

INTERIM REPORT

2018



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

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FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m	Change
Revenue and other income	8,194	6,203	32%
Operating expenses	1,918	1,711	12%
EBITDA*	6,276	4,492	40%
Profit attributable to shareholders	5,041	3,493	44%
Basic earnings per share	\$4.07	\$2.86	42%
Interim dividend per share	\$3.64	\$2.55	43%

- Record high half-yearly revenue and other income and profit attributable to shareholders were achieved during the six months ended 30 June 2018 (1H 2018).
- Revenue and other income for 1H 2018 was 32 per cent higher than the same period in 2017 (1H 2017). Key highlights for the period include:
 - A significant increase in trading and clearing fees driven by record half-yearly high Cash Market headline ADT and Derivatives Market ADV; and
 - Higher Stock Exchange listing fees as the number of newly listed DWs and CBBCs both achieved record half-yearly highs.
- Operating expenses increased by 12 per cent against 1H 2017, attributable to increases in staff costs, IT costs and premises expenses.
- EBITDA margin of 77 per cent for 1H 2018 was 5 per cent higher than 1H 2017.
- Profit attributable to shareholders rose by 44 per cent to a record half-yearly high of \$5,041 million.

	Six months ended 30 Jun 2018	Six months ended 30 Jun 2017	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	100.4¹	61.4	64%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	26.2	14.6	79%
ADT traded on the Stock Exchange (headline ADT) (\$bn)	126.6¹	76.0	67%
ADV of derivatives contracts traded on the Futures Exchange (contracts)	659,149¹	424,546	55%
ADV of stock options contracts traded on the Stock Exchange (contracts)	574,249¹	354,969	62%
ADV of metals contracts traded on the LME (lots)	763,965	597,542	28%
1 New record half-yearly high in 1H 2018			

* For the purposes of this Interim Report, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint ventures.

CHAIRMAN'S STATEMENT

I am delighted to present my first Chairman's statement. It was my great honour and privilege to return to the Board and be elected by my fellow Board members as the Chairman. I would like to take this opportunity to pay tribute to my predecessor, the Honourable Chow Chung Kong, who provided great leadership over the past six years during which HKEX has achieved remarkable growth laying a solid foundation for further development.

During the first half of 2018, the world's financial markets experienced bouts of volatility following significant corrections across major stock markets. Investor sentiment was dominated by uncertainties over escalating US/China trade tensions, geopolitical risk in several parts of the world and policy divergence of major central banks. Lingering uncertainties are likely to cast a dark cloud over the global markets for the remainder of this year.

Amid the world's increased market volatility, the average daily turnover value in the Hong Kong securities market and the average daily volume of futures and options trading in the Hong Kong derivatives market were \$126.6 billion and 1,233,398 contracts for the first six months of 2018, up 67 per cent and 58 per cent respectively against the same period last year. Our IPO market also saw increased activity, with deals¹ up by 50 per cent during the period, despite a 6 per cent decline in the funds raised. In London, the average daily volume of metals contracts (excluding new non-fee generating administrative trades introduced in June 2017) traded on the LME was 11 per cent higher than the volume in the first half of 2017, following introduction of short- and medium-dated carry discounts in the fourth quarter of last year.

For the six months ended 30 June 2018, the Group recorded consolidated revenue and other income of \$8,194 million and a profit attributable to shareholders of \$5,041 million, up 32 per cent and 44 per cent respectively against the corresponding period of 2017. The Board declared an interim dividend of \$3.64 per share, which is 90 per cent of the profit attributable to shareholders.

Facing a rapidly changing financial landscape, HKEX continued its effort to ensure that its stock market stays relevant and competitive. In April 2018, we implemented our largest listing reform in 25 years to facilitate listing of companies from emerging and innovative sectors while ensuring appropriate safeguards for investor protection. We were glad to see the listing of the first company under the new regime in early July. To further enhance overall market quality, we announced amendments to the Listing Rules on capital raisings and delisting in May and to the Corporate Governance Code in July, following market consultations in 2017. We also launched a market consultation in June to seek views on proposed Listing Rule amendments to address concerns about backdoor listings and shell activities.

The expansion of Stock Connect's daily quota in May 2018, along with the inclusion of A shares in the MSCI indices in June, provided a catalyst for raising international interest in Mainland China's financial markets. To capitalise on the growing opportunities ahead, we continued to enhance our product portfolio during the first half of this year. Equity Index Options were included in the after-hours trading of our Derivatives Market in May to provide market users with more choice and greater flexibility for risk management and investment. We also extended the contract months and strikes available for HSI and HSCEI Futures and Options, introduced new single stock futures and options contracts and MSCI Asia ex Japan Index Futures, and enhanced our USD/CNH Futures with new contract month and calendar spreads. In London, the LME introduced its updated financial OTC booking fee policy and enhanced trading regulations, following market consultation in November 2017. We are now looking to launch several new contracts, including LMEprecious options, while working to expand our precious metals, aluminium, ferrous metals and battery materials markets.

¹ Include transfers of listing from GEM to Main Board

CHAIRMAN'S STATEMENT

Details of our progress in various initiatives are set out in the Business Review section of this Interim Report.

As the world enters a new era of Fintech, there will be many opportunities as well as challenges. At HKEX, an innovation lab was established to explore the increased use of emerging technologies in various parts of our business, both operationally and strategically. We will continue to collaborate with our regulators and other stakeholders to refine our Connect programmes, enhance our market quality and competitiveness, and strengthen the governance structure of HKEX.

I will work with my fellow Board members and the management team in the next couple of months to formulate HKEX's next three-year strategic plan to set our blueprint for 2019 to 2021. The Board has renewed the contract of Charles Li as HKEX's Chief Executive until 15 October 2021. We are confident that Mr Li will continue to contribute to the success of the HKEX Group and guide it to a promising future. Last but not least, I would like to thank our Shareholders and other stakeholders for their support to the Group, and our employees for their relentless efforts to help mobilise the Group on the path of sustainable development.

CHA May-Lung, Laura
Chairman

Hong Kong, 8 August 2018

BUSINESS REVIEW

Overview

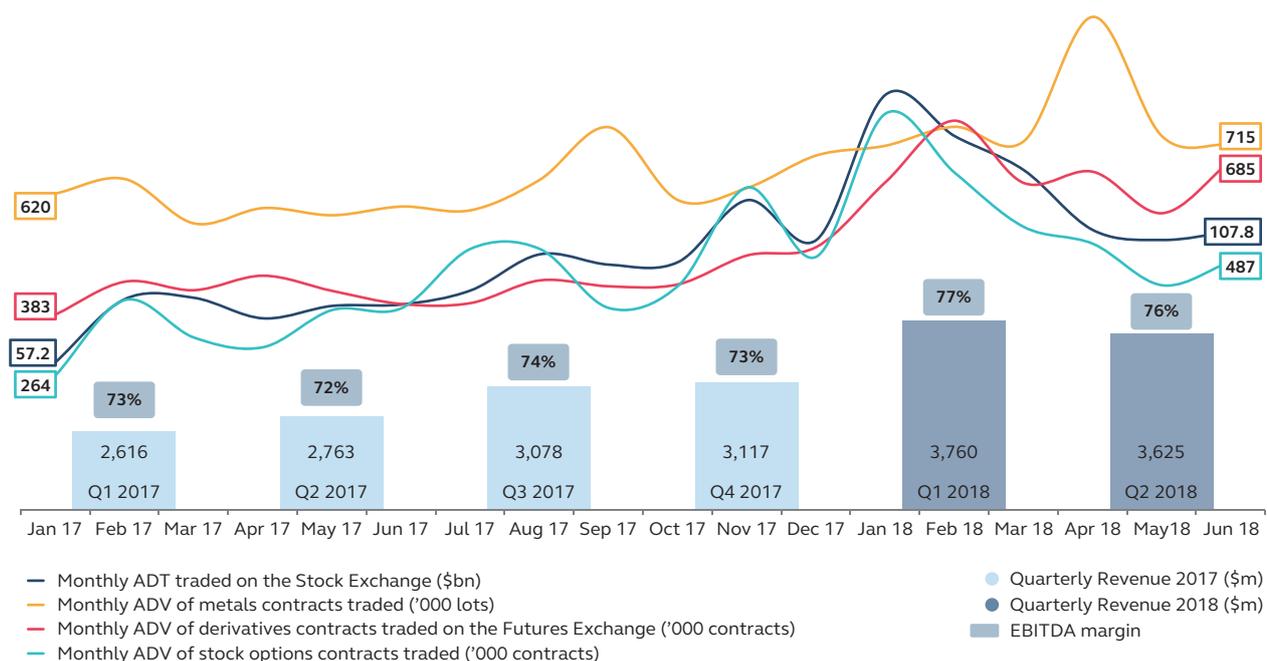


Fig. 1 – Market activity and Group Revenue²

Market sentiment weakened in Q2³ 2018 amid increased uncertainties and concerns over the trade war initiated by the US. Cash Market headline ADT in Q2 2018 dropped to \$106.8 billion, 27 per cent below Q1 2018, but was 37 per cent above Q2 2017. With the inclusion of China A shares in MSCI Inc's Emerging Markets Index in Q2 2018, the Northbound ADT reached record quarterly high, being 7 per cent higher than the previous record achieved in Q1 2018. Trading volumes in the Derivatives Market moderated in Q2 2018 due to decreased volatility, with a 5 per cent drop in the ADV of HKFE contracts and 28 per cent drop in ADV of stock options against Q1 2018.

Revenue and other income of Q2 2018 was 3 per cent lower than Q1 2018. Lower trading and clearing revenue was partly offset by seasonal increases in depository, custody and nominee services fees and higher net investment income from Margin Funds in Q2 2018.

For 1H 2018, revenue and other income rose by 32 per cent against 1H 2017, reaching a half-yearly record of \$8.2 billion. This was driven by strong headline ADT and ADV in Derivatives Market, and higher Stock Exchange listing fees arising from newly listed DWs and CBBCs.

Operating expenses for 1H 2018 increased by 12 per cent against 1H 2017. This primarily reflects an increase in staff costs due to increased headcount, annual payroll adjustments and higher variable pay accruals, increases in premises expenses for new offices, and higher IT maintenance expenses for new IT systems and upgraded networks. The Group continues to maintain a prudent approach to cost management whilst investing in key strategic initiatives for future growth.

² Excludes net investment income and sundry income

³ Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, 1H = first half, 2H = second half

Business Update and Analysis of Results by Operating Segment

	Six months ended 30 Jun 2018		Six months ended 30 Jun 2017		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
Results by segment:						
Cash	2,099	1,817	1,512	1,221	39%	49%
Equity and Financial Derivatives	1,734	1,454	952	730	82%	99%
Commodities	706	352	721	440	(2%)	(20%)
Clearing	3,140	2,740	2,308	1,930	36%	42%
Platform and Infrastructure	327	252	279	204	17%	24%
Corporate Items	188	(339)	431	(33)	(56%)	927%
	8,194	6,276	6,203	4,492	32%	40%

Cash Segment

Analysis of Results

Trading fees increased by 68 per cent compared to 1H 2017, above the 64 per cent growth in ADT of equity products. This was primarily due to an improvement in product mix, with a drop in the proportion of ETF trades (of which approximately 50 per cent were conducted by market makers who are exempted for trading fees). Trading tariff only rose by 37 per cent due to an increase in average transaction size, which dampened the increase in such income.

Stock Exchange listing fees rose by \$47 million, reflecting a \$28 million increase in annual listing fees from a higher number of listed companies and a \$19 million increase in initial listing fees due to more newly listed companies than in 1H 2017.

Operating expenses dropped by 3 per cent mainly due to the bulk of the previous trading hall expenses being allocated to Corporate Items, as the trading hall has been closed and replaced by the HKEX Connect Hall.



Business Update

Riding on the record highs achieved in Q1 2018, the Hong Kong Cash Market saw a 67 per cent increase in headline ADT in 1H 2018 as compared with 1H 2017, reaching a record half-yearly high. The year on year trading volume increase in 1H outperformed most regional and international exchanges. Despite Q2 2018 headline ADT also improving 37 per cent versus Q2 2017, trading activities and index levels in Q2 2018 moderated from the previous quarter, with a 27 per cent decrease in Q2 2018 headline ADT as compared to Q1 2018.

The Stock Connect programme continued to gather momentum in 1H 2018, generating total revenue and other income of \$365 million (1H 2017: \$162 million), of which \$221 million (1H 2017: \$87 million) arose from trading and clearing activities. Northbound Trading value (RMB2,227 billion) and Southbound Trading value (\$1,797 billion) during 1H 2018 continued to set record half-yearly highs.

The Northbound Trading links operated smoothly on 31 May 2018 upon the milestone index rebalancing conducted by the global index compiler, MSCI, which for the first time included A shares in some of its key benchmarks. Combined Shanghai and Shenzhen Connect Northbound Trading recorded the highest daily buy and sell turnover since the launch of Stock Connect in 2014, representing 6 per cent of the turnover of the Shanghai market and 3 per cent of the Shenzhen market on that day (highest and second highest on record respectively). This increased trading during the day of MSCI rebalancing was largely due to institutional investors tracking the benchmarks likely buying A shares via Stock Connect to adjust their portfolios. Going forward, inclusion of A shares in MSCI key benchmarks is expected to further stimulate Northbound turnover.

The 31 May 2018 MSCI rebalancing also increased index weightings of Hong Kong-listed stocks. \$96.2 billion, or 47 per cent of HKEX's total securities market turnover of \$205.7 billion during that day, was transacted in the Closing Auction Session (CAS) at the closing price, the highest CAS turnover since its launch in 2016. The high level of participation by market participants in the CAS demonstrates investors' confidence in using this mechanism to facilitate their needs to execute at the closing price.

Investor identification regime for Northbound Trading, which was announced by the SFC in November 2017 to facilitate market surveillance and monitoring by Mainland regulators, is tentatively scheduled to be implemented in Q3 2018, subject to market readiness and regulatory approval.

Key Market Indicators	Six months ended 30 Jun 2018	Six months ended 30 Jun 2017
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	100.4 ⁴	61.4
ADT of Northbound Trading ² – Shanghai-Hong Kong Stock Connect (RMB bn)	11.2 ⁴	4.3
ADT of Northbound Trading ² – Shenzhen-Hong Kong Stock Connect (RMB bn)	8.6 ⁴	2.8
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	1,339,825	969,619
Number of newly listed companies on the Main Board ³	58	37
Number of newly listed companies on GEM	50	35
Total equity funds raised		
– IPOs (\$bn)	51.6	54.8
– Post-IPOs (\$bn)	141.1	119.5
Number of companies listed on the Main Board at 30 Jun	1,848	1,746
Number of companies listed on GEM at 30 Jun	367	288
Number of trading days	121	121
<p>1 Excludes DWs, CBBs and warrants (which are included under the Equity and Financial Derivatives segment) and includes Southbound Trading ADT of \$10.6 billion⁴ (1H 2017: \$6.3 billion) under Shanghai-Hong Kong Stock Connect and \$5.7 billion⁴ (1H 2017: \$1.3 billion) under Shenzhen-Hong Kong Stock Connect</p> <p>2 Includes buy and sell trades under Stock Connect</p> <p>3 Includes 7 transfers from GEM (1H 2017: 4)</p> <p>4 New record half-yearly high in 1H 2018</p>		

The Marketing Programme for Mobile Application Service launched in June 2017 to promote the visibility and penetration of securities market data in the Mainland continues with a positive uptake from the market. After a full year of service, 52 clients including 21 Southbound brokers and 31 information vendors have enrolled in the Programme in which they could offer Level 2 10 price depth real-time data on mobile applications at a discounted fee.

HKEX remains committed to enhancing Hong Kong as an internationally competitive listing venue. With the transformative change to the listing regime, HKEX witnessed strong interest from both the Mainland and international markets, especially from “new economy” and biotech companies. The Stock Exchange added three new chapters in the Main Board Listing Rules which were designed to broaden Hong Kong’s listing regime and took effect on 30 April 2018. The Stock Exchange welcomes applications from companies with weighted voting right structures and pre-revenue biotech companies. Xiaomi Corporation became the first company to list in Hong Kong with a weighted voting right structure under the new rules on 9 July 2018.

To help construct an ecosystem that would support sustainable competitiveness of Hong Kong’s capital market, HKEX actively organised and participated in various events to provide prompt and in-depth information to corporates, industry associations and the investor community. To enhance the market’s overall understanding of the biotech industry, HKEX organised the inaugural “Biotech Summit” on 22 March 2018, which gathered over 600 delegates, connecting senior biotech industry leaders with the biotech investment community, sell-side professional advisors and research analysts. HKEX also expanded its efforts globally to promote the listing regime changes in large-scale biotech conferences.

Bond Connect, the ground-breaking cross-border scheme broadening access to the China Interbank Bond Market (CIBM), has been operating in a stable and orderly manner over the past year, helping drive the further liberalisation of China’s bond market. Market participation in Bond Connect has been growing steadily, with ADT reaching RMB6.5 billion in June 2018, more than double the ADT in Q1 2018. In addition, the number of approved overseas institutional investors participating in Bond Connect continued to increase. As of 30 June 2018, there were 356 approved investors from 21 jurisdictions, compared with 247 as of 31 December 2017. Meanwhile, overall foreign holdings in CIBM reached RMB1,546 billion at the end of June 2018, an increase of 83 per cent since Bond Connect’s launch.

China Foreign Exchange Trade System and HKEX, together with the Bond Connect Company Limited (BCCL), jointly hosted the Bond Connect Anniversary Summit on 3 July 2018 to mark the first anniversary of Bond Connect. The Summit welcomed approximately 600 prominent industry experts and market practitioners, who shared fresh insights on major developments in the Chinese and global bond and fixed-income markets. During the Summit, People’s Bank of China (PBoC) Deputy Governor and Administrator of State Administration of Foreign Exchange of China, Mr Pan Gongsheng, announced a set of new measures⁴ by the PBoC, which is expected to support the sustainable development of the Bond Connect programme.

The Stock Exchange published consultation conclusions along with the related guidance letters during 2018 on the following topics:

Consultation conclusions	Effective date of changes
• A Listing Regime for Companies from Emerging and Innovative Sectors	30 Apr 2018
• Capital Raisings by Listed Issuers	3 Jul 2018
• Delisting and Other Rule Amendments	1 Aug 2018
• Review of the Corporate Governance Code and Related Listing Rules	1 Jan 2019

⁴ These measures include launch of trade allocation, full realisation of the delivery versus payment settlement system, clarification of tax policy for overseas investors, permission of international investors to access repo and derivatives markets, addition of 10 more Bond Connect dealers to a total of 34, discounts of up to 50 per cent in Bond Connect transaction fees, and cooperation with mainstream international e-trading platforms.

On 29 June 2018, the Stock Exchange published a consultation paper on “Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments” and a guidance letter on listed issuer’s suitability for continued listing. The consultation paper seeks market views on proposed changes to the Listing Rules to address concerns over backdoor listings and “shell” activities. The deadline for responses is 31 August 2018.

During 2018, the Stock Exchange also published the following guidance materials:

- (i) new guidance letters on (a) the Stock Exchange’s approach to listing applicants in the internet technology sector or that have internet-based business models; (b) assessment of a sponsor’s independence; (c) disclosure in listing documents; (d) pricing flexibility of IPOs; and (e) reallocation of shares from placing tranche to the public subscription tranche in an IPO;
- (ii) updated guidance letters on (a) disclosure requirements for substantially complete Application Proofs and publication of Application Proofs and Post Hearing Information Packs on the Stock Exchange’s website; (b) Mixed Media Offer; (c) documentary requirements and administrative matters for new listing applications (equity); (d) publicity materials and e-IPO advertisements; (e) IPO vetting and suitability for listing; and (f) issuers using contractual arrangements or structured contracts;
- (iii) Financial Statements Review Programme Report 2017; and
- (iv) Analysis of Environmental, Social and Governance Practice Disclosure in 2016/2017.

Equity and Financial Derivatives Segment

Analysis of Results

Derivatives trading volumes were boosted by increased volatility in 1H 2018. Trading fees of derivatives contracts traded on the Futures Exchange rose by 72 per cent compared to 1H 2017 due to a 55 per cent increase in ADV of derivatives contracts traded, and a higher proportion of contracts traded in 2018 being higher fee contracts including HSI products.

Trading fees and trading tariff of DWs, CBBCs and warrants rose by 90 per cent compared to 1H 2017, reflecting the 79 per cent increase in ADT, a decrease in average transaction size which led to a higher increase in trading tariff income, and higher fees from new issues of DWs and CBBCs.

Stock Exchange listing fees more than doubled, reflecting an increase in the number of newly listed DWs and CBBCs.

Operating expenses increased by 26 per cent due to higher allocated costs of the Listing Division arising from a higher percentage increase in listing fees from DWs and CBBCs than in equities.



Business Update

Strong growth in trading volume of derivatives contracts was seen in 1H 2018, with ADV of derivatives contracts traded increasing 58 per cent over 1H 2017, reaching a record half-yearly high. ADV of stock options traded in 1H 2018 increased 62 per cent, whilst that of HSI Futures increased 92 per cent. Meanwhile, options positions continued to accumulate and all-time high open interest of 13,725,731 contracts on stock options and 3,617,287 contracts on HSCEI Options were recorded on 27 March 2018 and 27 June 2018 respectively. The introduction of the position limit regime enhancements in June 2017 has provided the needed headroom for market participants to utilise derivatives contracts on HKEX's platform for risk management.

The structured products market on the Stock Exchange has become more active in terms of ADT and the number of new listings during 1H 2018. ADT in 1H 2018 increased by 79 per cent year on year, with the number of newly listed DWs and CBBCs in 1H 2018 nearly doubled and tripled respectively as compared to 1H 2017, reaching record half-yearly highs.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2018	30 Jun 2017
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	26.2	14.6
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	389,508	168,934
ADV of derivatives contracts traded on the Futures Exchange ¹	657,646 ²	424,535
ADV of stock options contracts traded on the Stock Exchange	574,249 ²	354,969
Number of newly listed DWs	5,785 ²	3,034
Number of newly listed CBBCs	12,811 ²	4,732
ADV of contracts traded during After-Hours Trading ¹	79,100	26,280
Number of trading days	121	121
	At	At
	30 Jun 2018	30 Jun 2017
Open interest of futures and options contracts ¹	13,074,169	11,315,220

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 New record half-yearly high in 1H 2018

The following record single day volumes and open interest positions of major derivatives products were achieved during 1H 2018:

	Single Day Trading Volume		Open interest	
	Date (2018)	Number of contracts	Date (2018)	Number of contracts
Total Futures and Options ¹	29 Jan	2,198,314	27 Mar	18,348,438
HSI Futures	26 Jun	421,806	N/A	N/A
Mini HSI Futures	7 Feb	215,927	N/A	N/A
Mini HSCEI Futures	6 Feb	76,471	N/A	N/A
HSI Options	23 Jan	130,998	N/A	N/A
Mini HSI Options	23 Jan	19,769	29 Jan	37,194
HSCEI Options	9 Feb	232,994	27 Jun	3,617,287
Mini HSCEI Options	9 Feb	11,728	22 Feb	23,708
USD Gold Futures	11 Jan	5,670	N/A	N/A
Stock Options	N/A	N/A	27 Mar	13,725,731
RMB Currency Options – USD/CNH Options	19 Jun	743	15 Mar	4,128

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

Following positive market feedback received after the extension of trading hours from 11:45 pm to 1:00 am on 6 November 2017 (phase 1 of the after-hours trading enhancements), HKEX implemented the phase 2 enhancements on 14 May 2018 by introducing three flagship Equity Index Options⁵ in the after-hours session (T+1 Session). The enhancements provided more comprehensive risk management and trading tools to investors and EPs to manage their futures and options portfolio in response to market news in Europe and during the US trading hours. The trading volume of Equity Index Derivatives in T+1 Session continued to grow, with ADV reaching 77,264 contracts in 1H 2018, a 162 per cent increase as compared to the full year of 2017. Trading volume of Equity Index Futures and Equity Index Options in T+1 Session reached a historical high of 184,397 contracts and 11,391 contracts on 6 February 2018 and 27 June 2018 respectively.

As part of HKEX's continuous effort to promote the industry's compliance culture, HKEX hosted four compliance roundtables in 1H 2018 with the industry on market and regulatory issues and challenges. HKEX also launched the 2018 Annual Attestation and Inspection Programme (the Programme) in 1H 2018 focusing on three areas: (1) Client margin requirements; (2) Risk management; and (3) China Connect Rules. Under the Programme, HKEX commenced onsite inspections of selected participants and requested EPs and CPs to attest their compliance with the relevant rules. The Programme is expected to complete by the end of 2018.

In 2018, HKEX introduced various product initiatives for the Derivatives Markets:

- (i) narrowing strike intervals for stock index options on 22 January 2018;
- (ii) four new stock futures and five new stock options on 5 February 2018;
- (iii) contract month extension for HSI/HSCEI futures and options up to 5.5 years on 5 March 2018;
- (iv) two new stock futures with ETF underlying (Tracker Fund of Hong Kong and HSCEI ETF) on 9 April 2018;
- (v) MSCI All Country Asia ex Japan Net Total Return Index (MSCI AxJ) Futures on 11 June 2018;
- (vi) seven new stock futures on 3 July 2018;
- (vii) stock futures and stock options on Xiaomi Corporation on 9 July 2018; and
- (viii) five new stock options on 16 July 2018.

In addition, to promote the usage of stock futures, HKEX introduced an incentive programme on 1 March 2018 which includes a six-month trading fee waiver for all accounts used for trading stock futures and throttle fee waiver for market makers providing continuous quotes.

To build the awareness of MSCI AxJ Futures and promote the usage of stock futures, HKEX has arranged over 30 product educational seminars and briefing sessions in Hong Kong, Mainland, Taiwan and Singapore.

⁵ HSI Options, HSCEI Options and Mini HSI Options

Intensifying trade tensions weighed on global markets in Q2 2018. On the back of RMB’s escalating volatility, HKEX’s RMB derivatives products continued to set several records with growing demand for RMB risk management tools. HKEX’s USD/CNH Futures recorded an average daily volume of 12,367 contracts (notional value of US\$1.24 billion) in July 2018, the highest monthly turnover, and an increase of 317 per cent from the full year of 2017. Single-day volume hit 22,105 contracts (notional value of US\$2.21 billion) on 6 August 2018, marking all-time record since the product launch in September 2012. The new turnover records underpinned HKEX’s highly-liquid RMB derivatives market, with bid-ask spreads in key contract months having notable advantages over other comparable markets, providing strong liquidity and market depth and offering high capital efficiency to investors. The number of futures dealers trading RMB futures for customers has also steadily increased to more than 120, encompassing international, Mainland and Hong Kong-based brokerage firms. HKEX continued to enhance its product range, and introduced additional contract month and additional calendar spreads of the USD/CNH Futures on 19 June 2018, facilitating long-term RMB hedging and calendar rolling activities of market participants.

On 11 June 2018, HKEX hosted its fifth annual RMB FIC Conference, covering key topics on the RMB FIC markets including RMB’s globalisation outlook, China’s macro economy and the development of the FIC derivatives market. More than 800 participants attended the conference.

A new market data feed package, Derivatives Lite, was rolled out in April 2018 to facilitate EPs’ migration to a comparable market data source with the upgrade of Derivatives Market systems.

Commodities Segment

Analysis of Results

ADV of metals contracts traded was 28 per cent higher in 1H 2018 compared to 1H 2017.

However, the impact of fee reductions for short- and medium-dated carry trades introduced as a result of the Strategic Pathway, and non-fee generating administrative trades introduced in June 2017 (Admin Trades) in order to meet new requirements resulting from the Markets in Financial Instruments Directive II (MiFID II), resulted in a drop in trading fees by \$11 million or 2 per cent. ADV of metals contracts traded excluding Admin Trades was 11 per cent higher compared to 1H 2017.

Operating expenses rose by 26 per cent. Excluding the one-off insurance recovery of \$23 million relating to the warehouse litigation in the US in 2017, operating expenses rose by 16 per cent. The increase was mainly attributable to higher LME operating costs arising from an increase in staff costs from increased headcount and annual payroll adjustments, higher IT costs, and the impact of stronger GBP. Operating expenses of Qianhai Mercantile Exchange (QME) remained relatively flat.



Business Update

During 1H 2018, the LME continued to work on its Strategic Pathway deliverables. The Financial OTC Booking Fee took effect from 1 June 2018, and work is progressing on implied pricing, new products, Registered Intermediating Brokers and enhancements to the Warrants as Collateral service.

The LME continues to develop its ferrous market. On 1 January 2018, the LME launched its Ferrous Liquidity Provider programme to replace the former Ferrous Market Making programmes. As of 30 June 2018, four participants have joined the scheme.

Positive momentum continues for LMEprecious with open interest at 26,139 lots for gold and 5,241 lots for silver as of 30 June 2018. The structure of the open interest reflects the long-term nature of the proposition, with gold positions out to 4 years forwards and over 80 per cent of open interest sitting beyond the first monthly date. The Asian hours liquidity provider programme for LMEprecious was successfully launched on 1 June 2018, providing on-screen pricing out to 12 months forward from 01:00 to 08:00 London time. One new firm joined as a general clearing member in 1H 2018, and a number of additional members are in the final stages of on-boarding and testing. In Hong Kong, 16,634 CNH gold futures contracts and 159,986 USD gold futures contracts were traded during 1H 2018, and 137 contracts, ie, 137 kilograms of gold bars, were physically settled against futures contracts. In addition, five new EPs were recruited to trade gold futures in 1H 2018.

The LME continues to focus on the key global topic of responsible metals sourcing. Following a 2017 comprehensive responsible sourcing survey with all producers of LME listed brands, the LME intends to release a position paper in August 2018 outlining its proposal to require all its listed brands to comply with international standards⁶ for responsible sourcing. The LME has committed to engage with all stakeholders in the market and the position paper will remain open for feedback until 14 September 2018.

HKEX hosted the sixth LME Asia Week in Hong Kong from 15 to 18 May 2018, with over 1,900 metals professional and media in attendance. Six events were hosted throughout the week in addition to the traditional Chairman's Cocktail, LME Asia Metals Seminar and LME Asia Dinner in order to provide more opportunities for the industry to share information and exchange ideas.

We continue the development of QME, our Qianhai commodities trading platform. The QME is in the process of building a spot trading platform with reliable infrastructure and processes, solid physical warehouse standards, and robust electronic trading facilitation. We are currently reviewing QME's operational readiness along with relevant market players including local regulators, service partners, domestic producers and industrial users.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2018	30 Jun 2017
ADV of metals contracts traded on the LME (lots)		
Aluminium	285,049	217,724
Copper	165,269	138,257
Zinc	144,164	112,543
Nickel	101,726	81,135
Lead	55,212	40,179
Ferrous	2,084	1,089
Precious	3,894	-
Others	6,567	6,615
Total	763,965	597,542
Less: Admin Trades	(105,345)	(3,152)
Total chargeable ADV	658,620	594,390
Number of trading days	125	125
	At	At
	30 Jun 2018	30 Jun 2017
Total futures Market Open Interest (lots)	2,177,187	2,200,807

⁶ The principles set out by the Organisation for Economic Co-operation and Development's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas or equivalent

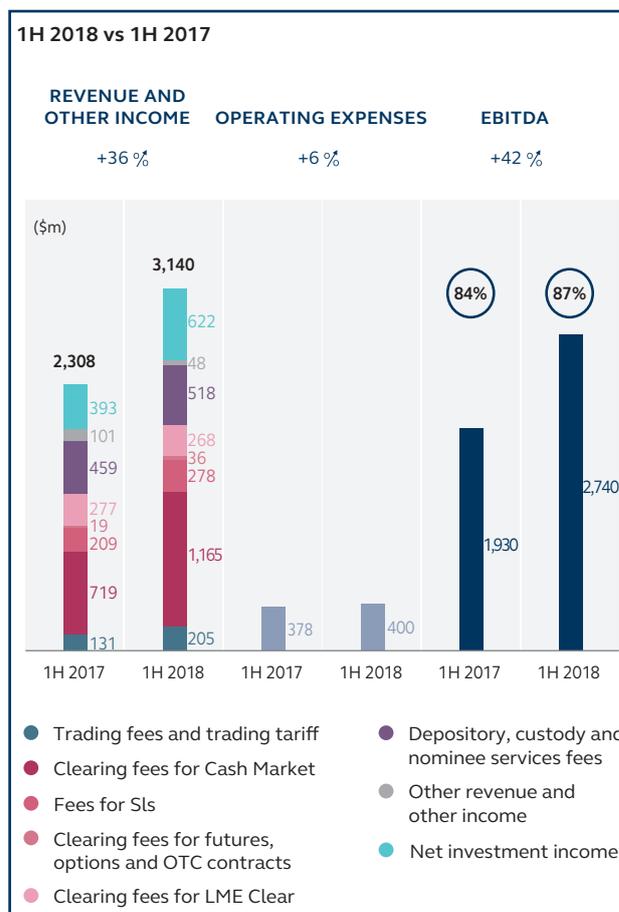
Clearing Segment

Analysis of Results

Clearing and settlement fees for Cash Market trades and Settlement Instructions (SIs) increased by 62 per cent and 33 per cent respectively. The increase was primarily driven by a higher number of transactions, and a 7 per cent higher average fee per transaction.

Depository, custody and nominee services fees rose by \$59 million due to higher portfolio fees from an increase in overall portfolio value held under Southbound and Northbound Trading of Stock Connect, and an increase in e-IPO service fees and corporate action fees, partly offset by lower scrip fees.

Net investment income increased by \$229 million or 58 per cent, attributable to an increase in Margin Fund investment income, as follows:



	Six months ended 30 Jun 2018			Six months ended 30 Jun 2017		
	Margin Funds \$m	Clearing House Funds \$m	Total \$m	Margin Funds \$m	Clearing House Funds \$m	Total \$m
Net investment income from:						
– Cash and bank deposits	567	23	590	363	11	374
– Debt securities	29	–	29	19	–	19
– Exchange gains	3	–	3	–	–	–
Total net investment income	599	23	622	382	11	393
Average fund size (\$bn)	162.1	20.3	182.4	129.7	10.2	139.9
Annualised net investment return	0.74%	0.23%	0.68%	0.59%	0.21%	0.56%

The increase in net investment income of Margin Funds in 1H 2018 arose from higher interest income on cash and bank deposits, attributable to both higher deposit rates and higher average Margin Fund size of HKCC, as higher margin requirements per contract were imposed on CPs due to increased volatility.

The increase in revenue and other income was, however, partly offset by a \$55 million one-off post-liquidation interest payment from the liquidators of Lehman Brothers Securities Asia Limited in 2017.

Operating expenses increased by 6 per cent, mainly as a result of increased staff costs from annual payroll adjustments and higher variable pay accruals.

Business Update

The inclusion of A shares in MSCI indices in June 2018 was an important milestone in China's capital market internationalisation, and it was made possible with continuous Stock Connect clearing enhancements. During 1H 2018, HKSCC saw a surge in usage of a number of Stock Connect facilities for institutional investors, including (i) a 60 per cent increase in the number of Special Segregated Accounts during March to May 2018 as institutional investors prepared for MSCI's A

share inclusion; (ii) a 50 times increase in average daily value of Northbound SIs settled through the Realtime Delivery versus Payment arrangement from RMB61 million (0.3 per cent of Northbound turnover) for the first four months of 2018 to RMB3,226 million (12.9 per cent of Northbound turnover) over the index rebalancing period; and (iii) increased usage in the new arrangement introduced in May 2018 which allows CPs to provide USD or HKD, in addition to RMB, as collateral for the early release of A shares on the trade day to alleviate RMB funding pressure on CPs. Furthermore, portfolio value of A shares held under Northbound Trading of Stock Connect continued to increase steadily and reached RMB662 billion as of 30 June 2018 (30 June 2017: RMB347 billion), with a record high of RMB686 billion in May 2018.

As part of the continuous efforts to achieve a higher level of compliance with international regulatory requirements and to better align with global industry practices, HKSCC, HKCC and SEOCH have implemented the following changes to their default fund resource arrangement and membership requirement from 1 June 2018: (i) contributions by HKSCC, HKCC and SEOCH to their respective default funds are increased to 10 per cent of the default fund size instead of using a fixed amount; (ii) HKCC's Contingent Advance Capital facility (previously provided by HKCC to relieve 50 per cent of CPs' default fund contribution requirements) was removed and each HKCC CP is granted a \$1 million dynamic default fund credit; and (iii) the Tier 1 capital of settlement banks and General CPs (that are Registered Institutions) of HKSCC, HKCC and SEOCH are set at a minimum of \$390 million.

In 1H 2018, a total of US\$55.0 billion notional amount was cleared by OTC Clear, up 547 per cent as compared to 1H 2017. More HKD interest rate swaps were cleared due to market volatility with a total of US\$16.7 billion notional amount cleared, up 506 per cent as compared to 1H 2017. USD/CNH cross currency swaps cleared notional amount reached US\$16.6 billion, up 388 per cent as compared to 1H 2017. On the business development front, OTC Clear launched the USD/HKD cross currency swaps clearing on 30 April 2018 and admitted a PRC-incorporated commercial bank as clearing member on 11 June 2018.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2018	30 Jun 2017
ADT traded on the Stock Exchange (\$bn)	126.6	76.0
Average daily number of Stock Exchange trades	1,729,333	1,138,553
Average daily value of SIs (\$bn)	296.2	204.1
Average daily number of SIs	109,241	87,781

Platform and Infrastructure Segment

Analysis of Results

Network fees rose by \$42 million or 20 per cent due to an increase in sales of throttles driven by the MSCI inclusion, as well as new EPs and China Connect EPs (CCEPs) migrating from Open Gateway to new China Connect Central Gateway (CCCG).

Business Update

During 1H 2018, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably.

The new securities trading system for Hong Kong Cash Market, the Orion Trading Platform – Securities Market (OTP-C), was launched successfully on 5 February 2018 and has been running smoothly notwithstanding that its launch coincided with a period of record turnover during 1H 2018. It is a scalable high performance system based on open technology architecture that gives it flexibility to support a variety of new functionalities. The system is designed to initially support up to 60,000 orders per second, double of the previous Third Generation Automatic Order Matching and Execution System (AMS/3.8), with scope for further increases. The launch of the OTP-C is expected to meet capacity requirements in the next decade.

The detailed design phase for the implementation of Orion Trading Platform – China Stock Connect (OTP-CSC) was completed in June 2018. System development has commenced and is expected to be completed in Q4 this year. Market readiness activities will be carried out in 1H 2019. The OTP-CSC will replace the legacy proprietary hardware currently supporting Northbound Trading of Stock Connect.

Development work continues on the upgrade of the derivatives platforms, The Hong Kong Futures Automated Trading System (HKATS) and The Derivatives Clearing and Settlement System (DCASS), tentatively scheduled for rollout by Q2 2019. The upgrade will bring simplified infrastructure to the Derivatives Market, with a reduction of the hardware footprint required at participants' premises.



Corporate Items

“Corporate Items” is not a business segment but comprises central income (including net investment income of Corporate Funds), the cost of central support functions that provide services to all operating segments and other costs not directly related to any operating segments.

1H 2018 vs 1H 2017		
	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Revenue and other income		
Net investment income	173	428
Others	15	3
Total	188	431
Operating expenses	527	464

Analysis of Results

The analysis of net investment income of Corporate Funds is as follows:

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Net investment income from:		
– Collective investment schemes ¹	52	327
– Cash and bank deposits	134	69
– Exchange (losses)/gains	(13)	32
Total net investment income	173	428
Average fund size (\$bn)	24.3	19.9
Annualised net investment return	1.42%	4.31%

¹ See Financial Review section for further details

Net investment income of Corporate Funds decreased by \$255 million compared to 1H 2017 principally due to lower fair value gains on collective investment schemes held under the external portfolio (see Financial Review section for further details), partly offset by higher interest income earned on cash and bank deposits from increased fund size and higher deposit rates. As the valuation of external portfolios reflects movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

The increase in average fund size of 22 per cent arose from retention of cash generated by the Group over the past 12 months.

Operating expenses increased by 14 per cent over 1H 2017 mainly due to increased staff costs from annual payroll adjustments and higher variable pay accruals, and higher premises expenses for new offices and the new HKEX Connect Hall.

Business Update

With modern technology rapidly affecting companies in almost every industry, HKEX is no exception. In order to actively monitor, participate in and facilitate new innovations for the sustained growth of our business, HKEX has set up an Innovation Lab earlier this year. Its mission is to explore and accelerate creative new technologies and applications for our business. By harnessing the latest cutting-edge technologies, the Lab will endeavor to improve some of our existing processes and staff experience. It will also explore, incubate and invest in innovative new opportunities that can position HKEX to maintain its leadership in the global capital markets of tomorrow.

Expenses, Other Costs and Taxation

Operating Expenses

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m	Change
Staff costs and related expenses	1,205	1,073	12%
IT and computer maintenance expenses	241	210	15%
Premises expenses	202	176	15%
Product marketing and promotion expenses	22	20	10%
Legal and professional fees	42	18	133%
Other operating expenses	206	214	(4%)
Total	1,918	1,711	12%

Staff costs and related expenses increased by \$132 million or 12 per cent mainly due to annual payroll adjustments, increase in performance-related variable pay accruals, and increased headcount for strategic initiatives.

IT and computer maintenance expenses increased by \$31 million or 15 per cent, attributable to higher maintenance expenses for new IT systems and upgraded networks.

Premises expenses increased by \$26 million or 15 per cent due to the new offices taken up at Exchange Square in Hong Kong.

Legal and professional fees increased by \$24 million or 133 per cent, attributable to a one-off insurance recovery of \$23 million relating to the warehouse litigation in the US in 2017.

Depreciation and Amortisation

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m	Change
Depreciation and amortisation	378	362	4%

Depreciation and amortisation rose by \$16 million or 4 per cent, attributable to roll-out of new IT systems. During 1H 2018, the Group incurred capital expenditure of \$339 million, an increase of 11 per cent from 1H 2017.

Finance Costs

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m	Change
Finance costs	55	65	(15%)

The decrease in finance costs was due to the repayment of all bank borrowings in 2H 2017.

Taxation

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m	Change
Taxation	822	582	41%

Taxation increased due to higher profit before taxation, but was partly offset by a \$47 million tax refund from the UK tax authority.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities by Funds

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m	Change
Financial assets			
Cash and cash equivalents	152,978	155,660	(2%)
Financial assets measured at fair value through profit or loss	73,693	95,037	(22%)
Financial assets measured at fair value through other comprehensive income	3,059	–	N/A
Financial assets measured at amortised cost	36,083	30,817	17%
Total	265,813	281,514	(6%)

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base and precious metals derivatives contracts, and cash prepayments and collateral for A shares traded under Stock Connect as follows:

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m	Change
Financial assets			
Corporate Funds ¹	25,866	21,464	21%
Margin Funds ²	151,436	155,384	(3%)
Clearing House Funds	21,531	17,642	22%
Base and precious metals derivatives contracts cleared through LME Clear	66,980	85,335	(22%)
Cash prepayments and collateral for A shares	–	1,689	(100%)
Total	265,813	281,514	(6%)

1 Includes \$1,292 million (31 December 2017: \$Nil) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$2,704 million (31 December 2017: \$2,430 million), which are included in accounts receivable, prepayments and other deposits

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m	Change
Financial liabilities			
Base and precious metals derivatives contracts cleared through LME Clear	66,980	85,335	(22%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	154,140	157,814	(2%)
CPs' contributions to Clearing House Funds	20,827	16,626	25%
Total	241,947	259,775	(7%)

The increase in financial assets and financial liabilities of Clearing House Funds at 30 June 2018 compared to 31 December 2017 was mainly attributable to higher contributions required from LME Clear members and HKSCC CPs in response to changes in risk exposures.

Corporate Funds increased by \$4,402 million during 1H 2018 due to the retention of cash generated by the business over the past six months partly offset by the cash paid for the 2017 final dividend.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk.

At 30 June 2018, the fair value of the Group's collective investment schemes by strategy employed was as follows:

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m	Change
Defensive Equities	2,024	2,225	(9%)
Absolute Return	1,362	1,245	9%
Multi-Sector Fixed Income ¹	2,009	1,922	5%
US Government Bonds and Mortgage-backed Securities	1,318	1,251	5%
Total	6,713	6,643	1%
Number of Funds	16	15	7%

¹ The "Credit" and "Multi-Asset Fixed Income" strategies disclosed in the 2017 Annual Report were combined and included in "Multi-Sector Fixed Income" strategy.

The increase in investment in collective investment schemes was mainly due to the fair value gains generated by the schemes during 1H 2018.

Working Capital, Financial Resources and Gearing

Working capital rose by \$2,576 million or 13 per cent to \$22,028 million at 30 June 2018 (31 December 2017: \$19,452 million). The increase was primarily due to the profit of \$5,041 million generated during 1H 2018, partly offset by the 2017 final dividend, net of scrip dividend, of \$1,775 million paid in June 2018, and the reclassification of borrowings of \$751 million from non-current liabilities to current liabilities as they became repayable within twelve months.

At 30 June 2018, the Group had the following outstanding borrowings:

	At 30 Jun 2018		At 31 Dec 2017	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
2 USD fixed rate notes with average coupon of 2.8 per cent ¹	1,539	Dec 2018 & Jan 2019	1,533	Dec 2018 & Jan 2019
Written put options to non-controlling interests	333	N/A	327	N/A
	1,872		1,860	

¹ Repayment of the notes will be funded by the Group's Corporate Funds.

At 30 June 2018, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 5 per cent (31 December 2017: 5 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2017: zero per cent). For this purpose, gross debt is defined as total borrowings and net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds (and will be zero when the amount of cash and cash equivalents of Corporate Funds is greater than total borrowings), and adjusted capital as all components of equity attributable to shareholders other than designated reserves.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 30 June 2018, the Group's total available banking facilities for its daily operations amounted to \$20,533 million (31 December 2017: \$18,963 million), which included \$13,532 million (31 December 2017: \$11,954 million) of committed banking facilities and \$7,000 million (31 December 2017: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 30 June 2018, the total amount of the facilities was RMB21,500 million (31 December 2017: RMB21,500 million).

In addition, the Group has arranged banking facilities amounting to RMB13,000 million (31 December 2017: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect, eg, default of CPs, natural disasters or extreme weather conditions in Hong Kong.

At 30 June 2018, 87 per cent (31 December 2017: 88 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Capital Expenditure and Commitments

During 1H 2018, the Group incurred capital expenditure of \$339 million (1H 2017: \$306 million) related to the development and upgrade of various trading and clearing systems, and the renovation of new offices and the HKEX Connect Hall.

The Group's capital expenditure commitments at 30 June 2018, including those authorised by the Board but not yet contracted for, amounted to \$1,444 million (31 December 2017: \$1,433 million). They were mainly related to the renovation of new offices, and the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Subsequent to 30 June 2018, the Company has subscribed for 6,186 ordinary shares in OTC Clear, a non-wholly owned subsidiary, at a total consideration of \$300 million on 16 July 2018. Accordingly, the shareholding in OTC Clear held by the Company increased from 75 per cent to 87 per cent.

Save for those disclosed in this Interim Report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review. Apart from those disclosed in this Interim Report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this Interim Report.

Pledge of Assets

Details of pledge of assets are included in note 25 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The functional currencies of the Hong Kong and PRC entities are HKD and RMB respectively and the functional currency of the LME entities is USD. Foreign currency risks arise mainly from the Group's investments and bank deposits in currencies other than HKD and USD and the GBP expenditure of the LME entities.

Forward foreign exchange contracts and foreign currency bank deposits may be used to hedge the currency exposure of the Group's non-HKD and non-USD assets and liabilities and highly probable forecast transactions to mitigate risks arising from fluctuations in exchange rates.

Foreign currency margin deposits received by the Group in Hong Kong are mainly hedged by investments in the same currencies, and unhedged investments in USD may not exceed 20 per cent of the Margin Funds. For LME Clear, investments of Margin Fund and Default Fund will generally take place in the currency in which cash was received.

The aggregate net open foreign currency positions at 30 June 2018 amounted to HK\$1,611 million, of which HK\$295 million were non-USD exposures (31 December 2017: HK\$1,035 million, of which HK\$200 million were non-USD exposures).

Contingent Liabilities

Details of contingent liabilities are included in note 23 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Changes since 31 December 2017

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2017.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2018 in conjunction with HKEX's external auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Unaudited Condensed Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2018.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Board and Committees

Board

Independent Non-executive Directors

CHA May-Lung, Laura *¹ GBM, GBS, JP (Chairman)
CHOW Chung Kong *² GBS, JP (ex-Chairman)
Apurv BAGRI
CHAN Tze Ching, Ignatius³ BBS, JP
CHEAH Cheng Hye
Timothy George FRESHWATER *²
FUNG Yuen Mei, Anita * BBS, JP
Rafael GIL-TIENDA *
HU Zulu, Fred³
HUNG Pi Cheng, Benjamin *⁴ BBS, JP
LEUNG KO May Yee, Margaret * SBS, JP
LEUNG Pak Hon, Hugo
John Mackay McCulloch WILLIAMSON³
YIU Kin Wah, Stephen *

Executive Director

LI Xiaojia, Charles (Chief Executive)⁵

Group Company Secretary

MAU Kam Shing, Joseph

Committees

Audit Committee

YIU Kin Wah, Stephen (Chairman)
CHAN Tze Ching, Ignatius⁶
FUNG Yuen Mei, Anita
LEUNG Pak Hon, Hugo
John Mackay McCulloch WILLIAMSON⁶

Corporate Social Responsibility Committee⁷ (formerly known as Environmental, Social and Governance Committee)

CHA May-Lung, Laura⁸ (Chairman)
CHOW Chung Kong² (ex-Chairman)
Rafael GIL-TIENDA⁹
LEUNG Pak Hon, Hugo
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON⁶
YIU Kin Wah, Stephen¹⁰

Executive Committee

CHA May-Lung, Laura⁸ (Chairman)
CHOW Chung Kong² (ex-Chairman)
CHEAH Cheng Hye
LEUNG KO May Yee, Margaret
LEUNG Pak Hon, Hugo
LI Xiaojia, Charles

Investment Advisory Committee

CHEAH Cheng Hye¹¹ (Chairman)
Timothy George FRESHWATER² (ex-Chairman)
FUNG Yuen Mei, Anita
HU Zulu, Fred⁶
HUNG Pi Cheng, Benjamin¹⁰

* Government Appointed Director

** Appointed by the Financial Secretary

△ Established under Section 65 of the SFO

1 Appointed as Director effective 25 April 2018 and as Chairman effective 4 May 2018 until the conclusion of the AGM to be held in 2020

2 Retired on 25 April 2018

3 Re-elected as Director from 25 April 2018 until the conclusion of the AGM to be held in 2021

4 Appointed as Director effective 25 April 2018 until the conclusion of the AGM to be held in 2020

5 Re-appointed as HKEX's Chief Executive (Ex-officio Director) for a further three-year term until 15 October 2021

6 Re-appointment effective 26 April 2018

7 Change of name effective 8 August 2018

8 Appointment by virtue of being HKEX's Chairman effective 4 May 2018

Committees (continued)

Nomination and Governance Committee¹² (formerly known as Nomination Committee)

CHA May-Lung, Laura¹⁰ (Chairman)
CHOW Chung Kong² (ex-Chairman)
Apurv BAGRI
CHAN Tze Ching, Ignatius⁶
CHEAH Cheng Hye
Timothy George FRESHWATER²
LEUNG KO May Yee, Margaret¹⁰

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius⁶ (Chairman)
CHEAH Cheng Hye
FUNG Yuen Mei, Anita
Rafael GIL-TIENDA
LEUNG Pak Hon, Hugo

Project Oversight Committee

FUNG Yuen Mei, Anita (Chairman)
Apurv BAGRI
Rafael GIL-TIENDA
HU Zulu, Fred⁶
John Mackay McCulloch WILLIAMSON⁶

Remuneration Committee

Rafael GIL-TIENDA¹⁰ (Chairman)
CHOW Chung Kong² (ex-Chairman)
CHA May-Lung, Laura¹⁰
CHEAH Cheng Hye
Timothy George FRESHWATER²
HU Zulu, Fred⁶
John Mackay McCulloch WILLIAMSON⁶

Risk Committee

CHA May-Lung, Laura⁸ (Chairman)
CHOW Chung Kong² (ex-Chairman)
CHAN Tze Ching, Ignatius⁶
Rafael GIL-TIENDA
LEUNG KO May Yee, Margaret
YIU Kin Wah, Stephen

Risk Management Committee (statutory)[△]

CHA May-Lung, Laura⁸ (Chairman)
CHOW Chung Kong² (ex-Chairman)
CHAN Tze Ching, Ignatius⁶
CHENG Fat, Henry **¹³
CHENG Siu Hong, Raymond **¹⁴
GAO Yingxin **¹⁵
LAM Yuk Kun, Lawrence **
LAU Chung Kin, Clement **¹⁶
LEUNG KO May Yee, Margaret
LUI Kei Kwong, Keith **¹⁷
Barbara SHIU **

9 Appointment ceased on 26 April 2018

10 Appointment effective 26 April 2018

11 Appointment as chairman effective 26 April 2018

12 Change of name effective 9 May 2018

13 Appointment by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority ceased on 27 June 2018

14 Appointment by virtue of being the Chairman of Hong Kong Interbank Clearing Limited ceased on 1 January 2018

15 Appointment by virtue of being the Chairman of Hong Kong Interbank Clearing Limited effective 1 January 2018

16 Appointment by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority effective 27 June 2018

17 Member by virtue of being Executive Director (Supervision of Markets) of the SFC

Changes in Information

Changes in Directors' other major offices which are required to be disclosed under Rule 13.51B(1) of the Main Board Listing Rules are set out below.

	Appointment (effective)	Cessation (effective)
Laura Cha		
• China Banking Regulatory Commission – member of the International Advisory Council	–	March 2018
• World Federation of Exchanges – director	27 April 2018	–
• LME – independent non-executive director and member of the Nomination Committee	8 May 2018	–
• China Telecom Corporation Limited * – independent non-executive director	–	28 May 2018
• Financial Services Development Council – chairman	–	11 July 2018
T C Chan		
• AFFIN Bank Berhad, of which Mr Chan is a non-executive director, was listed on Bursa Malaysia on 2 February 2018.	–	–
• AFFIN Holdings Berhad (formerly listed on Bursa Malaysia) – non-executive director	–	12 March 2018
C H Cheah		
• Listing Policy Panel – member	9 March 2018	–
C K Chow [^]		
• Listing Policy Panel – member	9 March 2018	25 April 2018
• Human Resources Planning Commission – non-official member	1 April 2018	–
• World Federation of Exchanges – director	–	26 April 2018
Anita Fung		
• Hong Kong Housing Authority – non-official member	–	1 April 2018
Rafael Gil-Tienda		
• JPMorgan Chase Bank (China) Company Limited – independent non-executive director	15 March 2018	–
Fred Hu		
• Dalian Wanda Commercial Properties Co Ltd (formerly listed on the Stock Exchange), of which Dr Hu is an independent non-executive director, changed its name to Dalian Wanda Commercial Management Group Co Ltd.	–	–
• UBS Group AG (listed on the SIX Swiss Exchange and the New York Stock Exchange) – director	3 May 2018	–
• Hang Seng Bank Limited * – independent non-executive director	–	9 May 2018
Benjamin Hung		
• Standard Chartered Bank – chief executive officer of wealth management	March 2018	–
• Chief Executive's Council of Advisers of Innovation and Strategic Development – non-official member	21 March 2018	–
• SEHK – member of the Listing Nominating Committee	26 April 2018	–
• Standard Chartered Bank (Taiwan) Limited – chairman	–	26 June 2018
Margaret Leung		
• Chong Hing Bank Limited * – deputy chairman, executive director and managing director	–	18 May 2018
• Yuexiu Financial Holdings Limited – vice-chairman, executive director and chief executive	–	18 May 2018
Charles Li		
• Listing Policy Panel – member	9 March 2018	–
John Williamson		
• SEHK – deputy chairman of the Listing Appeals Committee	26 April 2018	–
Stephen Yiu		
• ANTA Sports Products Limited * – independent non-executive director	1 June 2018	–

* Listed on the Stock Exchange

[^] Retired as Director after the conclusion of the 2018 AGM

The biographies of the current Directors are available in the About HKEX (Organisation) section of the HKEX Group website.

Consultative Panels

Taking into account the expiry of the terms of certain members of the three Consultative Panels, the Board approved changes in the composition of the Cash Market Consultative Panel, the Clearing Consultative Panel and the Derivatives Market Consultative Panel in May 2018. The member lists of the Consultative Panels are available in the About HKEX (Organisation) section of the HKEX Group website.

Non-executive Directors' Remuneration

At the 2018 AGM, Shareholders approved the Board's recommendation of an inflation adjustment of the remuneration for the Chairman of the Board from \$2,100,000 to \$2,190,000 per annum and for each of the other Non-executive Directors from \$700,000 to \$730,000 per annum.

The current remuneration of the Non-executive Directors for their service on the Board and, where applicable, on certain Board Committees is set out below.

	\$
The Board	
- Chairman	2,190,000
- Other Non-executive Director	730,000
Audit Committee	
- Chairman	200,000
- Other member	120,000
- Attendance fee per meeting	3,000
Executive Committee, Investment Advisory Committee, Project Oversight Committee, Remuneration Committee and Risk Committee	
- Chairman	180,000
- Other member	120,000
- Attendance fee per meeting	3,000

The above remuneration is payable to the Non-executive Directors for services rendered by each of them for the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders otherwise determine, provided that such remuneration be payable in proportion to the period of service in the case of a Non-executive Director who has not served the entire period.

Save as disclosed above, there is no other information required to be disclosed under Rule 13.51B(1) of the Main Board Listing Rules.

Compliance with Corporate Governance Code

Throughout the six months ended 30 June 2018, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

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 the SFO. HKEX's Chief Executive in his capacity as a Director is also not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles of Association.

Compliance with Model Code

HKEX has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code at all applicable times during the six months ended 30 June 2018.

Directors' Interests and Short Positions in Shares and Underlying Shares of HKEX

The interests and short positions of Directors, including HKEX's Chief Executive, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 30 June 2018 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code, are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name of Director	Number of shares/underlying shares held				Total	% of HKEX ¹ shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
Laura Cha	–	1,000 ²	–	–	1,000	0.00
Charles Li	943,105 ³	–	–	–	943,105	0.07
Stephen Yiu	–	2,000 ⁴	–	–	2,000	0.00

¹ Based on 1,246,759,255 HKEX shares in issue as at 30 June 2018

² Mrs Cha's spouse was the beneficial owner of those shares.

³ It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 350,168 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in "Share Award Scheme" below.

⁴ Mr Yiu's spouse was the beneficial owner of those shares.

Save as disclosed above, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEX or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2018 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code.

Apart from the Share Award Scheme, during the six months ended 30 June 2018, neither HKEX nor any of its subsidiary undertakings was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEX or any other body corporate. Save as disclosed above, during the six months ended 30 June 2018, none of the Directors (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of HKEX or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEX

Minority Controllers

As at the date of this Interim Report, other than the Government which has been a Minority Controller since 7 September 2007, nine entities have been approved as Minority Controllers on the basis that they held HKEX shares in custody for their clients. According to the Participant Shareholding Report as at 30 June 2018, these Minority Controllers in aggregate held approximately 62 per cent of HKEX shares in issue. More information about Minority Controllers is set out in the Corporate Governance section of the HKEX Group website.

Other persons' interests and short positions in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 30 June 2018 as recorded in the register required to be kept under Section 336 of the SFO are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	74,840,961 ²	74,840,961	6.00

¹ Based on 1,246,759,255 HKEX shares in issue as at 30 June 2018

² Based on Hong Kong Monetary Authority's notification to HKEX on 4 June 2018

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of HKEX as at 30 June 2018 as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange.

Share Award Scheme

HKEX has adopted the Share Award Scheme to recognise the contributions of certain employees and help in retaining them for the Group's operations and further development. The Scheme was adopted by the Board on 14 September 2005 (Adoption Date) and shall be valid until 31 December 2025. The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of the HKEX shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Scheme is 1 per cent (ie, 10,623,858 shares). The rules and trust deed of the Scheme are available in the Corporate Governance section of the HKEX Group website.

From the Adoption Date to 30 June 2018, a total of 10,664,884 shares had been awarded under the Scheme, representing 1 per cent of the HKEX shares in issue on the Adoption Date. As at 30 June 2018, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,924,619 shares held in trust under the Scheme.

Non-executive Directors are not entitled to participate in the Share Award Scheme. Details of the interests of HKEX's Chief Executive in the Awarded Shares (save for those which had been fully vested as of 31 December 2017) are set out below.

	Date of award ²	Number of Awarded Shares	Number of shares ¹				As at 30 Jun 2018	Vesting period ³
			As at 1 Jan 2018	Shares acquired during the six months ended 30 Jun 2018 out of the dividends	Vested during the six months ended 30 Jun 2018	Lapsed during the six months ended 30 Jun 2018		
Charles Li	2 Jan 2015	95,100 ⁴	102,726	-	73,963 ⁵	28,763 ⁵	-	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	31,817	358	-	-	32,175	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 ⁴	59,808	673	-	-	60,481	End of a performance period of 2016 – 2018
	30 Dec 2016	63,210	64,691	728	-	-	65,419	7 Dec 2018 – 7 Dec 2019
	30 Dec 2016	67,400 ⁴	68,979	776	-	-	69,755	End of a performance period of 2017 – 2019
	29 Dec 2017	58,853	58,853	663	-	-	59,516	8 Dec 2019 – 8 Dec 2020
	29 Dec 2017	62,123 ⁴	62,123	699	-	-	62,822	End of a performance period of 2018 – 2020

1 This includes shares acquired out of the dividends from the Awarded Shares according to the Scheme.

2 This refers to the date on which the trustee allocated the Awarded Shares to Mr Li.

3 Save for those Senior Executive Awards referred to in note 4 below, the Awarded Shares and the related income are vested in two equal tranches in the second and third year after the grant.

4 The awards were granted under the Scheme as long-term incentives for selected senior executives of the Group (Senior Executive Awards). The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the Remuneration Committee and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.

5 On 28 February 2018, the Board approved the vesting of 73,963 shares to Mr Li based on his actual performance for the period 2015-2017. Pursuant to the terms of the Scheme, the remaining 28,763 Awarded Shares previously allocated to Mr Li lapsed on 28 February 2018.

Purchase, Sale or Redemption of HKEX's Listed Securities

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any HKEX shares, 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 Stock Exchange a total of 12,100 HKEX shares at a total consideration of \$3 million.

Sustainable Workplace

During the six months ended 30 June 2018, the Group organised 55 in-house courses for employees to enhance their job knowledge, skills and well-being. Moreover, the Group sponsored a total of 70 employees to attend external training.

As at 30 June 2018, the Group had 1,847 employees, including 104 temporary staff and 40 interns. HKEX's remuneration policy has remained unchanged since the date of the 2017 Annual Report. Information regarding employees' remuneration and benefits for the six months ended 30 June 2018 is set out in note 6 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Details of HKEX's principles and practices related to governance and sustainability are set out in the Corporate Governance and Corporate Social Responsibility sections of the HKEX Group website.

SHAREHOLDER INFORMATION

Interim Dividend

The Board has declared an interim dividend of \$3.64 per share (2017: \$2.55 per share) for the year ending 31 December 2018. The interim dividend will be payable in cash with a scrip alternative where a 3 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto. Details of the scrip dividend alternative will be set out in a circular to Shareholders.

Key Dates for Interim Dividend

Ex-dividend date	21 August 2018
Latest time to lodge transfer documents for registration with HKEX's registrar in order to qualify for the dividend	At 4:30 pm on 22 August 2018
Closure of HKEX's Register of Members	23 to 24 August 2018 (both dates inclusive)
Record date	24 August 2018
Despatch of scrip dividend circular and election form	On or about 29 August 2018
Announcement of scrip share subscription price	On or about 4 September 2018
Despatch of dividend warrants/definitive share certificates	20 September 2018

Electronic Communication

This Interim Report is printed in English and Chinese, and is available in the Investor Relations (Regulatory Disclosure) section of the HKEX Group website (www.hkexgroup.com). Shareholders are encouraged to access HKEX's corporate communications electronically via the HKEX Group website to help protect the environment. Shareholders may at any time change their choice of language or means of receiving HKEX's corporate communications free of charge by giving not less than seven days' notice to HKEX's registrar.

HKEX's Registrar – Hong Kong Registrars Limited

For corporate communications:

By post: 17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
By email: hkex.ecom@computershare.com.hk

For transfer of shares:

Address: Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Tel: +852 2862 8555
Fax: +852 2865 0990/+852 2529 6087

Registration for News Alerts

Shareholders who would like to be notified when HKEX publishes its corporate communications on the HKEXnews website can register for the News Alerts service in the Market Data section of the HKEX Market website (www.hkex.com.hk).

The Investor Relations section of the HKEX Group website contains further information which may be of interest to Shareholders.

AUDITOR'S INDEPENDENT REVIEW REPORT

Report on Review of Interim Financial Information to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 31 to 58, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 8 August 2018

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Trading fees and trading tariff	4	3,334	2,180
Stock Exchange listing fees		855	593
Clearing and settlement fees		1,747	1,224
Depository, custody and nominee services fees		518	459
Market data fees		443	419
Other revenue		488	504
REVENUE	3	7,385	5,379
Investment income		1,300	1,021
Interest rebates to Participants		(505)	(200)
Net investment income	5	795	821
Sundry income		14	3
REVENUE AND OTHER INCOME		8,194	6,203
OPERATING EXPENSES			
Staff costs and related expenses	6	(1,205)	(1,073)
Information technology and computer maintenance expenses		(241)	(210)
Premises expenses		(202)	(176)
Product marketing and promotion expenses		(22)	(20)
Legal and professional fees		(42)	(18)
Other operating expenses		(206)	(214)
		(1,918)	(1,711)
EBITDA*		6,276	4,492
Depreciation and amortisation		(378)	(362)
OPERATING PROFIT		5,898	4,130
Finance costs	7	(55)	(65)
Share of profits less losses of joint ventures		4	(5)
PROFIT BEFORE TAXATION	3	5,847	4,060
TAXATION	8	(822)	(582)
PROFIT FOR THE PERIOD		5,025	3,478
PROFIT/(LOSS) ATTRIBUTABLE TO:			
– Shareholders of HKEX		5,041	3,493
– Non-controlling interests		(16)	(15)
PROFIT FOR THE PERIOD		5,025	3,478
Basic earnings per share	9(a)	\$4.07	\$2.86
Diluted earnings per share	9(b)	\$4.06	\$2.85

* 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 ventures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
PROFIT FOR THE PERIOD	5,025	3,478
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries	67	120
Cash flow hedges	(3)	-
Changes in fair value of financial assets measured at fair value through other comprehensive income	(3)	-
OTHER COMPREHENSIVE INCOME	61	120
TOTAL COMPREHENSIVE INCOME	5,086	3,598
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
– Shareholders of HKEX	5,100	3,613
– Non-controlling interests	(14)	(15)
TOTAL COMPREHENSIVE INCOME	5,086	3,598

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Jun 2018			At 31 Dec 2017		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	152,978	–	152,978	155,660	–	155,660
Financial assets measured at fair value through profit or loss	11	73,693	–	73,693	95,037	–	95,037
Financial assets measured at fair value through other comprehensive income	11	3,059	–	3,059	–	–	–
Financial assets measured at amortised cost	11	36,004	79	36,083	30,757	60	30,817
Accounts receivable, prepayments and deposits	12	18,461	21	18,482	16,564	21	16,585
Interests in joint ventures		–	65	65	–	61	61
Goodwill and other intangible assets		–	17,988	17,988	–	17,925	17,925
Fixed assets		–	1,428	1,428	–	1,469	1,469
Lease premium for land		–	20	20	–	20	20
Deferred tax assets		–	28	28	–	30	30
Total assets		284,195	19,629	303,824	298,018	19,586	317,604
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	13	66,980	–	66,980	85,335	–	85,335
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	14	154,140	–	154,140	157,814	–	157,814
Accounts payable, accruals and other liabilities	15	16,522	57	16,579	16,159	51	16,210
Deferred revenue		736	–	736	957	–	957
Taxation payable		1,014	–	1,014	505	–	505
Other financial liabilities		60	–	60	58	–	58
Participants' contributions to Clearing House Funds	16	20,827	–	20,827	16,626	–	16,626
Borrowings	17	1,789	83	1,872	1,027	833	1,860
Provisions		99	74	173	85	68	153
Deferred tax liabilities		–	709	709	–	711	711
Total liabilities		262,167	923	263,090	278,566	1,663	280,229
Equity							
Share capital	18			26,899			25,141
Shares held for Share Award Scheme	18			(596)			(606)
Employee share-based compensation reserve	19			303			222
Hedging and revaluation reserves				(9)			1
Exchange reserve				(39)			(104)
Designated reserves	20			508			822
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings				13,873			12,090
Equity attributable to shareholders of HKEX				40,646			37,273
Non-controlling interests				88			102
Total equity				40,734			37,375
Total liabilities and equity				303,824			317,604
Net current assets				22,028			19,452

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Attributable to shareholders of HKEX

	Share capital and shares held for Share Award Scheme (note 18) \$m	Employee share-based compensation reserve (note 19) \$m	Hedging and revaluation reserves \$m	Exchange reserve \$m	Designated reserves (note 20) \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2018	24,535	222	1	(104)	822	(293)	12,090	37,273	102	37,375
Effect of adoption of HKFRS 9 (2014) (note 2)	-	-	(4)	-	-	-	4	-	-	-
Effect of adoption of HKFRS 15 (note 2)	-	-	-	-	-	-	(62)	(62)	-	(62)
At 1 Jan 2018, as restated	24,535	222	(3)	(104)	822	(293)	12,032	37,211	102	37,313
Profit for the period	-	-	-	-	-	-	5,041	5,041	(16)	5,025
Other comprehensive income	-	-	(6)	65	-	-	-	59	2	61
Total comprehensive income	-	-	(6)	65	-	-	5,041	5,100	(14)	5,086
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2017 final dividend at \$2.85 per share	-	-	-	-	-	-	(3,525)	(3,525)	-	(3,525)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	-	12	12	-	12
- Shares issued in lieu of cash dividends	1,750	-	-	-	-	-	-	1,750	-	1,750
- Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)	-	(3)
- Vesting of shares of Share Award Scheme	21	(20)	-	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	101	-	-	-	-	-	101	-	101
- Transfer of reserves	-	-	-	-	(314)	-	314	-	-	-
	1,768	81	-	-	(314)	-	(3,200)	(1,665)	-	(1,665)
At 30 Jun 2018	26,303	303	(9)	(39)	508	(293)	13,873	40,646	88	40,734

Attributable to shareholders of HKEX

	Share capital and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Designated reserves \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2017	21,486	226	(260)	773	(293)	10,334	32,266	118	32,384
Profit for the period	-	-	-	-	-	3,493	3,493	(15)	3,478
Other comprehensive income	-	-	120	-	-	-	120	-	120
Total comprehensive income	-	-	120	-	-	3,493	3,613	(15)	3,598
Total transactions with shareholders of HKEX, recognised directly in equity:									
- 2016 final dividend at \$2.04 per share	-	-	-	-	-	(2,491)	(2,491)	-	(2,491)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	13	13	-	13
- Shares issued in lieu of cash dividends	1,347	-	-	-	-	-	1,347	-	1,347
- Shares purchased for Share Award Scheme	(10)	-	-	-	-	-	(10)	-	(10)
- Vesting of shares of Share Award Scheme	21	(19)	-	-	-	(2)	-	-	-
- Employee share-based compensation benefits	-	101	-	-	-	-	101	-	101
- Tax credit relating to Share Award Scheme	-	-	-	-	-	1	1	-	1
- Transfer of reserves	-	-	-	51	-	(51)	-	-	-
- Changes in ownership interest in a subsidiary	-	-	-	-	-	12	12	33	45
	1,358	82	-	51	-	(2,518)	(1,027)	33	(994)
At 30 Jun 2017	22,844	308	(140)	824	(293)	11,309	34,852	136	34,988

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	21	5,210	3,970
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
Net payments to external fund managers for purchases of financial assets measured at fair value through profit or loss		-	(601)
Net cash inflow from operating activities		5,210	3,369
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(412)	(331)
Net (increase)/decrease in financial assets of Corporate Funds:			
(Increase)/decrease in time deposits with original maturities more than three months		(2,012)	2,032
Payments for purchase of financial assets measured at amortised cost (excluding time deposits)		-	(313)
Interest received from financial assets measured at fair value through other comprehensive income		29	-
Interest received from financial assets measured at fair value through profit or loss		-	12
Net cash (outflow)/inflow from investing activities		(2,395)	1,400
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchases of shares for Share Award Scheme		(3)	(10)
Payments of interest on borrowings		(21)	(37)
Payments of other finance costs		(28)	-
Dividends paid to shareholders of HKEX		(1,756)	(1,131)
Proceeds from disposal of interest in a subsidiary without loss of control		-	28
Capital injection by non-controlling interest into a subsidiary		-	17
Net cash outflow from financing activities		(1,808)	(1,133)
Net increase in cash and cash equivalents		1,007	3,636
Cash and cash equivalents at 1 Jan		13,546	9,286
Cash and cash equivalents at 30 Jun (note (a))		14,553	12,922
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	11	15,845	12,922
Less: Cash reserved for supporting Skin-in-the-Game and default fund credits of clearing houses	11(b)	(1,292)	-
		14,553	12,922

- (a) The cash and cash equivalents of Margin Funds, Clearing House Funds, Corporate Funds reserved for supporting Skin-in-the-Game (note 16(a)) and default fund credits (note 11(b)) of clearing houses, and cash prepayments and collateral for A shares are held for specific purposes and cannot be used by HKEX and its subsidiaries (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-Hong Kong Financial Reporting Standard (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. This non-HKFRS measure may not be comparable to similar measures presented by other companies. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 2017 annual consolidated financial statements. Except as described in note 2 below, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2017.

The Group has not applied Hong Kong Financial Reporting Standard (HKFRS) 16: Leases which will be effective for accounting periods beginning on or after 1 January 2019. HKFRS 16 will primarily affect the accounting for the Group's operating leases. Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities will subsequently be measured at amortised cost and the right-of-use assets will be measured at cost and depreciated on a straight-line basis during the lease term. The Group intends to apply the simplified transition approach and will not restate comparatives amounts for the year prior to its first adoption.

The financial information relating to the year ended 31 December 2017 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2018 as comparative information does not constitute the statutory annual consolidated financial statements of 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 2017 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. Adoption of new/revised HKFRSs

In 2018, the Group has adopted the following new standards and interpretation to HKFRSs which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2018:

HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration

(a) Adoption of HKFRS 9 (2014)

(i) Impact of adoption

The adoption of HKFRS 9 (2014) resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. The new accounting policies are set out in (a)(ii) below and the adjustments to the financial statements are set out below and in note 2(d).

2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 9 (2014) (continued)

(i) Impact of adoption (continued)

Classification and measurement

Prior to the adoption of HKFRS 9 (2014), debt securities held for Margin Funds amounting to \$3,059 million as at 31 December 2017 were classified as financial assets measured at fair value through profit or loss. They are held by the Group in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling the securities. These assets have therefore been classified as financial assets measured at fair value through other comprehensive income under HKFRS 9 (2014). Accordingly, the related cumulative fair value losses of \$4 million were transferred from retained earnings to the revaluation reserve on 1 January 2018. During the six months ended 30 June 2018, net fair value losses of \$3 million relating to these investments, which would otherwise have been charged to the condensed consolidated income statement under HKFRS 9 (2009), were taken to revaluation reserve.

Impairment

The new impairment model under HKFRS 9 (2014) requires the recognition of provision for impairment losses based on expected credit losses rather than incurred credit losses. There was no material change in the amount of provision for impairment losses required under the expected credit loss model compared with the incurred credit loss model, and there was no financial impact on such change at 1 January 2018, 30 June 2018, and for the six months ended 30 June 2018.

(ii) Accounting policies applied from 1 January 2018

Classification

The Group classifies its financial assets in the following measurement categories:

- those measured at amortised cost; and
- those measured subsequently at fair value (either through other comprehensive income, or through profit or loss).

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 9 (2014) (continued)

(ii) Accounting policies applied from 1 January 2018 (continued)

Classification (continued)

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets is set out below:

- Financial assets measured at amortised cost: These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains and losses on derecognition is recognised in profit or loss.
- Financial assets measured at fair value through other comprehensive income: These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other changes in carrying amounts are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- Financial assets measured at fair value through profit or loss: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 9 (2014) (continued)

(ii) Accounting policies applied from 1 January 2018 (continued)

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its time deposits, debt instruments and other deposits. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable, the Group applies the simplified approach permitted by HKFRS 9 (2014), which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) Adoption of HKFRS 15

(i) Impact of adoption

The adoption of HKFRS 15 resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. The new accounting policies are set out in (b)(ii) below and the adjustments to the financial statements are set out below and in note 2(d).

HKFRS 15 is based on the principle that revenue is recognised when control of goods or services is transferred to customers. Prior to the adoption of HKFRS 15, initial listing fees for initial public offerings (IPOs) were recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever was earlier, and certain upfront fees charged by the Group were recognised upon receipt. Under HKFRS 15, initial listing fees for IPOs and upfront fees are recognised over time when the services are provided. The timing differences of recognising initial listing fees for IPOs were insignificant, and the financial impact of the change in recognition policy for upfront fees was as follows:

- During the six months ended 30 June 2018, the amount of upfront fees recognised under HKFRS 15 was \$9 million, as compared to \$10 million before the adoption of HKFRS 15.
- Cumulative financial impact of upfront fees of \$62 million was debited to retained earnings with a resulting credit to deferred revenue (the terminology “contract liability” under HKFRS 15 is presented as deferred revenue) on 1 January 2018.

(ii) Accounting policies applied from 1 January 2018

Initial listing fees are recognised over time when the listed companies or issuers of warrants, callable bull/bear contracts and other securities agree that they have received the listing services, which approximate the amount of vetting work performed. The performance obligation will be fully satisfied upon the listing of the applicant and structured products when all the work relating to vetting of the application is completed.

Upfront fees, as an advance payment for future services, are recognised when those futures services are provided.

2. Adoption of new/revised HKFRSs (continued)

(c) Adoption of HK(IFRIC) Interpretation 22

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income is the date on which the Group initially pays or receives the advance consideration. The adoption did not have any financial impact on the Group.

(d) Impact on the condensed consolidated financial statements

The Group has applied HKFRS 9 (2014) and HKFRS 15 retrospectively from 1 January 2018. As permitted by the respective transitional provisions of these accounting standards, comparatives for 2017 were not restated. The reclassifications and adjustments were recognised in the opening condensed consolidated statement of financial position on 1 January 2018. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated statement of financial position (extract)	Impact from adoption of			1 Jan 2018 Restated \$m
	31 Dec 2017 As originally presented \$m	HKFRS9 (2014) (note 2(a)(i)) \$m	HKFRS 15 (note 2(b)(i)) \$m	
Current assets				
Financial assets measured at fair value through profit or loss	95,037	(3,059)	-	91,978
Financial assets measured at fair value through other comprehensive income	-	3,059	-	3,059
Total assets	317,604	-	-	317,604
Current liabilities				
Deferred revenue ⁽¹⁾	957	-	62	1,019
Total liabilities	280,229	-	62	280,291
Equity				
Hedging and revaluation reserves	1	(4)	-	(3)
Retained earnings	12,090	4	(62)	12,032
Equity attributable to shareholders of HKEX	37,273	-	(62)	37,211
Total equity	37,375	-	(62)	37,313
Total liabilities and equity	317,604	-	-	317,604

(1) the terminology "contract liability" under HKFRS 15 is presented as deferred revenue on the condensed consolidated statement of financial position

2. Adoption of new/revised HKFRSs (continued)

(d) Impact on the condensed consolidated financial statements (continued)

The following tables show the impact on each individual line item of the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 and the condensed consolidated statement of financial position as of 30 June 2018 following the adoption of the HKFRS 9 (2014) and HKFRS 15. Line items that were not affected by the changes are not included.

Condensed consolidated income statement (extract)	Six months ended 30 Jun 2018			
	Before adoption of HKFRS 9 (2014) and HKFRS 15 \$m	Impact from adoption of		As reported \$m
		HKFRS 9 (2014) (note 2(a)(i)) \$m	HKFRS 15 (note 2(b)(i)) \$m	
Other revenue	489	-	(1)	488
Net investment income	792	3	-	795
REVENUE AND OTHER INCOME	8,192	3	(1)	8,194
PROFIT BEFORE TAXATION	5,845	3	(1)	5,847
TAXATION	(822)	-	-	(822)
PROFIT FOR THE PERIOD	5,023	3	(1)	5,025
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF HKEX	5,039	3	(1)	5,041

Condensed consolidated statement of comprehensive income (extract)	Six months ended 30 Jun 2018			
	Before adoption of HKFRS 9 (2014) and HKFRS 15 \$m	Impact from adoption of		As reported \$m
		HKFRS 9 (2014) (note 2(a)(i)) \$m	HKFRS 15 (note 2(b)(i)) \$m	
PROFIT FOR THE PERIOD	5,023	3	(1)	5,025
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	(3)	-	(3)
OTHER COMPREHENSIVE INCOME	64	(3)	-	61
TOTAL COMPREHENSIVE INCOME	5,087	-	(1)	5,086
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF HKEX	5,101	-	(1)	5,100

2. Adoption of new/revised HKFRSs (continued)

(d) Impact on the condensed consolidated financial statements (continued)

Condensed consolidated statement of financial position (extract)	At 30 Jun 2018			As reported \$m
	Before adoption of HKFRS 9 (2014) and HKFRS 15 \$m	Impact from adoption of		
		HKFRS 9 (2014) (note 2(a)(i)) \$m	HKFRS 15 (note 2(b)(i)) \$m	
Current assets				
Financial assets measured at fair value through profit or loss	76,752	(3,059)	-	73,693
Financial assets measured at fair value through other comprehensive income	-	3,059	-	3,059
Total assets	303,824	-	-	303,824
Current liabilities				
Deferred revenue	673	-	63	736
Total liabilities	263,027	-	63	263,090
Equity				
Hedging and revaluation reserves	(2)	(7)	-	(9)
Retained earnings	13,929	7	(63)	13,873
Equity attributable to shareholders of HKEX	40,709	-	(63)	40,646
Total equity	40,797	-	(63)	40,734
Total liabilities and equity	303,824	-	-	303,824

The adoption of HKFRS 9 (2014) and HKFRS 15 has insignificant impact to the earnings per share, and has no impact on the net cash flow from operating, investing and financing activities on the condensed consolidated statement of cash flows.

3. Operating Segments

The Group determines its operating segments based on the internal management 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, the Shanghai Stock Exchange and the Shenzhen Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-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, listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on The Stock Exchange of Hong Kong Limited (Stock Exchange) and Hong Kong Futures Exchange Limited (Futures 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 related market data. The major sources of revenue are trading fees, trading tariff, listing fees of derivatives products and market data fees.

3. Operating Segments (continued)

The **Commodities** segment refers to the operations of The London Metal Exchange (LME), which operates an exchange in the UK for the trading of base and precious metals futures and options contracts, and the development of a new commodity trading platform in the Mainland. It also covers the Asia Commodities contracts and gold and iron ore futures contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees of commodity products, commodity market data fees and fees from 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 exchanges of the Group and Northbound trades under Stock Connect, and clearing and settlement of over-the-counter derivatives contracts. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the 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 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 operating segments and other costs not directly related to any operating segment) 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:

	Six months ended 30 Jun 2018						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	2,099	1,734	706	2,511	327	8	7,385
Net investment income	-	-	-	622	-	173	795
Sundry income	-	-	-	7	-	7	14
Revenue and other income	2,099	1,734	706	3,140	327	188	8,194
Operating expenses	(282)	(280)	(354)	(400)	(75)	(527)	(1,918)
Reportable segment EBITDA	1,817	1,454	352	2,740	252	(339)	6,276
Depreciation and amortisation	(40)	(36)	(147)	(101)	(18)	(36)	(378)
Finance costs	-	-	-	(16)	-	(39)	(55)
Share of profits less losses of joint ventures	8	(4)	-	-	-	-	4
Reportable segment profit before taxation	1,785	1,414	205	2,623	234	(414)	5,847

3. Operating Segments (continued)

	Six months ended 30 Jun 2017						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,512	952	721	1,912	279	3	5,379
Net investment income	-	-	-	393	-	428	821
Sundry income	-	-	-	3	-	-	3
Revenue and other income	1,512	952	721	2,308	279	431	6,203
Operating expenses	(291)	(222)	(281)	(378)	(75)	(464)	(1,711)
Reportable segment EBITDA	1,221	730	440	1,930	204	(33)	4,492
Depreciation and amortisation	(33)	(36)	(136)	(92)	(21)	(44)	(362)
Finance costs	-	-	-	-	-	(65)	(65)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,188	689	304	1,838	183	(142)	4,060

4. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Equity securities traded on the Stock Exchange and through Stock Connect	1,359	828
DWs, CBBCs and warrants traded on the Stock Exchange	417	219
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	1,008	572
Base and precious metals futures and options contracts traded on the LME	550	561
	3,334	2,180

5. Net Investment Income

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Gross interest income from financial assets measured at amortised cost	1,229	643
Gross interest income from financial assets measured at fair value through other comprehensive income	29	-
Interest rebates to Participants	(505)	(200)
Net interest income	753	443
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	52	346
Others	(10)	32
Net investment income	795	821

6. Staff Costs and Related Expenses

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Salaries and other short-term employee benefits	1,012	901
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	101	101
Termination benefits	14	1
Retirement benefit costs (note (a))	78	70
	1,205	1,073

- (a) 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 LME and LME Clear (LME Pension Scheme), and has joined defined contribution retirement schemes arranged by local government labour and security authorities for employees of its PRC subsidiaries and representation office (PRC Retirement Schemes). 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, the LME Pension Scheme, the PRC Retirement Schemes and related fees.

7. Finance Costs

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Interest and finance charges for financial liabilities not at fair value through profit or loss (note (a))	48	44
Negative interest on Euro and Japanese Yen deposits	7	-
Net foreign exchange losses on financing activities	-	21
	55	65

- (a) For the six months ended 30 June 2018, the total interest expenses for financial liabilities not at fair value through profit or loss amounted to \$27 million (2017: \$44 million). For the six months ended 30 June 2018, banking facility commitment fees of \$21 million that relate to liquidity support provided to the Group's clearing houses have been reclassified from bank charges, under other operating expenses, to finance costs to more appropriately reflect the nature of the costs incurred. No restatement of prior period comparatives of \$20 million was made as the amount was considered immaterial to the overall financial statements.

8. Taxation

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

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Current tax – Hong Kong Profits Tax	762	479
Current tax – Overseas Tax	61	116
	823	595
Deferred tax	(1)	(13)
	822	582

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2017: 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 tax rate applicable to the subsidiaries in the UK being 19 per cent (2017: 19.25 per cent).

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 2018	Six months ended 30 Jun 2017
Profit attributable to shareholders (\$m)	5,041	3,493
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,238,023	1,222,293
Basic earnings per share (\$)	4.07	2.86

- (b) Diluted earnings per share

	Six months ended 30 Jun 2018	Six months ended 30 Jun 2017
Profit attributable to shareholders (\$m)	5,041	3,493
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,238,023	1,222,293
Effect of shares awarded under Share Award Scheme (in '000)	2,872	3,134
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,240,895	1,225,427
Diluted earnings per share (\$)	4.06	2.85

10. Dividends

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Interim dividend declared of \$3.64 (2017: \$2.55) per share at 30 Jun	4,538	3,141
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(11)	(8)
	4,527	3,133

11. Financial Assets

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
Cash and cash equivalents	152,978	155,660
Financial assets measured at fair value through profit or loss	73,693	95,037
Financial assets measured at fair value through other comprehensive income	3,059	-
Financial assets measured at amortised cost	36,083	30,817
	265,813	281,514

The Group's financial assets comprised financial assets of cash prepayments and collateral for A shares (Cash for A shares), Corporate Funds, Margin Funds, Clearing House Funds and metals derivatives contracts as follows:

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
<u>Cash for A shares</u> (note (a))		
Cash and cash equivalents	-	1,689
<u>Corporate Funds</u>		
Cash and cash equivalents (note (b))	15,845	13,546
Financial assets measured at fair value through profit or loss	6,713	6,643
Financial assets measured at amortised cost	3,308	1,275
	25,866	21,464
<u>Margin Funds</u> ⁽¹⁾		
Cash and cash equivalents	115,663	122,844
Financial assets measured at fair value through profit or loss	-	3,059
Financial assets measured at fair value through other comprehensive income	3,059	-
Financial assets measured at amortised cost	32,714	29,481
	151,436	155,384
<u>Clearing House Funds</u> (note 16)		
Cash and cash equivalents	21,470	17,581
Financial assets measured at amortised cost	61	61
	21,531	17,642
<u>Metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (c))	66,980	85,335
	265,813	281,514

(1) Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to China Securities Depository and Clearing Corporation Limited and margin receivable from Clearing Participants of \$2,704 million (31 December 2017: \$2,430 million), which are included in accounts receivable, prepayments and other deposits. If such amounts are included, total Margin Funds would be \$154,140 million (31 December 2017: \$157,814 million) (note 14).

11. Financial Assets (continued)

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

	At 30 Jun 2018					At 31 Dec 2017						
	Cash for A shares \$m	Corporate Funds \$m	Margin Funds \$m	Clearing House Funds \$m	Metals derivatives contracts \$m	Total \$m	Cash for A shares \$m	Corporate Funds \$m	Margin Funds \$m	Clearing House Funds \$m	Metals derivatives contracts \$m	Total \$m
Within twelve months	-	25,787	151,436	21,531	66,980	265,734	1,689	21,404	155,384	17,642	85,335	281,454
Over twelve months	-	79	-	-	-	79	-	60	-	-	-	60
	-	25,866	151,436	21,531	66,980	265,813	1,689	21,464	155,384	17,642	85,335	281,514

- (a) Cash for A shares includes:
- (i) Renminbi (RMB) cash prepayments received by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such prepayments will be used to settle HKSCC's Continuous Net Settlement (CNS) obligations payable on the next business day; and
 - (ii) Hong Kong Dollar/United States Dollar cash collateral received by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such collateral will be refunded to the Clearing Participants when they settle their RMB CNS obligations on the next business day.
- (b) At 30 June 2018, cash and cash equivalents of Corporate Funds of \$1,292 million (31 December 2017: \$Nil) were solely used to support Skin-in-the-Game and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund (note 16(a)).
- (c) Metal derivatives contracts represent the fair value of outstanding base and precious metals futures and options contracts cleared through 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 represents the Group's CNS money obligations receivable, which accounted for 78 per cent (31 December 2017: 75 per cent) of the total accounts receivable, prepayments and deposits. CNS 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 2018 \$m	At 31 Dec 2017 \$m
<hr/>		
Held by LME Clear in its capacity as a central counterparty		
Derivative financial instruments:		
– base and precious metals futures and options contracts cleared through LME Clear (note 11(c))	66,980	85,335
	<hr/>	<hr/>

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

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
<hr/>		
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised:		
SEOCH Clearing Participants' margin deposits	10,248	14,571
HKCC Clearing Participants' margin deposits	70,397	49,245
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	10,712	8,553
OTC Clear Clearing Participants' margin deposits	2,731	1,730
LME Clear Clearing Participants' margin deposits	60,052	83,715
	<hr/>	<hr/>
	154,140	157,814
	<hr/>	<hr/>

15. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represents the Group's CNS money obligations payable, which accounted for 87 per cent (31 December 2017: 88 per cent) of the total accounts payable, accruals and other liabilities. CNS 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.

16. Clearing House Funds

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions	20,827	16,626
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (notes (b) and 20)	508	822
	21,491	17,604
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)	21,531	17,642
Less: Other financial liabilities of Clearing House Funds	(40)	(38)
	21,491	17,604
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	5,459	2,712
SEOCH Reserve Fund	1,599	2,454
HKCC Reserve Fund	1,167	1,887
OTC Clear Rates and FX Guarantee Fund	1,652	1,222
OTC Clear Rates and FX Guarantee Resources	163	161
LME Clear Default Fund	11,451	9,168
	21,491	17,604

- (a) The Group's clearing houses, HKSCC, HKCC and SEOCH, have implemented the following key changes to their clearing house fund (default fund) resource arrangement from 1 June 2018:
- (i) contributions by HKSCC, HKCC and SEOCH to their respective default funds (Skin-in-the-Game) are set at 10 per cent of the default fund size instead of a fixed amount;
 - (ii) HKCC's Contingent Advance Capital (previously provided by HKCC to relieve 50 per cent of Clearing Participants' variable default fund contribution requirement) is removed; and
 - (iii) \$1 million dynamic default fund credit is granted to each HKCC Clearing Participant.

As a result of the changes, additional capital amounting to \$2.2 billion has been injected into the respective clearing houses by HKEX to provide resources for them to absorb losses in case of Participants' defaults.

The additional capital is kept by the respective clearing houses under Corporate Funds, and the amounts of Corporate Funds used for supporting the required Skin-in-the-Game and default fund credits of \$1,292 million (note 11(b)) are invested in overnight deposits and monitored on a daily basis.

16. Clearing House Funds (continued)

(b) Designated reserves comprise:

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
Contributions from clearing houses (note (i))	-	320
Accumulated income net of expenses of Clearing House Funds	508	502
	508	822

(i) After implementing the new default fund resource arrangement in (a) above, the fixed contributions from clearing houses to Clearing House Funds of \$320 million are no longer needed and were transferred to retained earnings of the respective clearing houses during the six months ended 30 June 2018.

17. Borrowings

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
Notes	1,539	1,533
Written put options to non-controlling interests	333	327
Total borrowings	1,872	1,860
Analysed as:		
Non-current liabilities	83	833
Current liabilities	1,789	1,027
	1,872	1,860

During the six months ended 30 June 2018, there was no repayment of notes, and none of the written put options was exercised.

18. Share Capital and Shares Held for Share Award Scheme

Issued and fully paid – ordinary shares with no par:

	Number of shares '000	Number of shares held for Share Award Scheme '000	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2017	1,224,322	(3,217)	22,085	(599)	21,486
Shares issued in lieu of cash dividends (note (a))	15,487	(74)	3,052	(15)	3,037
Shares purchased for Share Award Scheme (note (b))	-	(1,000)	-	(228)	(228)
Vesting of shares of Share Award Scheme (note (c))	-	1,297	4	236	240
At 31 Dec 2017	1,239,809	(2,994)	25,141	(606)	24,535
At 1 Jan 2018	1,239,809	(2,994)	25,141	(606)	24,535
Shares issued in lieu of cash dividends (note (a))	6,950	(33)	1,758	(8)	1,750
Shares purchased for Share Award Scheme (note (b))	-	(12)	-	(3)	(3)
Vesting of shares of Share Award Scheme (note (c))	-	115	-	21	21
At 30 Jun 2018	1,246,759	(2,924)	26,899	(596)	26,303

- (a) In June 2018, 6,949,778 new fully paid HKEX shares (year ended 31 December 2017: 15,486,905 shares) were issued and allotted at \$252.98 per share (year ended 31 December 2017: weighted average price of \$197.04 per share) to the shareholders (including 32,705 new shares (year ended 31 December 2017: 74,285 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 2018, the Share Award Scheme acquired 12,100 HKEX shares (year ended 31 December 2017: 999,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$3 million (year ended 31 December 2017: \$228 million).
- (c) During the six months ended 30 June 2018, the Share Award Scheme transferred 114,830 HKEX shares (year ended 31 December 2017: 1,296,700 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 2017: \$236 million). During the year ended 31 December 2017, \$4 million was credited to share capital in respect of vesting of certain shares whose fair values were higher than cost.

19. Employee Share-based Arrangements

The Group operates the Share Award Scheme as part of the benefits of its employees. It allows shares to be granted to employees under the following two categories of awards:

- (i) Employee Share Awards – for all employees of the Group (including the Executive Director); and
- (ii) Senior Executive Awards – for selected senior executives of the Group (including the Executive Director).

The employee share-based compensation expenses in relation to the share awards are charged to the condensed consolidated income statement 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 2018, no Senior Executive Awards was granted and details of Employee Share Awards awarded are set out below:

Date of award	Number of shares awarded	Average fair value per share \$	Vesting period
5 Mar 2018	1,400	282.45	29 Dec 2019 – 29 Dec 2020
4 Apr 2018	6,499	253.91	31 Dec 2018 – 1 Apr 2020
30 May 2018	4,199	253.05	10 Mar 2019 – 22 Mar 2021

20. Designated reserves

Clearing House Funds reserves (note 16(b))

	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	OTC Clear Rates and FX Guarantee Resources reserve \$m	Total \$m
At 1 Jan 2017	311	104	350	4	4	773
Post-liquidation interest arising from a Participant's default on market contracts	55	-	-	-	-	55
(Deficit)/surplus of net investment income net of expenses of Clearing House Funds	(9)	1	(1)	2	1	(6)
Transfer from/(to) retained earnings	46	1	(1)	2	1	49
At 31 Dec 2017	357	105	349	6	5	822
At 1 Jan 2018	357	105	349	6	5	822
Contributions from clearing houses reappropriated to retained earnings of clearing houses (note 16(b)(i))	(200)	-	(120)	-	-	(320)
Surplus of net investment income net of expenses of Clearing House Funds	1	-	-	3	2	6
Transfer (to)/from retained earnings	(199)	-	(120)	3	2	(314)
At 30 Jun 2018	158	105	229	9	7	508

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 2018 \$m	Six months ended 30 Jun 2017 \$m
Profit before taxation	5,847	4,060
Adjustments for:		
Net interest income	(753)	(443)
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	(52)	(346)
Finance costs	55	65
Depreciation and amortisation	378	362
Employee share-based compensation benefits	101	101
Provision for impairment losses of receivables	5	3
Other non-cash adjustments	4	15
Net decrease in financial assets of Margin Funds	3,674	654
Net decrease in financial liabilities of Margin Funds	(3,674)	(647)
Net increase in Clearing House Fund financial assets	(3,889)	(1,284)
Net increase in Clearing House Fund financial liabilities	4,203	1,233
Net (increase)/decrease in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(18)	5
Decrease/(increase) in cash prepayments and collateral for A shares	1,689	(262)
Increase in Corporate Funds used for supporting Skin-in-the-Game and default fund credits	(1,292)	-
(Increase)/decrease in accounts receivable, prepayments and deposits	(1,634)	47
Increase in other liabilities	157	294
Net cash inflow from principal operations	4,801	3,857
Interest received from financial assets measured at amortised cost and cash and cash equivalents	1,229	643
Interest paid to Participants	(505)	(200)
Income tax paid	(315)	(330)
Net cash inflow from principal operating activities	5,210	3,970

22. Capital Expenditures and Commitments

During the six months ended 30 June 2018, the Group incurred capital expenditures of \$339 million (2017: \$306 million).

At 30 June 2018, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
Contracted but not provided for:		
– fixed assets	113	13
– intangible assets	120	65
Authorised but not contracted for:		
– fixed assets	382	400
– intangible assets	829	955
	1,444	1,433

23. Contingent Liabilities

At 30 June 2018, 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 SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2017: \$71 million). Up to 30 June 2018, 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 635 trading Participants (31 December 2017: 622) covered by the indemnity at 30 June 2018 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$127 million (31 December 2017: \$124 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.

24. Material Related Party Transactions

- (a) Key management personnel compensation

	Six months ended 30 Jun 2018 \$m	Six months ended 30 Jun 2017 \$m
Salaries and other short-term employee benefits	66	61
Employee share-based compensation benefits	31	33
Retirement benefit costs	4	4
	101	98

- (b) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and the LME Pension Scheme on its post-retirement benefit plans (note 6 (a)).

25. Pledge of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$2,035 million (HK\$15,965 million) at 30 June 2018 (31 December 2017: US\$1,319 million (HK\$10,311 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\$9,101 million (HK\$71,401 million) at 30 June 2018 (31 December 2017: US\$11,462 million (HK\$89,602 million)).

25. Pledge of Assets (continued)

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 2018. Such non-cash collateral, together with certain financial assets amounting to US\$470 million (HK\$3,688 million) at 30 June 2018 (31 December 2017: US\$471 million (HK\$3,686 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. Capital Management

At 30 June 2018, the Group had set aside \$4 billion (31 December 2017: \$4 billion) of shareholders' funds for the purpose of supporting the risk management regime of the clearing houses in their roles as central counterparties, of which \$2.2 billion had been injected into HKSCC, HKCC and SEOCH as share capital.

27. Fair Value of Financial Assets and Financial Liabilities

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

At 30 June 2018 and 31 December 2017, no non-financial assets or liabilities were carried at fair value.

The following tables present the carrying values 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.

27. 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 30 Jun 2018			At 31 Dec 2017		
	Level 1 \$m	Level 2 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets						
Financial assets measured at fair value through profit or loss:						
– collective investment schemes	1,826	4,887	6,713	1,841	4,802	6,643
– debt securities	–	–	–	3,059	–	3,059
– base and precious metals futures and options contracts cleared through LME Clear	–	66,980	66,980	–	85,335	85,335
Financial assets measured at fair value through other comprehensive income:						
– debt securities	3,059	–	3,059	–	–	–
	4,885	71,867	76,752	4,900	90,137	95,037
Financial liabilities						
Financial liabilities at fair value through profit or loss:						
– base and precious metals futures and options contracts cleared through LME Clear	–	66,980	66,980	–	85,335	85,335

During the six months ended 30 June 2018 and 30 June 2017, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of collective investment schemes, debt securities, base and precious metals futures and options contracts have been determined based on quotes from market makers, funds administrators or alternative pricing sources supported by observable inputs. The most significant input are market interest rates, market prices of metals, net asset values and latest redemption prices or transaction prices of the respective collective investment schemes.

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.

27. 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 2018		At 31 Dec 2017	
	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⁾	79	57	60	54
Liabilities				
Borrowings:				
– notes ⁽²⁾	1,539	1,539	1,533	1,537
– written put options to non-controlling interests ⁽²⁾	333	332	327	329
Financial guarantee to the Collector of Stamp Revenue ⁽³⁾	20	73	20	90

(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 2.83 per cent to 3.30 per cent at 30 June 2018 (31 December 2017: 1.84 per cent to 2.56 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 2.90 per cent to 3.38 per cent at 30 June 2018 (31 December 2017: 2.26 per cent to 2.75 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 2.16 per cent at 30 June 2018 (31 December 2017: 1.74 per cent).

The carrying amounts of 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.

GLOSSARY

2018 AGM	AGM held on 25 April 2018
ADT	Average daily turnover value
ADV	Average daily volume (in number of contracts/lots)
AGM	HKEX's annual general meeting
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEX's board of directors
Bond Connect	A mutual bond market access programme between Hong Kong and Mainland China, under which Northbound trading enables overseas investors to invest in the China Interbank Bond Market, and Southbound trading will be explored at a later stage
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
Corporate Governance Code	Refers to Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
e-IPO	Electronic Initial Public Offering
EPs	Exchange Participants
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
EU	European Union
Euro	The official currency of the Eurozone
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBP	Pounds sterling
GBS	Gold Bauhinia Star
GBM	Grand Bauhinia Medal
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEX and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEX or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
Iron Ore Futures	TSI Iron Ore Fines 62 per cent Fe CFR China Futures
IT	Information Technology
JP	Justice of the Peace

GLOSSARY

Listing Rule(s)	Main Board Listing Rules and Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LME Holdings Limited, the LME and LME Clear
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MSCI	MSCI Inc.
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through Stock Connect
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
RMB	Renminbi
SBS	Silver Bauhinia Star
SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect or Shanghai Connect	A mutual market access programme that links the stock markets in Shanghai and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholders	HKEX's shareholders
Share Award Scheme or the Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015
Shenzhen-Hong Kong Stock Connect or Shenzhen Connect	A mutual market access programme that links the stock markets in Shenzhen and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connect
Stock Connect	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million



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