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香港交易及結算所有限公司  
**HONG KONG EXCHANGES AND CLEARING LIMITED**  
(Incorporated in Hong Kong with limited liability)  
(Stock Code: 388)

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

## 2016 FINAL RESULTS, FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board is pleased to submit the Group's consolidated results for the year ended 31 December 2016.

### FINANCIAL HIGHLIGHTS

	2016 \$m	2015 \$m	Change
Revenue and other income	<b>11,116</b>	13,375	(17%)
Operating expenses	<b>3,455</b>	3,290	5%
EBITDA <sup>1</sup>	<b>7,661</b>	10,085	(24%)
Profit attributable to shareholders	<b>5,769</b>	7,956	(27%)
Basic earnings per share	<b>\$4.76</b>	\$6.70	(29%)
Interim dividend per share	<b>\$2.21</b>	\$3.08	(28%)
Final dividend per share	<b>\$2.04</b>	\$2.87	(29%)
	<b>\$4.25</b>	\$5.95	(29%)
Dividend payout ratio	<b>90%</b>	90%	–

#### Key messages

- Revenue and other income for 2016 was 17 per cent lower than 2015 or 14 per cent lower after excluding 2015 exceptional gains of \$514 million. This compares favourably to the significantly reduced levels of market activity experienced during the year.
- Group revenue for the year was significantly influenced by the following factors:
  - Subdued activity on the Cash Market in Hong Kong, which returned to pre-2015 levels;
  - Decreased Commodities trading activity on the LME; and
  - Increased trading of derivatives contracts on the Futures Exchange.
- Operating expenses increased by 5 per cent against the prior year or 3 per cent after eliminating a 2015 one-off recovery, of \$77 million, from the liquidators of Lehman. Increased operating costs reflect the continued investment in strategic projects, which was substantially offset by expenditure control measures introduced during the year.
- The EBITDA margin of 69 per cent was 6 per cent lower than 2015, reflecting the decline of trading and clearing income as compared to the prior year.
- Profit attributable to shareholders decreased by 27 per cent against 2015 or 22 per cent after adjusting for the after tax effect of the 2015 exceptional gains and one-off recovery of \$591 million. In 2015 record high trading volume on the Cash Market delivered exceptional profits for the Group. Notwithstanding the difficult trading conditions in 2016, profit attributable to shareholders compares well with pre-2015 results and was 12 per cent higher than 2014.

	2016	2015	Change
<b>KEY MARKET STATISTICS</b>			
ADT of equity products traded on the Stock Exchange (\$bn)	<b>50.2</b>	79.9	(37%)
ADT of DWs, CBBs and warrants traded on the Stock Exchange (\$bn)	<b>16.7</b>	25.7	(35%)
ADT traded on the Stock Exchange (\$bn)	<b>66.9</b>	105.6	(37%)
Average daily number of derivatives contracts traded on the Futures Exchange	<b>463,841</b>	394,174	18%
Average daily number of stock options contracts traded on the Stock Exchange	<b>297,903</b>	374,346	(20%)
Average daily volume of metals contracts traded on the LME (lots)	<b>618,627</b>	670,189	(8%)

<sup>1</sup> For the purposes of this announcement, 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 venture.

## CHAIRMAN'S STATEMENT

2016 was a year of uncertainty and surprises. The global financial markets were volatile and overshadowed by political and economic uncertainties arising from the UK vote to leave the EU and the US presidential election. At home, there were concerns that Mainland China's economy was slowing down and that interest rates would rise in response to the US interest rate hikes. All these contributed to cautious sentiment among investors, and created a challenging market environment for the Group.

### Performance and Dividend

The Hong Kong securities market experienced subdued trading in 2016 compared with all-time high turnover the previous year. Our commodity business in the UK also had a difficult year due to weakened global demand.

Against this backdrop, it is encouraging that the Stock Exchange continued to rank first globally in terms of IPO fundraising and securitised derivatives<sup>2</sup> turnover. The Hong Kong derivatives market also stayed strong in 2016 with new records in our total futures trading and across various individual derivatives market products.

HKEX - World Leader in 2016 <sup>1</sup>	
IPO fundraising	\$195.3 billion
Total turnover of securitised derivatives <sup>2</sup>	\$4.1 trillion
1 Source: World Federation of Exchanges	
2 DWs and CBBCs	

The Group's total revenue and other income amounted to \$11.1 billion and the profit attributable to shareholders was \$ 5,769 million for the year ended 31 December 2016, down 17 per cent and 27 per cent respectively from the record-highs in 2015. The Board recommends a final dividend of \$2.04 per share, resulting in the full-year dividend of \$4.25 per share.

### Strategic Update

Notwithstanding the difficult environment, we have made good progress towards our strategic goals. The launch of Shenzhen-Hong Kong Stock Connect in early December was a major achievement as it has linked the secondary equity markets of Hong Kong, Shenzhen and Shanghai for the first time, resulting in a mutual stock market with a combined equity market value of about RMB70 trillion. We will continue to broaden our connectivity scheme to cover other asset classes in order to capture opportunities arising from the RMB's internationalisation and help further strengthen the role of Hong Kong as an international financial centre.

Building on the resilience and growth of our derivatives markets, we continue to introduce new products to meet the needs of Mainland investors seeking international asset diversification and to give the market more tools for trading and risk management. We are pleased to see that our USD/CNH Futures and other RMB Currency Futures lead other exchanges in term of liquidity and distribution. OTC Clear has also become the first international clearing house to provide clearing services for USD/CNH cross currency swaps. These initiatives are an important part of our strategy to expand our product capabilities across asset classes to enhance HKEX's value proposition, and to help ensure that Hong Kong stays at the forefront of China's capital market development.

We are now preparing for the launch of our Qianhai commodities trading platform. Leveraging on HKEX's reputation and the LME's expertise, the platform will provide a credible and efficient trading venue with related infrastructure and facilities to serve the real economy, which in time could develop representative price benchmarks for Mainland China.

Details of the Group's performance and initiatives undertaken in 2016 are set out in the Chief Executive's Review and Business Review sections of this announcement.

## Quality Market

We recognise that market quality and efficiency are key elements to the Group's sustainability. We successfully implemented the Closing Auction Session and Volatility Control Mechanism (VCM) for the Hong Kong securities market in 2016, and the VCM for the derivatives market in January 2017. We also announced a plan to revise the stock option position limit model for the derivatives market to align with international practices. We are now working with the SFC to review and analyse responses to the proposed enhancements of the Exchange's decision-making and governance structure for listing regulation. In the UK, the LME decided to introduce caps on warehouse charges, effective 1 April 2017, to address concerns in and bring greater stability to the metals market. We will continue to work in close collaboration with our regulators and stakeholders to ensure our infrastructure and systems remain reliable and efficient, and our regulations and market structure remain updated and appropriate to converge with the ever changing market landscape.

## Environmental, Social and Governance Performance

We continually enhance our ESG efforts, our corporate governance and risk management practices with the aim to create and deliver sustainable value to all our stakeholders. In 2016, we conducted an independent review of our Board's composition to ensure we have the right balance of skills and expertise to lead the Company forward. Based on the consultant's recommendations, we have developed specific selection criteria for identifying potential Director candidates to stand for election at the 2017 AGM. During the year, we further enhanced our risk management approach by performing quarterly risk assessments on the Group, and organised a series of mandatory compliance training sessions for employees to reinforce a strong risk culture across the organisation. Details of our efforts in promoting sustainability in our marketplace, workplace, community and environment are set out in our 2016 CSR Report which will be available on the HKEX Group website together with the 2016 Annual Report.

## Outlook

Looking ahead into the rest of 2017, the operating environment for financial markets is expected to remain challenging. Despite some encouraging signs of better growth prospects in the US and Europe, many political and economic uncertainties remain. Capital markets in 2017 are likely to be volatile. At HKEX, we will stay vigilant along our strategic journey. We will continue to enhance our competitiveness to position the Group for future growth and success, and to realise our vision to transform Hong Kong into a global wealth management centre connecting China and the world.

## Acknowledgements

I would like to express my sincere gratitude to my fellow Board members for their commitment and valuable input. On behalf of the Board, I would like to extend special appreciation to Dr Bill Kwok and Mr Vincent Lee, who will retire from the Board at the conclusion of the 2017 AGM. Their experience in the financial services industry and instrumental advice have provided precious guidance to the Board and have contributed extensively to the development of HKEX from a local exchange into a reputable international exchange throughout their 17 years' service on the Board.

Finally, I would like to take this opportunity to thank our Shareholders and other stakeholders for their continuing support and confidence in HKEX, and also our employees for their dedication and hard work, which enable the Group to perform its public duty while maximising value for our Shareholders.

**CHOW Chung Kong**  
Chairman

## CHIEF EXECUTIVE'S REVIEW

The year 2016 marked the opening chapter of our 2016-18 Strategic Plan. At the beginning of the year, we set out to build the most effective platform for cross-border market access and develop a unique destination market in Hong Kong for products with both Chinese and international relevance. With this vision in mind, we forged our strategies across equities, commodities and FIC, as well as our platforms and capabilities.

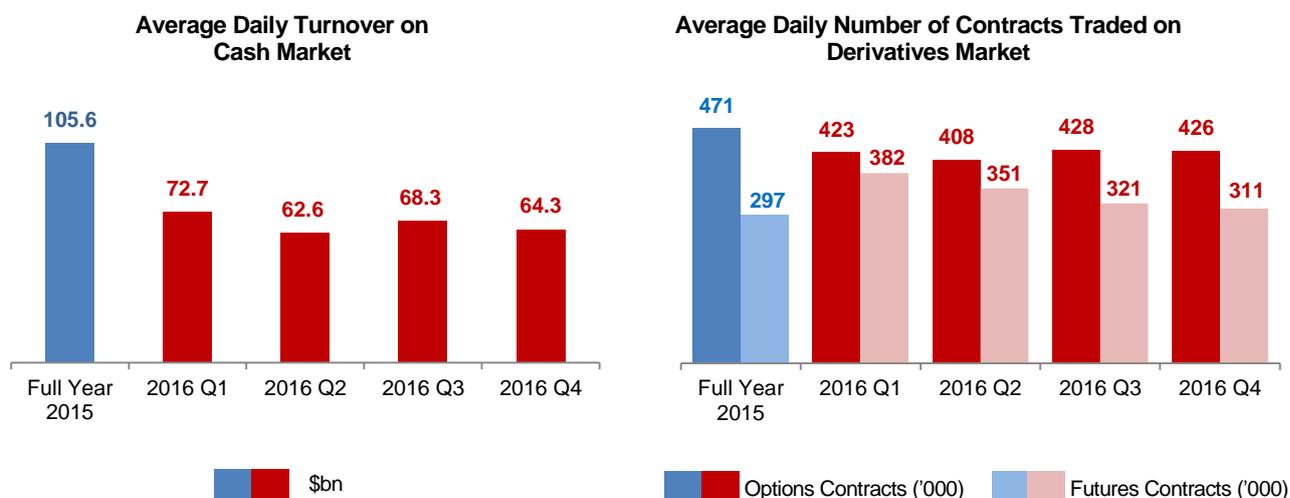
From a macro perspective, 2016 was also one of the most unpredictable years in recent memory, reflecting volatility in global financial markets due to political events such as the decision by voters in the United Kingdom to exit the EU and the US Presidential Election. Although market performance was generally less impressive than the previous year, we managed to react proactively and maintained our focus on important strategic projects. We also stepped up our efforts in launching new products and implemented significant enhancements to the market structures in Hong Kong and London. These achievements have strengthened HKEX's ability to make unique and important contributions to the gradual liberalisation of China's capital markets and the entrenchment of Hong Kong as a leading global financial centre.

### Market Performance

Our primary market remained competitive despite heightened market volatility. HKEX continued to rank first globally in IPOs with 126<sup>1</sup> companies listing and raising \$195.3 billion in total, representing a 26 per cent drop in IPO funds raised from 2015. Our existing listed companies also raised \$294.8 billion, a decrease of 65 per cent over 2015. Total funds raised reached \$490.1 billion.

The subdued market conditions were reflected in weakened ADT in the secondary market. Compared with the exceptionally high ADT of over \$100 billion in 2015, Cash Market ADT fell below \$70 billion for the year. At \$66.9 billion, full-year 2016 ADT was down 37 per cent from 2015.

Trading in the derivatives market was strong, with a number of new records set in 2016. Total futures turnover reached 84,100,129 contracts, an increase of 14 per cent from 2015. Trading of various options, the open interest of various products and turnover in AHFT Sessions also rose to new record highs in 2016. Our strategy of transforming HKEX into a derivatives powerhouse across all asset classes is now a reality. Trading and clearing fees from derivatives products, including contracts traded on the LME, accounted for 60 per cent of the Group's total trading and clearing fee-based revenues in 2016.



<sup>1</sup> Includes transfers of listing from GEM to the Main Board in 2015 and 2016

## Business Development Review

### Enhancing the Competitiveness of Our Core Businesses

We continued our efforts in maintaining and enhancing the competitiveness of our primary listings market in 2016. To streamline decision-making processes on listing matters and enhance coordination between the SFC and the Exchange, SEHK issued a joint consultation with the SFC on “Proposed Enhancements to the Stock Exchange’s Decision-Making and Governance Structure for Listing Regulation” in June 2016. The consultation period ended on 18 November 2016 after a two-month extension. The SFC and HKEX are carefully considering and analysing all submissions. As part of our efforts to promote issuers’ self-compliance with the Listing Rules, SEHK published a series of Guidance Letters on major areas concerning market quality and listed issuers, and announced decisions on interpretations of the Listing Rules.

We successfully rolled out several major initiatives to improve the secondary market microstructure and enhance market efficiency in 2016:

- **Closing Auction Session** was launched on 25 July to facilitate trade execution at securities’ closing prices and has been operating smoothly.
- **Volatility Control Mechanism (VCM)** for the securities market was introduced on 22 August to prevent extreme price volatility arising from trading incidents. VCM for the derivatives market was rolled out on 16 January 2017. The mechanism has not been triggered to date.
- **Pre-Trade Risk Management System** for the derivatives market was introduced in April 2016 to help Participants manage pre-trade and in-house risk controls.
- **Consultation on the proposed revision to stock option position limits (SOPL)** was completed in June 2016 to align Hong Kong’s SOPL regime more closely with international practices and ensure the relevance of the individual position limits at HKEX in the long run.

Building on our historically strong cash and equity derivatives businesses, we further expanded our product suite to address investor demand. New equity products launched in 2016 include (i) seven Sectors Index Futures; (ii) Mini H-Shares Index options; and (iii) Leveraged and Inverse ETFs on Hong Kong and foreign indices.

### China Connectivity: Shenzhen Connect

The successful launch of Shenzhen Connect on 5 December 2016 took our mutual market access to a new horizon by opening up another Mainland market for international and Hong Kong investors. Shenzhen Connect links the secondary equity markets between Hong Kong, Shanghai and Shenzhen for the first time, creating an immense secondary equity market of RMB70 trillion when combined. Building on the solid foundation of Shanghai Connect, Shenzhen Connect proves the Connect programme is not only flexible and scalable, but also an important part of Hong Kong’s market infrastructure and HKEX’s strategy for the long term.

To further enrich the variety of traded products and provide more investment opportunities and convenience for domestic and overseas investors, we plan to include ETFs as eligible securities, subject to further discussion with our Mainland counterparts.

### Pursuing Growth in Our Commodities Business

Global commodities markets faced continuing challenges in 2016, reflected in a reduction in volumes. Total LME volumes of 156.5 million lots were recorded during the year, down 8 per cent from 2015. Trading in major base metals including LME Copper, Aluminium, Zinc, Tin and Lead declined across the board, with the exception of Nickel turnover which was flat compared to 2015. Year-end LME futures market open interest was at 2.2 million lots, down 4 per cent year-on-year.

Following a market-wide consultation, the LME concluded its three-year-long warehouse reform in 2016 by introducing transparent caps on maximum rates charged by registered warehouses. The first capped charges will come into effect on 1 April 2017.

As part of our efforts to explore new business opportunities and optimise market structure to support LME members, the LME implemented the following key initiatives and measures during 2016:

- **LMEshield:** To extend the LME's experience in secure warranting and improve confidence in global warehousing, LMEshield was launched in April for warehouse companies to issue and manage electronic receipts related to commodities stored off-warrant in about 20 jurisdictions across the globe.
- **LMEprecious:** In partnership with the World Gold Council and a group of leading industry players, the LME announced in August its plan to launch LMEprecious, an innovative new suite of exchange-traded, centrally-cleared precious metals products. LMEprecious will be launched in the first half of 2017, subject to regulatory approvals.
- **Market Structure Enhancements:** Following extensive discussions with LME members and the broader user base, the LME and LME Clear introduced a package of measures to strengthen metals trading in August. These measures include a rebalancing of member fees for short-dated carries, cap for position transfers, initial margin recalibration, as well as a review of incentive programmes. LME Clear also announced a reduction in charges for trade compression and a warrant as collateral service, which will be implemented in 2017.

An important new venture of our commodities strategy, the beginning of our establishment of a Mainland commodity trading platform in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, also began in 2016. We aim to leverage the successful model of the LME to develop a credible, transparent and reliable commodities trading venue backed by physical delivery and a warehouse system to support the Mainland's real economy. Preparatory work is underway.

### Transforming Our FIC Business

2016 also marked a new era of volatility in the RMB for both onshore and offshore markets. Under these evolving market conditions, HKEX embraced opportunities and took a major step forward in our FIC business development with a view to strengthening Hong Kong's leadership in introducing RMB products for the offshore market.

Our USD/CNH Currency Futures contract, a proven risk management tool, continued to lead the world with the best liquidity and distribution among exchanges. Open interest of USD/CNH Currency Futures was 45,635 contracts on 30 December 2016, twice the previous high of 23,887 contracts in 2014. To diversify our product offerings, we launched additional cash-settled RMB currency pairs against the Japanese yen, Euro, Australian dollar and CNH/USD dollar in May 2016. We started to offer margin offsets for USD/CNH and CNH/USD currency futures in July to help our participants reduce their margin costs. New RMB Currency Options will be launched in the first quarter of 2017 to complement our existing currency futures, enabling investors to execute more trading strategies.

In June 2016, we collaborated with Thomson Reuters in launching a series of RMB currency (RXY) indices which measure the intraday performance of the RMB against a basket of key currencies. We are also preparing to launch RMB Currency Index Futures in 2017 subject to market readiness.

OTC Clear achieved an important milestone during the year by becoming the first international clearing house to provide clearing for USD/CNH cross currency swaps. Going forward, we will further expand OTC Clear's offering to cover clearing for wider types of RMB-based FX products.

## Enhancing Platform Capabilities

To maintain our long-term growth and enhance our ability to tap new opportunities ahead, we have been undertaking projects to upgrade the core systems in our Hong Kong securities and derivatives markets. We are working on the Orion Trading Platform (OTP) in the securities market, which will replace the current securities trading system. We completed the system development phase in the fourth quarter of 2016 and the OTP is scheduled for launch in the fourth quarter of 2017. For the derivatives market, we completed the planning process for the Genium upgrade of existing derivatives trading and clearing platforms in 2016 to ensure stability and scalability.

We also released a revamped version of our Group website in 2016 by rebuilding the back-end infrastructure and content management system. We will launch our new market website in 2017 to provide detailed information on HKEX's Hong Kong market.

## Strategic Outlook – Mutual Market Access 2.0

The launch of Shenzhen Connect symbolises the beginning of Mutual Market Access 2.0. As outlined in the HKEX Strategic Plan 2016-18, we will continue to extend and deepen our value proposition against the backdrop of Mainland China's accelerating capital market internationalisation through entrenching the Connect model under the Mutual Market Access 2.0.

Apart from including ETFs, the exchanges and clearing houses on both sides are working closely with Mainland regulatory authorities to sort out the holiday arrangements and other trading enhancements under Shanghai Connect and Shenzhen Connect with a view to providing investors with greater market availability and convenience.

We are also setting our sights on growing the Connect model by expanding into other asset classes such as primary listings, commodities, bonds and more. By accomplishing these goals, we believe that HKEX can uniquely contribute to Hong Kong's development as China's offshore wealth management centre, risk management centre and global asset pricing centre.

## Appreciation

In closing, I would like to express my greatest appreciation to the HKEX Group staff. They have not only maintained smooth operation of our markets in 2016 but also made great progress and breakthroughs under our Strategic Plan 2016-18. I would also like to take this opportunity to thank the senior executives who left us in 2016 and Mr Garry Jones, who retired from his position as the Chief Executive of the LME in January 2017, for their contributions to the HKEX Group.

I must also thank our regulators in Hong Kong and other markets, especially the SFC, as well as our market participants and other stakeholders for their generous support, in particular over the course of implementing Shenzhen Connect.

Last but not least, I would like to thank my fellow members of the Board for their unconditional trust and guidance, without which we would not have achieved another milestone in a challenging year. I am confident that with our strong conviction and perseverance, we will continue to turn challenges into opportunities.

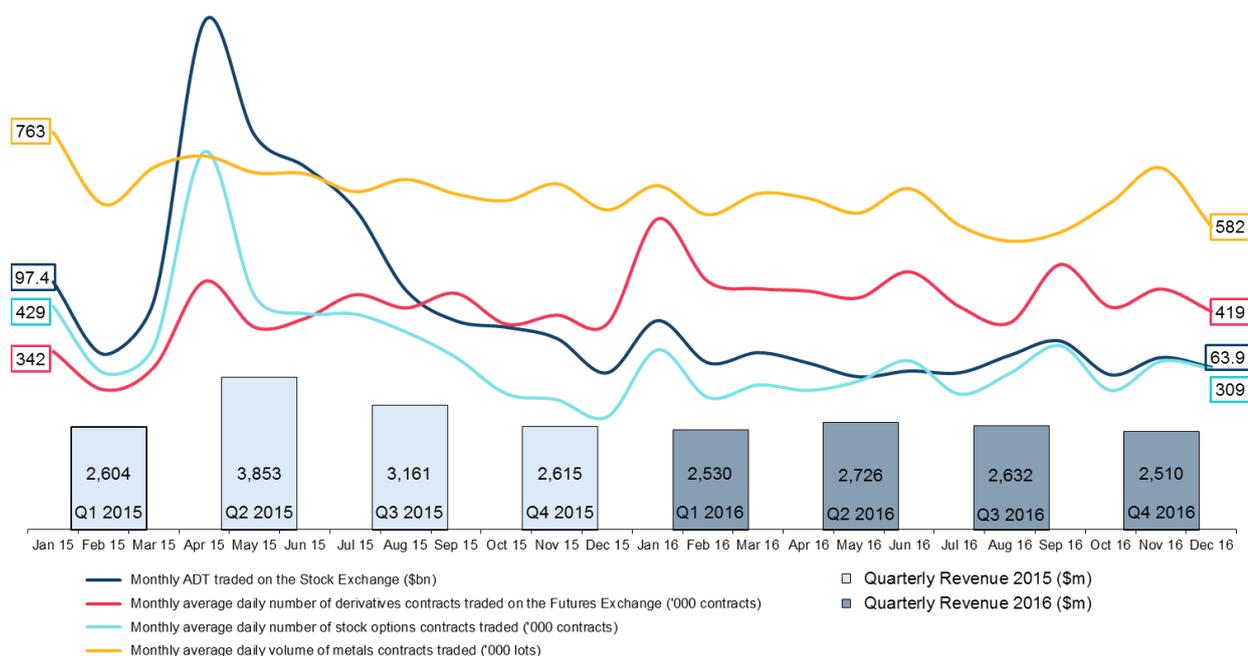
**LI Xiaojia, Charles**

Director and Chief Executive

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Overview



Market sentiment moderated in the last quarter of 2016, with headline ADT declining 6 per cent against the previous quarter to \$64.3 billion. The decline in trading and clearing income together with seasonal decreases in depository, custody and nominee services fees, led to Revenue<sup>1</sup> being 5 per cent lower than the previous quarter, but in line with the first quarter.

Overall revenue and other income for 2016 dropped by 17 per cent (\$2,259 million) compared to the prior year or 14 per cent after adjusting for the one-off items, totalling \$514 million<sup>2</sup>, which arose in 2015. Notwithstanding this decline against the prior year, Revenue<sup>1</sup> held up well when compared to the difficult market conditions experienced during the year: the headline Cash Market ADT declined by 37 per cent against the record high of \$105.6 billion in 2015 and trading volumes in both the commodities and stock options markets also declined. The more modest decline in overall Revenue<sup>1</sup> was largely attributable to an increase in trading on HKFE where growing derivatives income has further reduced the Group's exposure to volatility in the Cash Market. Overall HKFE volumes were up 18 per cent over 2015, with growth concentrated in higher fee products, in particular Hang Seng Index products. As a consequence, HKFE trading fees increased by 31 per cent<sup>3</sup>.

Gross operating expenses rose by 5 per cent compared to 2015 or by 3 per cent after adjusting for a one-off recovery of \$77 million received from Lehman's liquidators in 2015. This growth in operating expenses was lower than previously anticipated and arose from continuing investment in strategic initiatives (most notably the development of a commodities trading platform in the Mainland) partially offset by expenditure control measures that were introduced during the year. The Group's capital expenditure for the year was also lower than previously anticipated as less critical projects have been deferred. In response to the persistence of uncertain market conditions, the Group will continue to adopt a prudent approach to expenditure control.

1 Excludes net investment income, gain on disposal of a leasehold property and sundry income

2 One-off items in 2015: gain on sale of Worldwide House property \$445 million, gain on sale of shares in LCH \$31 million, and post liquidation interest received from Lehman's liquidators \$38 million

3 Before any allocation of fees to the Clearing segment

## Cash Segment

### Key Market Indicators

	2016	2015	Change
ADT of equity products traded on the Stock Exchange <sup>1,2</sup> (\$bn)	50.2	79.9	(37%)
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect <sup>2</sup> (RMBbn)	3.2	6.4	(50%)
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect <sup>2</sup> (RMBbn)	1.5	-	N/A
Average daily number of trades of equity products traded on the Stock Exchange <sup>1,2</sup>	895,170	1,197,332	(25%)
Number of newly listed companies on Main Board <sup>3</sup>	81	104	(22%)
Number of newly listed companies on GEM	45	34	32%
Number of companies listed on Main Board at 31 Dec	1,713	1,644	4%
Number of companies listed on GEM at 31 Dec	260	222	17%
Total	1,973	1,866	6%
Market capitalisation of companies listed on Main Board at 31 Dec (\$bn)	24,450	24,426	0%
Market capitalisation of companies listed on GEM at 31 Dec (\$bn)	311	258	21%

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes Southbound Trading ADT of \$3.6 billion (2015: \$3.4 billion) under Shanghai-Hong Kong Stock Connect and \$0.5 billion (2015: \$Nil) under Shenzhen-Hong Kong Stock Connect

2 Includes buy and sell trades under Stock Connects. Shenzhen-Hong Kong Stock Connect was launched on 5 December 2016.

3 Includes 6 transfers from GEM (2015: 14)

	2016 \$bn	2015 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	190.7	260.3	(27%)
– Post-IPO	280.5	833.2	(66%)
Total equity funds raised on GEM			
– IPOs	4.6	2.8	64%
– Post-IPO	14.3	19.3	(26%)
Total	490.1	1,115.6	(56%)

## Analysis of Results

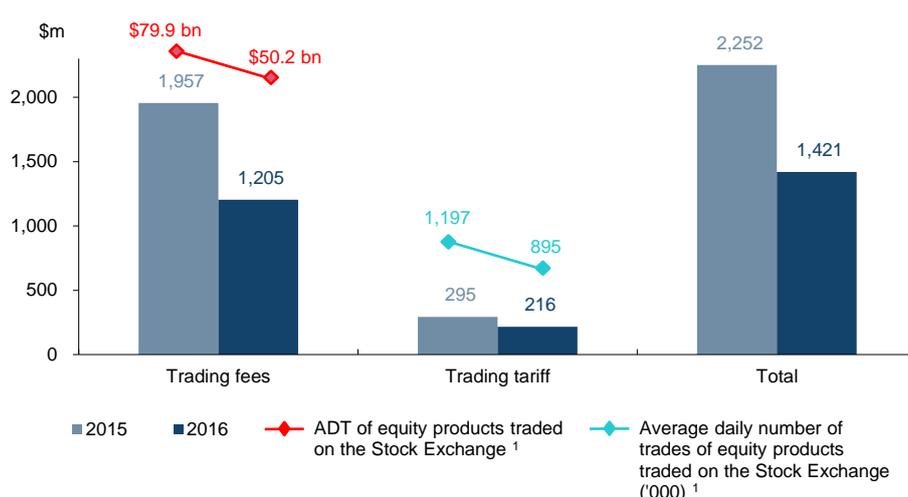
### Summary

	2016 \$m	2015 \$m	Change
Trading fees and trading tariff <sup>1</sup>	1,421	2,252	(37%)
Stock Exchange listing fees <sup>1</sup>	770	703	10%
Market data fees <sup>1</sup>	422	420	0%
Other revenue and sundry income	70	60	17%
Total revenue and other income	2,683	3,435	(22%)
Operating expenses <sup>2</sup>	(544)	(531)	2%
EBITDA	2,139	2,904	(26%)
EBITDA margin	80%	85%	(5%)

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

2 Includes Listing Division costs relating to equity products traded on the Stock Exchange

## Trading Fees and Trading Tariff

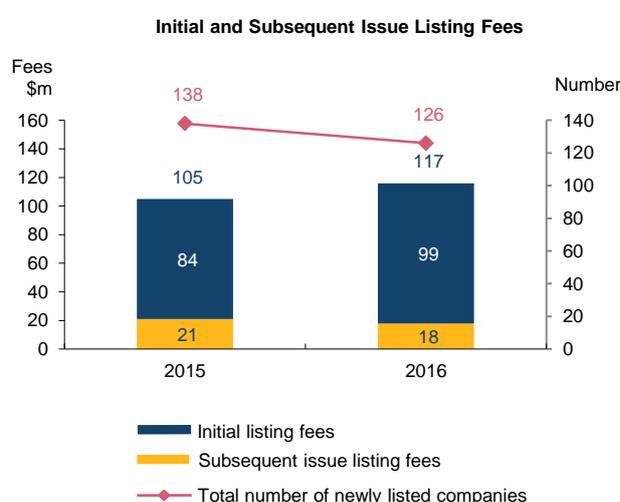
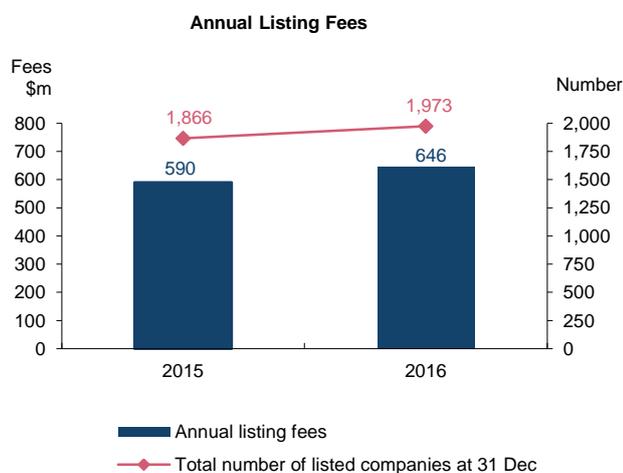


Trading fees and trading tariff dropped by \$831 million or 37 per cent, in line with the 37 per cent fall in ADT of equity products.

<sup>1</sup> Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

## Stock Exchange Listing Fees

	2016 \$m	2015 \$m	Change
Annual listing fees	646	590	9%
Initial and subsequent issue listing fees	117	105	11%
Others	7	8	(13%)
<b>Total</b>	<b>770</b>	<b>703</b>	<b>10%</b>



Annual listing fees increased with the rise in the total number of listed companies. The 9 per cent increase in annual listing fees exceeded the 6 per cent increase in the number of listed companies due to the full year impact of the annual listing fees of companies listed in 2015.

Despite a decrease in the number of newly listed companies and the total IPO funds raised, initial and subsequent issue listing fees increased due to forfeited fees from a higher number of withdrawn or lapsed IPO applications not listed within six months of application.

## EBITDA

Operating expenses increased by \$13 million or 2 per cent due to higher costs incurred for strategic initiatives including Shenzhen-Hong Kong Stock Connect. The decline in EBITDA margin from 85 per cent to 80 per cent reflects the decline in trading fees and trading tariff.

## **Business Update**

Market sentiment moderated in the last quarter of 2016 with headline ADT declining 6 per cent against the prior quarter despite the successful launch of Shenzhen-Hong Kong Stock Connect during the period. For the full year, headline ADT (\$66.9 billion) dropped by 37 per cent as compared to the record-high headline ADT achieved during 2015 (\$105.6 billion). Notwithstanding these subdued volumes, HKEX admitted a record number (46) of new EPs to the Cash Market, with the current number of EPs reaching a historical high of 556, indicating continued optimism in the Hong Kong market.

### **Stock Connects**

2016 marked a major milestone in development of Stock Connects, as significant progress was made in scope extension, model enhancement and market promotion.

Following the smooth operation of Shanghai-Hong Kong Stock Connect since its launch in November 2014, the aggregate quota was abolished on 16 August 2016. Abolishing the quota resolved market concerns about reaching sell-only limits once the aggregate quota was reached and strengthened investor confidence that they can trade freely under Stock Connects.

With the launch of Shenzhen-Hong Kong Stock Connect on 5 December 2016, the scope of eligible securities under the mutual market access scheme was expanded to cover the constituents of Hang Seng Composite Small Cap Index with a market capitalisation of not less than \$5 billion for Southbound trading and SZSE Component and SZSE Small/Mid Cap Innovation Indices with a market capitalisation of not less than RMB6 billion for Northbound trading, as well as the A shares and H shares dually traded both on SZSE and the Stock Exchange. This provides Hong Kong and international investors with access to more A-share stocks and more sectors, such as technology and healthcare companies, listed on SZSE. In total, 881 new A-share stocks were added to Stock Connects at the time of launch. Given that Stock Connects are scalable, further products and asset classes (such as ETFs) and further model enhancement (such as holidays arrangement) will be introduced over time.

To promote Stock Connects, HKEX participated in over 200 seminars and training workshops across major Mainland and international cities including Beijing, Shanghai, Shenzhen, London, Edinburgh, Paris, Frankfurt, New York, Boston, San Francisco and Toronto. Some of these promotional initiatives were conducted together with SZSE and ChinaClear. To deepen investors' understanding of HKEX's markets, a series of training and promotional activities (including simulation games) was held to dovetail with the launch of Shenzhen-Hong Kong Stock Connect, which drew considerable interest from Mainland investors.

HKEX has enhanced its surveillance systems to support cooperation with SZSE and facilitate monitoring of trading activities following the launch of Shenzhen-Hong Kong Stock Connect.

### **Issuer Businesses**

In promoting HKEX as a preferred listing venue for international enterprises, HKEX conducted 27 seminars and completed 10 overseas marketing trips during the year. HKEX also organised over 30 IPO seminars and made presentation at approximately 70 seminars across 23 provinces and cities across Mainland China, explaining the benefits of the Hong Kong as a listing venue.

### **ETF Market Development**

Following regulatory approval, HKEX achieved an important milestone in the development of the ETF market by welcoming its first listings of Leveraged and Inverse Products (commonly known as Leveraged and/or Inverse ETFs) on foreign underlying indices. After a series of subsequent successful product launches and their smooth operation, the SFC announced on 23 December 2016 that the scope of eligible underlying indices would be expanded to include Hong Kong equity indices.

## Market Data Business

The Mainland Market Data business continues to grow and as of 31 December 2016, there were 59 real-time Mainland information vendors. Among these information vendors, 21 are Mainland brokers who have participated in the Fixed Fee Programme on Southbound eligible stocks. HKEX has also launched a One-Off Six-Month Programme and provided subscriber fee discounts for Mainland investors to facilitate the increased visibility and penetration of Hong Kong securities market data in the Mainland.

In addition to the annual market data conference in Shanghai, HKEX held a joint market data seminar with SZSE to support the launch of Shenzhen-Hong Kong Stock Connect and introduce Mainland brokers to the latest market data promotion offers.

## Closing Auction Session and Volatility Control Mechanism

Phase One of the Closing Auction Session, which facilitates trade execution at securities' closing prices, was successfully implemented on 25 July 2016 for selected securities and has been operating smoothly. The Volatility Control Mechanism for the Cash Market, which safeguards the securities market from abnormal price fluctuations, was also successfully rolled out on 22 August 2016 with no triggering of the mechanism to date.

## Promotional Activities

HKEX has provided a university training programme to 16 universities in 14 cities across Mainland China and Hong Kong since April 2016, educating over 4,000 students and junior staff on aspects of the financial industry. In addition to promoting the brand of HKEX, the training also serves as an information exchange platform for attendees in both Mainland China and Hong Kong to gain a better understanding of international capital markets and HKEX's products.

## Listing Regulation

In June 2016, the Stock Exchange jointly issued a consultation with the SFC on "Proposed Enhancements to the Stock Exchange's Decision-Making and Governance Structure for Listing Regulation". The consultation period ended on 18 November 2016. The SFC and the Stock Exchange are reviewing and analysing the responses to the consultation. Details of the joint consultation and other main policy issues arising in 2016 as well as the proposals under review in 2017 will be set out in the 2016 Listing Committee Report.

### **Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules**

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- Issued series of (i) guidance letters on major areas concerning market quality and listed issuers, including bonus issues of shares, issuers subject to market commentaries or rumours, issues related to "controlling shareholder" and related Listing Rules implications and suitability of listing for companies that exhibit "shell" characteristics; and (ii) listing decisions on interpretation of the Listing Rules, including highly dilutive offers, share consolidations/subdivisions and eligibility and suitability requirements for new listings
  - Issued a joint statement with the SFC regarding the price volatility of stocks listed on GEM as an initial step to address some of the current concerns with GEM IPO placings
  - Published reports on the Stock Exchange's review of disclosure in issuers' annual reports and key observations under the financial statements review programme, and provided guidance and recommendations to issuers to promote transparency and high quality disclosures
  - Published reports on the findings of the Stock Exchange's latest reviews of listed issuers' corporate governance practices in March year-end 2015 and June year-end 2015 annual reports to provide a more holistic view of issuers' overall compliance with the Corporate Governance Code and Corporate Governance Report
  - Published a "Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications" to encourage production of a succinct listing document that is user friendly for investors and organised three seminars to help sponsors and market practitioners better understand and apply the Guide
  - Enhanced ESG webpage on the HKEX Market website and organised a series of 12 issuer seminars to facilitate issuers' compliance with the revised ESG Reporting Guide
  - Initiated a training programme for company directors in 2017 that will cover a broad range of topics aimed at improving the quality of directors and effectiveness of boards
  - Published a revised Enforcement Policy Statement to reflect current enforcement practice
-

## IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

### Stock Exchange's IPO Work

	2016	2015
• Number of listing applications vetted <sup>1</sup>	349	256
• Number of applications brought to the Listing Committees (or their delegates) for decisions <sup>2</sup>	154	149
– within 120 calendar days	82	104
– between 121 to 180 calendar days	43	26
– after more than 180 calendar days	29	19
• Number of applications for which approval was granted in principle <sup>3</sup>	181	151
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	159	170
– Average response time (in business days)	8	6
• Number of listing applications for transfer of listing from GEM to Main Board accepted	12	18
• Applications listed <sup>4</sup>	163	156
• New listing applications rejected <sup>5</sup>	13	9
• New listing applications withdrawn	4	9
• New listing applications returned	7	3
• Application in process at year-end	102	74

1 Comprises 275 (2015: 217) new applications and 74 (2015: 39) existing applications brought forward from previous year

2 Refers to listing applications heard by the Listing Committees (or their delegates) for the first time and excludes Chapter 20 listing applications

3 At the end of 2016, 20 (2015: 14) approved applications had not yet been listed, and 12 (2015: 1) approved application had lapsed during the year.

4 Includes 37 investment vehicles listed on Main Board and deemed new listings (2015: 18)

5 In 2016, 1 rejection decision (2015: 1) was subsequently reversed by the Listing Committee upon review.

### Number of Compliance and Monitoring Actions

	2016	2015
• Announcements of issuers vetted	55,946	54,688
• Circulars of issuers vetted	2,214	2,085
• Share price and trading volume monitoring actions undertaken <sup>1</sup>	6,279	13,757
• Complaints handled	493	558
• Cases (including complaints) referred to Listing Enforcement Team for investigation	35	26

1 In 2016, monitoring actions undertaken included 515 enquiries (2015: 1,931) on unusual share price and trading volume movements, and the actions undertaken led to 24 resumption announcements (2015: 182) on trading suspensions. The number of monitoring actions was unusually high in 2015 due to a period of exceptionally high trading volume and share price volatility in the Hong Kong securities markets.

### Long Suspension

Status of Long Suspended Companies (at year-end)	Main Board		GEM	
	2016	2015	2016	2015
Resumption of trading of securities during the year	15	25	5	3
Cancellation/withdrawal of listing during the year	2	1	1	2
Companies in the third stage of delisting	11	2	N/A	N/A
Companies notified of the Stock Exchange's intention to cancel their listing <sup>1</sup>	1	1	0	3
Companies suspended for three months or more	53	51	3	7

1 For GEM, the figures represent companies who had failed to maintain sufficient operations or assets to warrant their continued listing. In these cases, the Stock Exchange had notified the companies of its intention to cancel the companies' listing and place them in a one-stage delisting procedure (as compared to three stages for Main Board).

## Listing Enforcement

Since 2014 the Stock Exchange has been adopting a themed approach to enforcement activity. Following a review by the Listing Committee in 2016, the focus for investigation and enforcement activity has been modified from five to seven themes. Details will be set out in the 2016 Listing Committee Report. The dedicated “Enforcement” section on the HKEX Market website continues to provide updated enforcement related information and statistics to enhance the transparency of the Stock Exchange’s Listing Rule enforcement work.

### Enforcement Statistics

	2016	2015
Investigations <sup>1</sup>	71 <sup>2,3</sup>	52
Public censures <sup>4</sup>	7	5
Public statements/criticisms <sup>4</sup>	1	1
Warning/caution letters <sup>5</sup>	15	5

1 Figures cover cases concluded during the year, and cases which remained active at year-end.

2 There were 32 outstanding investigations (all of which commenced in 2016) at the end of 2016 as compared to 22 outstanding investigations (82 per cent of which commenced in 2015) at the end of 2015.

3 In 2016, 3 cases (2015: 2) originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings after investigation.

4 Figures represent only the primary regulatory action from a disciplinary matter. They exclude any other actions taken at a lower level, eg, private reprimand, in the same case.

5 The warning and caution letters were primarily delivered in circumstances where action before the Listing Committees was not considered appropriate.

### Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments based on the listing fee income of the two segments.

## Equity and Financial Derivatives Segment

### Key Market Indicators

	2016	2015	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	16.7	25.7	(35%)
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	185,850	242,948	(24%)
Average daily number of derivatives contracts traded on the Futures Exchange <sup>1</sup>	463,722	393,948	18%
Average daily number of stock options contracts traded on the Stock Exchange	297,903	374,346	(20%)
Number of newly listed DWs	4,875	6,336	(23%)
Number of newly listed CBBCs	8,896	11,213	(21%)
Average daily number of contracts traded during AHFT <sup>1</sup>	37,833	21,555	76%
	At 31 Dec 2016	At 31 Dec 2015	Change
Open interest of futures and options <sup>1</sup>	9,296,057	7,266,630	28%

1 Excludes London Metal Mini Futures contracts included under the Commodities segment

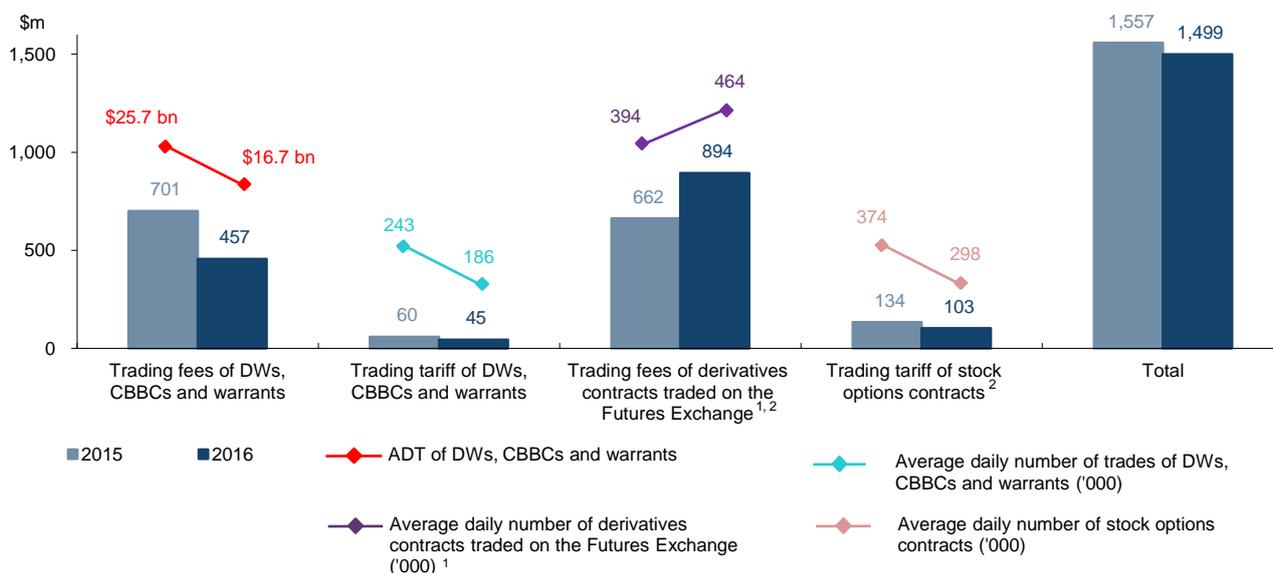
## Analysis of Results

### Summary

	2016 \$m	2015 \$m	Change
Trading fees and trading tariff	1,499	1,557	(4%)
Stock Exchange listing fees	322	411	(22%)
Market data fees	204	206	(1%)
Other revenue and sundry income	9	5	80%
Total revenue and other income	2,034	2,179	(7%)
Operating expenses <sup>1</sup>	(441)	(446)	(1%)
EBITDA	1,593	1,733	(8%)
EBITDA margin	78%	80%	(2%)

<sup>1</sup> Includes Listing Division costs related to DWs, CBBCs and warrants traded on the Stock Exchange

### Trading Fees and Trading Tariff



<sup>1</sup> Excludes London Metal Mini Futures contracts (which are included under the Commodities segment)

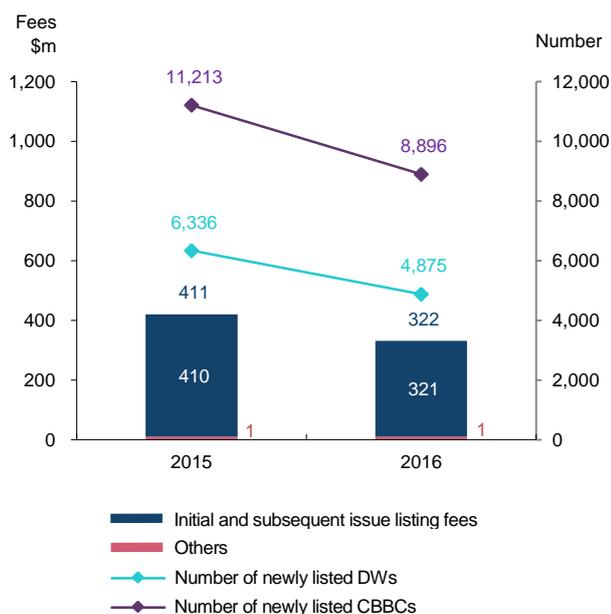
<sup>2</sup> Excludes trading fees and trading tariff allocated to the Clearing segment (Derivatives contracts traded on the Futures Exchange – 2016: \$229 million; 2015: \$195 million; stock options contracts – 2016: \$49 million; 2015: \$61 million)

Trading fees and trading tariff for the segment are generated from trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariff for the futures and options contracts is allocated to the Clearing segment (see Clearing Segment below) as the trading and clearing fees of these products are bundled together in the form of trading fees and tariff.

Trading fees and trading tariff from trading of DWs, CBBCs and warrants declined by \$259 million or 34 per cent due to the 35 per cent drop in trading volume.

Gross trading fees from futures and options traded on the Futures Exchange, before allocation of a share of fees to the Clearing segment, rose by 31 per cent. However, as shown above, the fees remaining in the Equity and Financial Derivatives segment rose by \$232 million or 35 per cent. This increase was higher than the 18 per cent increase in average daily number of contracts traded, as a higher proportion of derivatives contracts traded in 2016 related to higher fee products including Hang Seng Index Futures.

## Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees dropped by \$89 million or 22 per cent, reflecting a decrease in the number of newly listed DWs and CBBCs.

## EBITDA

Operating expenses dropped by \$5 million or 1 per cent principally due to lower staff costs, including reduced variable pay, partly offset by higher index license fees from the increased trading volume of derivatives contracts. As the percentage drop in revenue and other income was higher than that of operating expenses, the EBITDA margin reduced from 80 per cent to 78 per cent.

## Business Update

HKEX surpassed various records for trading volume and open interest in its Derivatives Market in 2016 and was also named the Best Derivatives Exchange in the Asia-Pacific Structured Products & Derivatives Awards event.

## New Record Highs – Full Year Trading Volume

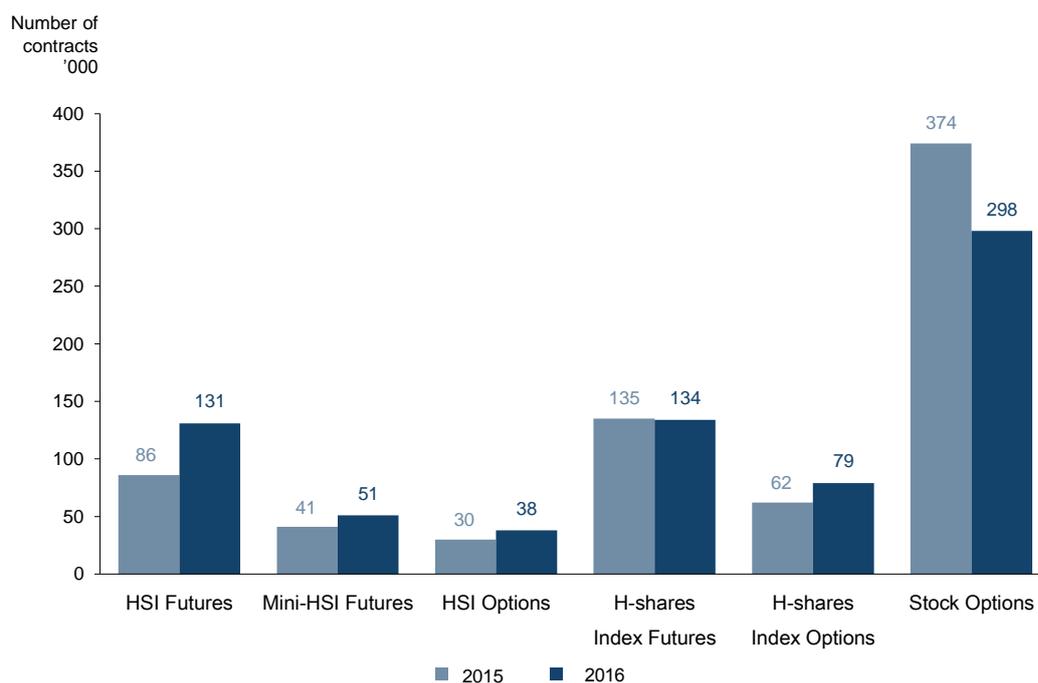
	2016 Number of contracts	Pre-2016 record Number of contracts
Total futures <sup>1</sup>	<b>84,070,958</b>	73,406,459 (2015)
Hang Seng Index Futures	<b>32,313,994</b>	23,085,833 (2011)
Mini Hang Seng Index Futures	<b>12,477,552</b>	10,294,537 (2011)
HSCEI Dividend Point Index Futures	<b>589,188</b>	240,572 (2014)
USD/CNH Futures	<b>538,594</b>	262,433 (2015)
Mini Hang Seng Index Options	<b>1,424,379</b>	1,230,997 (2012)
H-shares Index Options	<b>19,475,726</b>	15,304,215 (2015)
AHFT <sup>1</sup>	<b>9,193,402</b>	5,237,882 (2015)

<sup>1</sup> Excludes London Metal Mini Futures contracts included under the Commodities segment

## New Record Highs - Single Day Trading Volume and Open Interest

	Single Day Trading Volume		Open Interest	
	Date (2016)	Number of contracts	Date (2016)	Number of contracts
Hang Seng Index Futures	27 Sep	316,855	–	–
Mini Hang Seng Index Futures	24 Jun	141,519	–	–
HSCEI Dividend Point Index Futures	7 Jan	25,553	13 Dec	184,626
Mini Hang Seng Index Options	9 Nov	17,771	–	–
H-shares Index Options	–	–	28 Dec	3,276,956
Mini H-shares Index Options	9 Nov	7,404	28 Nov	16,714
USD/CNH Futures	–	–	30 Dec	45,635

## Average Daily Volume of Major Futures and Options Contracts



## Futures and Options Market Development

HKEX launched an array of equity index derivatives products in 2016, including seven Sector Index Futures on 9 May that facilitate client hedging needs relating to specific sectors; and Mini H-shares Index Options on 5 September in response to retail trading interest.

On 1 November 2016, HKEX introduced a fourth calendar expiry month contract for Hang Seng Index Options and H-shares Index Options to facilitate trading close to three-month maturity. Enhancements were also made to the index options and stock options markets including revisions to the market making obligations of market makers designed to improve price transparency.

## RMB Currency Futures and Options Market Development

HKEX's USD/CNH Futures contract maintained its leading position, for both liquidity and distribution, amongst all global exchanges. The average daily volume and open interest increased by 105 per cent and 98 per cent respectively compared with the previous year.

On 30 May 2016, HKEX launched four cash-settled RMB currency futures against the Euro, Japanese yen, Australian dollar, and US dollar. On 23 June, HKEX and Thomson Reuters launched a series of RMB currency (RXY) indices, offering independent, transparent and timely benchmarks for the RMB against the currencies of a number of Mainland China's significant trade partners.

HKEX plans to introduce new USD/CNH currency options in the first quarter of 2017, which will provide more flexible trading and hedging strategies for RMB. This is part of HKEX's efforts to provide a full range of RMB-related derivatives in the FIC space.

### **Other FIC Development**

On 24 May 2016, HKEX hosted its third annual RMB Fixed Income and Currency Conference. Over 650 industry experts and business leaders gathered to discuss RMB-related trends, product and market development.

### **Stock Option Position Limits**

A market consultation on the proposed revisions to stock option position limits (SOPL) was completed with consultation conclusions issued in June 2016. The proposed model aligns Hong Kong's SOPL regime more closely with international practice and was well received by a broad spectrum of market participants. On 20 September 2016, the SFC published a consultation paper on proposed enhancements to the position limit regime, consulting the market on hedge exemptions for the Derivatives Market. The consultation paper facilitates the implementation of HKEX's proposed revisions to the SOPL model.

### **Pre-Trade Risk Management System**

The Pre-Trade Risk Management System for the Derivatives Market was launched on 11 April 2016. The system offers tools to help Participants in meeting their needs for pre-trade controls while complementing their in-house risk controls.

### **Volatility Control Mechanism**

The Volatility Control Mechanism for the Derivatives Market, which safeguards the Derivatives Market from abnormal price fluctuations, similar to that implemented in the Cash Market, was successfully rolled out on 16 January 2017.

### **SMARTS Derivatives Surveillance Systems**

HKEX launched a new market surveillance platform for the Derivatives Market, SMARTS Derivatives Surveillance Systems, on 1 August 2016. The new platform complements the existing surveillance systems in the Cash Market, and enhances real-time monitoring and cross-market surveillance capabilities, as well as facilitating the rollout of new products and trading microstructures.

### **Other Service Enhancements**

HKEX introduced the electronic submission of Large Open Position Reports for Futures and Stock Options during the year.

## Commodities Segment

### Key Market Indicators

	2016	2015	Change
Average daily volume of metals contracts traded on the LME (lots)			
Aluminium	221,671	247,198	(10%)
Copper	153,121	162,247	(6%)
Zinc	111,161	118,723	(6%)
Nickel	81,779	81,817	(0%)
Lead	43,227	51,271	(16%)
Others	7,668	8,933	(14%)
	<b>618,627</b>	670,189	(8%)

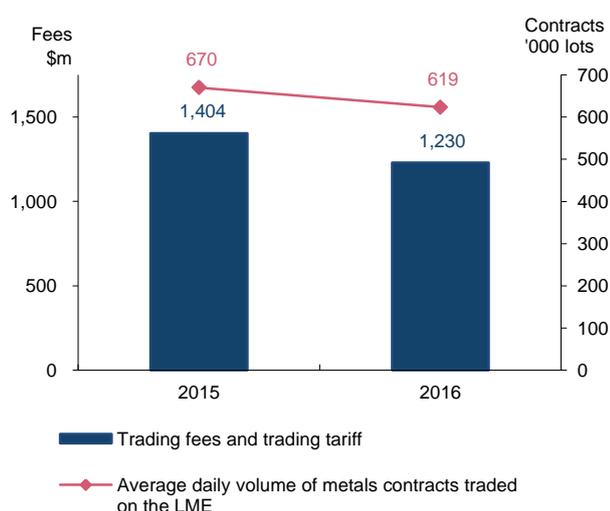
	At 31 Dec 2016	At 31 Dec 2015	Change
Total futures Market Open Interest (lots)	2,212,501	2,314,219	(4%)

### Analysis of Results

#### Summary

	2016 \$m	2015 \$m	Change
Trading fees and trading tariff	1,230	1,404	(12%)
Market data fees	190	177	7%
Other revenue:			
Commodities stock levies and warehouse listing fees	87	102	(15%)
Others	53	52	2%
Total revenue	1,560	1,735	(10%)
Operating expenses	(597)	(546)	9%
EBITDA	963	1,189	(19%)
EBITDA margin	62%	69%	(7%)

#### Trading Fees and Trading Tariff



Trading fees fell by \$174 million or 12 per cent due to an 8 per cent drop in the average daily volume of metals contracts traded, increased market-making incentive rebates, new member incentive rebates introduced in the third quarter of 2015 and fee reductions for short-dated carry trades effective from September 2016.

## EBITDA

Operating expenses rose by \$51 million or 9 per cent. The increase was principally attributable to increased headcount for strategic initiatives (including product development and the establishment of a commodities trading platform in the Mainland), higher premises costs for new offices in London and the Mainland and also higher legal and professional fees incurred on strategic projects. The increase was partly offset by savings on IT costs and savings on LME operating costs arising from a weaker GBP. As a result of the drop in revenue and the increase in operating expenses, EBITDA margin dropped from 69 per cent in 2015 to 62 per cent in 2016.

## Business Update

### LME

2016 saw a continuation of 2015's challenging market conditions, with a consequent reduction in volumes. In 2016, the average daily volume was 618,627 lots, representing a decrease of 8 per cent compared to the previous year. However, LME ferrous cash-settled contracts gained traction in 2016, following their launch in November 2015, and LME Steel Scrap won the Futures and Options World award for the most innovative new contract in the commodities and energy sectors.

In April 2016 the LME launched LMEshield, a global electronic receipting service for commodities designed to reduce the risks around commodity financing and underpinned by the LME's experience of overseeing a global metals warehousing network. In October 2016, the LME announced a pilot scheme for LMEshield in China, in partnership with Henry Bath & Son Ltd (jointly owned by CMST Development Co Ltd (a Chinese State-Owned Enterprise) and Mercuria Energy Trading). More information can be found at: [www.lme.com/trading/venues-and-systems/systems/lmeshield/](http://www.lme.com/trading/venues-and-systems/systems/lmeshield/).

2016 saw the LME draw its warehouse reform programme, initiated in July 2013, to a conclusion. The LME introduced a rule to increase the daily rate at which warehouses load out metal on 1 March, and a cap on the rents applicable to metal waiting in queues to be loaded out on 1 May. In response to high annual increases of headline rates charged by LME-listed warehouses, the LME initiated a market-wide discussion and subsequent consultation, on the topic. Following this consultation the LME announced its intention to introduce a charge cap – a limit on the maximum headline charges applied by warehouse operators – and published a set of caps on maximum rates. These will come into effect on 1 April 2017.

In August 2016, the LME announced its plans for LMEprecious, a new initiative created in partnership with the World Gold Council and a group of leading industry players. LMEprecious opens up trading opportunities for existing LME members and their clients, as well as for new participants wishing to take advantage of on-exchange precious metals trading that will be cleared through a recognised clearing house, LME Clear.

Also in August 2016, following market engagement, the LME announced a package of measures to support LME members and develop the market as a whole. These covered, amongst other things, a fee reduction on member short-dated carry trades, a cap on the cost of member and client position transfers, and a review of the LME's suite of incentive programmes to ensure these continue to support the market to the benefit of all stakeholders.

Trading fees remain unchanged in 2017, including the continuation of fee discounts for short-dated carries and position transfer caps as announced in August 2016. The LME has also introduced a waiver for the base metals usage licence fee for physical market participants, which came into effect on 1 January 2017.

In January 2016, the LME and LME Clear moved into new offices at 10 Finsbury Square, combining the three separate offices on Leadenhall Street. Ring trading began at the new offices shortly after, and the office was formally opened by President Bachelet of Chile in May 2016. On 17 July 2016 the LME and LME Clear invoked their business continuity plan following the discovery of structural defects at the new premises in the non-LME areas of the building. The business operated successfully from its back-up trading venues for seven weeks, before returning to Finsbury Square on 5 September 2016.

## Promotional Activities

The annual “LME Asia Week 2016” was held on 14 June 2016 in Hong Kong. The Metals Seminar attracted nearly 800 attendees and the Gala Dinner with over 1,700 guests, was the largest ever since the inception of the LME Asia Week, in 2013. During the week, HKEX also organised the “Investment in Metals Forum”, “Precious Metals and Base Metals Workshop” as well as two educational briefing sessions. In addition, HKEX and the China Futures Association jointly organised the third training programme for senior executives from the top 20 Mainland futures brokers.

To enhance market awareness and attract Mainland investors to trade both HKEX and LME products, HKEX and the LME sponsored the third global derivatives trading competition from 1 April to 30 September 2016 and HKEX derivatives trading competition from 21 November 2016 to 30 March 2017. Both competitions were organised by the China Futures Daily and have attracted 40 international brokers to participate. HKEX also sponsored the first ever gold futures simulation game featuring HKEX’s proposed new gold futures contracts (pending the SFC’s approval). Approximately 1,300 people joined the game and more than 7 million lots were traded from 1 November 2016 to 27 January 2017.

HKEX also spoke at over 100 events, including EP briefings, public conferences, brokers’ seminars, webinars and educational training, in Mainland, Hong Kong and Taiwan to enhance market awareness and attract investors to our markets.

## Clearing Segment

### Key Market Indicators

	2016	2015	Change
ADT on the Stock Exchange (\$bn)	<b>66.9</b>	105.6	(37%)
Average daily number of Stock Exchange trades	<b>1,081,020</b>	1,440,280	(25%)
Average value per trade (\$)	<b>61,908</b>	73,340	(16%)
Average daily value of Settlement Instructions (SIs) settled by CCASS (\$bn)	<b>181.9</b>	254.7	(29%)
Average daily number of SIs	<b>83,194</b>	101,029	(18%)
Average value per SI (\$)	<b>2,186,693</b>	2,520,752	(13%)

## Analysis of Results

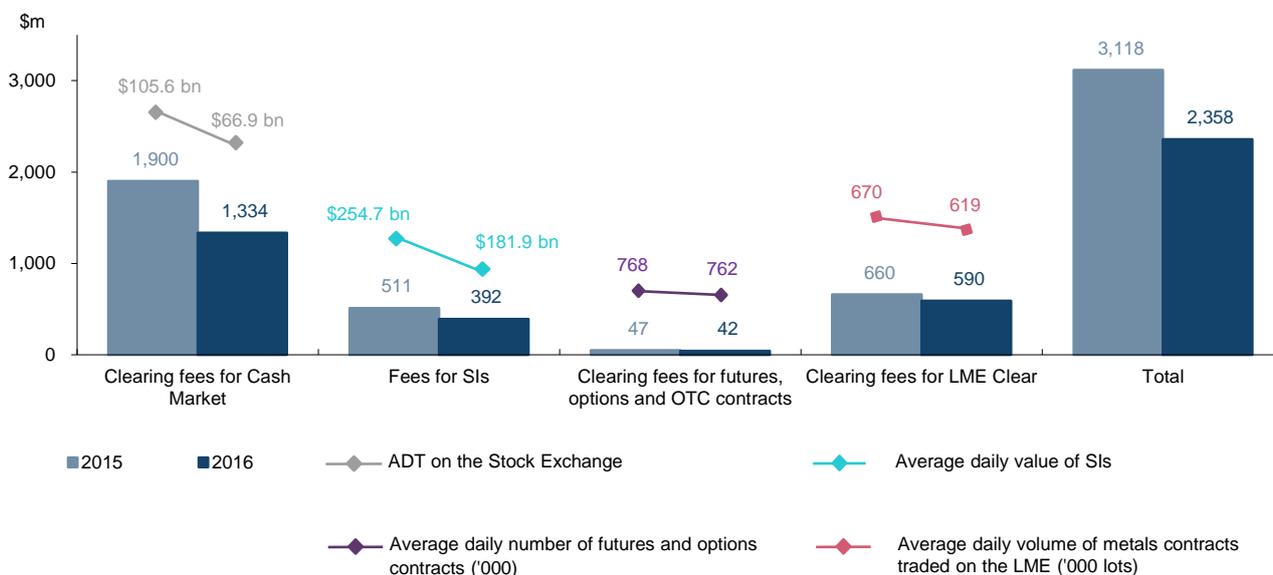
### Summary

	2016 \$m	2015 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	278	256	9%
Clearing and settlement fees	2,358	3,118	(24%)
Depository, custody and nominee services fees	857	867	(1%)
Other revenue and sundry income	98	157	(38%)
	<b>3,591</b>	4,398	(18%)
Net investment income	547	604	(9%)
Total revenue and other income	4,138	5,002	(17%)
Operating expenses	(702)	(692)	1%
EBITDA	3,436	4,310	(20%)
EBITDA margin	83%	86%	(3%)

### Trading Fees and Trading Tariff

Trading fees and trading tariff allocated for clearing derivatives products rose due to an 18 per cent increase in average daily number of derivatives contracts traded on the Futures Exchange, but was partly offset by a 20 per cent drop in volume of stock options traded (see commentary for the Equity and Financial Derivatives segment above).

### Clearing and Settlement Fees



Clearing and settlement fees for the Hong Kong Cash Market and for SIs decreased by 30 per cent and 23 per cent respectively. The decrease was lower than the 37 per cent decrease in ADT on the Stock Exchange and the 29 per cent fall in average daily value of SIs due to the decrease in average transaction size that resulted in more Cash Market trades being subject to the minimum clearing fee and fewer SI transactions being subject to the maximum fee.

Clearing fees for LME Clear declined by \$70 million or 11 per cent as a result of the 8 per cent drop in average daily volume of metals contracts traded on the LME and the effect of incentive rebates introduced since the third quarter of 2015.

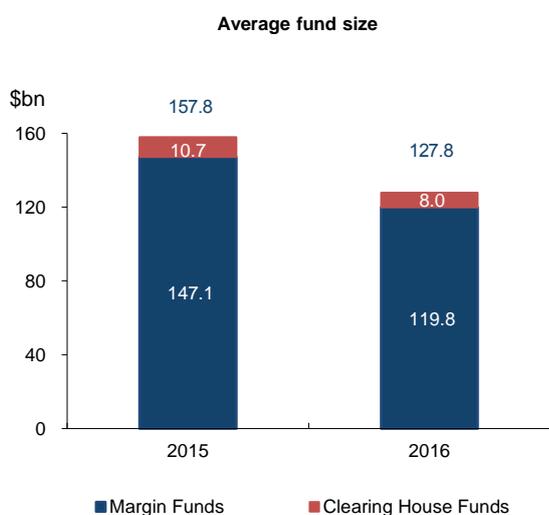
## Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees are not directly impacted by changes in market activity. They dropped by \$10 million or 1 per cent due to lower scrip and corporate action fees, but this was partly offset by higher stock withdrawal fees. The decrease in scrip fees was attributable to fewer companies having their first book close or declaring a dividend in 2016 than in 2015.

## Other Revenue and Sundry Income

Other revenue and sundry income dropped by \$59 million or 38 per cent, due to the one-off post-liquidation interest payment of \$38 million received from Lehman's liquidators in 2015, and lower accommodation income received by LME Clear principally due to lower levels of collateral lodged by members.

## Net Investment Income



The decrease in the average size of Margin Funds during the year was due to lower margin requirements per contract cleared through HKCC, lower cash margins received by LME Clear (due to lower margin requirements on lower prices of metals contracts), and a higher proportion of non-cash collateral posted by members of LME Clear.

The analysis of net investment income is as follows:

	2016			2015		
	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	512	20	532	570	21	591
Debt securities	13	–	13	14	–	14
Exchange gains/(losses)	2	–	2	(1)	–	(1)
<b>Total net investment income</b>	<b>527</b>	<b>20</b>	<b>547</b>	583	21	604
<b>Net investment return</b>	<b>0.44%</b>	<b>0.26%</b>	<b>0.43%</b>	0.40%	0.19%	0.38%

The lower net investment income on Margin Funds in 2016 was attributable to a lower average fund size. The drop in investment income was mitigated by an increase in the investment return on Margin Funds, from 0.40 per cent in 2015 to 0.44 per cent in 2016, reflecting an increase in bank deposit rates in Hong Kong.

## EBITDA

Operating expenses rose by \$10 million or 1 per cent over 2015. However, after excluding a non-recurring recovery from Lehman's liquidators of \$77 million in 2015, underlying operating expenses showed a reduction of 9 per cent, as a result of lower staff costs including reduced variable pay, lower legal and professional fees incurred on strategic projects and depreciation of GBP which resulted in lower costs for LME Clear.

The drop in EBITDA margin from 86 per cent in 2015 to 83 per cent in 2016 is a direct reflection of the decrease in revenue and other income.

## Business Update

### Cash and Derivatives Clearing

Three batches of CCASS enhancements were introduced during 2016 and January 2017 to improve the settlement and collateral efficiencies of CCASS Participants in Stock Connects.

In July 2016 HKCC started to offer margin offset between USD/CNH currency futures and CNH/USD currency futures. The new arrangement benefits CPs through a reduction in margin costs for their offsettable positions in these two products. HKCC will extend similar margin offset arrangement to HSI and HSCEI Index futures and options in the first quarter of 2017.

HKCC relaxed its cash collateral policy in late September 2016, allowing CPs to satisfy their RMB margin requirement of up to RMB1 billion<sup>4</sup> by any acceptable cash and/or non-cash collateral<sup>5</sup>. This policy relaxation will help reduce investors' funding costs when trading RMB-denominated derivatives products.

### OTC Clear

During 2016, OTC Clear broadened its membership base to admit HK-incorporated licensed corporations. It also admitted a US swap dealer as its thirteenth Clearing Member in December 2016.

Clearing services for USD/CNH cross currency swaps were launched on 15 August 2016, and OTC Clear is the first international clearing house to do so. The SFC has also recognised OTC Clear as a Designated Central Counterparty, which allows market participants to use clearing services offered by OTC Clear to fulfil their mandatory clearing obligations in Hong Kong.

### LME Clear

In 2016, LME Clear won the Metals Service Provider of the Year at the Platts Global Metals Awards. This was in recognition of LME Clear's innovations in the metals trading industry, noting in particular the risk management transparency of the new clearing system and the introduction of warrants as collateral and compression services.

In the second quarter of 2017, LME Clear will launch clearing of LMEprecious gold and silver contracts. In 2017, it will also deliver its solution for clearing in compliance with the Markets in Financial Instruments Directive 2 and intends to launch clearing for LME Flex contracts, which will provide members the ability to replicate monthly average deliverable positions.

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<sup>4</sup> Beyond which HKCC CPs must satisfy their RMB margin requirement by RMB cash.

<sup>5</sup> Non-cash collateral limit remains at 50 per cent of margin requirement.

## Platform and Infrastructure Segment

### Analysis of Results

#### Summary

	2016 \$m	2015 \$m	Change
Network, terminal user, dataline and software sub-license fees	406	389	4%
Hosting services fees	129	105	23%
Others	5	5	0%
Total revenue	540	499	8%
Operating expenses	(152)	(148)	3%
EBITDA	388	351	11%
EBITDA margin	72%	70%	2%

#### Network, Terminal User, Dataline and Software Sub-license Fees

Network, terminal user, dataline and software sub-license fees increased as more Cash Market EPs migrated from the obsolete Open Gateway to HKEX Orion Central Gateway, but this was partly offset by a decrease in sales of throttles.

#### Hosting Services Fees

Hosting services fees increased due to an increase in the number of racks taken up by customers.

#### EBITDA

Operating expenses increased due to higher staff costs attributable to annual payroll adjustments, partly offset by reduced variable pay. As the percentage increase in revenue was higher than the percentage increase in operating expenses, EBITDA margin increased from 70 per cent to 72 per cent.

### Business Update

During 2016, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably. On 22 July 2016 and 12 January 2017, the opening of the LME's electronic trading platform experienced a delay triggered by issues at a telecoms network provider, which affected LME's member network and the LME trading system respectively. However, telephone trading of LME products was able to continue as normal.

The system development phase for the implementation of Orion Trading Platform – Securities Market was completed in the fourth quarter of 2016 and various testing and other market readiness activities will be carried out in 2017. The first phase of pre-implementation independent review has commenced and is scheduled to be completed by the first quarter of 2017.

Despite the challenging environment, HKEX continues to invest in technology to improve market efficiency. To facilitate Northbound trading under Stock Connects for China Connect Exchange Participants (CCEPs) HKEX will introduce a new market access gateway between Broker Supplied Systems of CCEPs and China Connect securities markets in the second quarter of 2017.

The revamp of the HKEX corporate websites to improve the user experience is in progress. The updated HKEX Group website was launched in September 2016 while the Market website will be launched in 2017.

At the end of December 2016, 95 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 45 per cent of the Cash Market turnover and 56 per cent of the trading volume of the Derivatives Market.

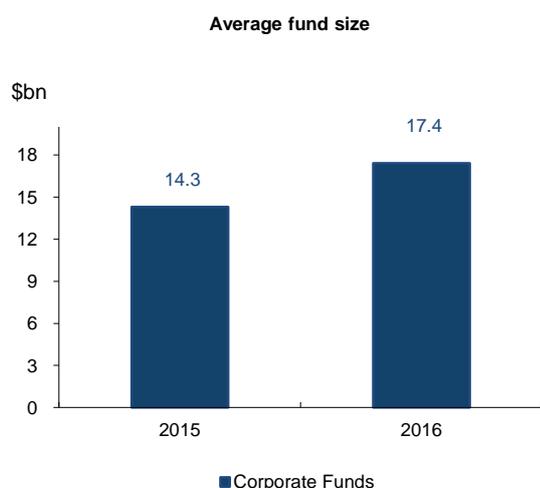
## Corporate Items

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

### Revenue and Other Income

	2016 \$m	2015 \$m	Change
Net investment income	149	74	101%
Gain on disposal of a leasehold property	-	445	(100%)
Others	12	6	100%
<b>Total</b>	<b>161</b>	<b>525</b>	<b>(69%)</b>

### Net Investment Income



The average fund size increased principally due to cash generated and retained by the business (net of cash dividends paid).

The analysis of net investment income is as follows:

	2016 \$m	2015 \$m
Net investment income from:		
Cash and bank deposits	82	71
Equity securities	27	30
Debt securities	75	30
Collective investment schemes	6	-
Exchange loss	(41)	(57)
<b>Total net investment income</b>	<b>149</b>	<b>74</b>
<b>Net investment return</b>	<b>0.86%</b>	<b>0.52%</b>

In 2015, a \$31 million gain on sale of the remaining stake in shares of LCH was included in net investment income under equity securities. Excluding the LCH gain, net investment income of the Corporate Funds in 2016 increased by \$106 million principally due to higher fair value gains on other equity securities, debt securities and collective investment schemes.

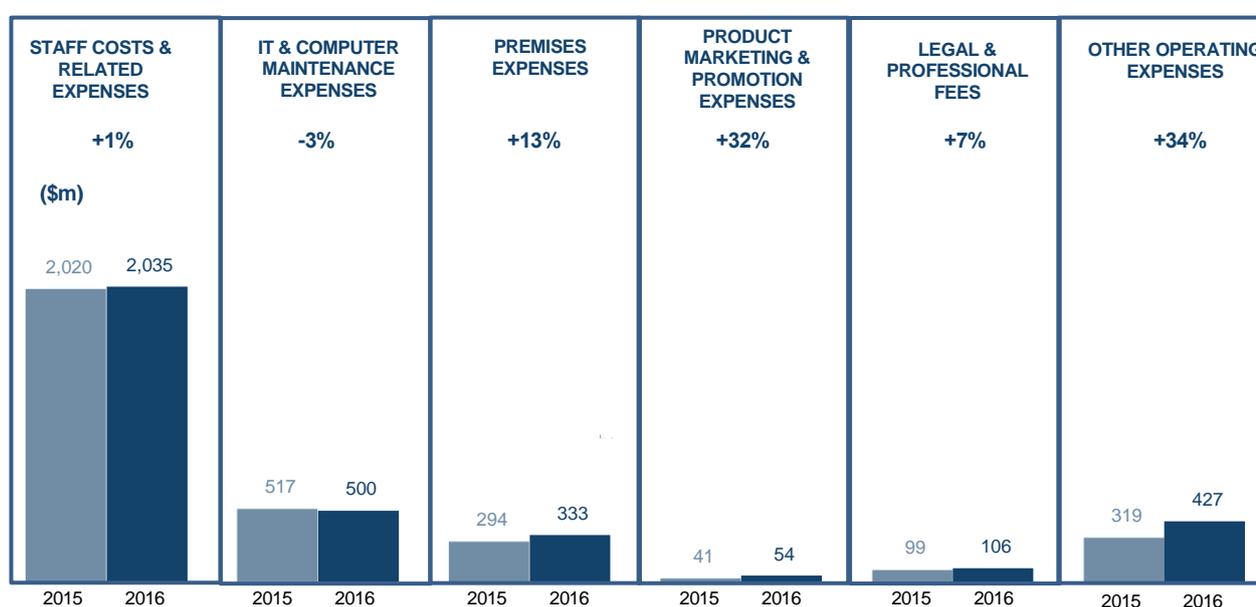
As the valuation of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or redeemed.

### Gain on Disposal of a Leasehold Property

In 2015, the Group disposed of a leasehold property in Hong Kong and a gain of \$445 million was recorded.

## Expenses, Other Costs and Taxation

### Operating Expenses



Staff costs and related expenses increased by \$15 million or 1 per cent mainly due to annual payroll adjustments and increased headcount for strategic initiatives (including Shenzhen-Hong Kong Stock Connect and the establishment of a commodities trading platform in the Mainland), but were partly offset by reduced variable pay.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by Participants of \$73 million (2015: \$72 million), were \$427 million (2015: \$445 million). The drop was mainly attributable to lower IT costs of the LME Group as a result of the depreciation of GBP and cost control measures.

Premises expenses increased due to new offices taken up following the sale of the Group's Worldwide House office premises in Hong Kong in September 2015, and the relocation of the LME to a new office in January 2016.

Other operating expenses increased due to the effect of a non-recurring recovery from Lehman's liquidators of \$77 million in 2015. Excluding this recovery, operating expenses rose by \$31 million or 8 per cent, which was primarily due to higher committed bank credit facilities fees, higher investment management services costs due to increased size of externally-managed Corporate Funds, and an increase in index license fees arising from the higher trading volume of derivatives contracts.

## Depreciation and Amortisation

	2016 \$m	2015 \$m	Change
Depreciation and amortisation	771	684	13%

Depreciation and amortisation increased due to the completion of various system enhancements including upgrades to the cash clearing system and the commodities trading and clearing systems, and leasehold improvements at the new office premises.

## Finance Costs

	2016 \$m	2015 \$m	Change
Finance costs	82	114	(28%)

The decrease in finance costs was mainly due to the conversion of all convertible bonds to equity in the second quarter of 2015.

## Taxation

	2016 \$m	2015 \$m	Change
Taxation	1,058	1,347	(21%)

Taxation decreased due to lower profit before taxation in 2016, but was partly offset by lower non-taxable income (due to the non-taxable gain arising on the sale of a leasehold property in 2015) and a lower deferred tax credit on enacted reductions in UK Corporation Tax rates (2016: \$31 million; 2015: \$65 million).

## FINANCIAL REVIEW

### Changes to Key Items in Consolidated Statement of Financial Position

#### (A) Financial Assets and Financial Liabilities

	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m	Change
<b>Financial assets</b>			
Cash and cash equivalents	115,723	110,890	4%
Financial assets measured at fair value through profit or loss	70,066	72,705	(4%)
Financial assets measured at amortised cost	29,167	19,496	50%
Total	214,956	203,091	6%

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

	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m	Change
<b>Financial assets</b>			
Corporate Funds	17,670	15,636	13%
Margin Funds <sup>1</sup>	125,803	114,416	10%
Clearing House Funds	9,602	8,430	14%
Base metals derivatives contracts cleared through LME Clear	61,618	64,480	(4%)
Cash prepayments for A shares	263	129	104%
<b>Total</b>	<b>214,956</b>	<b>203,091</b>	<b>6%</b>

1 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$1,043 million (31 December 2015: \$797 million), which are included in accounts receivable, prepayments and other deposits.

	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m	Change
<b>Financial liabilities</b>			
Base metals derivatives contracts cleared through LME Clear	61,618	64,480	(4%)
Other financial liabilities at fair value through profit or loss	9	6	50%
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	126,846	115,213	10%
CPs' contributions to Clearing House Funds	8,656	7,474	16%
<b>Total</b>	<b>197,129</b>	<b>187,173</b>	<b>5%</b>

The 10 per cent increase in financial assets and financial liabilities of Margin Funds at 31 December 2016 against those at 31 December 2015 was mainly attributable to increased contributions required from members of LME Clear in response to an increase in CPs' open positions and higher metal contract prices.

The increase in financial assets and financial liabilities of Clearing House Funds was mainly attributable to higher contributions required from members of LME Clear in response to increase open positions, higher metal contract prices and changes in risk exposures.

Corporate Funds at 31 December 2016 increased by 13 per cent or \$2,034 million as compared to those at 31 December 2015 due to the retention of cash generated by the business over the past year partly offset by the cash element of the 2015 final dividend and 2016 interim dividend.

## **(B) Fixed Assets, Intangible Assets and Capital Commitments**

The total net book value of the Group's fixed assets and intangible assets dropped by \$121 million from \$19,432 million at 31 December 2015 to \$19,311 million at 31 December 2016. The drop was mainly due to depreciation and amortisation of \$771 million, but was partly offset by additions of \$646 million. Additions during the year mainly related to the establishment of a commodities trading platform in Mainland China, the renovation of new offices, and the development and upgrade of various trading and clearing systems including the LME's trading and clearing systems, the cash trading system, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

The Group's capital expenditure commitments at 31 December 2016, including those authorised by the Board but not yet contracted for, amounted to \$981 million (31 December 2015: \$961 million). These related mainly to the establishment of a commodities trading platform in Mainland China, and the development and upgrade of various IT systems including the LME's trading and clearing systems, the cash trading system, and the derivatives trading and clearing systems in Hong Kong.

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

The Group completed an internal reorganisation of its subsidiaries on 22 January 2016. Following the internal reorganisation, HKCC, SEOCH, The Stock Exchange Club Limited (subsequently renamed HKEX Investment (China) Limited), HKEX Information Services Limited and HK Conversion Agency Services Limited, which were previously held by HKFE, SEHK and HKSCC, became direct wholly-owned subsidiaries of HKEX. The internal reorganisation helps the Group better manage its various regulatory obligations and risks associated with the businesses and operations of the recognised exchanges and clearing houses.

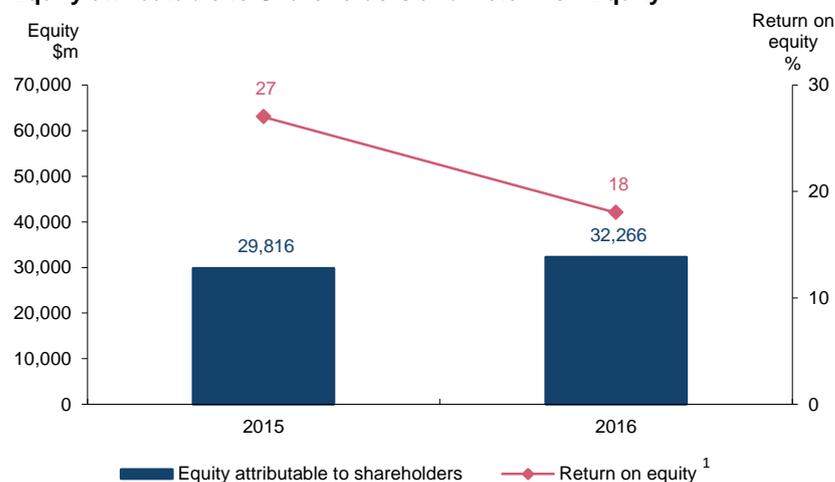
During the year, the Group set up a subsidiary, Gangrong Trading Services (Shenzhen) Limited in Qianhai, Shenzhen for the development of a new commodity trading platform in the Mainland. At the date of this announcement, RMB250 million had been injected into this subsidiary as registered capital.

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

### (D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by \$2,450 million to \$32,266 million at 31 December 2016 from \$29,816 million at 31 December 2015. This arose principally from the \$2,782 million shares issued in lieu of cash dividends but was partly offset by a decrease in retained earnings of \$357 million as the 2015 final dividend (based on the relatively high profit of the second half of 2015) and 2016 interim dividend declared exceeded profit for the year.

#### Equity attributable to Shareholders and Return on Equity



Return on equity dropped by 9 per cent due to the decrease in profit attributable to shareholders and the increase in equity arising from shares issued in lieu of cash dividends in 2016.

<sup>1</sup> Based on equity attributable to shareholders at year-end

### Liquidity, Financial Resources and Gearing

Working capital rose by \$2,527 million to \$17,122 million at 31 December 2016 (31 December 2015: \$14,595 million). The increase was mainly due to profit attributable to shareholders of \$5,769 million, which was partly offset by the 2015 final dividend and 2016 interim dividend, net of scrip dividends, of \$3,360 million.

At 31 December 2016, the Group had the following outstanding borrowings:

	At 31 Dec 2016		At 31 Dec 2015	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	1,586	Jul 2020 & Jul 2021	1,585	Jul 2020 & Jul 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,519	Dec 2018 & Jan 2019	1,516	Dec 2018 & Jan 2019
Written put options to non- controlling interests	317	N/A	308	N/A
	<b>3,422</b>		<b>3,409</b>	

At 31 December 2016, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 11 per cent (31 December 2015: 12 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2015: 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 31 December 2016, the Group's total available banking facilities for its daily operations amounted to \$18,947 million (31 December 2015: \$17,012 million), which included \$11,938 million (31 December 2015: \$10,000 million) of committed banking facilities and \$7,000 million (31 December 2015: \$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 31 December 2016, the total amount of the facilities was RMB21,500 million (31 December 2015: RMB17,000 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2015: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connects, eg, natural disasters or extreme weather conditions in Hong Kong.

At 31 December 2016, 85 per cent (31 December 2015: 92 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

## Pledges of Assets

LME Clear receives securities and gold bullion as collateral for margins posted by its CPs. The total fair value of this collateral was US\$1,781 million (HK\$13,808 million) at 31 December 2016 (31 December 2015: US\$2,015 million (HK\$15,617 million)). LME Clear is obliged to return this non-cash collateral upon request when the CPs' 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\$9,418 million (HK\$73,022 million) at 31 December 2016 (31 December 2015: US\$7,911 million (HK\$61,311 million)).

The above non-cash collateral, which LME Clear is permitted to sell or repledge in the absence of default by the counterparties, was not recorded on the consolidated statement of financial position of the Group at 31 December 2016. Such non-cash collateral, together with certain financial assets amounting to US\$430 million (HK\$3,334 million) at 31 December 2016 (31 December 2015: US\$639 million (HK\$4,953 million)), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

## Exposure to Fluctuations in Exchange Rates and Related Hedges

The functional currency of the Hong Kong entities is HKD and the functional currency of LME entities is USD. Foreign currency risks mainly arise from the Group's investment and bank deposits in currencies other than HKD and USD and its GBP expenditure for 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 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 Funds and Default Fund will generally take place in the currency in which cash was received.

The aggregate net open foreign currency positions (excluding collective investment schemes) at 31 December 2016 amounted to \$2,425 million, of which \$276 million were non-USD exposures (31 December 2015: \$970 million, of which \$179 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to \$1,529 million (31 December 2015: \$2,261 million). All forward foreign exchange contracts would mature within three months (31 December 2015: three months).

## Contingent Liabilities

At 31 December 2016, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2015: \$71 million). Up to 31 December 2016, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its EPs of up to \$200,000 for each Participant. In the unlikely event that all of its 556 trading EPs (31 December 2015: 515) covered by the indemnity at 31 December 2016 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$111 million (31 December 2015: \$103 million).
- (c) HKEX has 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.
- (d) US litigation

All claims against the LME and HKEX defendants that existed in US litigation related to LME aluminium warehousing and that were disclosed in prior periods have now been concluded. Plaintiffs in the aluminium warehousing litigation are not appealing the US District Court's dismissal of those claims.

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$m	2015 \$m
Trading fees and trading tariff		4,428	5,469
Stock Exchange listing fees		1,092	1,114
Clearing and settlement fees		2,358	3,118
Depository, custody and nominee services fees		857	867
Market data fees		816	803
Other revenue	3	847	862
<b>REVENUE</b>		<b>10,398</b>	<b>12,233</b>
Investment income		826	702
Interest rebates to Participants		(130)	(24)
Net investment income	4	696	678
Gain on disposal of a leasehold property	5	-	445
Sundry income		22	19
<b>REVENUE AND OTHER INCOME</b>	2	<b>11,116</b>	<b>13,375</b>
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses		(2,035)	(2,020)
IT and computer maintenance expenses		(500)	(517)
Premises expenses		(333)	(294)
Product marketing and promotion expenses		(54)	(41)
Legal and professional fees		(106)	(99)
Other operating expenses:			
Reversal of provision for impairment losses arising from CPs' default on market contracts	6(a)	-	77
Others	6(b)	(427)	(396)
		<b>(3,455)</b>	<b>(3,290)</b>
<b>EBITDA</b>	2	<b>7,661</b>	<b>10,085</b>
Depreciation and amortisation		(771)	(684)
<b>OPERATING PROFIT</b>		<b>6,890</b>	<b>9,401</b>
Finance costs	7	(82)	(114)
Share of loss of a joint venture		(9)	(9)
<b>PROFIT BEFORE TAXATION</b>	2	<b>6,799</b>	<b>9,278</b>
<b>TAXATION</b>	8	<b>(1,058)</b>	<b>(1,347)</b>
<b>PROFIT FOR THE YEAR</b>		<b>5,741</b>	<b>7,931</b>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
Shareholders of HKEX		5,769	7,956
Non-controlling interests		(28)	(25)
<b>PROFIT FOR THE YEAR</b>		<b>5,741</b>	<b>7,931</b>
<b>Basic earnings per share</b>	9(a)	<b>\$4.76</b>	<b>\$6.70</b>
<b>Diluted earnings per share</b>	9(b)	<b>\$4.75</b>	<b>\$6.67</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 \$m	2015 \$m
<b>PROFIT FOR THE YEAR</b>	<b>5,741</b>	7,931
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	(6)	(7)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(6)</b>	<b>(7)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,735</b>	7,924
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Shareholders of HKEX	5,763	7,949
Non-controlling interests	(28)	(25)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,735</b>	7,924

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AT 31 DECEMBER 2016

	Note	At 31 Dec 2016			At 31 Dec 2015		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	11	115,723	–	115,723	110,890	–	110,890
Financial assets measured at fair value through profit or loss	11	70,066	–	70,066	72,705	–	72,705
Financial assets measured at amortised cost	11	29,093	74	29,167	19,439	57	19,496
Accounts receivable, prepayments and deposits	12	12,928	21	12,949	15,537	21	15,558
Interest in a joint venture		–	59	59	–	68	68
Goodwill and other intangible assets		–	17,812	17,812	–	17,872	17,872
Fixed assets		–	1,499	1,499	–	1,560	1,560
Lease premium for land		–	21	21	–	22	22
Deferred tax assets		–	22	22	–	22	22
<b>Total assets</b>		<b>227,810</b>	<b>19,508</b>	<b>247,318</b>	<b>218,571</b>	<b>19,622</b>	<b>238,193</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss		61,627	–	61,627	64,486	–	64,486
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs		126,846	–	126,846	115,213	–	115,213
Accounts payable, accruals and other liabilities	13	12,246	30	12,276	15,270	15	15,285
Deferred revenue		842	–	842	773	–	773
Taxation payable		356	–	356	653	–	653
Other financial liabilities		37	–	37	42	–	42
CPs' contributions to Clearing House Funds		8,656	–	8,656	7,474	–	7,474
Borrowings	14	–	3,422	3,422	–	3,409	3,409
Provisions		78	81	159	65	70	135
Deferred tax liabilities		–	713	713	–	761	761
<b>Total liabilities</b>		<b>210,688</b>	<b>4,246</b>	<b>214,934</b>	<b>203,976</b>	<b>4,255</b>	<b>208,231</b>
<b>Equity</b>							
Share capital				22,085			19,285
Shares held for Share Award Scheme				(599)			(590)
Employee share-based compensation reserve				226			199
Exchange reserve				(260)			(254)
Designated reserves				773			778
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings	15			10,334			10,691
<b>Equity attributable to shareholders of HKEX</b>				<b>32,266</b>			<b>29,816</b>
Non-controlling interests				118			146
<b>Total equity</b>				<b>32,384</b>			<b>29,962</b>
<b>Total liabilities and equity</b>				<b>247,318</b>			<b>238,193</b>
<b>Net current assets</b>				<b>17,122</b>			<b>14,595</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Preparation and Accounting Policies

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which include all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and interpretations issued by the HKICPA.

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

### Adoption of new/revised HKFRSs

In 2016, the Group has adopted the following amendments to HKFRSs which were effective for accounting periods beginning on or after 1 January 2016:

Amendments to HKAS 1	Presentation of Financial Statements - Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

The adoption of these amendments to HKFRSs does not have any financial impact on the Group.

### New/revised HKFRSs issued before 31 December 2016 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2016 and are pertinent to its operations but not yet effective:

Amendments to HKAS 7	Statement of Cash Flows – Disclosure Initiative <sup>1</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2017

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2018

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2019

The adoption of amendments to HKAS 7, HKFRS 9 (2014) and HKFRS 15 would not have any significant impact on the financial performance and position of the Group.

HKFRS 16 will primarily affect the accounting for the Group's operating leases. At 31 December 2016, the Group had non-cancellable operating lease commitments of \$947 million. 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 would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight line basis during the lease term.

There are no other new/revised HKFRSs that are not yet effective that are expected to have any impact on the Group.

## 2. Operating Segments

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 IT 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 Stock Connects, 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 two exchanges in Hong Kong 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, DWs, CBBCs and warrants and sales of related market data. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees.

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

The **Clearing** segment refers to the operations of the five clearing houses, which are responsible for clearing, settlement and custodian activities of the exchanges of the Group, and clearing and settlement of OTC 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 of the operating segments, finance costs and other costs not directly related to any of the operating segments) are included as “Corporate Items”.

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis by operating segment of the Group’s EBITDA, profit before taxation and other selected financial information for the year is as follows:

## 2016

	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	2,683	2,034	1,560	3,577	540	4	10,398
Net investment income	-	-	-	547	-	149	696
Sundry income	-	-	-	14	-	8	22
Revenue and other income	2,683	2,034	1,560	4,138	540	161	11,116
Operating expenses	(544)	(441)	(597)	(702)	(152)	(1,019)	(3,455)
Reportable segment EBITDA	2,139	1,593	963	3,436	388	(858)	7,661
Depreciation and amortisation	(88)	(86)	(298)	(179)	(44)	(76)	(771)
Finance costs	-	-	-	-	-	(82)	(82)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)
Reportable segment profit before taxation	2,051	1,498	665	3,257	344	(1,016)	6,799
<b>Other segment information:</b>							
Interest income	-	-	-	663	-	81	744
Interest rebates to Participants	-	-	-	(130)	-	-	(130)
Other material non-cash items:							
Employee share-based compensation expenses	(33)	(23)	(41)	(37)	(2)	(77)	(213)
Reversal of provision for impairment losses	1	-	-	-	-	-	1

## 2015

	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	3,433	2,178	1,735	4,383	499	5	12,233
Net investment income	-	-	-	604	-	74	678
Gain on disposal of a leasehold property	-	-	-	-	-	445	445
Sundry income	2	1	-	15	-	1	19
Revenue and other income	3,435	2,179	1,735	5,002	499	525	13,375
Operating expenses	(531)	(446)	(546)	(692)	(148)	(927)	(3,290)
Reportable segment EBITDA	2,904	1,733	1,189	4,310	351	(402)	10,085
Depreciation and amortisation	(85)	(87)	(275)	(148)	(43)	(46)	(684)
Finance costs	-	-	-	-	-	(114)	(114)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)
Reportable segment profit before taxation	2,819	1,637	914	4,162	308	(562)	9,278
<b>Other segment information:</b>							
Interest income	-	-	-	615	-	71	686
Interest rebates to Participants	-	-	-	(24)	-	-	(24)
Other material non-cash items:							
Employee share-based compensation expenses	(27)	(21)	(25)	(38)	(2)	(70)	(183)
(Provision for)/reversal of provision for impairment losses	(1)	-	-	77	-	-	76

(a) Geographical information

The Group's revenue from external customers is derived from its operations in Hong Kong and the UK. Such information and the Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	Revenue		Non-current assets	
	2016 \$m	2015 \$m	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m
Hong Kong (place of domicile)	8,192	9,757	1,978	2,059
United Kingdom	2,206	2,476	17,333	17,481
Mainland China	-	-	101	3
	<b>10,398</b>	12,233	<b>19,412</b>	19,543

(b) Information about major customers

In 2016 and 2015, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

### 3. Other Revenue

	2016 \$m	2015 \$m
Network, terminal user, dataline and software sub-license fees	406	389
Commodities stock levies and warehouse listing fees	87	102
Hosting services fees	129	105
Participants' subscription and application fees	76	73
Accommodation income (note (a))	48	72
Post-liquidation interest arising from a CP's default on market contracts (note (b))	-	38
Sales of Trading Rights	26	11
Miscellaneous revenue	75	72
	<b>847</b>	862

(a) Accommodation income mainly comprises income from CPs on securities deposited as alternatives to cash deposits of Margin Funds and interest shortfall collected from LME Clear CPs on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

(b) In 2015, Lehman's liquidators paid a post-liquidation interest of \$38 million on Lehman's debts arising from its default on market contracts.

#### 4. Net Investment Income

	2016 \$m	2015 \$m
Gross interest income from financial assets measured at amortised cost	744	686
Interest rebates to Participants	(130)	(24)
Net interest income	614	662
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	98	49
Others	(16)	(33)
Net investment income	696	678

#### 5. Gain on Disposal of a Leasehold Property

In 2015, the Group sold a leasehold property to a third party at a consideration of \$509 million. The gain on disposal of the leasehold property, after deducting related selling expenses, amounted to \$445 million and was recognised in the consolidated income statement.

#### 6. Other Operating Expenses

(a) In 2015, the liquidators of Lehman paid dividends of \$77 million which were recognised within operating expenses in the Group's consolidated income statement, as a reversal of a provision for impairment losses recognised in prior years.

(b) Others

	2016 \$m	2015 \$m
Insurance	11	14
Financial data subscription fees	25	26
Custodian and fund management fees	35	31
Bank charges	57	50
Repairs and maintenance expenses	62	66
License fees	32	27
Communication expenses	14	15
Travel expenses	39	41
Security expenses	18	17
Contribution to Financial Reporting Council	7	7
Other miscellaneous expenses	127	102
	427	396

#### 7. Finance Costs

	2016 \$m	2015 \$m
Interest expenses:		
- Bank borrowings (note 14(a))	28	23
- Convertible bonds	-	42
- Notes (note 14(b))	44	44
- Written put options to non-controlling interests (note 14(c))	9	7
Net foreign exchange losses/(gains) on financing activities	1	(2)
	82	114

## 8. Taxation

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

	2016 \$m	2015 \$m
Current tax – Hong Kong Profits Tax		
- Provision for the year	879	1,159
- Overprovision in respect of prior years	(3)	(2)
	<b>876</b>	1,157
Current tax – Overseas Tax		
- Provision for the year	223	280
- Underprovision in respect of prior years	8	3
	<b>231</b>	283
<b>Total current tax (note (a))</b>	<b>1,107</b>	1,440
Deferred tax		
- Reversal of temporary differences	(18)	(28)
- Impact of changes in UK Corporation Tax rates (note (b))	(31)	(65)
<b>Total deferred tax</b>	<b>(49)</b>	(93)
<b>Taxation charge</b>	<b>1,058</b>	1,347

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2015: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rates applicable to the subsidiaries in the UK being 20 per cent (2015: 20.25 per cent).
- (b) The UK Corporation Tax rate will drop to 19 per cent effective from 1 April 2017 and 18 per cent effective from 1 April 2020 through the enactment of the 2015 Finance Act. The tax rate will be further reduced to 17 per cent effective from 1 April 2020 through the enactment of the 2016 Finance Act. As a result of the reduction in UK Corporation Tax rates, the Group's net deferred tax liabilities decreased by approximately \$31 million and \$65 million in 2016 and 2015 respectively.

## 9. Earnings Per Share

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

- (a) Basic earnings per share

	2016	2015
Profit attributable to shareholders (\$m)	5,769	7,956
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,212,376	1,186,802
<b>Basic earnings per share (\$)</b>	<b>4.76</b>	6.70

(b) Diluted earnings per share

	2016	2015
Profit attributable to shareholders (\$m)	5,769	7,956
Interest expense on convertible bonds (net of tax) (\$m)	-	41
Adjusted profit attributable to shareholders (\$m)	5,769	7,997
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,212,376	1,186,802
Effect of employee share options (in '000)	-	6
Effect of Awarded Shares (in '000)	3,071	2,721
Effect of convertible bonds (in '000)	-	8,841
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,215,447	1,198,370
Diluted earnings per share (\$)	4.75	6.67

## 10. Dividends

	2016 \$m	2015 \$m
Interim dividend paid:		
\$2.21 (2015: \$3.08) per share	2,690	3,688
Less: Dividend for shares held by Share Award Scheme (note (a))	(7)	(9)
	2,683	3,679
Final dividend proposed (note (b)):		
\$2.04 (2015: \$2.87) per share based on issued share capital at 31 Dec	2,498	3,468
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(7)	(9)
	2,491	3,459
	5,174	7,138

- (a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEX's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.
- (b) The final dividend proposed after 31 December is not recognised as a liability at 31 December.
- (c) The 2016 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the SFC of the listing of and permission to deal in the new shares to be issued.

## 11. Financial Assets

The Group classifies the financial assets into the following categories:

**Margin Funds** - Margin Funds are established by cash received or receivable from the CPs in respect of margin deposits, Mainland security and settlement deposits, and cash collateral of the five clearing houses to cover their open positions. Part of the Mainland security and settlement deposits is used by HKSCC to satisfy its obligations as a clearing participant of ChinaClear in respect of trades transacted through Stock Connects. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

**Clearing House Funds** - Clearing House Funds are established under the Clearing House Rules. Assets contributed by the CPs and the Group are held by the respective clearing houses (together with the accumulated income less related expenses for the clearing houses in Hong Kong) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the CPs fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge its liabilities and obligations if defaulting CPs deposit defective securities into CCASS. The amounts earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear and its accumulated investment income was also included in Clearing House Funds for presentation purpose. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Base metals derivatives contracts represent the fair value of the outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

Cash prepayments for A shares represent cash received by HKSCC from its CPs for releasing their allocated A shares for same day settlement. Such prepayments will be used to settle HKSCC's Continuous Net Settlement obligations payable on the next business day.

Financial assets belonging to the Group, which are funded by share capital and funds generated from operations (other than base metals derivatives contracts, amounts received for the Margin Funds, Clearing House Funds and cash prepayments for A shares), are classified as Corporate Funds.

The financial assets are invested into the cash and cash equivalents, financial assets measured at fair value through profit or loss, and financial assets measured at amortised cost:

	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m
<u>Margin Funds</u>		
Cash and cash equivalents	96,698	89,807
Financial assets measured at fair value through profit or loss	3,323	5,844
Financial assets measured at amortised cost	25,782	18,765
	<b>125,803</b>	114,416
<u>Clearing House Funds</u>		
Cash and cash equivalents	9,476	8,210
Financial assets measured at amortised cost	126	220
	<b>9,602</b>	8,430
<u>Base metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss	61,618	64,480
<u>Cash prepayments for A shares</u>		
Cash and cash equivalents	263	129
<u>Corporate Funds</u>		
Cash and cash equivalents	9,286	12,744
Financial assets measured at fair value through profit or loss	5,125	2,381
Financial assets measured at amortised cost	3,259	511
	<b>17,670</b>	15,636
	<b>214,956</b>	203,091

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

	At 31 Dec 2016						At 31 Dec 2015					
	Clearing House Funds	Margin Funds	Cash prepayments for A shares	Base metals derivatives contracts	Corporate Funds	Total	Clearing House Funds	Margin Funds	Cash prepayments for A shares	Base metals derivatives contracts	Corporate Funds	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Within 12 months	9,602	125,803	263	61,618	17,596	214,882	8,430	114,416	129	64,480	15,579	203,034
Over 12 months	-	-	-	-	74	74	-	-	-	-	57	57
	9,602	125,803	263	61,618	17,670	214,956	8,430	114,416	129	64,480	15,636	203,091

## 12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 78 per cent (31 December 2015: 87 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within 2 days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within 3 months.

## 13. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 84 per cent (31 December 2015: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within 2 days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within 3 months.

## 14. Borrowings

	At 31 Dec 2016 \$m	At 31 Dec 2015 \$m
Bank borrowings (note (a))	1,586	1,585
Notes (note (b))	1,519	1,516
Written put options to non-controlling interests (note (c))	317	308
Total borrowings	3,422	3,409

### (a) Bank borrowings

At 31 December 2016, bank borrowings mature within 5 years (31 December 2015: 6 years). During the year, the bank borrowings bore average coupons of 1.7 per cent (2015: 1.4 per cent) per annum, and the average effective interest rate was 1.8 per cent (2015: 1.5 per cent) per annum.

### (b) Notes

In December 2013 and January 2014, HKEX issued US\$100 million (HK\$775 million) and US\$95 million (HK\$737 million) of fixed rate senior notes which will be due in December 2018 and January 2019 respectively. The average effective interest rate of the senior notes was 2.9 per cent (2015: 2.9 per cent) per annum.

### (c) Written put options to non-controlling interests

OTC Clear issued non-voting ordinary shares to certain third party shareholders at a total consideration of \$340 million. As part of the arrangement, put options were written by HKEX to the non-controlling interests to sell part or all of their non-voting ordinary shares in OTC Clear to HKEX at the initial subscription price of \$210,000 per share less accumulated dividends received by the non-controlling interests. The put options are exercisable by the non-controlling interests at any time following the date falling five years after the shares were issued if the non-controlling interests can demonstrate to HKEX that they have used reasonable endeavours for at least three months to find a suitable purchaser for their shares at a price equal to or more than their fair market values. The carrying amount of written put options represents the present value of the amount payable by HKEX to acquire the non-controlling interests at the date at which the written put options first become exercisable. The effective interest rate of the liabilities was 3.0 per cent (2015: 3.0 per cent) per annum.

## 15. Retained Earnings

	2016 \$m	2015 \$m
At 1 Jan	10,691	8,800
Profit attributable to shareholders	5,769	7,956
Transfer from/(to) Clearing House Funds reserves	5	(135)
Dividends:		
2015/2014 final dividend	(3,459)	(2,533)
2016/2015 interim dividend	(2,683)	(3,679)
Unclaimed HKEX dividends forfeited	22	18
Vesting of shares of Share Award Scheme	(11)	(8)
Tax credit relating to Share Award Scheme	—	3
Transfer from convertible bond reserve upon conversion of convertible bonds	—	266
Changes in ownership interests in a subsidiary	—	3
At 31 Dec	10,334	10,691

## **SCOPE OF WORK OF PRICEWATERHOUSECOOPERS HONG KONG**

The financial figures in this announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's external auditor, PricewaterhouseCoopers Hong Kong (PwC), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC on this announcement.

## **REVIEW OF 2016 CONSOLIDATED FINANCIAL STATEMENTS**

The Audit Committee (AC) reviewed the 2016 consolidated financial statements in conjunction with HKEX's external auditor. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2016.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2016, HKEX's distributable reserves, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to \$6.4 billion (31 December 2015: \$6.6 billion).

## **FINAL DIVIDEND**

The Board recommends the payment of a final dividend of \$2.04 per share (2015: \$2.87 per share) to Shareholders whose names appear on HKEX's Register of Members on 5 May 2017, and the retention of the remaining profit for the year. Including the interim dividend, total dividend for 2016 amounts to a total of \$4.25 per share (2015: \$5.95 per share), which represents a payout ratio of 90 per cent (2015: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2016. Dividends for shares held in trust under the Share Award Scheme amount to \$14 million (2015: \$18 million). The Board also proposes to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares in lieu of cash.

## **SCRIP DIVIDEND ALTERNATIVE**

Subject to Shareholders' approval at the 2017 AGM of the proposed final dividend and a general mandate to issue shares, the final dividend will be payable in cash with a scrip alternative where a 5 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form (where applicable) is expected to be despatched to Shareholders on or about Wednesday, 10 May 2017. The scrip share subscription price for calculating the number of new shares to be allotted will be announced on or about Tuesday, 16 May 2017. Definitive share certificates in respect of the scrip dividend and dividend warrants are expected to be despatched to Shareholders on Friday, 2 June 2017.

## CLOSURE OF HKEX'S REGISTER OF MEMBERS

For the purposes of determining Shareholders' eligibility to attend and vote at the 2017 AGM, and entitlement to the final dividend, HKEX's Register of Members will be closed as set out below:

- (i) For determining eligibility to attend and vote at the 2017 AGM:
  - Latest time to lodge transfer documents for registration with HKEX's registrar At 4:30 pm on 21 April 2017
  - Closure of HKEX's Register of Members 24 April 2017 to 26 April 2017  
(both dates inclusive)
  - Record date 26 April 2017
- (ii) For determining entitlement to the final dividend:
  - Ex-dividend date 28 April 2017
  - Latest time to lodge transfer documents for registration with HKEX's registrar At 4:30 pm on 2 May 2017
  - Closure of HKEX's Register of Members 4 May 2017 to 5 May 2017  
(both dates inclusive)
  - Record date 5 May 2017

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2017 AGM, and to qualify for the 2016 final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEX's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than the aforementioned latest time.

## ANNUAL GENERAL MEETING

The 2017 AGM will be held on Wednesday, 26 April 2017. The Notice of the 2017 AGM, which constitutes part of a circular to Shareholders, will be sent together with the 2016 Annual Report. The Notice of the 2017 AGM, the circular which sets out details of the business to be conducted at the 2017 AGM and the proxy form will be available under the Investor Relations section of the HKEX Group website. The results of the voting on the proposed resolutions will be published on the HKEX Group website shortly after the 2017 AGM is held.

All Shareholders are encouraged to attend the 2017 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior management.

## APPOINTMENT AND ELECTION OF DIRECTORS

The service term of Anita Fung, Rafael Gil-Tienda, John Harrison and Margaret Leung (Government Appointed Directors), and Bill Kwok and Vincent Lee (Elected Directors) will expire at the conclusion of the 2017 AGM.

In December 2016, the Nomination Committee nominated Cheah Cheng Hye and Leung Pak Hon, Hugo to the Board for it to recommend to Shareholders for election at the 2017 AGM. The nominations were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out under the Board Diversity Policy. Given Mr Cheah's in-depth knowledge of the fund management industry and Mr Leung's extensive experience in global markets business including the fixed income, equities and commodity derivatives businesses, their appointment would help broaden the Board's diversity and enhance its performance.

On 27 February 2017, the Board accepted the nomination by the Nomination Committee and recommended Messrs Cheah and Leung to stand for election at the 2017 AGM. Messrs Cheah and Leung do not have any service contracts with any member of the Group that are not determinable by the Group within one year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

Throughout the year 2016, 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 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.

HKEX has applied the principles of the Corporate Governance Code to its corporate governance structure and practices in the manner as described in the Corporate Governance Report contained in the 2016 Annual Report and on the HKEX Group website.

## **PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES**

During 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the 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 991,700 HKEX shares at a total consideration of \$188 million.

## **PUBLICATION OF 2016 FINAL RESULTS AND ANNUAL REPORT**

This announcement is published on the HKEXnews website at [www.hkexnews.hk](http://www.hkexnews.hk) and the HKEX Group website at [www.hkexgroup.com/Investor-Relations/Regulatory-Disclosure/Announcements/2017](http://www.hkexgroup.com/Investor-Relations/Regulatory-Disclosure/Announcements/2017). The 2016 Annual Report will be available on the HKEXnews and HKEX Group websites and despatched to Shareholders on or about Wednesday, 22 March 2017.

By Order of the Board  
**Hong Kong Exchanges and Clearing Limited**  
**Joseph Mau**  
Company Secretary

Hong Kong, 27 February 2017

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

## GLOSSARY

2017 AGM	HKEX's annual general meeting to be held on 26 April 2017
ADT	Average daily turnover value
AHFT	After-Hours Futures Trading
Awarded Shares	Shares awarded under the Share Award Scheme
Board	HKEX's board of directors
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	Central Clearing and Settlement System
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
Corporate Governance Code and Corporate Governance Report	Refer to Appendix 14 to the Main Board Listing Rules
CPs	Clearing Participants
CSR	Corporate Social Responsibility
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
Elected Directors	Directors elected by the Shareholders at general meetings
EPs or Participants	Exchange Participants
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
EU	European Union
Euro	The official currency of the Eurozone
Exchange or SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
FIC	Fixed income and currency
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBP	Pound sterling
GEM	The Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government Appointed Directors	Director(s) appointed by the Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China 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
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSCC	Hong Kong Securities Clearing Company Limited
HSCEI/H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)

IT	Information Technology
Lehman	Lehman Brothers Securities Asia Limited
LCH	LCH.Clearnet Group Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and GEM Listing Rules
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LMEH, the LME and LME Clear
LMEH	LME Holdings Limited
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
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange and SZSE through Stock Connects
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
RMB	Renminbi
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
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
Shareholder(s)	HKEX's shareholder(s)
Share Award Scheme or 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
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connects
Stock Connects	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
SZSE	Shenzhen Stock Exchange
UK	United Kingdom
US	United States of America
USD	United States dollar
\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million