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HKEX

香港交易所

香港交易及結算所有限公司

HONG KONG EXCHANGES AND CLEARING LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 388)

Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

(Unaudited)

At 10 August 2016, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEX) comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Mr John Barrie HARRISON, Dr HU Zuli, Fred, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mrs LEUNG KO May Yee, Margaret, and Mr John Mackay McCulloch WILLIAMSON, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Trading fees and trading tariff	3	2,255	2,941
Stock Exchange listing fees		531	564
Clearing and settlement fees		1,187	1,676
Depository, custody and nominee services fees		473	483
Market data fees		404	386
Other revenue		406	407
REVENUE	2	5,256	6,457
Investment income		410	402
Interest rebates to Participants		(55)	(11)
Net investment income	4	355	391
Sundry income		19	5
REVENUE AND OTHER INCOME		5,630	6,853
OPERATING EXPENSES			
Staff costs and related expenses	5	(1,016)	(1,034)
Information technology and computer maintenance expenses		(251)	(251)
Premises expenses		(162)	(139)
Product marketing and promotion expenses		(21)	(21)
Legal and professional fees		(46)	(29)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	6	-	77
Others		(192)	(183)
		(1,688)	(1,580)
EBITDA*		3,942	5,273
Depreciation and amortisation		(382)	(325)
OPERATING PROFIT		3,560	4,948
Finance costs	7	(43)	(77)
Share of loss of a joint venture		(5)	(5)
PROFIT BEFORE TAXATION	2	3,512	4,866
TAXATION	8	(540)	(783)
PROFIT FOR THE PERIOD		2,972	4,083
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEX		2,985	4,095
- Non-controlling interests		(13)	(12)
		2,972	4,083
Basic earnings per share	9(a)	\$2.47	\$3.49
Diluted earnings per share	9(b)	\$2.47	\$3.47

* EBITDA represents earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
PROFIT FOR THE PERIOD	2,972	4,083
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	10	(3)
OTHER COMPREHENSIVE INCOME	10	(3)
TOTAL COMPREHENSIVE INCOME	2,982	4,080
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEX	2,995	4,092
- Non-controlling interests	(13)	(12)
TOTAL COMPREHENSIVE INCOME	2,982	4,080

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	At 30 Jun 2016			At 31 Dec 2015		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	98,053	-	98,053	110,890	-	110,890
Financial assets measured at fair value through profit or loss	11	56,265	-	56,265	72,705	-	72,705
Financial assets measured at amortised cost	11	24,224	62	24,286	19,439	57	19,496
Accounts receivable, prepayments and deposits	11, 12	7,903	21	7,924	15,535	21	15,556
Taxation recoverable		2	-	2	2	-	2
Interest in a joint venture		-	63	63	-	68	68
Goodwill and other intangible assets		-	17,842	17,842	-	17,872	17,872
Fixed assets		-	1,491	1,491	-	1,560	1,560
Lease premium for land		-	21	21	-	22	22
Deferred tax assets		-	32	32	-	22	22
Total assets		186,447	19,532	205,979	218,571	19,622	238,193
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	13	47,850	-	47,850	64,486	-	64,486
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	14	106,005	-	106,005	115,213	-	115,213
Accounts payable, accruals and other liabilities	15	8,073	22	8,095	15,270	15	15,285
Deferred revenue		495	-	495	773	-	773
Taxation payable		845	-	845	653	-	653
Other financial liabilities		49	-	49	42	-	42
Participants' contributions to Clearing House Funds	16	7,196	-	7,196	7,474	-	7,474
Borrowings	17	-	3,418	3,418	-	3,409	3,409
Provisions		84	68	152	65	70	135
Deferred tax liabilities		-	754	754	-	761	761
Total liabilities		170,597	4,262	174,859	203,976	4,255	208,231
Equity							
Share capital	18			20,816			19,285
Shares held for Share Award Scheme	18			(578)			(590)
Employee share-based compensation reserve	19			281			199
Exchange reserve				(244)			(254)
Designated reserves	20			776			778
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings				10,229			10,691
Equity attributable to shareholders of HKEX				30,987			29,816
Non-controlling interests				133			146
Total equity				31,120			29,962
Total liabilities and equity				205,979			238,193
Net current assets				15,850			14,595

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEX							Non-controlling interests	Total equity
	Share capital and shares held for Share Award Scheme	Employee share-based compensation reserve	Exchange reserve	Designated reserves	Reserve relating to written put options to non-controlling interests	Retained earnings	Total		
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
At 1 Jan 2016	18,695	199	(254)	778	(293)	10,691	29,816	146	29,962
Profit/(loss) for the period	-	-	-	-	-	2,985	2,985	(13)	2,972
Other comprehensive income	-	-	10	-	-	-	10	-	10
Total comprehensive income	-	-	10	-	-	2,985	2,995	(13)	2,982
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:									
- 2015 final dividend at \$2.87 per share	-	-	-	-	-	(3,459)	(3,459)	-	(3,459)
- Unclaimed HKEX dividends forfeited (note 15)	-	-	-	-	-	11	11	-	11
- Shares issued in lieu of cash dividends	1,522	-	-	-	-	-	1,522	-	1,522
- Vesting of shares of Share Award Scheme	21	(20)	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	102	-	-	-	-	102	-	102
- Transfer of reserves	-	-	-	(2)	-	2	-	-	-
Total transactions with shareholders recognised directly in equity	1,543	82	-	(2)	-	(3,447)	(1,824)	-	(1,824)
At 30 Jun 2016	20,238	281	(244)	776	(293)	10,229	30,987	133	31,120

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEX									
	Share capital and shares held for Share Award Scheme	Employee share-based compensation reserve	Exchange reserve	Convertible bond reserve	Designated reserves	Reserve relating to written put options to non-controlling interests	Retained earnings	Total	Non- controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2015	11,743	142	(247)	409	643	(217)	8,800	21,273	86	21,359
Profit/(loss) for the period	-	-	-	-	-	-	4,095	4,095	(12)	4,083
Other comprehensive income	-	-	(3)	-	-	-	-	(3)	-	(3)
Total comprehensive income	-	-	(3)	-	-	-	4,095	4,092	(12)	4,080
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:										
- 2014 final dividend at \$2.15 per share	-	-	-	-	-	-	(2,533)	(2,533)	-	(2,533)
- Unclaimed HKEX dividends forfeited (note 15)	-	-	-	-	-	-	9	9	-	9
- Shares issued upon exercise of employee share options	3	-	-	-	-	-	-	3	-	3
- Shares issued in lieu of cash dividends	1,293	-	-	-	-	-	-	1,293	-	1,293
- Vesting of shares of Share Award Scheme	13	(13)	-	-	-	-	-	-	-	-
- Employee share-based compensation benefits	-	80	-	-	-	-	-	80	-	80
- Tax credit relating to Share Award Scheme (note 8(b))	-	-	-	-	-	-	6	6	-	6
- Conversion of convertible bonds	3,877	-	-	(409)	-	-	266	3,734	-	3,734
- Transfer of reserves	-	-	-	-	(1)	-	1	-	-	-
- Transfer of reserves – surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant	-	-	-	-	100	-	(100)	-	-	-
Total changes in ownership interests in subsidiaries that do not result in a loss of control:										
- Changes in ownership interest in a subsidiary	-	-	-	-	-	-	(35)	(35)	35	-
Total transactions with shareholders recognised directly in equity	5,186	67	-	(409)	99	-	(2,386)	2,557	35	2,592
At 30 Jun 2015	16,929	209	(250)	-	742	(217)	10,509	27,922	109	28,031

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	21	3,436	5,052
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
(Payments to)/receipts from external fund managers for (purchases)/sales of financial assets measured at fair value through profit or loss		(2,000)	400
Net cash inflow from operating activities		1,436	5,452
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(277)	(268)
Net (increase)/decrease in financial assets of Corporate Funds: Increase in time deposits with original maturities more than three months		(1,017)	(285)
Payments for purchase of financial assets measured at amortised cost (excluding time deposits)		(464)	-
Net proceeds from sales of financial assets measured at fair value through profit or loss		-	187
Interest received from financial assets measured at fair value through profit or loss		9	8
Net cash outflow from investing activities		(1,749)	(358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares upon exercise of employee share options		-	3
Payments of finance costs		(34)	(38)
Dividends paid to shareholders of HKEX		(1,918)	(1,226)
Net cash outflow from financing activities		(1,952)	(1,261)
Net (decrease)/increase in cash and cash equivalents		(2,265)	3,833
Cash and cash equivalents at 1 Jan		12,744	8,067
Cash and cash equivalents at 30 Jun (note (a))		10,479	11,900
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	11	10,479	11,900

- (a) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash prepayments for A shares are held for specific purposes and cannot be used by the Group to finance other activities. These balances are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.
- (b) "Cash flows from principal operating activities" is a non-HKFRS measure used by management for monitoring cash flows of the Group and represents the cash flows generated from the trading and clearing operations of the three exchanges and five clearing houses and ancillary services of the Group. Cash flows from principal operating activities and cash flows from other operating activities together represent cash flows from operating activities as defined by Hong Kong Accounting Standard (HKAS) 7: Statement of Cash Flows. This non-HKFRS measure may not be comparable to similar measures presented by other companies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar unless otherwise stated)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with HKAS 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2015 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2015. Amendments to Hong Kong Financial Reporting Standards (HKFRSs) effective for the financial year ending 31 December 2016 do not have any financial impact to the Group.

The financial information relating to the year ended 31 December 2015 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2016 as comparative information does not constitute the statutory annual consolidated financial statements of Hong Kong Exchanges and Clearing Limited (HKEX or the Company) for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

2. Operating Segments

HKEX and its subsidiaries (collectively the Group) determine its operating segments based on the reports that are used to make strategic decisions reviewed by the chief operating decision-maker.

The Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group's reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms and the Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect (Stock Connect), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff and listing fees of equity products and market data fees.

2. Operating Segments (continued)

The **Equity and Financial Derivatives** segment refers to derivatives products traded on Hong Kong Futures Exchange Limited (Futures Exchange) and The Stock Exchange of Hong Kong Limited (Stock Exchange) and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants and sales of market data relating to these products. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees.

The **Commodities** segment refers to the operations of The London Metal Exchange (LME), which operates an exchange in the United Kingdom (UK) for the trading of base metals futures and options contracts and the development and operations of the new commodity trading platform in the Mainland. It also covers the Asia Commodities contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment refers to the operations of the five clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear Limited (LME Clear), which are responsible for clearing, settlement and custodian activities of the Stock Exchange, the Futures Exchange and the Shanghai Stock Exchange through Stock Connect, clearing and settlement of over-the-counter derivatives contracts, and clearing and settlement of base metals futures and options contracts traded on the LME. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on Margin Funds and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. Its major sources of revenue are network, terminal user, dataline and software sub-license fees, trading booth user fees and hosting services fees.

Central income (including net investment income of Corporate Funds) and central costs (costs of central support functions that provide services to all of the operating segments, finance costs and other costs not directly related to any of the operating segments) are included as "Corporate Items".

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis by operating segment of the Group's EBITDA and profit before taxation for the period is as follows:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

2. Operating Segments (continued)

	Six months ended 30 Jun 2016						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,282	1,065	804	1,838	264	3	5,256
Net investment income	-	-	-	273	-	82	355
Sundry income	-	-	-	11	-	8	19
Revenue and other income	1,282	1,065	804	2,122	264	93	5,630
Operating expenses	(270)	(229)	(291)	(352)	(74)	(472)	(1,688)
Reportable segment EBITDA	1,012	836	513	1,770	190	(379)	3,942
Depreciation and amortisation	(44)	(45)	(147)	(88)	(22)	(36)	(382)
Finance costs	-	-	-	-	-	(43)	(43)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	968	786	366	1,682	168	(458)	3,512

	Six months ended 30 Jun 2015						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,886	1,100	886	2,335	248	2	6,457
Net investment income	-	-	-	317	-	74	391
Sundry income	-	-	-	5	-	-	5
Revenue and other income	1,886	1,100	886	2,657	248	76	6,853
Operating expenses	(276)	(236)	(254)	(309)	(74)	(431)	(1,580)
Reportable segment EBITDA	1,610	864	632	2,348	174	(355)	5,273
Depreciation and amortisation	(49)	(36)	(129)	(69)	(22)	(20)	(325)
Finance costs	-	-	-	-	-	(77)	(77)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,561	823	503	2,279	152	(452)	4,866

3. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Trading fees and trading tariff were derived from:		
Equity securities traded on the Stock Exchange and the Shanghai Stock Exchange through Stock Connect	678	1,321
DWs, CBBCs and warrants traded on the Stock Exchange	279	408
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	654	491
Base metals futures and options contracts traded on the LME	644	721
	2,255	2,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**4. Net Investment Income**

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Gross interest income from financial assets measured at amortised cost	359	357
Interest rebates to Participants	(55)	(11)
Net interest income	304	346
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	68	57
Others	(17)	(12)
Net investment income	355	391

5. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Salaries and other short-term employee benefits	843	879
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	102	80
Termination benefits	2	7
Retirement benefit costs (note 24(b))	69	68
	1,016	1,034

6. Reversal of Provision for Impairment Losses Arising from Participants' Default on Market Contracts

During the six months ended 30 June 2015, the liquidators of Lehman Brothers Securities Asia Limited paid dividends of \$77 million, and these were recognised within operating expenses in the Group's condensed consolidated income statement, as a reversal of a provision for impairment losses recognised in prior years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

7. Finance Costs

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interest expenses on borrowings	40	78
Net foreign exchange losses/(gains) on financing activities	3	(1)
	43	77

8. Taxation

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2015: 16.5 per cent) and overseas profits tax at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation rate applicable to the subsidiaries in the UK being 20 per cent (2015: 20.25 per cent).

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

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Current tax - Hong Kong Profits Tax	447	648
Current tax - Overseas Tax	111	172
	558	820
Deferred tax	(18)	(37)
	540	783

(b) Taxation credited directly to retained earnings represented:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Current tax – Overseas Tax	-	(2)
Deferred tax	-	(4)
	-	(6)

Under the tax rules in the UK, tax deduction on employee share awards is available at the time of vesting based on the prevailing market value. The tax credits in 2015 were related to tax deductions arising from increases in the value of Awarded Shares to employees of the LME Group under the Share Award Scheme since award date. The amount of taxation charged directly to retained earnings in 2016 was under \$1 million.

9. Earnings Per Share

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

(a) Basic earnings per share

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Basic earnings per share (\$)	2.47	3.49

(b) Diluted earnings per share

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Interest expenses on convertible bonds (net of tax) (\$m)	-	41
Adjusted profit attributable to shareholders (\$m)	2,985	4,136
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Effect of employee share options (in '000)	-	12
Effect of shares awarded under Share Award Scheme (in '000)	3,173	2,821
Effect of convertible bonds (in '000)	-	17,829
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,209,909	1,193,500
Diluted earnings per share (\$)	2.47	3.47

10. Dividends

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interim dividend declared of \$2.21 (2015: \$3.08) per share at 30 Jun	2,690	3,688
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(7)	(9)
	2,683	3,679

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

11. Financial Assets

The financial assets of Clearing House Funds, Margin Funds, base metals derivatives contracts, cash prepayments for A shares and Corporate Funds are allocated into cash and cash equivalents, financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, and accounts receivable and deposits, details of which are as follows:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Clearing House Funds</u> (note 16)		
Cash and cash equivalents	8,000	8,210
Financial assets measured at amortised cost	156	220
	8,156	8,430
<u>Margin Funds</u> (note 14)		
Cash and cash equivalents	79,574	89,807
Financial assets measured at fair value through profit or loss	3,913	5,844
Financial assets measured at amortised cost	22,133	18,765
Accounts receivable and deposits	385	797
	106,005	115,213
<u>Base metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (a))	47,843	64,480
<u>Cash prepayments for A shares</u>		
Cash and cash equivalents	-	129
<u>Corporate Funds</u>		
Cash and cash equivalents	10,479	12,744
Financial assets measured at fair value through profit or loss	4,509	2,381
Financial assets measured at amortised cost	1,997	511
	16,985	15,636
	178,989	203,888

The expected maturity dates of the financial assets are analysed as follows:

	At 30 Jun 2016						At 31 Dec 2015					
	Clearing House Funds	Margin Funds	Base metals derivatives contracts	Cash prepayments for A shares	Corporate Funds	Total	Clearing House Funds	Margin Funds	Base metals derivatives contracts	Cash prepayments for A shares	Corporate Funds	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Within twelve months	8,156	106,005	47,843	-	16,923	178,927	8,430	115,213	64,480	129	15,579	203,831
Over twelve months	-	-	-	-	62	62	-	-	-	-	57	57
	8,156	106,005	47,843	-	16,985	178,989	8,430	115,213	64,480	129	15,636	203,888

- (a) The amount represents the fair value of outstanding base metals futures and options contracts of LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME. A corresponding amount was recorded under financial liabilities at fair value through profit or loss (note 13).

12. 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 80 per cent (31 December 2015: 87 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two 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 three months.

13. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
- base metals futures and options contracts cleared through LME Clear (note 11(a))	47,843	64,480
<u>Held for trading</u>		
Derivative financial instruments:		
- forward foreign exchange contracts	7	6
	47,850	64,486

14. Margin Deposits, Mainland Security and Settlement Deposits, and Cash Collateral from Clearing Participants

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Margin deposits, Mainland Security and Settlement Deposits and cash collateral from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	6,136	6,773
HKCC Clearing Participants' margin deposits	39,786	45,123
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	5,071	4,103
OTC Clear Clearing Participants' margin deposits	232	54
LME Clear Clearing Participants' margin deposits	54,780	59,160
	106,005	115,213

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash collateral.

15. 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 79 per cent (31 December 2015: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

During the six months ended 30 June 2016, \$11 million (2015: \$9 million) of dividends declared by HKEX, which were unclaimed over a period of six years from the date of payment, were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association.

16. Clearing House Funds

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions (note (a))	7,196	7,474
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (note 20)	776	778
	8,128	8,408
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Financial assets of Clearing House Funds (note 11)	8,156	8,430
Less: Other financial liabilities of Clearing House Funds	(28)	(22)
	8,128	8,408
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,718	2,926
SEOCH Reserve Fund	502	542
HKCC Reserve Fund	1,032	1,134
OTC Clear Rates and FX Guarantee Fund	556	505
OTC Clear Rates and FX Guarantee Resources	159	158
LME Clear Default Fund	3,161	3,143
	8,128	8,408

(a) Amounts excluded non-cash collateral received and utilised as alternatives to cash contributions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

17. Borrowings

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Bank borrowings	1,587	1,585
Notes	1,518	1,516
Written put options to non-controlling interests	313	308
Total borrowings	3,418	3,409

During the six months ended 30 June 2016, there were no repayments of the bank borrowings or notes, and none of the written put options were exercised.

18. Share Capital, Share Premium and Shares Held for Share Award Scheme

	Number of shares '000	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2015	1,165,264	12,225	(482)	11,743
Shares issued upon exercise of employee share options	144	3	-	3
Shares issued in lieu of cash dividends (note (a))				
- total	15,632	3,180	-	3,180
- to Share Award Scheme	(73)	-	(15)	(15)
	15,559	3,180	(15)	3,165
Share purchased for Share Award Scheme	(1,137)	-	(227)	(227)
Vesting of shares of Share Award Scheme (note (b))	853	-	134	134
Conversion of convertible bonds	24,594	3,877	-	3,877
At 31 Dec 2015	1,205,277	19,285	(590)	18,695
At 1 Jan 2016	1,205,277	19,285	(590)	18,695
Shares issued in lieu of cash dividends (note (a))				
- total	8,863	1,531	-	1,531
- to Share Award Scheme	(53)	-	(9)	(9)
	8,810	1,531	(9)	1,522
Vesting of shares of Share Award Scheme (note (b))	119	-	21	21
At 30 Jun 2016	1,214,206	20,816	(578)	20,238

(a) In June 2016, 8,862,992 new fully paid HKEX shares (year ended 31 December 2015: 15,632,464 shares) were issued and allotted at \$172.81 per share (year ended 31 December 2015: weighted average price of \$203.39 per share) to the shareholders (including 53,390 new shares (year ended 31 December 2015: 73,236 shares) allotted to the Share Award Scheme) who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme.

(b) During the six months ended 30 June 2016, the Share Award Scheme transferred 119,176 HKEX shares (year ended 31 December 2015: 852,317 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$21 million (year ended 31 December 2015: \$134 million).

19. Employee Share-based Arrangements

The Group operates the Share Award Scheme as part of the benefits of its employees. Under the Share Award Scheme, the Board is allowed to make awards as long-term incentives for selected senior executives of the Group (Senior Executive Awards) in addition to any other awards (Employee Share Awards) which they may be eligible to receive under the Share Award Scheme.

The employee share-based compensation expenses in relation to the share awards are charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

During the six months ended 30 June 2016, no Senior Executive Awards and Employee Share Awards were granted.

20. Designated reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Clearing House Funds reserves (note 16)		
- HKSCC Guarantee Fund reserve	315	318
- SEOCH Reserve Fund reserve	104	104
- HKCC Reserve Fund reserve	350	351
- OTC Clear Rates and FX Guarantee Fund reserve	4	3
- OTC Clear Rates and FX Guarantee Resources reserve	3	2
	776	778

21. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from principal operating activities:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Profit before taxation	3,512	4,866
Adjustments for:		
Net interest income	(304)	(346)
Dividend income	(3)	(4)
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	(68)	(57)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(11)	(5)
Amortisation of lease premium for land under premises expenses	1	1
Finance costs	43	77
Depreciation and amortisation	382	325
Employee share-based compensation benefits	102	80
Provision for/(reversal of provision for) impairment losses of receivables	2	(71)
Share of loss of a joint venture	5	5
Changes in provisions	11	19
Net decrease/(increase) in financial assets of Margin Funds	9,207	(25,065)
Net (decrease)/increase in financial liabilities of Margin Funds	(9,208)	25,062
Net decrease/(increase) in Clearing House Fund financial assets	274	(3,996)
Net (decrease)/increase in Clearing House Fund financial liabilities	(272)	3,897
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(58)	(9)
Decrease in cash prepayments for A shares	129	619
Decrease/(increase) in accounts receivable, prepayments and deposits	7,211	(4,515)
(Decrease)/increase in other current liabilities	(7,503)	3,987
Net cash inflow from principal operations	3,452	4,870
Dividends received	2	2
Interest received from bank deposits	359	357
Interest received from financial assets measured at fair value through profit or loss	43	26
Interest paid to Participants	(55)	(11)
Income tax paid	(365)	(192)
Net cash inflow from principal operating activities	3,436	5,052

22. Capital Expenditures and Commitments

During the six months ended 30 June 2016, the Group incurred capital expenditures of \$266 million (2015: \$262 million) related to renovation of new offices and the development and upgrade of various information technology systems including the commodities trading and clearing systems, a cash trading system, a pre-trade risk management system for Derivatives Market, trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong, and a new corporate Enterprise Resource Planning system.

At 30 June 2016, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Contracted but not provided for		
- fixed assets	19	4
- intangible assets	67	43
Authorised but not contracted for		
- fixed assets	220	264
- intangible assets	595	650
	901	961

The Group's capital expenditure commitments were mainly related to the development and enhancement of information technology systems including cash and commodities trading and clearing systems, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

23. Contingent Liabilities

At 30 June 2016, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2015: \$71 million). Up to 30 June 2016, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 530 trading Participants covered by the indemnity at 30 June 2016 (31 December 2015: 515) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$106 million (31 December 2015: \$103 million).
- (c) HKEX had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEX or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEX, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEX, and for the costs of winding up.

23. Contingent Liabilities (continued)

(d) US litigation

In 2013, the LME, LME Holdings Limited (LMEH) and HKEX were named as defendants in aluminium warehousing litigation alleging anti-competitive behaviour in the United States (US). Following vigorous defence by the Group, the US District Court for the Southern District of New York (District Court) dismissed all the claims in a series of orders. In 2014, plaintiffs classified as “consumer end users” and “commercial end users” filed appeals against the District Court’s decisions but the appeals were all dismissed by the US Court of Appeals in July 2015 with the agreement of the plaintiffs. While the direct action plaintiffs and plaintiffs classified as “first level” purchasers do not currently have a right to appeal against the District Court’s decisions, they may do so after their claims against the other non-HKEX group defendants have concluded or if the court grants them permission to appeal in the meantime. It is not clear when the litigation against the non-HKEX group defendants will conclude but to date, no application to appeal has been filed by any of the direct action plaintiffs or the “first level” purchasers against the District Court’s decisions.

24. Material Related Party Transactions

(a) Key management personnel compensation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Salaries and other short-term employee benefits	60	69
Employee share-based compensation benefits	33	27
Retirement benefit costs	4	5
	97	101

(b) Post-retirement benefit plans

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group has also sponsored a defined contribution pension scheme for all employees of LMEH, LME and LME Clear (LME Pension Scheme). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME Pension Scheme and related fees (note 5). At 30 June 2016, the contributions payable to the post-retirement benefit plans were below \$1 million (31 December 2015: \$3 million).

24. Material Related Party Transactions (continued)

- (c) Transactions and balance with a joint venture, China Exchanges Services Company Limited (CESC)

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Transactions with CESC:		
- Management fee charged to CESC	2	2
	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Balance with CESC:		
- Amount due from CESC	1	5

- (d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

25. Pledge of Assets

LME Clear receives debt securities and gold bullion as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$1,717 million (HK\$13,320 million) at 30 June 2016 (31 December 2015: US\$2,015 million (HK\$15,617 million)). LME Clear is obliged to return this non-cash collateral upon request when the Clearing Participants' collateral obligations have been substituted with cash collateral or otherwise discharged.

LME Clear also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$6,803 million (HK\$52,777 million) at 30 June 2016 (31 December 2015: US\$7,911 million (HK\$61,311 million)).

The above non-cash collateral, which LME Clear is permitted to sell or repledge in the absence of default by the counterparties, was not recorded on the condensed consolidated statement of financial position of the Group at 30 June 2016. Such non-cash collateral, together with certain financial assets amounting to US\$450 million (HK\$3,487 million) at 30 June 2016 (31 December 2015: US\$639 million (HK\$4,953 million)), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

26. Fair Value of Financial Assets and Financial Liabilities

(a) Financial assets and financial liabilities carried at fair value

At 30 June 2016 and 31 December 2015, no non-financial assets or liabilities were carried at fair value.

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

Recurring fair value measurements:	At 30 Jun 2016		
	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	420	-	420
- debt securities	3,023	4,974	7,997
- forward foreign exchange contracts	-	5	5
- base metals futures and options contracts cleared through LME Clear	-	47,843	47,843
	3,443	52,822	56,265
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	-	7	7
- base metals futures and options contracts cleared through LME Clear	-	47,843	47,843
	-	47,850	47,850

26. Fair Value of Financial Assets and Financial Liabilities (continued)

(a) Financial assets and financial liabilities carried at fair value (continued)

Recurring fair value measurements:	At 31 Dec 2015		
	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	185	-	185
- debt securities	4,953	3,081	8,034
- forward foreign exchange contracts	-	6	6
- base metals futures and options contracts cleared through LME Clear	-	64,480	64,480
	5,138	67,567	72,705
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	-	6	6
- base metals futures and options contracts cleared through LME Clear	-	64,480	64,480
	-	64,486	64,486

During the six months ended 30 June 2016, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities, forward foreign exchange contracts and base metals futures and options contracts have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input are market interest rates and market prices of metals.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

26. Fair Value of Financial Assets and Financial Liabilities (continued)

(b) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the condensed consolidated statement of financial position at their fair values. These assets and liabilities were classified under Level 2 in the fair value hierarchy.

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Assets				
Financial assets measured at amortised cost:				
- other financial assets maturing over one year ¹	62	56	57	53
Liabilities				
Borrowings:				
- notes ²	1,518	1,566	1,516	1,544
- written put options to non-controlling interests ²	313	325	308	316
Financial guarantee to the Collector of Stamp Revenue ³	20	106	20	85

¹ The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 1.47 per cent to 2.46 per cent at 30 June 2016 (31 December 2015: 0.80 per cent to 2.32 per cent).

² The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rate used was 1.58 per cent to 1.86 per cent at 30 June 2016 (31 December 2015: 2.20 per cent to 2.40 per cent).

³ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 0.94 per cent at 30 June 2016 (31 December 2015: 1.52 per cent).

The carrying amounts of bank borrowings with floating interest rates, short-term receivables (eg, accounts receivable, financial assets measured at amortised cost and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.