HKEx 香港交易所

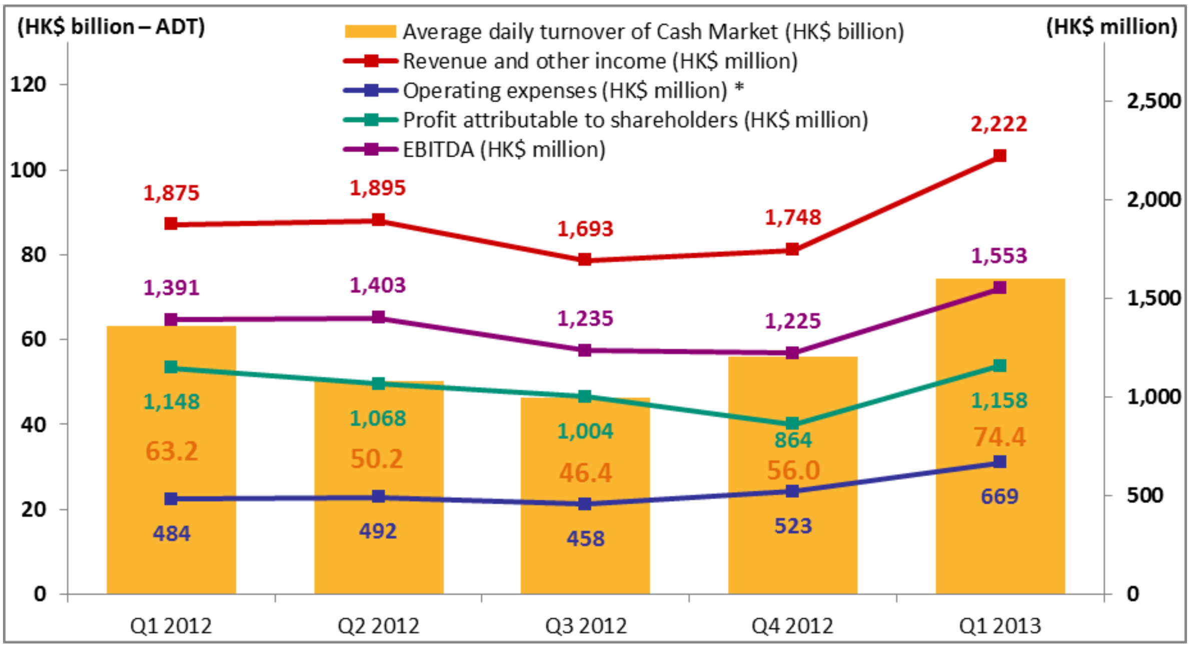
Hong Kong Exchanges and Clearing Limited

Q1 2013 Results: Q&A

1. How did HKEx perform in Q1 2013 versus the previous quarter and the same quarter of 2012?

HKEx's Q1 2013 results demonstrate an improvement in momentum versus Q4 2012 – see chart below:

- Revenue and other income up HK$474 million, or 27%
- EBITDA was up HK$328 million, or 27%
- Operating profit was up HK$279 million, or 24 %
- Profit attributable to shareholders was up HK$294 million, or 34%



** Excluding depreciation and amortisation*

Versus Q1 2012, HKEx's Q1 2013 results showed improvement in major income statement items:

- Revenue and other income up HK$347 million, or 19%, to HK$2,222 million
- EBITDA was up HK$162 million, or 12%, to HK$1,553 million
- Operating profit was up HK$75 million, or 6%, to HK$1,437 million
- Profit attributable to shareholders was up HK$10 million, or 1%, to HK$1,158 million

2. What were the factors driving HKEx's revenue and earnings increases in Q1 2013?

The improvement in revenue and other income is attributable to:

- An increase in average daily turnover in our cash equity market (ADT), which rose 33% quarter-on-quarter from HK$56.0 billion in Q4 2012 to HK$74.4 billion in Q1 2013;
- An quarter-on-quarter increase in average daily volumes in derivatives (ADV) of 10% to 552,686 contracts; and
- Inclusion of a full quarter of LME revenues and other income, which contributed HK$420 million;

Included within investment income is a non-recurring gain of HK$107 million before tax related to the revaluation of LME's stake in LCH.Clearnet. Excluding this gain, investment income declined versus Q1 2012 to HK$109 million reflecting the continuation of the difficult investment market over the past 12 months, as a result of the challenging interest rate environment. This delivered lower fair value gains on our investment portfolio and lower interest rates on our bank deposits.

The positive impact of the increase in revenues and other income on operating and profit attributable to shareholders was offset by an increase in operating expenses (excluding depreciation and amortisation) of HK$185 million, or 38%, on the same period last year. This was principally driven by the inclusion of LME's operating expenses (excluding depreciation and amortisation) of HK$161 million, as well as a HK$31 million increase in staff costs, which was driven by an increase in headcount (of 4.6%) to pursue various strategic initiatives and payroll adjustments to keep in line with market trends.

Further, depreciation and amortisation rose by HK$87 million versus Q1 2012 to HK$116 million. Of this increase, HK$34 million related to ongoing depreciation and amortisation of operating assets at LME and HK$32 million related to the amortisation of customer relationship intangibles arising on its acquisition.

3. How did the Group's Q1 2013 segment results compare with the same period in 2012?

EBITDA margins across all segments were broadly consistent with the same period in 2012, leading to increased overall EBITDA following growth in market volumes. The exceptions to this were Commodities, which is a new segment and Clearing, where costs were incurred for the development of two new clearing houses, which have yet to generate income. Further commentary on each of the segments follows below.

Segment	Q1 2013 EBITDA (HK$m)	EBITDA margin
Cash	517	81%
Equity & Financial Derivatives	331	74%
Commodities	183	62%
Clearing	501	79%
Platform & Infrastructure	51	63%
Corporate Items	(30)	n/a
Total	**1,553**	**70%**

EBITDA of the Cash segment increased by HK$36 million, or 7%, to HK$517 million. This was mainly due to higher trading fees and trading tariff attributable to higher ADT of equity products. However, this was partly offset by more exempt ETF trades by market makers and lower listing fees due to fewer IPOs. The EBITDA margin of the Cash segment remained at 81%.

EBITDA of the Equity and Financial Derivatives segment decreased slightly by HK$2 million to HK$331 million. Although the average daily number of derivatives contracts traded increased by 12%, trading fees and trading tariff only rose marginally due to a higher proportion of trading in lower fee products, such as stock options and H-share index futures and options. The increase in listing fees from more newly listed derivative warrants and callable bull/bear contracts was more than offset by the rise in operating expenses that included implementation costs for certain strategic projects. Consequently, the EBITDA margin fell slightly from 76% in Q1 2012 to 74% in Q1 2013.

EBITDA of the Commodities segment was HK$183 million, which was entirely generated from the LME business. Compared with the same period in 2012, the average daily volume of metals contracts traded by LME increased by 5% and, coupled with the fee increase that became effective from 2 July 2012, trading fees from metals futures and options contracts traded increased significantly. The Commodities EBITDA margin was 62%.

EBITDA of the Clearing segment decreased by HK$35 million to HK$501 million, mainly due to significant operating expenses related to the development of two new clearing houses: OTC Clearing and LME Clear, a clearing system for the commodities business. Revenue and other income remained at the same level as 2012, as higher clearing and settlement fees from higher ADT was offset by a decline in net investment income. As a result, the EBITDA margin for Q1 2013 decreased from 85% to 79%.

EBITDA of the Platform and Infrastructure segment decreased by HK$6 million to $51 million mainly due to a drop in sales of additional throttles. Following the migration of the Group's network services to SDNet/2 in August 2012, there was a drop in Stock Exchange trading network line rental income, which was offset by a corresponding reduction in line rental costs. The EBITDA margin improved from 54% to 63% as, following the migration to SDNet/2, the percentage drop in operating expenses exceeded that for revenue.

4. What contribution did LME make to HKEx's results in Q1 2013?

LME had a profitable quarter, with robust underlying growth. The average daily volume of metals contracts traded on LME rose by 5% compared to Q1 2012.

LME made a positive contribution to the Group's profit attributable to shareholders in Q1 2013 with the following key headline contributions:

- Revenue of HK$420 million, of which HK$210 million came from trading fees
- EBITDA of HK$259 million, with an EBITDA margin of 62%
- Profit before tax of HK$225 million

Revenue during the quarter included HK$107 million of non-recurring investment income related to the revaluation of LME's stake in LCH.Clearnet (the partial sale of which is expected to result in a cash inflow during Q2 2013) and an HK$18 million foreign exchange gain on its bank deposits. Excluding this amount, LME's underlying EBITDA and profit before tax generated in Q1 2013 accounted for approximately 9% and 7% of HKEx's total EBITDA and profit before tax, respectively. It should be noted that the investment income relating to LME's stake in LCH.Clearnet only relates to the stake to be sold and that after this partial sale, LME will continue to hold a 3.59% stake.

Taking into account the new shares issued in December 2012 for the purposes of financing the acquisition of LME, the impact of LME's earnings on EPS was slightly accretive.

5. What is HKEx's exposure to foreign currency fluctuations in respect of its investment in LME?

Through the acquisition of LME, which is based in the United Kingdom, HKEx has increased its exposure to foreign exchange fluctuations. Given the unpredictable nature of foreign exchange movements, these may result in currency gains or losses from time to time.

Changes in exchange rates could impact the level of earnings of LME that are accounted for by the Group in its profit attributable to shareholders in each accounting period. However, in respect of its overall investment in LME, movements in foreign exchange rates do not impact the profit attributable to shareholders, but are booked as an exchange reserve as a component of Equity.

6. Will the capex of HKEx Group continue to increase in future?

In Q1 2013, the Group incurred capital expenditure (capex) totalling HK$164 million (Q1 2012: HK$285 million). The capex in Q1 2013 was mainly on the:

- New data centre at Tseung Kwan O with Hosting Services capability;
- Development of a new market data system;
- Development of a commodities clearing system; and
- Upgrade and enhancement of various information technology systems.

The Group's capital expenditure commitments at 31 March 2013 amounted to HK$987 million over the coming 2-3 years (31 December 2012: HK$832 million).

Subsequent to the reporting period, in April 2013, additional capital commitments of HK$350 million mainly relating to the remaining phases of developing LME Clear were approved.

The capex for Hong Kong has already peaked but the LME business has a number of strategic capex projects which account for the increase in group commitments. We will continue to monitor the Group's capex closely and ensure that it is properly prioritised and controlled.