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Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

(Financial figures in this announcement are expressed in HKD unless otherwise stated)

QUARTERLY RESULTS **FOR THE THREE MONTHS ENDED 31 MARCH 2012**

The Board submits the unaudited consolidated results of the Group for the three months ended 31 March 2012 as follows:

FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange (\$bn)	63.2	75.9	(17%)
Average daily number of derivatives contracts traded on the Futures Exchange	255,110	246,687	3%
Average daily number of stock options contracts traded on the Stock Exchange	238,445	299,477	(20%)

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
RESULTS			
Revenue and other income	1,875	1,907	(2%)
Operating expenses	532	442	20%
Profit before taxation	1,343	1,465	(8%)
Taxation	(195)	(227)	(14%)
Profit attributable to shareholders	1,148	1,238	(7%)
Basic earnings per share	\$1.07	\$1.15	(7%)
Diluted earnings per share	\$1.06	\$1.15	(8%)

	At 31 Mar 2012	At 31 Dec 2011	Change
KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Shareholders' funds (\$m)	10,335	9,159	13%
Total assets ¹ (\$m)	54,198	54,028	0%
Net assets per share ² (\$)	9.59	8.50	13%

Notes:

- The Group's total assets include the Margin Funds received from Participants on futures and options contracts.
- Based on 1,077,704,090 shares as at 31 March 2012, being 1,079,910,640 shares issued and fully paid less 2,206,550 shares held for the Share Award Scheme (31 December 2011: 1,077,670,473 shares, being 1,079,906,640 shares issued and fully paid less 2,236,167 shares held for the Share Award Scheme)

CHAIRMAN'S STATEMENT

It is my pleasure to deliver my first Chairman's statement. I am honoured to have been appointed to the Board and have the privilege to be elected by my fellow Board members as the Chairman. I would like to take this opportunity to pay special tribute to the Honourable Mr Ronald Arculli, who had provided sterling leadership to the Board with great foresight and unwavering dedication, and steered HKEx to new heights in the past 6 years. I will use my best endeavours to ensure HKEx continues to observe its public obligations and delivers value to its Shareholders.

The global economic and political uncertainties persisted in the first quarter of 2012, and investors' confidence remained subdued. Hong Kong, as an international financial centre, could not abscond from the whirlpool of instability. Over the three-month period, the average daily turnover value in the Cash Market and the average daily number of contracts traded in the Derivatives Market decreased by 17 per cent and 10 per cent respectively year-on-year. The Group's profit attributable to Shareholders for the quarter was \$1.1 billion, a drop of 7 per cent compared with the corresponding period of last year.

The unclear economic and geopolitical backdrop will continue to raise challenges and cast shadows over the remainder of 2012. Nevertheless, HKEx will remain focused on executing the various initiatives under the 2010-2012 Strategic Plan.

I am pleased to note that significant progress was made in the 5 months after the BRICS Exchanges Alliance was formed in October last year as cross-listing of benchmark equity index derivatives on the 5 alliance members' trading platforms took effect on 30 March 2012. This move not only gives our investors greater exposure to the emerging and increasingly important BRICS economies, but also enables overseas investors to trade our HSI and H-shares Index futures, the turnover leaders in our futures market.

On the infrastructure front, we are developing the HKEx Orion, a cohesive programme of technology initiatives to progressively transform our core trading platforms in stages over the next 3 years. Our Hosting Services and new market data system, two of the programme's key initiatives, are well underway.

While continuing to promote market development, we have also been making much headway in strengthening our clearing house risk management framework. We are grateful for the broad market support to our reform measures. HKEx's success depends on the steadfast support and involvement of our market participants. Only through constructive and ongoing engagement with our stakeholders can we position ourselves globally to stay competitive and achieve sustainable growth.

To ensure that our markets continue to be highly attractive to local, regional, and international investors, we always strive to safeguard investors' interest by attaching great importance to our listed issuers' corporate governance. Thanks to the concerted efforts of our issuers and other market participants, revisions to our Listing Rules and the CG Code were introduced early this year to enhance our market's corporate governance standards.

It is our aim to be one of the most caring and socially responsible stock exchanges in the world, and we have been actively taking steps to instil a caring culture among our listed issuers by proposing our Environmental, Social and Governance Reporting Guide. We are reviewing the market views on making ESG reporting a recommended best practice.

The above initiatives, together with many others reported in the Chief Executive's Review and Business Review, including our new Data Centre in Tseung Kwan O, which is on schedule for operation this year, will further reinforce HKEx's position as a leading international exchange.

On behalf of the Board, I would like to take this opportunity to express sincere appreciation to the Honourable Mrs Laura Cha and Dr Moses Cheng for their invaluable contributions to HKEx during their tenure as Directors. Their unfailing support and dedication to the Board contributed in no small measure to HKEx's development and success in the past 6 years.

I am delighted that the Honourable Mr Ronald Arculli, together with Messrs Ignatius Chan and John Williamson continue to serve on the Board. I look forward to working closely with them and all other Directors, including Mr Tim Freshwater, who has rejoined the Board. With the support and counsel of my fellow Directors, I have no doubt that HKEx will continue to build on its existing strengths to grasp the opportunities and face the challenges arising from the ever-changing global financial landscape.

While 2012 is critical to the implementation of our current three-year strategic plan, I am confident that with the strong commitment of our employees, we can make further progress in executing our various initiatives. I will be collaborating with the whole management team to create sustainable value for our Shareholders and other stakeholders as we move forward.

CHOW Chung Kong
Chairman

CHIEF EXECUTIVE'S REVIEW

In the first quarter of 2012, we made tangible progress on various fronts and have achieved a number of key milestones in cross-market collaboration and platform infrastructure upgrade. I would like to provide here a review of our business during the period.

Market Performance

In the first quarter of 2012, 18 companies were newly listed on the Stock Exchange, raising a total of \$9.8 billion. They included an international company from Canada, with funds raised of \$4.5 billion.

In the secondary market, the average daily turnover value was \$63.2 billion, a 7 per cent increase from the fourth quarter of 2011. Average daily turnover of futures and index options were 255,110 contracts; average daily turnover of stock options were 238,445 contracts, down 6 per cent and 16 per cent respectively from the previous quarter.

Cross-market Collaboration

On 30 March 2012, BM&FBOVESPA from Brazil, Open Joint Stock Company MICEX-RTS from Russia, BSE Limited from India, HKEx as the initial China representative, and JSE Limited from South Africa implemented the first phase of their BRICS Exchanges Alliance by cross-listing their benchmark equity index derivatives on the boards of each of the other alliance members.

Although we expect a slow ramp up of trading in the new products initially, we believe the cross-listings were a big step for the BRICS Exchanges Alliance and will pave the way for more collaboration to expand alliance members' product offerings overseas, including developing new equity index-related products representing the BRICS economies. To facilitate trading, we have appointed 3 liquidity providers for the BRICS futures contracts in our derivatives market.

Platform Infrastructure Upgrade

Our strategy to enhance our platform infrastructure continued to proceed as planned in the first quarter of 2012. In March, we launched the HKEx Orion, a transformative programme of technology initiatives that will elevate Hong Kong's position on the world's financial stage. The programme involves initiatives that are being implemented under our Strategic Plan 2010-2012, such as the new Data Centre in Tseung Kwan O Industrial Estate and Hosting Services, as well as initiatives to be implemented in stages over the next 3 years, such as connectivity networks and systems providing order matching, market data dissemination, and market access services for our Participants. Total investment for the HKEx Orion is approximately \$3 billion.

Two of our ongoing projects under the HKEx Orion, Data Centre and Hosting Services, have reached key milestones in the first quarter of 2012. For the new Data Centre, construction of a data hall and associated electrical and mechanical facilities for our enterprise data centre has been completed. The rest of the construction is on track and will be completed in the second half of 2012. For Hosting Services, 22 organisations joined our first Founding Members Programme and will set up their service offerings in advance of the official launch.

On 29 March 2012, we announced our choice of NYSE Technologies' Exchange Data Publisher (XDP)TM to drive the HKEx Orion Market Data Platform, which will deliver market data for all products traded in our markets in a common message format, and will further reduce the latency of our data distribution. The Orion Market Data Platform will be rolled out for our securities market towards the end of the second quarter of 2013, with a remote distribution hub in the Mainland and integration with our derivatives market to follow.

Market Structure Reform

The second phase of the new trading hours for our markets has been implemented smoothly since 5 March 2012. The new trading hours are aimed at aligning the opening of our securities market with that of the Mainland market and further increasing the overall competitiveness of Hong Kong.

We also published consultation conclusions on our proposed clearing house risk management reform measures in March after receiving overwhelming support. The proposed reform measures aim at significantly improving our risk management capabilities through substantially enhanced margin collection and much stronger guarantee and reserve funds. We expect to implement our plan in the third quarter of 2012.

Reform of any kind has never been easy. We appreciate the market's support for the above reforms even though they may result in inconvenience, increased costs, or both in some cases. We look forward to working with various stakeholders on future initiatives to lead Hong Kong's markets to new horizons.

LI Xiaojia, Charles
Director and Chief Executive

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing

Environmental, Social and Governance Reporting Guide

The Exchange is reviewing the responses to the consultation paper on its proposed Environmental, Social and Governance Reporting Guide published in December 2011. Consultation conclusions will be released later this year. Subject to market comments, the Environmental, Social and Governance Reporting Guide may be implemented as a recommended best practice.

Prospectus Simplification and Plain Language Seminar

On 19 March 2012, the Exchange held a half-day free seminar to provide guidance on drafting and presenting a prospectus that is clear, brief, and easy to understand while satisfying the disclosure requirements. The 4 speakers used a case study of a Hong Kong prospectus, international practices, and re-drafting exercises to illustrate how to simplify prospectuses and write in plain language. Seminar materials are available on the HKEx website. Over 150 participants attended the seminar, of which 136 were lawyers from 57 law firms and 17 were bankers from 5 sponsors of listings in Hong Kong. After receiving overwhelmingly positive feedback from participants, the Exchange plans to follow up with further guidance and possibly, seminars.

Statutory Backing of Obligation to Disclose Price Sensitive Information

The Securities and Futures (Amendment) Ordinance 2012 which provides, amongst other matters, statutory backing of listed issuers' continuing obligation to disclose price sensitive information (termed "inside information" under the Ordinance), was gazetted on 4 May 2012. The statutory disclosure regime is expected to commence operation on 1 January 2013.

In connection with the implementation of the statutory disclosure regime, changes to the Listing Rules will be necessary to minimise duplication and overlap with the new law. The main change will be to remove the existing continuing disclosure obligation which will become part of the statutory regime. In addition, a range of amendments will be made consequential on the removal of these core provisions; for example, references to the term "price sensitive information" will need to be replaced by the term "inside information" where appropriate, references to the obligation to disclose information under the current obligation to disclose price sensitive information will be deleted. We are continuing our work in this regard. We expect to launch a public consultation on the Listing Rule changes later this year.

Cash Market

Market Performance

In the three months ended 31 March 2012, 15 companies were newly listed on the Main Board (no transfers from GEM) and 3 on GEM. Total capital raised, including post-listing funds, was \$62 billion. As at 31 March 2012, 1,337 and 173 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$19,775.3 billion. In addition, there were 4,094 DWs, 1,097 CBBCs, 9 REITs, 89 ETFs and 209 debt securities listed on 31 March 2012. The average daily turnover value in the first three months of 2012 was \$63 billion on the Main Board and \$200.5 million on GEM, increases of 7 per cent and 25 per cent respectively compared with the fourth quarter of 2011.

Performance of various key products

Product	First quarter of 2012		Fourth quarter of 2011	
	Average daily turnover (\$bn)	Market total (%)	Average daily turnover (\$bn)	Market total (%)
Equities	44.9	71	38.9	66
DWs	8.6	14	8.2	14
CBBCs	7.6	12	10.3	17
ETFs	1.9	3	1.7	3
Others	0.2	0	0.2	0
Total	63.2	100	59.3	100

Among the various products in the Cash Market, 24 ETFs were newly listed in the first quarter of 2012, including the first RMB-denominated ETF, and 12 ETFs were delisted by an ETF manager. At the end of March 2012, there were 89 listed ETFs, 15 ETF managers and 23 ETF market makers. HKEx received the “Best Asian Exchange for Listing ETFs” award for the second consecutive year from etfexpress, a website that covers the ETF industry.

Extension of Trading Hours

Following a series of market simulations in the middle of February 2012 to assist EPs and IVs in verifying their readiness, the second phase of the extension of trading hours in the Cash and Derivatives Markets was implemented on 5 March 2012. The number of trading hours in a regular trading day in the Cash Market is now 5.5 hours. The objectives of the extension are to improve the price discovery function for Mainland-related securities listed in Hong Kong by increasing the overlap of HKEx’s trading hours with the Mainland exchanges’ trading hours, and to enhance HKEx’s regional competitiveness by narrowing the gaps between its trading hours and those of its regional counterparts.

Derivatives Market
Market Performance

In the three months ended 31 March of 2012, there were a total of 30,106,876 contracts traded in the Derivatives Market, comprising 11,890,077 futures contracts and 18,216,799 options contracts. The average daily volumes were 194,919 futures contracts and 298,636 options contracts. On 31 March 2012, the total open interest was 5,861,532 contracts, comprising 296,397 futures contracts and 5,565,135 options contracts. The total turnover of HSCEI Dividend Point Index Futures in the first quarter of 2012 increased by 146 per cent as compared with the fourth quarter of 2011 from 22,740 contracts to 55,900 contracts.

Record high volume and open interest for major derivatives in the first quarter of 2012

Product	Daily volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
H-shares Index Options	17 Feb	43,238	28 Mar	448,971
HSI Dividend Point Index Futures	31 Jan	1,850	–	–
HSCEI Dividend Point Index Futures	–	–	27 Mar	51,705

On 20 February 2012, HSI Volatility Index (VHSI) Futures were introduced to provide investors with a new innovative instrument for trading or hedging their exposure to volatility in Hong Kong’s stock market. The VHSI is regarded as a good volatility benchmark that enhances the pricing efficiency and transparency of options markets, and an alternative asset class for investment by some professional investors. HKEx has appointed 3 market makers to provide two-side quotes in all the listed contract months. An extensive investor education programme has been rolled out to increase investor awareness of the VHSI and VHSI Futures’ features.

On 30 March 2012, 4 benchmark equity index futures of BRICS markets denominated in HKD including Brazil's IBOVESPA futures, Russia's MICEX Index futures, India's Sensex Index futures, and South Africa's FTSE/JSE Top40 futures, were introduced in the Derivatives Market.

After-hours Futures Trading

To prepare for the launch of after-hours futures trading tentatively set for the second half of 2012, HKEx conducted 5 briefing sessions on systems requirements during December 2011 and January 2012 for more than 650 attendees from its Participants and vendors. In addition, the HKEx website was enhanced with a dedicated web corner which contains all the relevant reference materials, including an information paper with a detailed business and operating model, briefing materials, circulars, and technical specifications. Some Participants and vendors have started developing their software to prepare for the market rehearsal to be held in the third quarter of 2012.

RMB Futures

As part of our strategy to expand beyond equities and equity-related derivatives and offer a wide range of RMB-traded products, we plan to introduce USD/CNH (RMB traded in Hong Kong) futures contract in the third quarter of this year, subject to regulatory approval and market readiness.

The USD/CNH futures contract will provide a way for investors to hedge RMB exposure. Under the plan, this contract will be quoted in RMB per USD (eg, RMB 6.2486 per USD) and margined in RMB, with the trading and settlement fees charged in RMB, and require delivery of USD by the seller and payment of the Final Settlement Value in RMB by the buyer at maturity.

HKEx has scheduled a market readiness test for the end of June and invited applications from potential market makers for the USD/CNH futures.

Clearing

Scripless Securities Market

The Scripless Securities Market Working Group has completed its study of the operational details of the proposed model which will form the basis for the SFC's consultation on the new subsidiary legislation under the SFO in 2012. HKEx is now supporting the SFC in preparing the subsidiary legislation.

Clearing Readiness for RMB-denominated Futures and Options Contracts

To prepare for the introduction of RMB-denominated futures and options, including stock options, a market readiness test was conducted in January 2012 to help CPs prepare their systems and operations for RMB-denominated futures and options. 43 HKCC CPs and 25 SEOCH CPs confirmed their readiness after the test.

Participant Services

Participant Training and Market Education

In the first quarter of 2012, HKEx and the Hong Kong Securities Institute jointly organised 2 Continuous Professional Training courses on HKATS operations and trading procedures. There were also 3 training courses related to AMS/3.8 and 5 related to CCASS. In addition, over 1,400 people participated in 13 briefing sessions and 3 seminars on derivatives led by HKEx in the first quarter.

Participant Recruitment

At the end of March 2012, there were 538 SEHK Participants and 182 HKFE Participants, including 5 SEHK Participants and 4 HKFE Participants admitted in the first quarter of 2012. For HKSCC, there were 24,086 CCASS Participants, including 118 Investor Participants admitted in the first quarter of 2012.

Market Data

HKEx Orion Market Data Platform

A new market data system, the HKEx Orion Market Data Platform (OMD), will be the first building block of HKEx's next generation core platforms. HKEx has selected NYSE Technologies' Exchange Data Publisher (XDP)TM to drive the OMD.

The OMD will be an integrated low-latency platform to deliver market data for all asset classes traded in the HKEx markets in a common message format. It will enable HKEx to improve its customers' market data experience by providing a suite of market data product feeds with content, market depth, and bandwidth requirements tailored to suit the needs of different types of customers. It will also enable HKEx to establish points of presence for market data distribution outside of Hong Kong, such as in the Mainland. The OMD is expected to be rolled out for HKEx's securities market data and derivatives market data by the second and fourth quarter of 2013 respectively.

Risk Management

Clearing Houses' Risk Management Reform Measures

The consultation paper on the HKEx Clearing House Risk Management Reform Measures published on 8 July 2011 drew 626 responses from CPs, professional and industry associations, market practitioners, and individuals. Among the respondents, 273 were CPs of HKSCC, HKCC, or SEOCH. The responses received were broadly supportive and HKEx plans to implement the key proposals in the third quarter of this year subject to system readiness. The consultation conclusions were published on the HKEx website on 11 March 2012.

The key proposals are to: (i) introduce a standard margin system and a Dynamic Guarantee Fund at HKSCC; (ii) revise certain price movement assumptions in the clearing houses' stress testing; (iii) revise the counterparty default assumption in the stress testing; and (iv) revise the collateral assumptions at HKCC and SEOCH. The proposals include various means of financial support from HKEx to reduce the impact on CPs. They also include a number of operational refinements in response to the feedback received during the consultation.

Market Surveillance

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx referred 2 cases involving possible violations of Hong Kong laws, SFC codes and/or rules and regulations relating to its markets to the SFC for its investigation during the three months ended 31 March 2012.

Information Technology

Production Systems' Stability and Reliability

During the first quarter of 2012, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continued to perform reliably.

Technology Upgrade

HKEx has commenced the phased implementation of the HKEx Orion technology programme, aiming to progressively transform HKEx's market platforms with respect to market access, connectivity, speed, and functionality.

Work in progress	Target completion
(i) Migration of network circuits for Cash Market Participants and IVs to SDNet/2 to implement a new network infrastructure which supports higher bandwidth and offers choice of multiple network carriers for diversity and competitive pricing;	Mid 2012
(ii) Implementation of a multi-asset class and low-latency market data platform for the Cash and Derivatives Markets;	Mid 2013 and end 2013 respectively
(iii) Upgrade of HKATS/DCASS to a new technology platform to achieve a multi-fold improvement in capacity and latency for further development of the Derivatives Market;	End 2013
(iv) Selection and implementation of technology solution for a Central Gateway facility which will enable high performance Participant access to the Cash Market trading system; and	Second Half of 2013
(v) Evaluation of the technology components to build a new Cash Market trading system to provide lower latency, higher capacity, and additional functionality	Late 2012

In addition, the development of a platform to support clearing and settlement of asset classes traded in the OTC market is in progress.

System Enhancements for RMB Products

In 2012, HKEx will continue its trading and clearing infrastructure enhancements to improve its service capability for RMB products. In the first quarter of 2012, HKEx completed: (i) the RMB Equity Trading Support Facility (TSF) suspension function to support requirements of partner banks under extreme market volatility conditions; and (ii) the automated order rejection by AMS/3.8 upon full consumption of the RMB Equity TSF funding pool. Further, HKEx will work on the multi-counter transfer function to streamline the Dual Tranche Dual Counter model and to enhance margin offset capability between products of different settlement currencies.

Independent Review

HKEx engaged an external security consultant to conduct an IT security risk and infrastructure review during the first quarter of 2012. The consultant concluded that there are no material issues requiring immediate action but recommended a number of security improvements for further enhancement of HKEx's security capability. An implementation roadmap has been developed for the rollout of various improvement initiatives in a prioritised manner.

New Data Centre and IT Office Consolidation

The superstructure works were completed and a dust-free environment for the enterprise data centre in Hong Kong's Tseung Kwan O Industrial Estate was handed over to HKEx at the end of March 2012. Provisioning of network infrastructure and structured cabling systems is in progress to facilitate installation and testing of the IT equipment starting in May 2012. The first phase of relocation, covering the IT office and primary data centre for the Cash Market, will take place in the fourth quarter of 2012. The consolidation of other data centres will be completed by phases in 2013.

HKEx Mobile

To promote greater access to up-to-date HKEx news and market information, HKEx launched HKEx Mobile (m.hkex.com.hk) in April 2012, a new website which is compatible with most popular smartphone operating systems.

Market Development

BRICS Exchanges Alliance

The first phase of HKEx's alliance agreement with the leading exchanges in the other BRICS countries was implemented on 30 March 2012, when the founding members started the cross-listing of benchmark equity index futures and/or options on each other's trading platforms.

Introduction of the BRICS exchanges' benchmark index futures to Hong Kong diversified HKEx's product offerings, giving investors in Asian time zones easier access to the dynamic BRICS markets. At the same time, investors at the other 4 exchanges will be able to trade HSI and H-shares Index futures and/or related options with ease.

Derivatives cross-listed and offered in the local currency and local trading hours of each of the BRICS exchanges are as follows:

BRICS country	Product
• Brazil	IBOVESPA futures
• Russia	MICEX Index futures
• India	Sensex Index futures
• China (Hong Kong)	HSI and H-shares Index futures
• South Africa	FTSE/JSE Top40 futures

JSE Limited also listed options on the benchmark futures of the other 4 member exchanges. The 5 exchanges will be sharing the revenues generated from their benchmark index derivatives contracts traded overseas.

Apart from the cross-listing of benchmark equity index derivatives, the member exchanges plan to work together to develop new equity index-related products representing the BRICS economies for cross-listing in the second phase of the alliance. The third phase may include product development and cooperation in additional asset classes and services.

IT Platform Development

The HKEx Orion was officially announced in March 2012. It includes SDNet/2, Hosting Services, and market data system initiatives already in progress and new ones such as the Market Access gateway for the securities market, as well as a full upgrade of the derivatives trading and clearing platforms, which will be launched later this year.

Hosting Services

The Hosting Services initiative is progressing well. A low-latency local area network infrastructure will be set up to support ecosystem communication and access to the Cash and Derivatives Markets. Besides, automated operations support systems will be implemented to support 7 x 24 data centre operation. Vendors have been appointed to carry out the respective projects after a Request for Proposals process.

A Founding Members Programme was introduced in February 2012 to allow selected hosting ecosystem service providers to participate in the early set-up of the hosting ecosystem and joint marketing efforts with HKEx. The market response was positive and 22 companies consisting of IVs, network service providers, and technology vendors have been admitted to the programme.

HKEx announced the Hosting Services offerings and fees to the market in March 2012 and held 3 information briefing sessions after the announcement for over 300 attendees from EPs, IVs, network service providers, and technology vendors. HKEx has invited prospective users to apply for the services and plans to approve the first batch of applications in June 2012.

The total capacity of the hosting floors inside the new Data Centre can support up to 1,200 cabinets of server space, and the development will be divided into 3 phases. Phase 1, of around 320 cabinets, will be made available in the fourth quarter of 2012.

OTC Derivatives Clearing House

After completing one-on-one meetings with over 30 potential clearing members during the last quarter of 2011, 2 on-boarding seminars and a vendor session were arranged in March 2012 for nearly 200 participants from 35 banks to provide them with the latest information on the OTC Central Counterparty (CCP)'s business model, risk management framework, IT infrastructure, and membership criteria, as well as their necessary on-boarding preparation work. Training workshops for participants are scheduled for the third quarter to ensure a smooth on-boarding in the last quarter of 2012.

The conclusion of the Hong Kong Monetary Authority and SFC's October 2011 joint consultation paper on the regulatory regime for Hong Kong's OTC derivatives market are expected to be released to the public in the late second quarter of 2012. In March 2012, the SFC proposed to introduce an interim legislative measure within the 2011/2012 legislative session to support voluntary clearing of OTC derivatives through a CCP in Hong Kong. The second consultation and legislative process for mandatory clearing is expected to commence in the last quarter of 2012 and become effective in around mid-2013.

Calypso, the clearing system developer, has completed the project's discovery phase and is now working on the design and development phases. The clearing system will be opened for market rehearsals involving all potential clearing members in the third quarter of 2012 and ready for live operations by the end of 2012.

Mainland Development

HKEx continued to deepen its relationship with key Mainland stakeholders by entering into MOUs on cooperation and exchange of information with them.

HKEx is now working on training programmes on Hong Kong's markets and the relevant regulations to be held later this year for Mainland authorities and the Mainland enterprises listed on the Exchange.

MOUs signed in 2012

- Jan - China Financial Futures Exchange
 - Mar - Shanghai Futures Exchange
 - Heilongjiang Province's Financial Affairs Office
 - Apr - Hebei Province's Financial Affairs Office
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Issuer Marketing

In the first quarter of 2012, HKEx continued its marketing efforts to attract interest from international companies in seeking a Hong Kong listing. They included a trip to South Africa in February for meetings with potential listing applicants and speeches at conferences and seminars in Cape Town and Johannesburg. One of the speeches was at Mining Indaba in Cape Town, a major annual event for the global mining industry. In March, HKEx attended another major global mining conference, PDAC in Canada, and spoke at an event in Calgary co-organised by the Government of Alberta and an organisation that promotes economic development in Calgary, as well as a one-off event in Toronto organised by the Hong Kong Economic and Trade Office in the city. The speeches provided opportunities to promote listing in Hong Kong. In addition, there were meetings with potential listing applicants, government authorities, and intermediaries to promote listing in Hong Kong for natural resources companies. A number of Canadian and African companies expressed interest in raising funds in Hong Kong's capital markets.

To follow up on the success of the first Japan-incorporated company listing in Hong Kong last year, HKEx participated in an event in Tokyo in March and met with potential issuers in the consumer goods and real estate sectors.

In late March, HKEx participated in a roadshow and spoke at the promotional events in the US cities of Los Angeles, Chicago, and New York co-organised by the Hong Kong Economic and Trade Office in San Francisco and InvestHK to promote Hong Kong as China's global financial centre and the premier offshore RMB centre. It was followed by a speech at a Dubai depositary receipt conference targeting companies from Africa, Central Asia, emerging Europe, the Commonwealth of Independent States in Eastern Europe, and the Middle East. The roadshow continued with a total of 8 stops of Finland, France, Germany, Italy, Spain, the Isle of Man, and the United Kingdom, where HKEx spoke at a number of events to promote listing in Hong Kong and met potential issuers, government authorities, and intermediaries to explain the Exchange's fundraising and RMB capabilities.

RMB fundraising through the Exchange is also a key focus of marketing activities in Hong Kong and the Mainland for potential issuers and influential intermediaries.

In Hong Kong, HKEx's Chief Marketing Officer delivered a speech at the Mines and Money Hong Kong 2012 conference, and HKEx continued its participation in a number of seminars to introduce the capital raising activities at the Exchange – notable among these was a conference specific to the shipping industry.

In the Mainland, there were more meetings with government officials and potential issuers, including companies that are looking for a secondary listing, as well as leading enterprises in various sectors and industries, and HKEx spoke at events in Beijing, Fujian, Guangdong, Heilongjiang, Jiangxi, and Shanghai.

HKEx co-organised the following events during the first quarter of 2012 in the Mainland:

- Listing in Hong Kong Seminar for Wuhan Enterprises in Wuhan
 - Financial Cooperation Seminar in Chongqing
 - Listing in Hong Kong Seminar in Zhejiang
 - Financing and Listing Seminar in Xiamen
 - Listing in Hong Kong Seminar for Hi-Tech Companies and roundtable meetings in Wuhan
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Research and Corporate Development

HKEx published the Cash Market Transaction Survey 2010/11 in March 2012. The survey findings revealed overseas investors contributed 46 per cent to the total securities market turnover value in 2010/11, surpassing the contribution from local investors for the second consecutive year. In addition, HKEx published the findings of the Retail Investor Survey 2011 in April 2012 which showed that about 2.15 million Hong Kong adults were stock investors, which is a new high, and

the usage of online stock trading continued to grow and banks remained the major stock trading channel. The published survey reports are available on the HKEx website. HKEx will keep track of the trends and characteristics of investors' participation in and perceptions of its markets for product and service improvement and ensuring their competitiveness.

Other Promotional Activities

Apart from promoting its market as an international fundraising platform, HKEx participates in events organised by different international and local organisations to promote Hong Kong's financial industry. The events provide opportunities to introduce HKEx and its markets to market participants from different parts of the world. For instance, HKEx participated in an investment conference held in Tokyo in March 2012 to raise Japanese investors' awareness of Hong Kong's ETF market. HKEx's Chief Executive delivered a speech introducing HKEx's strategic visions and latest developments in the context of the current environment of the Hong Kong financial markets at an event held by The British Chamber of Commerce in Hong Kong in April 2012.

Moreover, HKEx, as an exchange operator required under the SFO to act in the interest of the public, is focused on building not only value for its Shareholders but also sustainable financial markets in Hong Kong. In March 2012, HKEx's Chairman and Chief Executive participated in a corporate governance forum organised by The Chamber of Hong Kong Listed Companies to foster high corporate governance standards and enhance market transparency.

Treasury

The Group's funds available for investment comprise Corporate Funds, cash collateral, Margin Funds and Clearing House Funds, totalling \$46.1 billion on average for the three months ended 31 March 2012 (31 March 2011: \$44.0 billion).

As compared with 31 December 2011, the overall size of funds available for investment as at 31 March 2012 decreased by 2 per cent or \$1.1 billion to \$44.6 billion (31 December 2011: \$45.7 billion). Details of the asset allocation of the investments as at 31 March 2012 against those as at 31 December 2011 are set out below.

	Investment Fund Size \$bn		Bonds *		Cash or Bank Deposits		Global Equities	
	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011	Mar 2012	Dec 2011
Corporate Funds	10.9	9.7	48%	53%	48%	43%	4%	4%
Cash collateral	4.3	3.2	0%	0%	100%	100%	0%	0%
Margin Funds	27.4	31.3	21%	20%	79%	80%	0%	0%
Clearing House Funds	2.0	1.5	14%	19%	86%	81%	0%	0%
Total	44.6	45.7	25%	25%	74%	74%	1%	1%

* Included certain principal-guaranteed structured notes

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the cash collateral, Margin Funds and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 31 March 2012 and \$0.4 billion as at 31 December 2011), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2012 (\$44.2 billion) and 31 December 2011 (\$45.3 billion) were as follows:

	Investment Fund Size \$bn		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		>3 years	
	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec	Mar	Dec
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Corporate Funds	10.5	9.3	18%	20%	20%	4%	32%	42%	14%	17%	16%	17%
Cash collateral	4.3	3.2	72%	72%	7%	0%	21%	28%	0%	0%	0%	0%
Margin Funds	27.4	31.3	17%	14%	26%	26%	51%	54%	3%	4%	3%	2%
Clearing House Funds	2.0	1.5	60%	49%	10%	7%	30%	44%	0%	0%	0%	0%
Total	44.2	45.3	25%	20%	22%	19%	42%	50%	5%	6%	6%	5%

Credit exposure is well diversified. The Group's bond portfolio (which includes certain principal-guaranteed structured notes) held is of investment grade and, as at 31 March 2012, had a weighted average credit rating of Aa3 (31 December 2011: Aa3) and a weighted average maturity of 1.9 years (31 December 2011: 1.8 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during the first quarter of 2012 and the fourth quarter of 2011 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec	Jan-Mar	Oct-Dec
	2012	2011	2012	2011	2012	2011
Corporate Funds	24.3	24.3	27.2	27.4	22.0	23.4
Cash collateral	0.1	0.3	0.2	0.3	0.1	0.2
Margin Funds	2.2	3.5	3.3	3.8	1.5	3.2
Clearing House Funds	0.2	0.1	0.2	0.2	0.1	0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review.

FINANCIAL REVIEW

Overall Performance

	Note	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
RESULTS				
Revenue and other income:				
Income affected by market turnover	(A)	1,129	1,255	(10%)
Stock Exchange listing fees	(B)	244	246	(1%)
Market data fees	(C)	147	168	(13%)
Other revenue	(D)	128	127	1%
Net investment income	(E)	227	111	105%
		1,875	1,907	(2%)
Operating expenses		532	442	20%
Profit before taxation		1,343	1,465	(8%)
Taxation		(195)	(227)	(14%)
Profit attributable to shareholders		1,148	1,238	(7%)

Profit attributable to shareholders decreased to \$1,148 million in the first quarter of 2012 against \$1,238 million for the same period in 2011. The decrease was mainly due to lower turnover-related income and higher operating expenses, but partly offset by higher net investment income.

Income affected by market turnover dropped by \$126 million to \$1,129 million in the first quarter of 2012 mainly due to the lower trading fees and trading tariff and clearing and settlement fees driven by the decrease in turnover on the Cash and Derivatives Markets.

The increase in net investment income was mainly attributable to the higher net fair value gains of investments reflecting market movements, and a rise in interest income due to increases in bank deposit rates.

Total operating expenses increased over the same quarter last year mainly due to higher staff costs and increases in legal and professional fees on account of various initiatives under the Strategic Plan 2010-2012.

Revenue and Other Income

(A) Income Affected by Market Turnover

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Trading fees and trading tariff	659	765	(14%)
Clearing and settlement fees	389	418	(7%)
Depository, custody and nominee services fees	81	72	13%
Total	1,129	1,255	(10%)

The decrease in trading fees and trading tariff was mainly attributable to the lower turnover of the Cash Market and trading volume of the Derivatives Market in the first quarter of 2012 against the same period in 2011.

Clearing and settlement fees are derived predominantly from Cash Market transactions. Clearing and settlement fees are also affected by the volume of settlement instructions (SIs) and, despite being mostly ad valorem, they are subject to a minimum and a maximum per transaction. Therefore, they may not always move exactly with changes in the turnover of the Cash Market. In the first quarter of 2012, the percentage decrease in clearing and settlement fees was lower than that of the turnover of the Cash Market compared with the corresponding period in 2011 as a higher proportion of the value of exchange-traded transactions settled was subject to the minimum fee and the volume of SIs dropped by a smaller percentage.

Depository, custody and nominee services fees mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, and stock withdrawal fees. Depository, custody and nominee services fees increased mainly due to an increase in scrip fees.

Key Market Indicators

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
Average daily turnover value on the Stock Exchange (\$bn)	63.2	75.9	(17%)
Average daily number of derivatives contracts traded on the Futures Exchange	255,110	246,687	3%
Average daily number of stock options contracts traded on the Stock Exchange	238,445	299,477	(20%)

(B) Stock Exchange Listing Fees

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Annual listing fees	116	107	8%
Initial and subsequent issue listing fees	127	138	(8%)
Others	1	1	0%
Total	244	246	(1%)

The increase in annual listing fees was attributable to the higher number of listed companies. The drop in initial and subsequent issue listing fees was mainly due to the lower number of newly listed DWs.

Key Drivers for Annual Listing Fees

	At 31 Mar 2012	At 31 Mar 2011	Change
Number of companies listed on Main Board	1,337	1,258	6%
Number of companies listed on GEM	173	168	3%
Total	1,510	1,426	6%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011	Change
Number of newly listed DWs	1,580	2,056	(23%)
Number of newly listed CBBCs	1,419	1,449	(2%)
Number of newly listed companies on Main Board	15	14	7%
Number of newly listed companies on GEM	3	3	0%
Total equity funds raised on Main Board			
– IPOs (\$bn)	9.6	17.3	(45%)
– Post-IPO (\$bn)	51.8	46.9	10%
Total equity funds raised on GEM			
– IPOs (\$bn)	0.2	0.5	(60%)
– Post-IPO (\$bn)	0.4	2.0	(80%)

(C) Market Data Fees

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Market data fees	147	168	(13%)

Market data fees dropped as there was a decline in certain fees charged on a per quote basis from the same period in 2011.

(D) Other Revenue

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Network, terminal user, dataline and software sub-license fees	103	101	2%
Participants' subscription and application fees	9	9	0%
Trading booth user fees	3	4	(25%)
Sales of Trading Rights	5	7	(29%)
Miscellaneous revenue	8	6	33%
Total	128	127	1%

Network, terminal user, dataline and software sub-license fees rose mainly due to increases in Cash Market trading system line rental income and Derivatives Market trading system sub-license fees partly offset by decreases in sales of throttle, hardware, and software.

(E) Net Investment Income

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Gross investment income	228	112	104%
Interest rebates to Participants	(1)	(1)	0%
Net investment income	227	111	105%

The average amount of funds available for investment was as follows:

	Three months ended 31 Mar 2012 \$bn	Three months ended 31 Mar 2011 \$bn	Change
Corporate Funds	10.5	10.4	1%
Cash collateral	3.6	4.4	(18%)
Margin Funds	30.4	26.3	16%
Clearing House Funds	1.6	2.9	(45%)
Total	46.1	44.0	5%

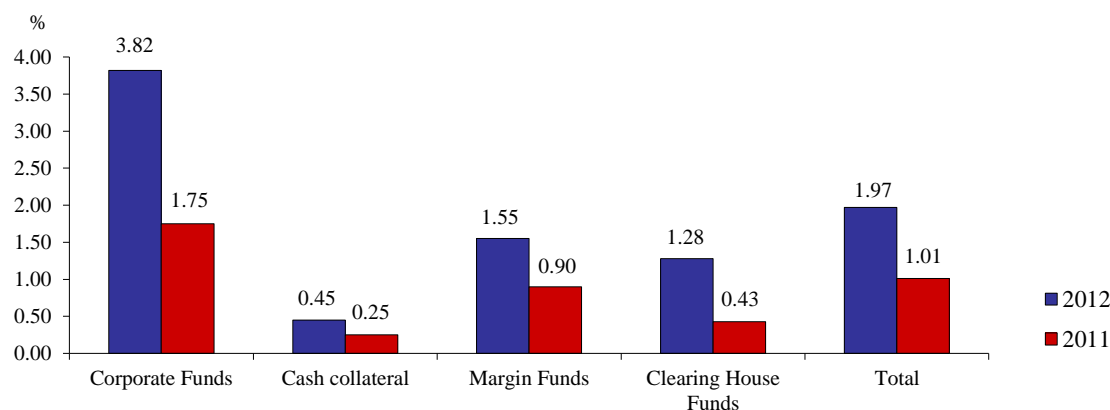
The increase in the average amount of Margin Funds during the period was mainly caused by the increases in open positions but partly offset by the lower margin rate required per contract.

The lower average amount of Clearing House Funds was mainly due to the drop in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The higher net investment income was primarily attributable to the rise in net fair value gains of investments, and the increase in interest income of the Corporate Funds and Margin Funds due to higher bank deposit rates.

The annualised net return on funds available for investment after the deduction of interest rebates to Participants during the first quarter is set out below.

Annualised Net Return on Funds Available for Investment



The higher net returns of the Corporate Funds, Margin Funds and Clearing House Funds were mainly attributable to the rise in net fair value gains of investments (including certain principal-guaranteed structured notes) and higher bank deposit rates during the first quarter of 2012.

As the valuation of the investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

The increase in net return of cash collateral was mainly attributable to increases in bank deposit rates and a larger portion of funds invested in longer term time deposits for yield enhancement.

Details of the investment portfolio are set out in the Treasury section under the Business Review.

Operating Expenses

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Staff costs and related expenses	294	244	20%
IT and computer maintenance expenses	80	72	11%
Premises expenses	57	52	10%
Product marketing and promotion expenses	6	4	50%
Legal and professional fees	28	10	180%
Depreciation	29	26	12%
Other operating expenses	38	34	12%
Total	532	442	20%

Staff costs and related expenses increased by \$50 million mainly as a result of an increase in permanent headcount (from 882 at 31 March 2011 to 974 at 31 March 2012) primarily for various new initiatives under the Strategic Plan 2010-2012, salary adjustments to keep up with the market trend, a rise in performance bonus due to the increased headcount, and higher employee share-based compensation expenses arising from the shares granted to employees in 2011.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$40 million (2011: \$37 million), were \$40 million (2011: \$35 million). The higher costs consumed by the Group were mainly due to the enhancement of the Group's IT security.

The rise in premises expenses was mainly attributable to higher rental upon the renewal of certain leases, and the lease of additional office premises to accommodate the increased headcount.

Legal and professional fees increased mainly due to the implementation of various strategic initiatives.

Taxation

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m	Change
Taxation	195	227	(14%)

Taxation dropped mainly due to the lower profit before taxation and an increase in non-taxable investment income.

Working Capital

Working capital increased by \$1,152 million or 15 per cent to \$8,791 million at 31 March 2012 (31 December 2011: \$7,639 million). The increase was primarily due to the profit generated during the quarter ended 31 March 2012 of \$1,148 million, the drop in non-current financial assets of \$207 million and the increase in other working capital of \$38 million, but was partly offset by the increase in fixed assets of \$241 million.

Capital Expenditures and Capital Commitments

During the first quarter of 2012, the Group incurred capital expenditures of \$285 million (2011: \$168 million) which were mainly on the new Data Centre at Tseung Kwan O with Hosting Services capability.

The Group's capital expenditure commitments at 31 March 2012, including those authorised by the Board but not yet contracted for, amounted to \$1,530 million (31 December 2011: \$1,605 million) and were mainly related to the construction of the new Data Centre at Tseung Kwan O with Hosting Services capability, the development of the next generation market data system and the OTC derivatives clearing system, and the upgrade and enhancement of the Derivatives Market's trading and clearing systems. The Group has adequate resources to fund its capital expenditure commitments.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

At 31 March 2012, the aggregate net open foreign currency positions amounted to HK\$1,917 million, of which HK\$443 million was non-USD exposure (31 December 2011: HK\$2,116 million, of which HK\$427 million was non-USD exposure) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$2,496 million (31 December 2011: HK\$5,180 million). All forward foreign exchange contracts will mature within 2 months (31 December 2011: 3 months).

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies. Unhedged investments in USD may not exceed 20 per cent of the Margin Funds.

Contingent Liabilities

There were no significant changes in the Group's contingent liabilities from the information disclosed in the annual report for the year ended 31 December 2011.

Changes since 31 December 2011

There were no other significant changes in the Group's financial position and from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2011.

It is the Group's plan to declare a dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter of 2012 (first quarter of 2011: \$Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of income and operating expenses may vary substantially from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

Review of Financial Statements

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2012 in conjunction with HKEx's external auditor.

The external auditor has carried out certain agreed-upon procedures in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2012.

OPERATIONAL REVIEW

Organisational Changes

The former Co-Head of the IT Division, Mr Roger Lee, returned to the Listing Division as the Head of Listing Operations effective 1 January 2012.

Mr Colin Chau retired as the Head of Accounting Affairs of the Listing Division and Mr Joseph Meyer resigned as the Chief Administrative Officer on 1 and 9 March 2012 respectively.

Mr Samuel Wong's resignation as the Chief Financial Officer took effect from 20 March 2012. Mr Vincent Kwong, the Financial Controller, was appointed as Deputy Chief Financial Officer with effect from 20 March 2012 and acts as the interim Chief Financial Officer until the position is filled.

In addition, Mr Ren Guang Ming resigned as the Chief Representative of the Beijing Representative Office (BJO) effective 1 May 2012, and Ms Xu Chun Meng acts as the interim BJO Chief Representative.

HKEx takes this opportunity to express its gratitude to Messrs Colin Chau, Joseph Meyer, Ren Guang Ming, and Samuel Wong for their invaluable contributions to HKEx.

The updated organisational chart is available on the HKEx website.

Corporate Governance

Throughout the three months ended 31 March 2012, HKEx complied with all Code Provisions with the exception of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors) and, where appropriate, adopted the Recommended Best Practices as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Main Board Listing Rules).

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. The term of office of HKEx's Chief Executive in his capacity as a Director is governed by Article 90 of HKEx's Articles of Association and is not subject to retirement by rotation.

The CG Code, the new edition of the Code on Corporate Governance Practices, is applicable to financial reports covering a period after 1 April 2012. As part of HKEx's unwavering commitment to high standards of corporate governance, it has adopted all new Code Provisions already and, where appropriate, new Recommended Best Practices as set out in the CG Code.

As of 30 March 2012, the Global and Home Market ESG Ratings assigned to HKEx by GovernanceMetrics International Inc (GMI), a provider of global corporate governance and ESG ratings and research, were B (above average) and A (superior) respectively. GMI assesses a company's ESG standing on a comprehensive set of indicators and evaluates the quality and effectiveness of the company's board in providing strategic oversight and representing shareholder interests. Ratings are expressed as a letter-grade rating from A (superior) to F (failing).

On 30 March 2012, HKEx was included in the Best Investor Relations (Hong Kong Company) category and HKEx's Chief Executive, Mr Charles Li, was chosen as one of Asia's Best CEOs (Investor Relations) in *Corporate Governance Asia's* annual Asian Excellence Recognition Awards for the second consecutive year.

The Board engaged Egon Zehnder International (EZI) to conduct another independent evaluation of its performance in September 2011 with the aim of further improvement in its functioning. The EZI concluded that the Board continues to operate efficiently and is well aligned on HKEx's overall objectives and towards the organisation's public purpose. It also concluded that the Board has shown improvements on oversight of strategy and performance, oversight of people and people processes, and relationships with external stakeholders. The evaluation revealed that all the Board Committees perform well and have a strong composition, and the Board as a whole is reasonably ambitious in the goals it sets for itself.

The Company's corporate governance information is set out in the Corporate Governance section of the HKEx website.

Corporate Social Responsibility

HKEx's 2011 CSR Report, which fulfils the requirement of Global Reporting Initiative Application Level A+, was published on the HKEx website on 12 March 2012. HKEx regards the Report as an important tool for engaging with its stakeholders and improving its performance on its sustainability journey. Stakeholders are invited to view the Report and provide feedback on HKEx's CSR performance and reporting online at www.hkex.com.hk/eng/exchange/csr/csr_report/csr_reporting.htm.

To support board diversity, HKEx's then Chairman, Mr Ronald Arculli, and HKEx's Chief Executive, Mr Charles Li, joined the Chairmen's Breakfast and the Women on Boards Executive Forum respectively during the Women on Boards Week in March 2012 organised by Community Business and The Women's Foundation.

During the reporting period, HKEx continued to participate in various external charitable events and organise its own employee volunteering activities to promote community development and environmental protection. Collectively, about 470 participants, including HKEx's Chief Executive and employees' family members, supported these events and helped raise donations of about \$300,000 (comprising corporate and employee donations) for local charitable organisations to support their services for the elderly, the underprivileged and the disabled, and their work on climate change.

HKEx was awarded the "5 Years Plus Caring Company Logo" for 2011/12 by The Hong Kong Council of Social Service for the second consecutive year and continues to be included in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index Series. Building on its strengths and unique role in the marketplace, HKEx will continue to uphold its commitment to be a responsible corporate citizen.

The Company's CSR information is set out in the Corporate Social Responsibility section of the HKEx website.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Trading fees and trading tariff		659	765
Stock Exchange listing fees		244	246
Clearing and settlement fees		389	418
Depository, custody and nominee services fees		81	72
Market data fees		147	168
Other revenue	3	128	127
REVENUE AND TURNOVER		1,648	1,796
Investment income		228	112
Interest rebates to Participants		(1)	(1)
Net investment income	4	227	111
	2	1,875	1,907
OPERATING EXPENSES			
Staff costs and related expenses		294	244
IT and computer maintenance expenses		80	72
Premises expenses		57	52
Product marketing and promotion expenses		6	4
Legal and professional fees		28	10
Depreciation		29	26
Other operating expenses		38	34
	2	532	442
PROFIT BEFORE TAXATION	2	1,343	1,465
TAXATION	5	(195)	(227)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,148	1,238
Basic earnings per share	6(a)	\$1.07	\$1.15
Diluted earnings per share	6(b)	\$1.06	\$1.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 31 Mar 2012			At 31 Dec 2011		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	7	19,267	-	19,267	18,221	-	18,221
Financial assets measured at fair value							
through profit or loss	7	10,863	182	11,045	11,169	180	11,349
Financial assets measured at amortised cost	7	14,151	194	14,345	15,848	403	16,251
Accounts receivable, prepayments and deposits	7, 8	8,302	24	8,326	7,210	23	7,233
Fixed assets		-	1,189	1,189	-	948	948
Lease premium for land		-	25	25	-	25	25
Deferred tax assets		-	1	1	-	1	1
Total assets		52,583	1,615	54,198	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants							
on derivatives contracts		27,371	-	27,371	31,359	-	31,359
Cash collateral from HKSCC Clearing							
Participants		4,343	-	4,343	3,233	-	3,233
Accounts payable, accruals and other liabilities	9	9,888	-	9,888	8,456	-	8,456
Deferred revenue		468	-	468	524	-	524
Taxation payable		233	-	233	262	-	262
Other financial liabilities		56	-	56	60	-	60
Participants' contributions to							
Clearing House Funds		1,396	-	1,396	880	-	880
Provisions		37	43	80	35	27	62
Deferred tax liabilities		-	28	28	-	33	33
Total liabilities		43,792	71	43,863	44,809	60	44,869
Equity							
Share capital				1,080			1,080
Share premium				639			639
Shares held for Share Award Scheme				(293)			(296)
Employee share-based compensation reserve				132			106
Designated reserves				580			577
Retained earnings	10			8,197			7,053
Shareholders' funds				10,335			9,159
Total liabilities and equity				54,198			54,028
Net current assets				8,791			7,639
Total assets less current liabilities				10,406			9,219

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements should be read in conjunction with the 2011 annual consolidated financial statements. Except as described below, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements and segment information are consistent with those used in the annual consolidated financial statements and segment information for the year ended 31 December 2011.

Early adoption of new/revised Hong Kong Financial Reporting Standards (HKFRSs)

In 2012, the Group has early adopted the following new/revised HKFRSs where early adoption is permitted:

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 19 (2011)	Employee Benefits
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

The amendments to HKAS 1 (Revised) require companies to classify items within other comprehensive income under 2 categories: (i) items which may be reclassified to profit or loss in the future and (ii) items which would never be reclassified to profit or loss. The adoption of the amended HKAS 1 (Revised) does not have any impact to the Group as it currently does not have any other comprehensive income items.

HKAS 19 (2011) eliminates the option of deferring the recognition of gains and losses arising from defined benefit plans, and enhances the disclosure requirements for defined benefit plans. The early adoption of HKAS 19 (2011) does not have any impact to the Group as it does not have a defined benefit plan.

Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under HKAS 27 (Revised) (for companies) or exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities). The adoption of HKFRS 10 does not have any financial impact to the Group as all subsidiaries satisfy the requirements for control under HKFRS 10.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new requirements for unconsolidated structured entities. The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement. The adoption of HKFRS 13 affects certain disclosures of the Group's financial statements.

The Group has applied the above new/revised HKFRSs retrospectively.

Change in useful lives of leasehold buildings and leasehold improvements

Effective from 1 January 2012, the estimated useful lives of leasehold buildings and leasehold improvements were revised to better reflect the useful lives of the fixed assets as follows:

	Old useful lives	New useful lives
Leasehold buildings	25 years	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years	Over the remaining lives of the leases but not exceeding 10 years

The effect of the above changes in accounting estimates was a decrease in depreciation charge of less than \$1 million for the period ended 31 March 2012.

2. Operating Segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has 4 reportable segments. The segments are managed separately as each business offers different products and services and requires different IT systems and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, CBBCs and DWs. Currently, the Group operates 2 Cash Market platforms, the Main Board and the GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the Listing Function are included in the Cash Market.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the 3 clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

The **Market Data** business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily market data fees of the Cash and Derivatives Markets.

An analysis of the Group's reportable segment profit before taxation for the period by operating segment is as follows:

	Three months ended 31 Mar 2012				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	797	194	509	148	1,648
Net investment income	39	140	48	-	227
	836	334	557	148	1,875
Operating expenses					
Direct costs	182	48	93	21	344
Indirect costs	92	29	54	13	188
	274	77	147	34	532
Reportable segment profit before taxation	562	257	410	114	1,343

	Three months ended 31 Mar 2011				
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Group \$m
Income from external customers	888	207	532	169	1,796
Net investment income	22	67	22	-	111
	910	274	554	169	1,907
Operating expenses					
Direct costs	163	43	85	17	308
Indirect costs	68	19	38	9	134
	231	62	123	26	442
Reportable segment profit before taxation	679	212	431	143	1,465

3. Other Revenue

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Network, terminal user, dataline and software sub-license fees	103	101
Participants' subscription and application fees	9	9
Trading booth user fees	3	4
Sales of Trading Rights	5	7
Miscellaneous revenue	8	6
	128	127

4. Net Investment Income

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Gross interest income	90	41
Interest rebates to Participants	(1)	(1)
Net interest income	89	40
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	136	69
Others	2	2
Net investment income	227	111

5. Taxation

Taxation charge/(credit) in the condensed consolidated statement of comprehensive income represented:

	Three months ended 31 Mar 2012 \$m	Three months ended 31 Mar 2011 \$m
Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%)	200	217
Deferred taxation	(5)	10
	195	227

6. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011
Profit attributable to shareholders (\$m)	1,148	1,238
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,691	1,076,497
Basic earnings per share (\$)	1.07	1.15

(b) Diluted earnings per share

	Three months ended 31 Mar 2012	Three months ended 31 Mar 2011
Profit attributable to shareholders (\$m)	1,148	1,238
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,691	1,076,497
Effect of employee share options (in '000)	852	1,256
Effect of Awarded Shares (in '000)	2,182	1,401
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,080,725	1,079,154
Diluted earnings per share (\$)	1.06	1.15

7. Financial Assets

The Group's financial assets comprised financial assets of the Clearing House Funds, Margin Funds, cash collateral and Corporate Funds. The amounts attributable to the respective Funds were as follows:

	At 31 Mar 2012 \$m	At 31 Dec 2011 \$m
<u>Clearing House Funds</u>		
Cash and cash equivalents	1,351	835
Financial assets measured at fair value through profit or loss	286	284
Financial assets measured at amortised cost	357	367
	1,994	1,486
<u>Margin Funds</u>		
Cash and cash equivalents	12,231	12,719
Financial assets measured at fair value through profit or loss	5,753	6,265
Financial assets measured at amortised cost	9,380	12,368
Accounts receivable, prepayments and deposits	7	7
	27,371	31,359
<u>Cash collateral</u>		
Cash and cash equivalents	3,534	2,327
Financial assets measured at amortised cost	809	906
	4,343	3,233
<u>Corporate Funds</u>		
Cash and cash equivalents	2,151	2,340
Financial assets measured at fair value through profit or loss	5,006	4,800
Financial assets measured at amortised cost	3,799	2,610
	10,956	9,750
	44,664	45,828

8. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 90 per cent (31 December 2011: 90 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within 2 days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within 3 months.

9. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 76 per cent (31 December 2011: 77 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

10. Retained Earnings (Including Proposed Dividend)

	2012 \$m	2011 \$m
At 1 Jan	7,053	6,766
Profit attributable to shareholders	1,148	5,093
Transfer (to)/from Clearing House Funds reserves	(3)	3
Dividends:		
2010 final dividend	-	(2,487)
2011 interim dividend	-	(2,327)
Unclaimed HKEx dividends forfeited	-	6
Vesting of shares of Share Award Scheme	(1)	(1)
At 31 Mar 2012/31 Dec 2011	8,197	7,053
Representing:		
Retained earnings	5,945	4,801
Proposed dividend	2,252	2,252
At 31 Mar 2012/31 Dec 2011	8,197	7,053

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the three months ended 31 March 2012, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 3,400 HKEx shares at a total consideration of about \$490,000.

PUBLICATION OF QUARTERLY RESULTS AND QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2012

This results announcement is published on the HKExnews website at www.hkexnews.hk and the HKEx website at www.hkex.com.hk/eng/exchange/invest/results/2012Results.htm. The Quarterly Report for the three months ended 31 March 2012 will be available on the HKExnews and HKEx websites, and despatched to Shareholders on or about Monday, 21 May 2012.

BOARD OF DIRECTORS

On 10 April 2012, the Government announced the appointment of Sir C K Chow and Mr Timothy Freshwater as Directors each for a term of approximately 2 years from the close of the 2012 AGM until the conclusion of the AGM to be held in 2014, and the re-appointment of Mr Ronald Arculli as a Director for a term of approximately 1 year from the close of the 2012 AGM until the conclusion of the AGM to be held in 2013. Mrs Laura Cha and Dr Moses Cheng retired from the Board after the conclusion of the 2012 AGM. At the 2012 AGM, Messrs Ignatius Chan and John Williamson were re-elected as Directors by Shareholders each for a term of approximately 3 years from 23 April 2012 until the conclusion of the AGM to be held in 2015.

Pursuant to Article 111(2) of HKEx's Articles of Association, Mr Arculli who has served as HKEx's Chairman for 6 consecutive years is ineligible for re-appointment and his chairmanship ceased after the conclusion of the 2012 AGM. The Board on 24 April 2012 appointed Sir C K as HKEx's Chairman for a term to be coterminous with his directorship, and the Chief Executive of the HKSAR approved his appointment which took effect on 27 April 2012.

Following the changes in the Board composition that took effect on 23 April 2012, the Board considered and announced new appointments to various Committees on 24 April 2012. The term of service of each Director on each Committee shall be coterminous with the individual's term of directorship with HKEx. The updated member lists of the various Committees are available on the HKEx website.

At the 2012 AGM, the Shareholders approved the (i) remuneration of \$900,000 and \$600,000 per annum be payable to HKEx's Chairman and each of the other Non-executive Directors respectively; (ii) remuneration of \$120,000 and \$90,000 per annum be payable to the chairman and each of the other members (excluding any Executive Director) respectively of the Audit Committee, Executive Committee, Investment Advisory Committee and Remuneration Committee (collectively referred as Committees); and (iii) attendance fee of \$3,000 be payable to each member of the Committees (excluding any Executive Director) for each meeting of the Committees. The above remuneration took effect from the conclusion of the 2012 AGM and will remain in effect until Shareholders in general meeting otherwise determine.

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Sir Chung Kong CHOW (Chairman), Mr Ronald Joseph ARCULLI, Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKE_x's Chief Executive.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
CHOW Chung Kong
Chairman

Hong Kong, 7 May 2012

GLOSSARY

2012 AGM	HKEx's annual general meeting held on 23 April 2012
AGM	HKEx's annual general meeting
AMS/3.8	The Latest Upgrade of the Third Generation Automatic Order Matching and Execution System
Awarded Shares	Shares awarded under the Share Award Scheme
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
Cash Market	HKEx's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	The Central Clearing and Settlement System
CG Code	Corporate Governance Code, Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
CSR	Corporate Social Responsibility
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DWs	Derivative Warrants
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Directors	Directors appointed by the Financial Secretary of the HKSAR pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
Listing Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MOU(s)	Memorandum(s) of Understanding
OTC	Over-the-counter
REITs	Real Estate Investment Trusts
RMB	Renminbi
SDNet	The Securities and Derivatives Network
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
US	United States of America
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn	Hong Kong dollar in billion
\$m	Hong Kong dollar in million