

10 August 2016

2016 INTERIM RESULTS  
ANNOUNCEMENT



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Highlights

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HKEX Group Financial Review

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Business Update

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Strategic Update

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Appendix



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## 1H 2016 – Key Highlights

**Continued bearish investor sentiment**  
**Subdued Cash Market trading activity both locally and globally**

**1H 2016 PAT down 27% y-o-y compared to exceptional volumes in 1H 2015**  
**Increased futures derivatives trading partly offsets drop in Cash and Commodities**

**Globally #1 in IPO funds raised, despite lower funds raised**

**Announced 2016-18 Strategic Plan**  
**Continue with core strategic initiatives but cautious approach to less critical expenditure**

**Commenced rollout of new derivatives products across all asset classes**  
**Launched Closing Auction Session on 25 July**



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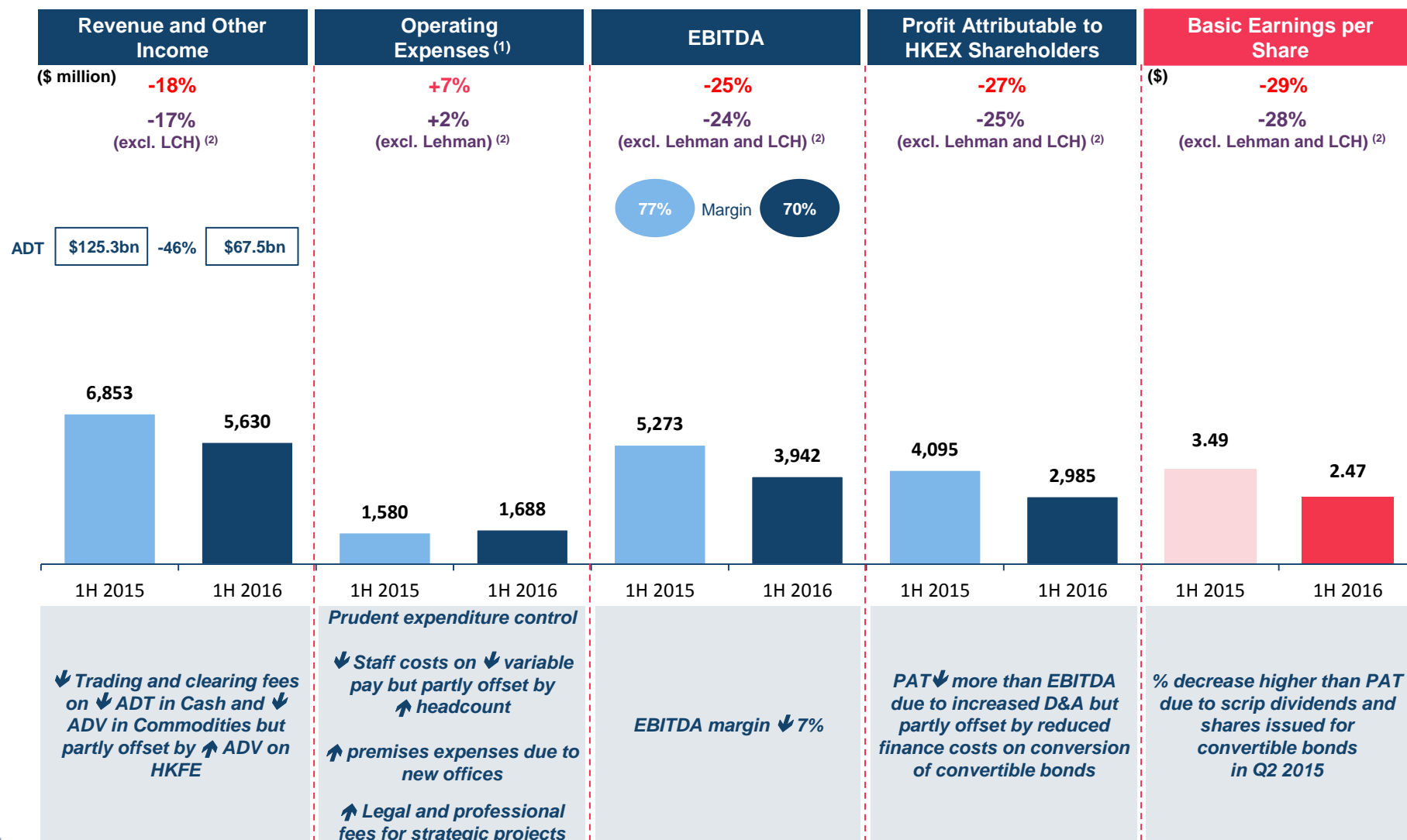
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# Highlights – 1H 2016 Results

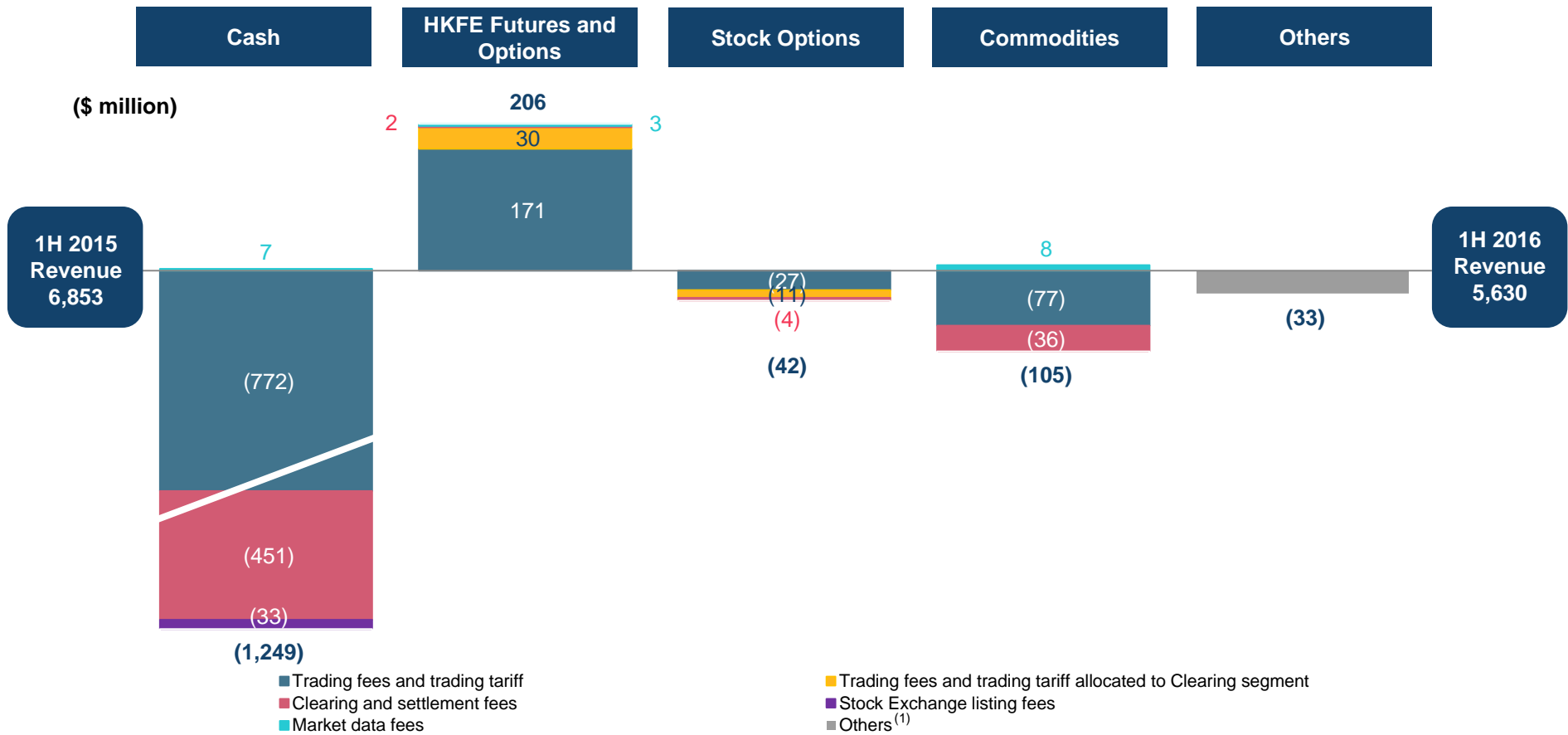
## Prior year comparison



(1) Excludes depreciation and amortisation, finance costs, and share of loss of a joint venture

(2) LCH: An exceptional gain of \$31 million of sale of investment in shares of LCH. Cleantnet Group Limited was recorded in 1H 2015; Lehman: A one-off recovery of \$77 million from the liquidators of Lehman Brothers Securities Asia Limited was recorded in 1H 2015, reducing opex in that period

# Revenue Movement by Markets



Volume in Cash and Commodities partially offset by Futures with highest growth in HSI Futures attributable to Mainland and HFT players

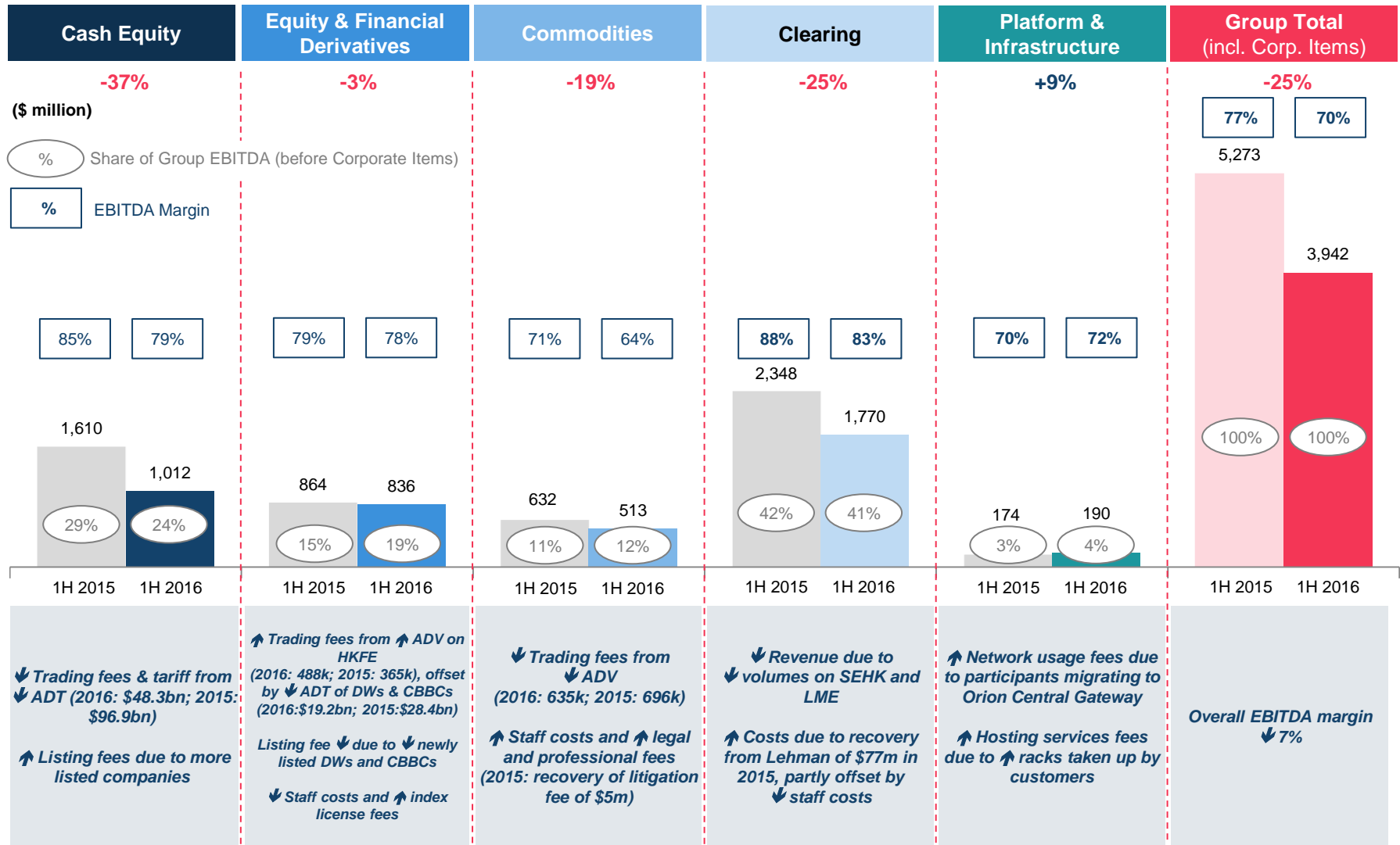


(1) Includes depository, custody and nominee services fees, net investment income, other revenue and sundry income



# Performance by Operating Segment

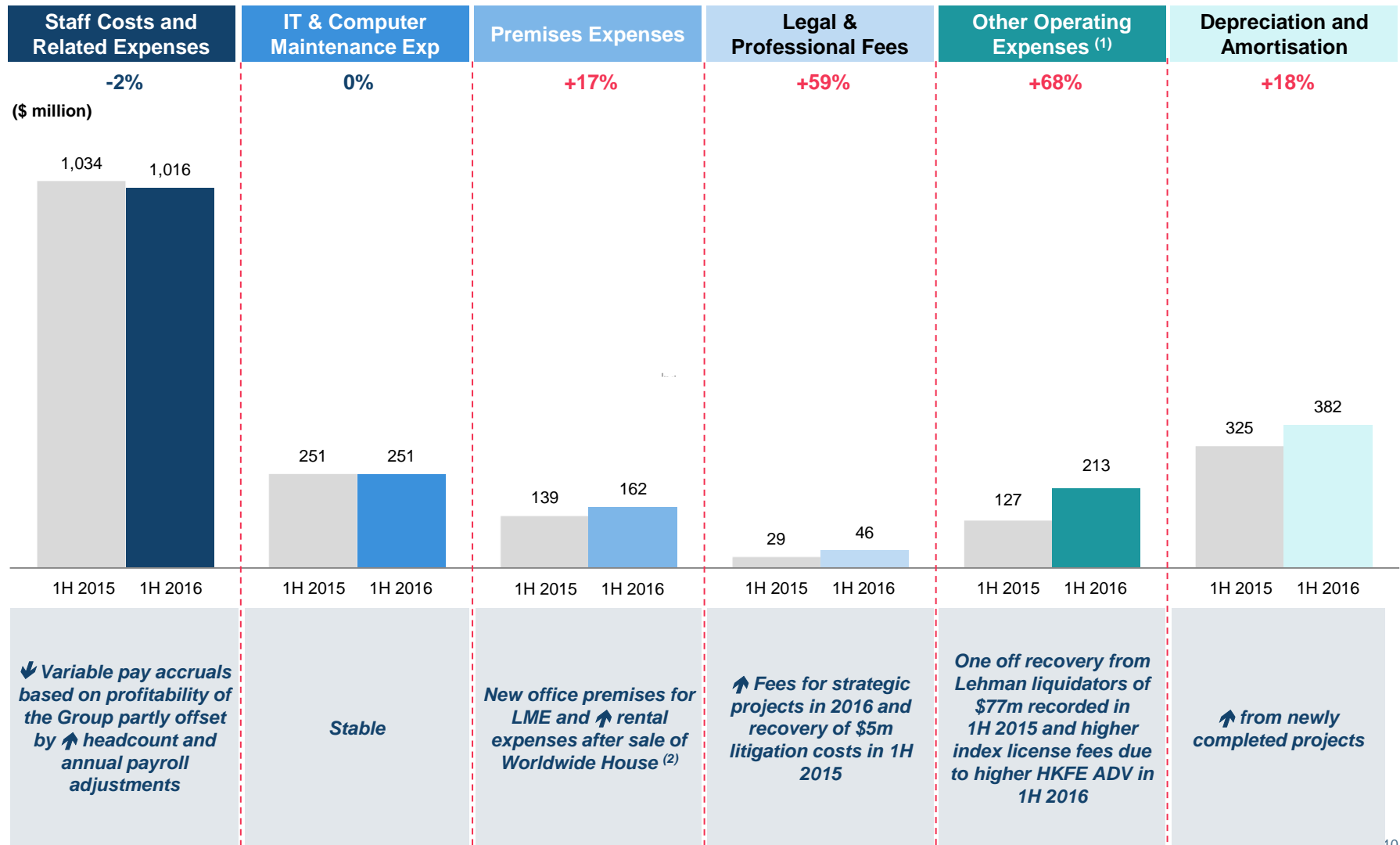
## EBITDA



Overall EBITDA margin of 70% – 7% drop due to lower volumes traded on SEHK and LME



# Operating Expenses and Depreciation & Amortisation



(1) Includes product marketing and promotion expenses

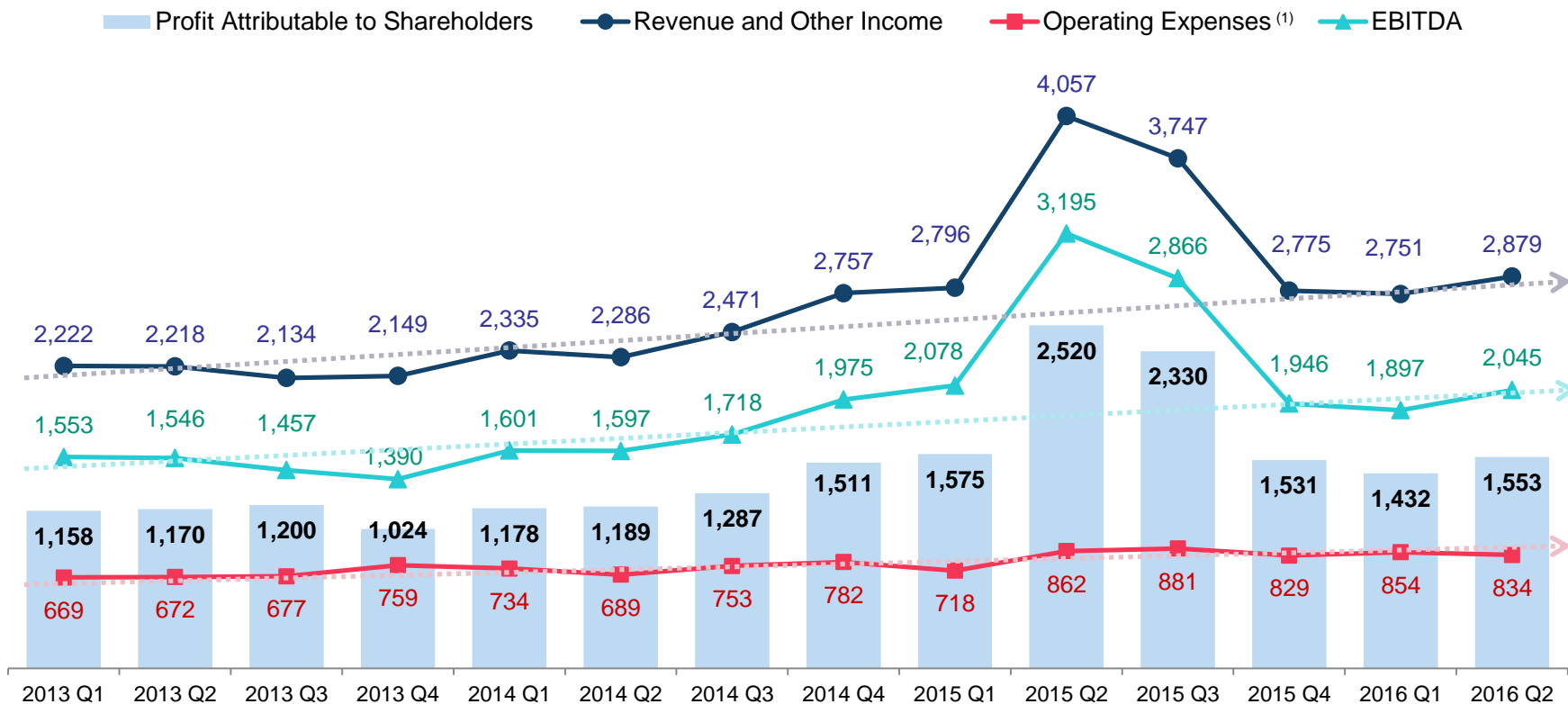
(2) One-off gain of \$445 million in September 2015



# Quarterly Trend

## Key Performance Indicators by Quarter

(\$ million)



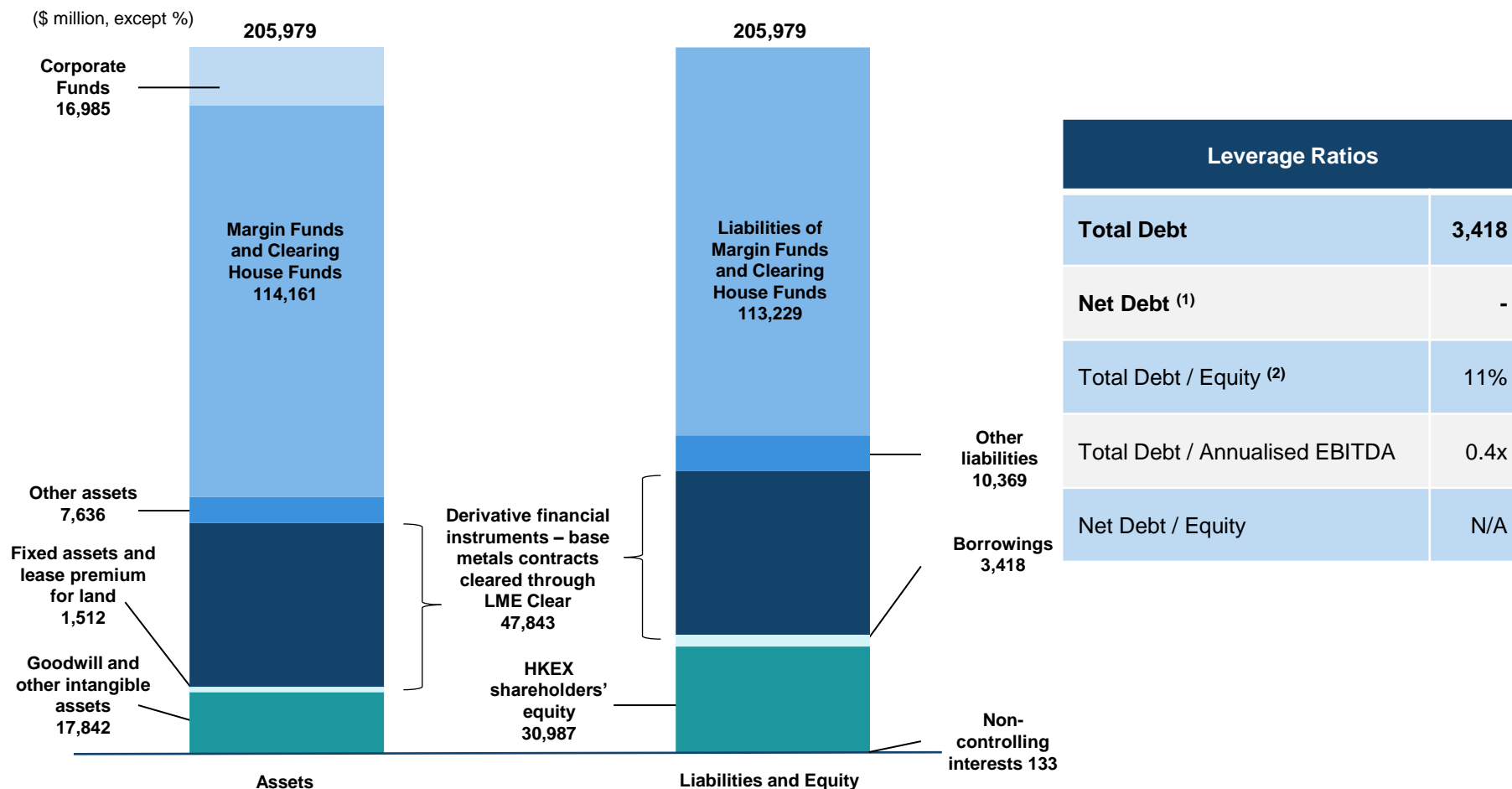
*Exceptional revenue and profit growth in 2015 has returned to the previous trend line*



(1) Excludes depreciation and amortisation, finance costs and share of results of a joint venture

# Highlights – Balance Sheet

As of 30 June 2016



**Debt level remains steady with modest increase in Equity and Corporate Funds**



(1) Net Debt equals total borrowings minus cash and cash equivalents of Corporate Funds. It is zero since cash and cash equivalents of Corporate Funds is greater than total borrowings  
 (2) Amounts exclude non-controlling interests and designated reserves

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# Business Update

## Products

### 2016 YTD<sup>(1)</sup>

- **Sector Index Futures**  
7 new contracts launched on 9 May
- **RMB Currency Futures**  
4 new pairs launched on 30 May
- **Leveraged & Inverse ETFs**  
First listings on 13 June
- **LMEprecious**  
Announced on 9 August

## Market Structure & Platforms

- **SPSA Model for Stock Connect**  
Rolled out enhancement on 18 April
- **Pre-Trade Risk Management**  
Launched for Derivatives Market on 11 April
- **Closing Auction Session**  
Launched for Securities Market on 25 July
- **LME Warehouse Consultation completed**
- **HKFE and SEHK received license from MAS as Recognised Market Operators in Singapore**
- **LME – Fees and initial margin reduced**  
Announced on 5 August

### Upcoming

- **Cross Currency Swaps**  
Service launch in August 2016
- **Mini H-shares Index (HHI) Options**  
Set for launch on 5 September 2016
- **Fourth calendar month contract for HSI and HHI options**  
Set for launch in November 2016
- **Deliverable Gold Futures – RMB + USD**
- **Other interest rate / FX products**
- **Volatility Control Mechanism**  
Set for launch on 22 August 2016
- **Stock option position limit revamp**
- **Cash trading platform upgrade under way**
- **Next Generation Post Trade platform replacement process has begun**



(1) YTD: as of 10 August 2016

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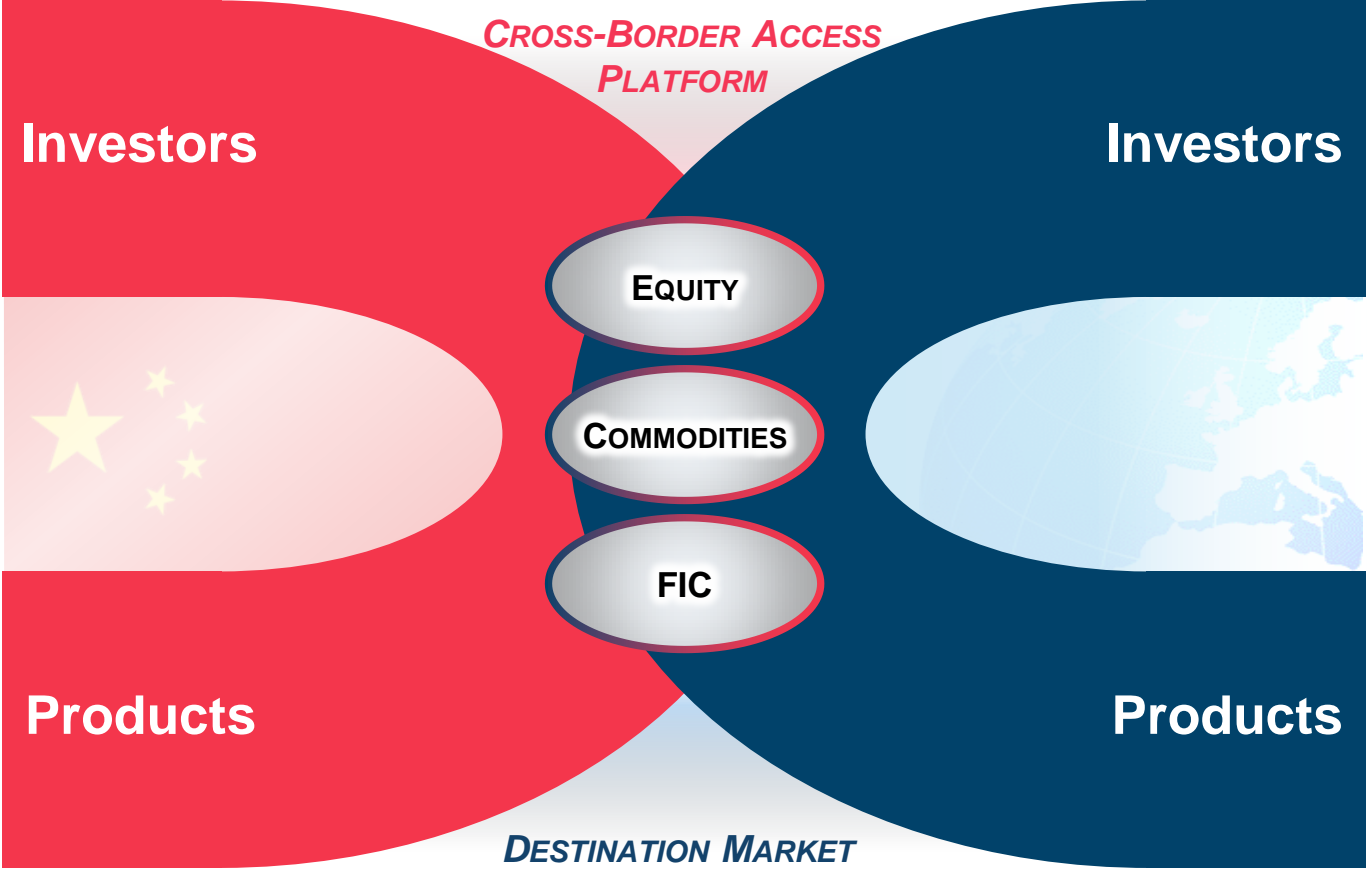
4 **Strategic Update**

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# Recap of HKEX's Strategic Vision



**HKEX**

The most effective cross-border market access platform...

...and a unique destination market for products with both Chinese and international relevance...

...across three major asset classes





# Strategic Update

## Equity

### Initiatives

### Next Step

- Primary Connect
  - A-share Derivatives
  - Listing Regime Reform
  - Potential new board
- ➔
- Advocate and lobby relevant regulators
  - Consultation
  - Concept development

## FIC

- Currency
    - Complete basket of currency derivatives
  - Bond Market
    - Build Bond Connect
    - Launch Treasury Bond futures
- ➔
- Develop and launch products
  - Close consultation with regulators
  - Regulatory preparation

## Commodities

- International
    - LME
    - LME Clear
  - Onshore Spot Platform
- ➔
- Consolidate gains in commercialisation
  - Push for greater access to China in warehouse and liquidity
  - Extend to OTC Clear
  - System near completion
  - User acceptance test to begin in Q4
  - Warehouse negotiation to begin in Q4



# Q & A



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## Financial Highlights – Income Statement

(\$ million, unless stated otherwise)	1H 2016	% of Revenue & Other Income	1H 2015	% of Revenue & Other Income	Y-o-Y Change
<b>Results</b>					
Revenue and other income	5,630	100%	6,853	100%	(18%)
Operating expenses	(1,688)	(30%)	(1,580)	(23%)	7%
<b>EBITDA</b>	<b>3,942</b>	<b>70%</b>	<b>5,273</b>	<b>77%</b>	<b>(25%)</b>
Depreciation and amortisation	(382)	(7%)	(325)	(5%)	18%
<b>Operating profit</b>	<b>3,560</b>	<b>63%</b>	<b>4,948</b>	<b>72%</b>	<b>(28%)</b>
Finance costs and share of loss in a joint venture	(48)	(1%)	(82)	(1%)	(41%)
<b>Profit before taxation</b>	<b>3,512</b>	<b>62%</b>	<b>4,866</b>	<b>71%</b>	<b>(28%)</b>
Taxation	(540)	(9%)	(783)	(11%)	(31%)
Loss attributable to non-controlling interests	13	0%	12	0%	8%
<b>Profit attributable to HKEX shareholders</b>	<b>2,985</b>	<b>53%</b>	<b>4,095</b>	<b>60%</b>	<b>(27%)</b>
Basic earnings per share	\$2.47		\$3.49		(29%)
Diluted earnings per share	\$2.47		\$3.47		(29%)
<b>Average daily turnover on the Stock Exchange</b>	<b>\$67.5 bn</b>		<b>\$125.3 bn</b>		<b>(46%)</b>
<b>Capex</b>	<b>\$266 m</b>		<b>\$262 m</b>		<b>2%</b>



## Performance by Operating Segment – 1H 2016

\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group 1H 2016	Group 1H 2015
<b>Revenue and other income</b>	<b>1,282</b>	<b>1,065</b>	<b>804</b>	<b>2,122</b>	<b>264</b>	<b>93</b>	<b>5,630</b>	<b>6,853</b>
<i>% of Group Total</i>	<i>23%</i>	<i>19%</i>	<i>14%</i>	<i>38%</i>	<i>5%</i>	<i>1%</i>	<b>100%</b>	<b>100%</b>
<b>Operating expenses</b>	<b>(270)</b>	<b>(229)</b>	<b>(291)</b>	<b>(352)</b>	<b>(74)</b>	<b>(472)</b>	<b>(1,688)</b>	<b>(1,580)</b>
<b>EBITDA</b>	<b>1,012</b>	<b>836</b>	<b>513</b>	<b>1,770</b>	<b>190</b>	<b>(379)</b>	<b>3,942</b>	<b>5,273</b>
<i>% of Group Total <sup>(1)</sup></i>	<i>26%</i>	<i>21%</i>	<i>13%</i>	<i>45%</i>	<i>5%</i>	<i>(10%)</i>	<b>100%</b>	<b>100%</b>
<i>EBITDA margin</i>	<i>79%</i>	<i>78%</i>	<i>64%</i>	<i>83%</i>	<i>72%</i>	<i>N/A</i>	<b>70%</b>	<b>77%</b>
Depreciation and amortisation	(44)	(45)	(147)	(88)	(22)	(36)	(382)	(325)
Finance costs	-	-	-	-	-	(43)	(43)	(77)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)	(5)
<b>Profit before taxation</b>	<b>968</b>	<b>786</b>	<b>366</b>	<b>1,682</b>	<b>168</b>	<b>(458)</b>	<b>3,512</b>	<b>4,866</b>

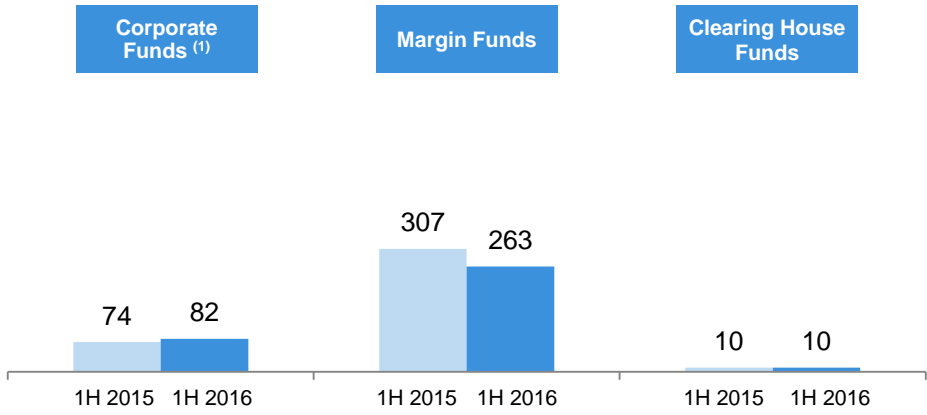
(1) % Share of Group EBITDA (including Corporate Items)



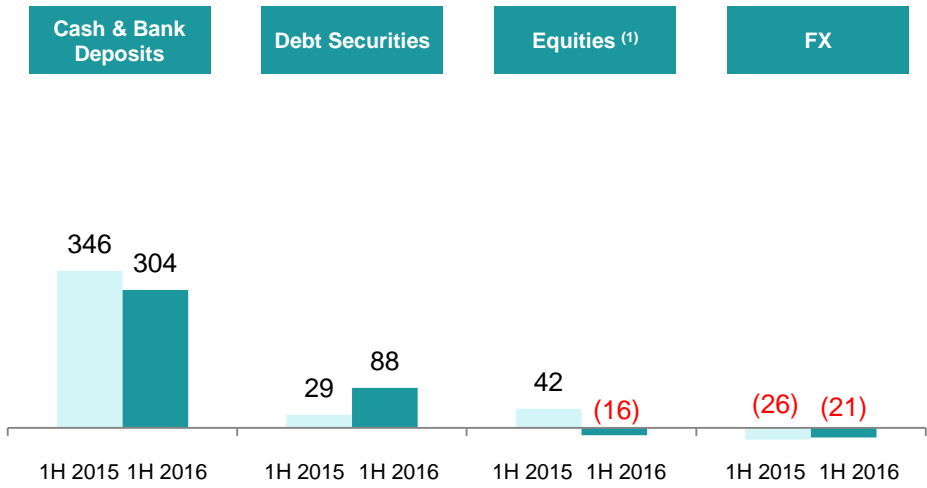
# Net Investment Income

1H 2016: Total \$355m; 1H 2015: Total \$391m

## Net Investment Income by Funds



## Net Investment Income by Sources



- Overall, investment income for 1H 2016 decreased by 9% versus 1H 2015, mainly due to a non-recurring gain from sale of LCH in 1H 2015

- Decreases in Margin Fund income in 1H 2016 offset by improved performance in Corporate Funds:

- Corporate Funds**  
Improved in 1H 2016 versus same period in 2015 with gains in fixed income investments as interest rates declined and credit spreads continued to tighten. Gains on bonds were partially offset by the non-recurring gain from sale of LCH in 1H 2015 and weaker equity performance in 1H 2016

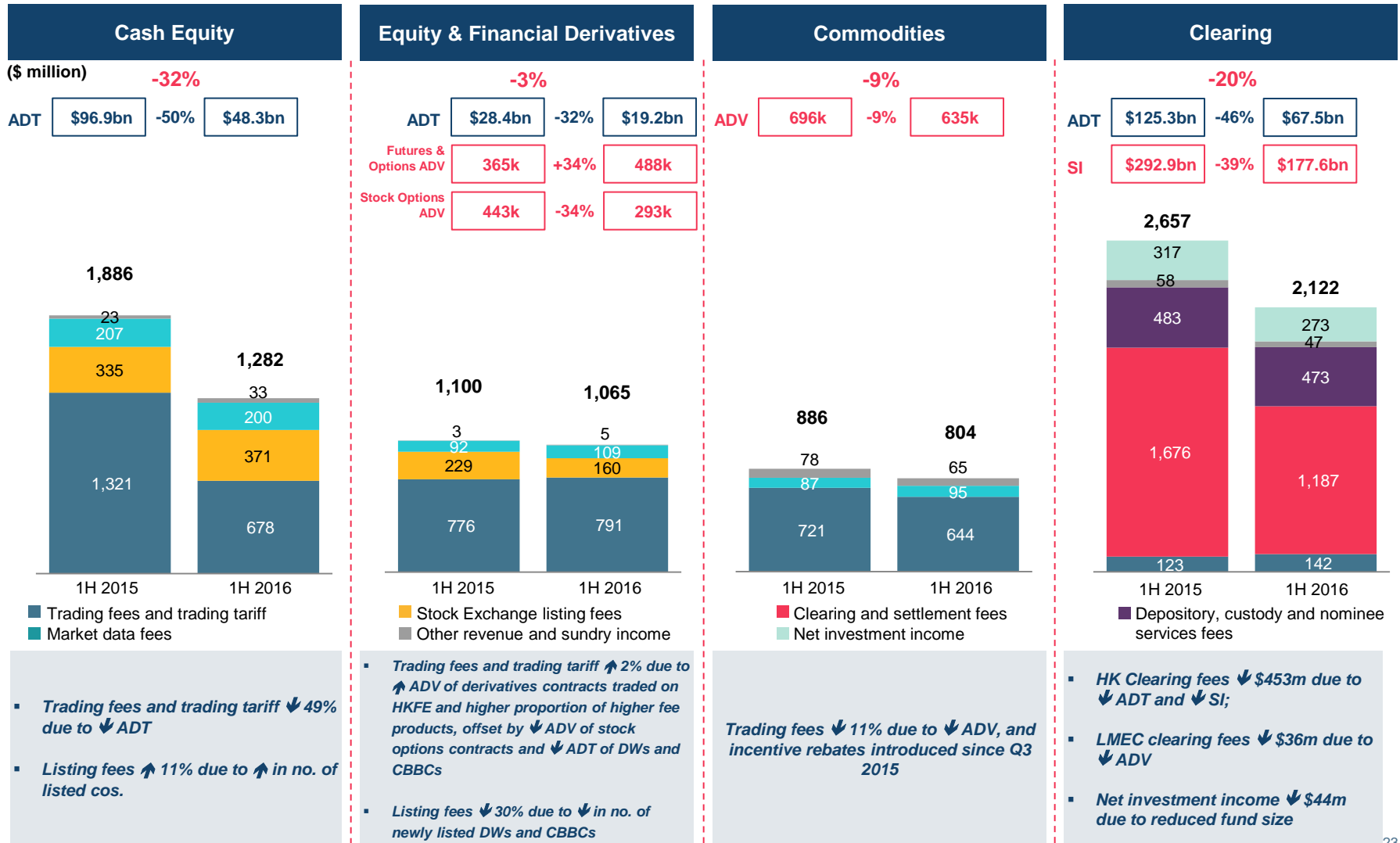
- Margin Funds**  
Lower fund size in 1H 2016 resulted in decline in investment income but offset by better yield in cash & bank deposits as less deposits were required to be placed with the note-issuing banks which offer very low deposit rates



(1) Includes \$31 million gain on sale of LCH in 1H 2015

# Drivers of Revenue

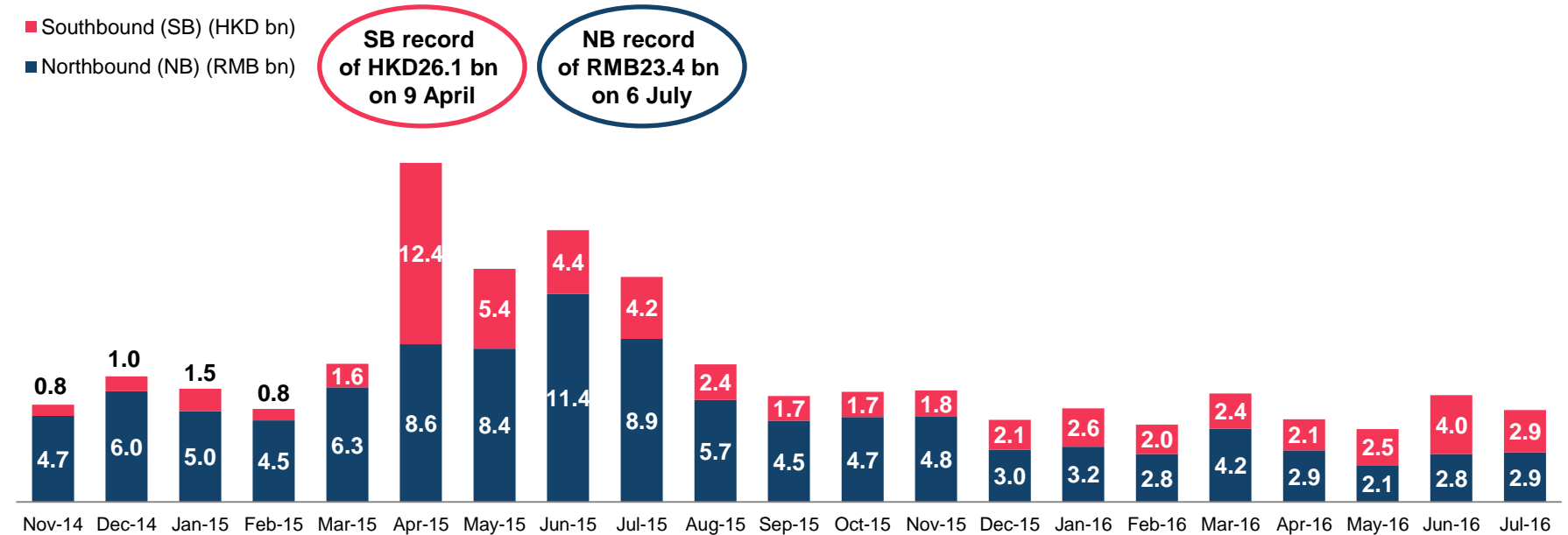
Relationship of headline ADT to trading and clearing income is not linear



# Stock Connect – Trading Trends

Stock Connect contributed \$71m in income in 1H 2016 vs. \$115m in 1H 2015

## Stock Connect Average Daily Trading Volume



NB

- Average Daily Trading Volume (since launch): RMB5.1bn (0.6% of SSE Total)
- Aggregate Quota Used: RMB144.7bn (48.2% of Aggregate Quota)

SB

- Average Daily Trading Volume (since launch): HKD3.0bn (1.5% of SEHK Total)
- Aggregate Quota Used: RMB200.8bn (80.3% of Aggregate Quota)





# Thank you

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HKEXnews Website: [www.hkexnews.hk](http://www.hkexnews.hk)

