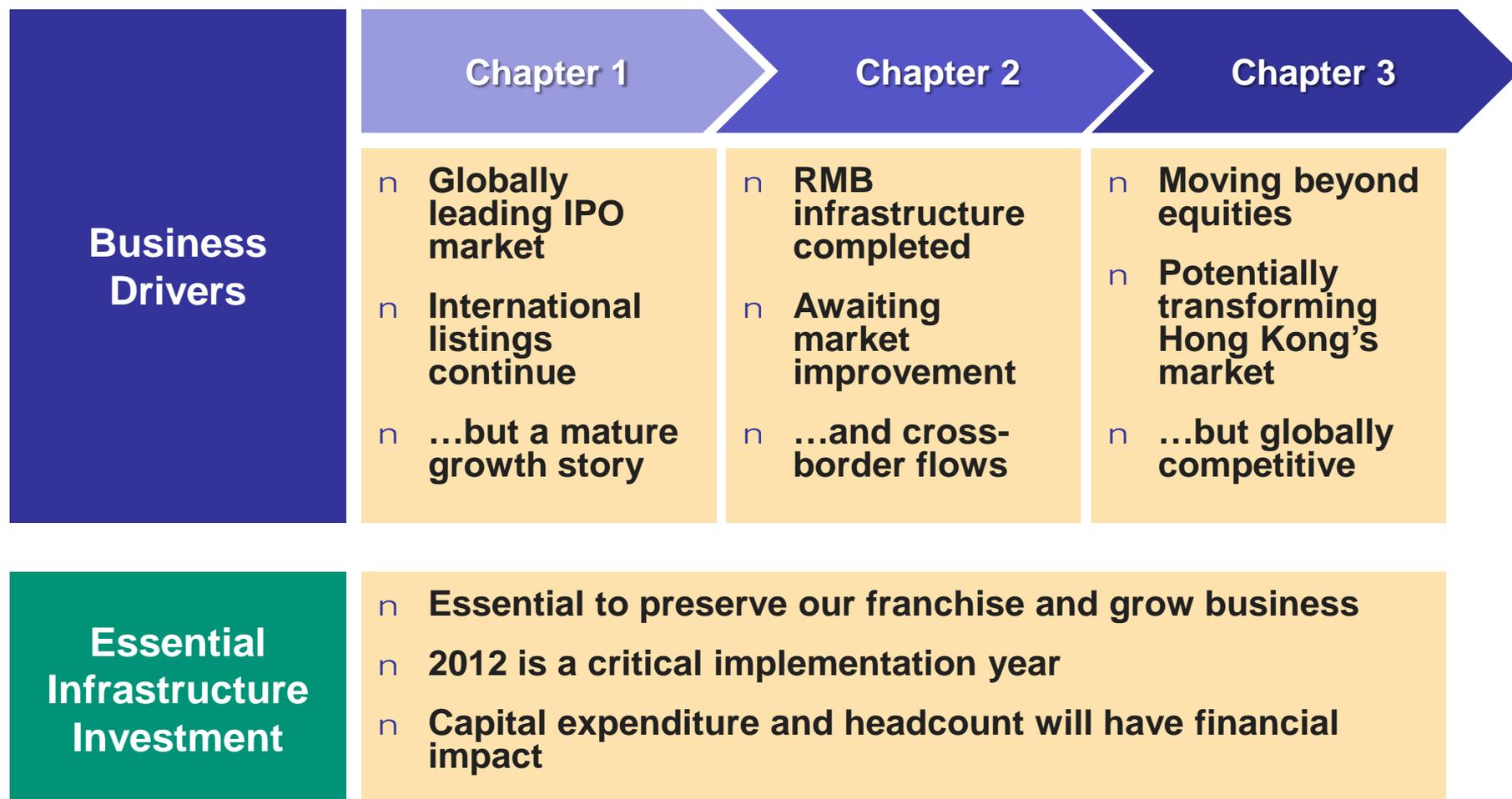
- n Enhanced fiscal discipline
- n Internally funded
- n No planned changes to dividend policy

To preserve our franchise and grow, we have to invest

Essential Infrastructure Investment – A Comprehensive Plan



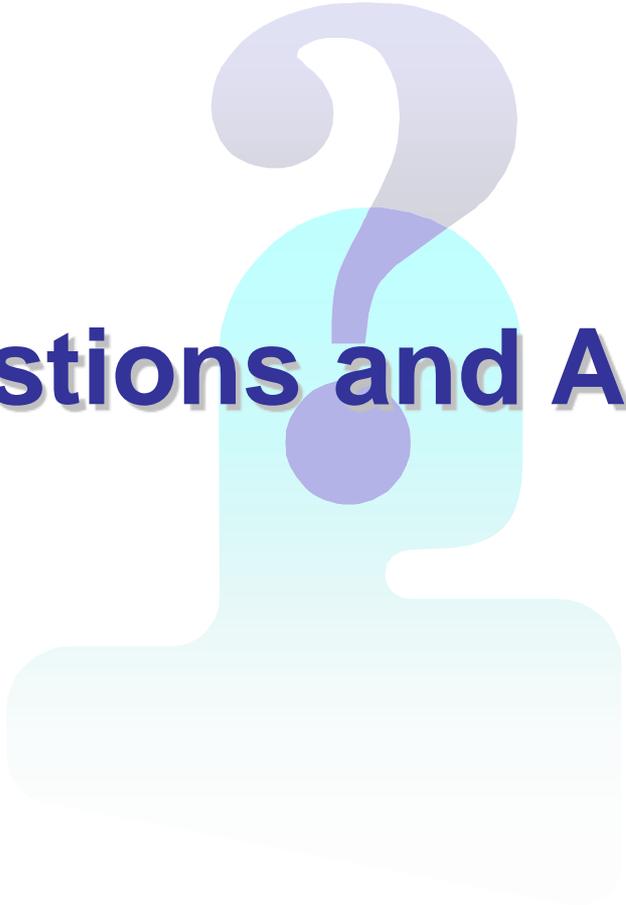
2012 – Key HKEx Strategies





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Questions and Answers