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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 Hong Kong dollar unless otherwise stated)

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

The Board¹ is pleased to present the unaudited consolidated results of the Group² for the nine months ended 30 September 2017.

FINANCIAL HIGHLIGHTS

Financial figures are expressed in \$million (\$m) unless otherwise stated	YTD Q3 2017 \$m	YTD Q3 2016 \$m	Change
Revenue and other income	9,657	8,478	14%
Operating expenses	2,598	2,522	3%
EBITDA ³	7,059	5,956	19%
Profit attributable to shareholders	5,526	4,528	22%
Basic earnings per share	\$4.51	\$3.74	21%

Key messages

Profit attributable to shareholders for YTD Q3 2017⁴ was 22 per cent higher than the prior period reflecting the combined effect of revenue growth and continuing cost discipline. Key highlights for the period include:

- Revenue and other income for YTD Q3 2017 was 14 per cent higher than the prior period. This growth included:
 - An increase in trading and clearing fees driven by a 21 per cent increase in Cash Market turnover, partly offset by lower HKFE and LME revenue;
 - An increase in Stock Exchange listing fees from increases in the number of listed companies and newly listed Derivative Warrants and Callable Bull/Bear Contracts;
 - A significant increase in net investment income from both Corporate and Margin Funds; and
 - A one-off receipt of \$55 million post-liquidation interest from the liquidators of Lehman Brothers Securities Asia Limited.
- Operating expenses increased by 3 per cent against YTD Q3 2016. Excluding a one-off insurance recovery of \$23 million relating to legal expenses incurred in prior years, operating expenses increased by 4 per cent compared to the prior period.

	YTD Q3 2017	YTD Q3 2016	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	66.5	49.9	33%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	15.5	17.9	(13%)
ADT traded on the Stock Exchange (\$bn)	82.0	67.8	21%
Average daily number of derivatives contracts traded on the Futures Exchange	426,978	472,955	(10%)
Average daily number of stock options contracts traded on the Stock Exchange	396,491	297,001	33%
Average daily volume of metals contracts traded on the LME (lots)	618,871	612,663	1%

- The board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company)
- HKEX and its subsidiaries. Subsidiaries of the Group include The Stock Exchange of Hong Kong Limited (SEHK or the Stock Exchange), Hong Kong Futures Exchange Limited (HKFE or the Futures Exchange), Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC), The SEHK Options Clearing House Limited (SEOCH), OTC Clearing Hong Kong Limited (OTC Clear), LME Holdings Limited (LMEH), The London Metal Exchange (LME), LME Clear Limited (LME Clear) and other subsidiaries.
- 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 ventures.
- Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, 1H = first half, 2H = second half, YTD Q3 2016 or the prior period = nine months ended 30 September 2016, YTD Q3 2017 or the period = nine months ended 30 September 2017

BUSINESS REVIEW

Overview

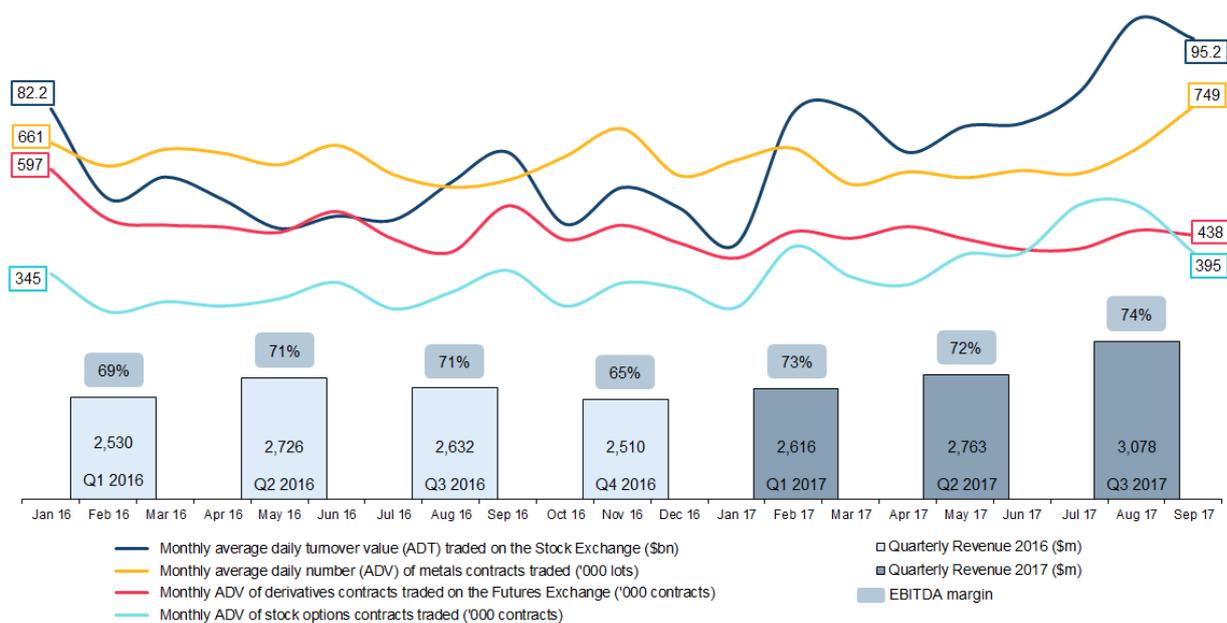


Fig. 1 – Market activity and Group Revenue⁵

Market sentiment continued to improve in Q3 2017 with Cash Market headline ADT rising to \$93.2 billion, 20 per cent above Q2 2017. Stock Connects Trading volumes continued to increase and reached record quarterly highs, with Northbound and Southbound ADT being 11 per cent and 28 per cent higher than Q2 2017. However, market volatility remained low adversely impacting derivatives volumes. While the ADV of HKFE contracts traded in Q3 2017 was 1 per cent up against Q2 2017, it was 7 per cent below the full year of 2016.

Revenue and other income overall for Q3 2017 was 9 per cent higher than Q2 2017. This reflected the increase in Cash Market trading and clearing revenue, together with increases in listing fees from more newly listed Derivative Warrants (DWs) and Callable Bull/Bear Contracts (CBCBs), but was partly offset by a seasonal decrease in depository, custody and nominee services fees.

For YTD Q3 2017, revenue and other income increased by \$1,179 million (14 per cent) compared to the prior year period, partly due to a significant increase in net investment income of \$625 million (including a one-off receipt of \$14 million deferred consideration on sale of shares in LCH.Clearnet Group Limited (LCH)) and a one-off receipt of \$55 million post-liquidation interest from the liquidators of Lehman Brothers Securities Asia Limited (Lehman). Excluding these items, revenue increased by 6 per cent with higher volumes in the Cash Market being offset by lower volumes in HKFE and lower revenue from the LME.

Operating expenses for YTD Q3 2017 increased by 3 per cent against the prior period. After adjusting for a one-off insurance recovery of \$23 million of legal costs incurred in prior years (relating to the warehouse litigation in the United States (US) which for the LME and HKEX defendants has now been concluded), operating expenses increased by 4 per cent. This increase arose primarily from increases in staff costs, which were partly offset by savings in Information Technology (IT) costs. Having regard to persistent global economic uncertainties, the Group continues to maintain a prudent approach to cost management.

⁵ Excludes net investment income and sundry income

Business Update and Analysis of Results by Operating Segment

	YTD Q3 2017		YTD Q3 2016		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
Results by segment:						
Cash	2,403	1,975	1,980	1,582	21%	25%
Equity and Financial Derivatives	1,540	1,196	1,576	1,240	(2%)	(4%)
Commodities	1,096	652	1,178	743	(7%)	(12%)
Clearing	3,578	2,991	3,165	2,634	13%	14%
Platform and Infrastructure	424	312	399	288	6%	8%
Corporate Items	616	(67)	180	(531)	242%	(87%)
	9,657	7,059	8,478	5,956	14%	19%

Cash Segment

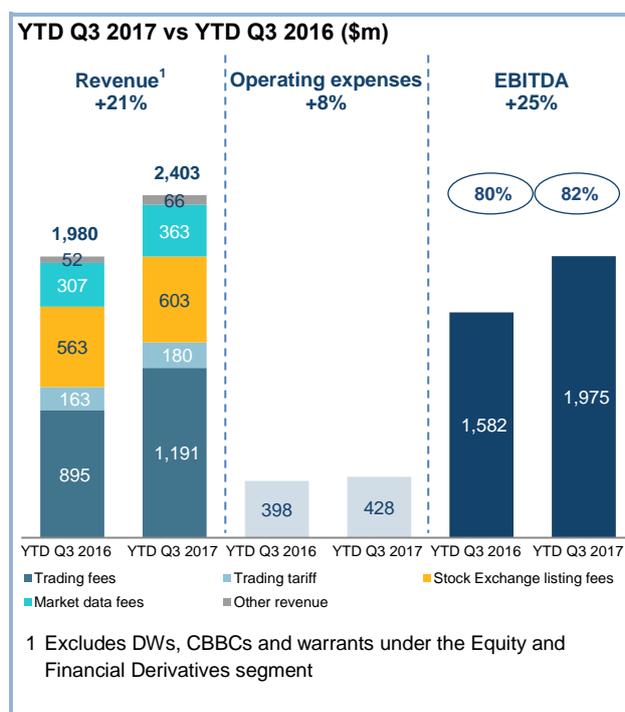
Analysis of Results

Trading fees and trading tariff increased by 30 per cent compared to YTD Q3 2016, below the 33 per cent growth in ADT. This was primarily because of an increase in average transaction size, which dampened the increase in trading tariff income.

Stock Exchange listing fees rose by \$40 million, reflecting a \$32 million increase in annual listing fees from a higher number of listed companies and an \$8 million increase in initial listing fees due to more newly listed companies than in YTD Q3 2016.

Market data fees increased by 18 per cent as a result of higher allocated revenue following an increase in the volume of cash equities traded, alongside decreases in the volumes of DWs, CBBCs and warrants traded.

Operating expenses rose by 8 per cent due to additional headcount for strategic projects.



Business Update

The Hong Kong Cash Market sentiment improved further in Q3 2017, with a 17 per cent increase in ADT of equity products traded on the Stock Exchange as compared to Q2 2017 (44 per cent increase in ADT as compared to Q3 2016).

Trading volumes from Stock Connects continued their steady growth and a number of record highs (see below) were reached during Q3 2017, demonstrating growing interest among Mainland investors in Hong Kong listed equity investments.

Following MSCI Inc.'s decision in June 2017 to include A shares in its global benchmark equity index, international investors have also shown a growing enthusiasm for China A Shares and the use of Stock Connects.

Record highs of Stock Connects in Q3 2017

- Northbound and Southbound Trading volumes reached record quarterly highs
- Net inflows to Hong Kong have increased for 23 consecutive months

To further raise awareness by international investors, HKEX, the Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited (ChinaClear) completed a major international roadshow, in September 2017, to promote the Shenzhen-Hong Kong Stock Connect. The joint team met with over 150 investment institutions in Toronto, New York, Chicago, Singapore, Sydney and Melbourne. HKEX is also continuing work with regulators and Mainland counterparts to further enhance the operating model of Stock Connects including the facilitation of real-time delivery versus payment settlement arrangements.

Stock Connects generated total revenue and other income of \$277 million in YTD Q3 2017 (YTD Q3 2016: \$117 million), of which \$153 million (YTD Q3 2016: \$54 million) arose from trading and clearing activities.

55 new Exchange Participants (EPs) were admitted to the Stock Exchange during YTD Q3 2017, compared to 46 admitted in the full year of 2016, indicating continued optimism in the Hong Kong Cash Market. As of 30 September 2017, the number of EPs reached 641.

In Q3 2017, HKEX conducted five large-scale Initial Public Offering (IPO) events and 12 seminars in both Mainland China and globally, to attract high quality Mainland China and international issuers to list in Hong Kong. HKEX also conducted 16 educational seminars on the New Board Concept Paper to solicit market feedback.

Complementing the thought processes underlying the New Board Concept Paper, much of HKEX's Q3 2017 marketing effort was focused on attracting "new economy" companies to list in Hong Kong. On 11 August 2017, HKEX jointly organised the "Hong Kong's Evolving Regime: New Board for New Economy Companies" symposium with Hong Kong Cyberport. The event was attended by over 130 "new economy" industry leaders and technology entrepreneurs, in addition to over 100 intermediaries. Similar symposiums were

Key Market Indicators	YTD Q3	
	2017	2016
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	66.5	49.9
ADT of Northbound Trading ² – Shanghai-Hong Kong Stock Connect (RMBbn)	4.7	3.0
ADT of Northbound Trading ² – Shenzhen-Hong Kong Stock Connect (RMBbn)	3.2	-
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	1,002,739	899,219
Number of newly listed companies on the Main Board ³	59	50
Number of newly listed companies on GEM	55	25
Total equity funds raised		
- IPOs (\$bn)	87.6	135.9
- Post-IPOs (\$bn)	229.0	179.8
Number of companies listed on the Main Board at 30 Sept	1,765	1,687
Number of companies listed on GEM at 30 Sept	304	243
Number of trading days	185	184
<p>1 Excludes DWs, CBBs and warrants under the Equity and Financial Derivatives segment and includes \$6.9 billion (YTD Q3 2016: \$3.3 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$1.8 billion (YTD Q3 2016: \$Nil) under Shenzhen-Hong Kong Stock Connect which was launched on 5 December 2016</p> <p>2 Includes buy and sell trades under Stock Connects</p> <p>3 Includes 8 transfers from The Growth Enterprise Market (GEM) (YTD Q3 2016: 4)</p>		

co-organised with hi-tech parks in Beijing, Shanghai, Guangzhou and Shenzhen, to encourage more “new economy” companies to consider Hong Kong as their listing venue. On 12 September 2017, HKEX co-hosted the “Technology Sector Networking Reception and Seminar” with InvestHK, with participation from nearly 300 senior executives from Mainland China and international technology companies.

After careful consideration of market feedback, on 15 September 2017, the Securities and Futures Commission (SFC) and the Stock Exchange published the conclusions to the joint consultation on proposed enhancements to the Stock Exchange’s decision-making and governance structure for listing regulation. The SFC and the Stock Exchange have decided to adopt the way forward as set out in the conclusions including establishing a new Listing Policy Panel and enhancing governance within the Stock Exchange’s structure for reviewing the Listing Committee’s decisions. Under the enhanced structure, the Stock Exchange will remain the primary frontline regulator of listed issuers and the Listing Committee will continue to make decisions under the Listing Rules, including decisions on suitability for listing.

The Stock Exchange published consultation papers on (i) Capital Raisings by Listed Issuers; (ii) Delisting and other Rule Amendments; (iii) Review of the Corporate Governance Code and Related Listing Rules; and (iv) Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments. The Stock Exchange invites market feedback on the proposals contained in these consultation papers.

Equity and Financial Derivatives Segment

Analysis of Results

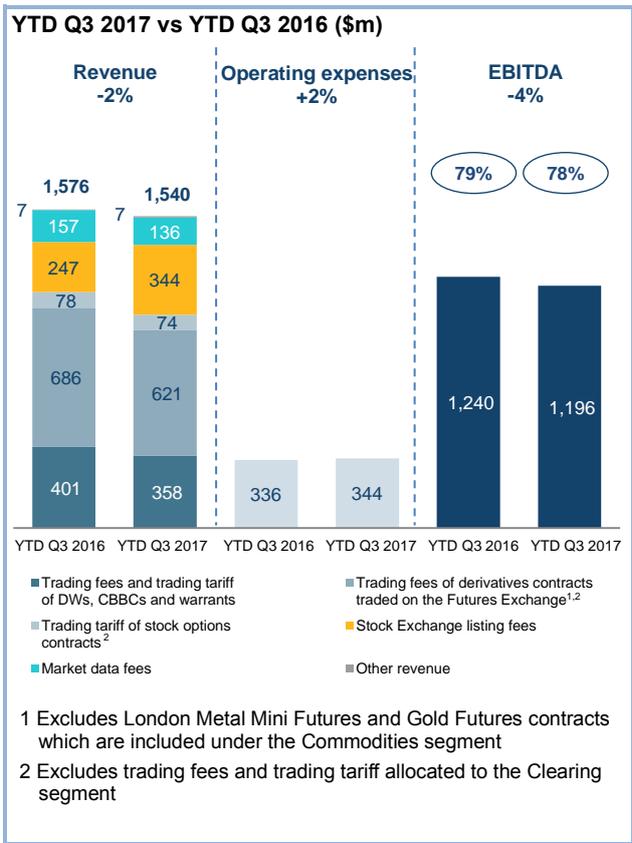
Market volatility remained subdued falling to levels last seen in 2014. This environment of reduced volatility continued to negatively impact derivatives trading volumes.

Trading fees and trading tariff of DWs, CBBCs and warrants declined by 11 per cent, compared to YTD Q3 2016, reflecting the 13 per cent decrease in ADT.

Trading fees of derivatives contracts traded on the Futures Exchange declined by 9 per cent compared to YTD Q3 2016 due to a 10 per cent decrease in ADV of derivatives contracts traded.

Stock Exchange listing fees rose by 39 per cent reflecting an increase in the number of newly listed DWs and CBBCs.

Operating expenses increased by 2 per cent due to increase in staff costs.



Business Update

ADV of derivatives contracts traded on the Futures Exchange⁶ in YTD Q3 2017 dropped by 10 per cent year-on-year due to reduced market volatility, but increased 1 per cent in Q3 2017 against Q2 2017.

ADV of stock options contracts traded in YTD Q3 2017 increased 33 per cent year-on-year, driven by increased trading in stock options of large blue-chip stocks, reflecting the increased volumes seen on the equity Cash Market.

An enhanced position limit regime, which included trebling the maximum position limit for stock options to 150,000 contracts as well as enhancements on hedge exemption, was introduced on 1 June 2017 to provide for the expanded scope of trading activities. The regime has provided more headroom for investors to manage risk utilising HKEX derivatives contracts. Compared to the pre-regime period from January to May 2017, the average open interest of stock options rallied 40 per cent and reached a new record in September 2017 (see below), while open interest of Hang Seng Index and Hang Seng China Enterprises Index products increased 23 per cent over the same period.

Open interest in futures and options set a new record of 16,057,614 contracts on 27 September 2017. In addition, the following record open interests were achieved during Q3 2017:

Open interest	Record High Date	Number of Contracts
Stock Options	27 Sept	11,442,518
Hang Seng Index Options	27 Sept	568,507
Mini Hang Seng Index Options	29 Aug	34,161
Hang Seng China Enterprises Index Options	27 Sept	3,280,515
USD/CNH Options	18 Sept	3,314
HSI Dividend Point Index Futures	29 Sept	11,422

A market consultation on the enhancement of after-hours trading (T+1 session) was completed and consultation conclusions issued in August 2017. Responses were received from a broad spectrum of market participants with the majority expressing support for the proposals. Subject to regulatory approvals and market readiness the proposed enhancements will be delivered in three phases:

- extension of trading hours of equity index futures to 01:00 in November 2017;
- inclusion of equity index options in the T+1 session in 1H 2018; and
- further extension of trading hours to 03:00 in Q4 2018.

These enhancements will facilitate risk management and trading in response to market news in the European and US time zones and promote the competitiveness of Hong Kong's derivatives market in the region.

Key Market Indicators	YTD Q3	
	2017	2016
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	15.5	17.9
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	183,767	190,919
ADV of derivatives contracts traded on the Futures Exchange ¹	426,723	472,813
ADV of stock options contracts traded on the Stock Exchange	396,491	297,001
Number of newly listed DWs	5,482	3,675
Number of newly listed CBBCs	8,531	6,895
ADV of contracts traded during After-Hours Futures Trading ¹	27,785	39,043
Number of trading days	186	185
	At 30 Sept 2017	At 30 Sept 2016
Open interest of futures and options contracts ¹	11,914,168	9,642,130
1 Excludes London Metal Mini Futures and Gold Futures contracts which are included under the Commodities segment		

⁶ Excludes London Metal Mini Futures and Gold Futures contracts which are included under the Commodities segment

To provide a capital efficient alternative to OTC equity derivatives, the Futures Exchange will introduce additional long-dated contract months in Hang Seng Index and Hang Seng China Enterprises Index Futures and Options up to 5.5 years. Subject to the SFC approval, the tentative launch date will be on 4 December 2017.

The incentive programmes to promote real-time derivatives data in the Mainland and overseas have been well received by the market since launch. In order to continue to support new derivatives products HKEX has extended these incentive programmes until the end of 2019. The regional promotion has also been extended to Thailand and Vietnam with the aim of broadening HKEX derivatives data coverage in emerging markets.

Bond Connect has been operating smoothly since its launch on 3 July 2017, allowing a broader group of international investors to access the China Interbank Bond Market (CIBM). As of 30 September 2017, 184 approved international investors, 24 onshore dealers, 50 Hong Kong local custodians and 19 Hong Kong foreign exchange settlement banks were participating in Bond Connect. Since launch, the overall foreign investor holdings in the CIBM domestic debt securities have increased by RMB237 billion, to RMB1,062 billion as at 30 September 2017.

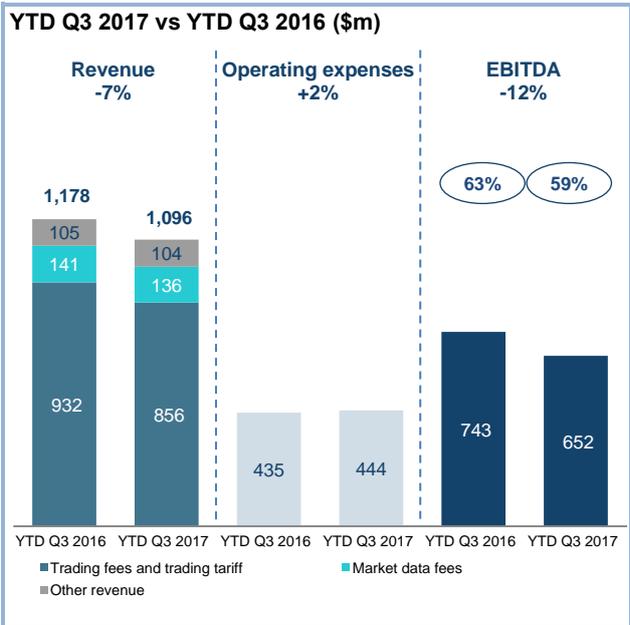
During Q3 2017, the Bond Connect delegation participated in non-deal roadshows held in seven cities in Asia and Europe, and conducted public seminars and small group/one-to-one meetings. These allowed both the local and international investment community to understand the practical arrangements and latest developments of Bond Connect. Feedback has been positive and Bond Connect Company Limited (BCCL), a joint venture established by China Foreign Exchange Trade System (CFETS) and HKEX, is now working with the Mainland and Hong Kong authorities and financial infrastructure institutions, to introduce further enhancements to Bond Connect.

Commodities Segment

Analysis of Results

The ADV of metals contracts traded increased by 1 per cent compared to YTD Q3 2016, however trading fees fell by 8 per cent due to the fee reductions for short-dated carry trades and a position transfer fee cap introduced in September 2016.

Operating expenses rose by 2 per cent. Excluding a one-off insurance recovery of \$23 million (relating to the costs of warehouse litigation in the US incurred in prior years), operating expenses rose by 7 per cent, largely driven by increased costs for strategic initiatives (including the establishment of a commodities trading platform in the Mainland). The overall increase was partly offset by IT cost savings and lower LME operating costs arising from a weaker pound sterling.



Business Update

The ADV of metals contracts traded on the LME in Q3 2017 increased by 16 per cent against Q3 2016 and was 12 per cent higher than Q2 2017. The increase was driven by stronger metals market activity, higher transfer volumes and the successful launch of LMEprecious contracts.

In April 2017 the LME published a Discussion Paper on Market Structure outlining its analysis of various topics that the LME considered to be of key interest to the ongoing development of the market. On 7 September 2017, the LME published an analysis of the feedback received, which included 162 written responses, together with an announcement of the “LME Strategic Pathway”. This report sets out the LME’s proposed approach to developing the market based on four key principles: serve the physical market, ensure fairness, increase user choice and maximise trading efficiency. A revised fee structure to reduce fees on key LME spread trades (short and medium-dated carries) was also introduced and took effect from 1 October 2017.

Key Market Indicators	YTD Q3	
	2017	2016
ADV of metals contracts traded on the LME (lots)		
Aluminium	219,481	216,960
Copper	142,055	154,301
Zinc	119,058	109,200
Nickel	85,506	80,655
Lead	42,767	43,779
Precious	2,162	-
Others	7,842	7,768
Total	618,871	612,663
Number of trading days	189	190
	At	At
	30 Sept	30 Sept
	2017	2016
Total futures Market Open Interest (lots)	2,276,197	2,273,426

The LMEprecious contracts were successfully launched on 10 July 2017 and continued to build momentum – as of September 2017, 35.6 million ounces (356,000 lots) of gold and 264 million ounces (52,700 lots) of silver had been traded. The combined ADV increased from 5,600 lots in the first week of launch to 7,970 lots in September. On the same day, HKEX launched a new CNH and USD Gold Futures product. This physically-delivered, dual-currency product aims to provide a risk management tool and facilitate price discovery for both gold and fixed income and currency (FIC) market participants. As of 30 September 2017, over 30,000 gold contracts had been traded in CNH and 12,000 gold contracts in USD. The total notional value of gold traded exceeds US\$1.6 billion or CNH10 billion.

The primary aim of the LME’s warehouse reform programme introduced in 2013 was to reduce structural queues to below 50 days at the five warehouses affected. At the end of September 2017, the final structural queue has dissipated. The LME considers this to be the successful conclusion of the warehouse reform programme. Operational queues, such as those caused by the cancellation of significant tonnages of metal at one warehouse, may still occur as part of the normal course of warehouse operations, and the LME will continue to monitor these on an ongoing basis.

HKEX is continuing to work towards establishing a Mainland commodity trading platform (Qianhai Mercantile Exchange Company Limited (QME)) in Qianhai, Shenzhen. HKEX aims to leverage the successful LME model to develop a credible, transparent and reliable commodities trading venue backed by efficient physical delivery and a secured warehouse system to support the Mainland’s real economy.

Clearing Segment

Analysis of Results

Clearing and settlement fees in Hong Kong increased by 14 per cent compared to YTD Q3 2016, as a result of the 21 per cent increase in Cash Market ADT and 16 per cent increase in Settlement Instructions (SIs). The positive impact of these increases was partially offset by an increase in average transaction size, resulting in a lower proportion of Cash Market trades being subject to the minimum clearing fee and a higher proportion of SI transactions being subject to the maximum fee.

Despite a 1 per cent increase in ADV of metals contracts traded, clearing fees of LME Clear fell by 4 per cent compared to YTD Q3 2016 due to the position transfer fee cap introduced in September 2016.

The \$185 million (46 per cent) increase in net investment income in YTD Q3 2017 arose from higher interest income on cash and bank deposits of Margin Funds, attributable to both higher interest rates and higher average Margin Fund size for HKCC. The increase in funds arose from a combination of higher open interest and increased margin requirements per contract. The enhanced position limit regime introduced in June 2017 contributed to higher open interest on stock options and therefore also increased the size of Margin Funds.

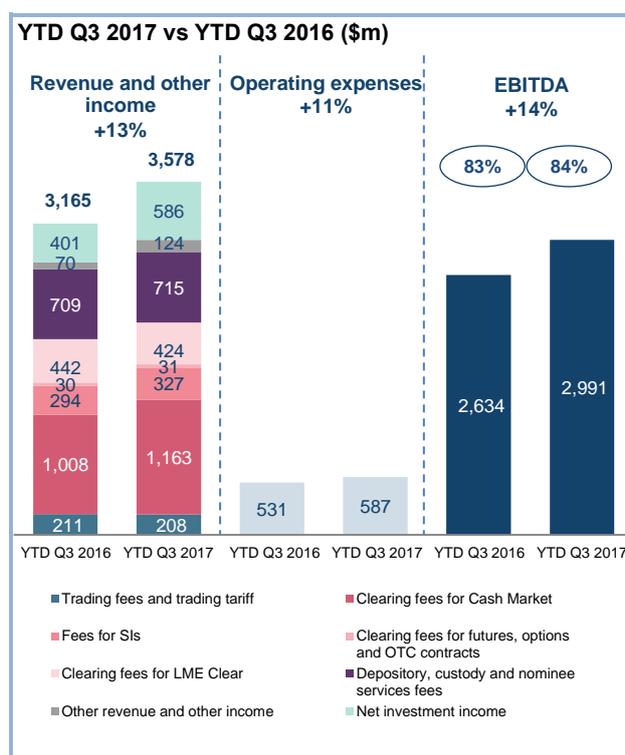
The one-off post-liquidation interest of \$55 million from Lehman liquidators, received in March 2017, also contributed to the overall increase in revenue and other income.

Operating expenses increased by 11 per cent, mainly as a result of increased staff costs, premises costs and bank charges.

Business Update

The portfolio value held under Southbound and Northbound Trading of Stock Connects continued to increase and reached \$743 billion at 30 September 2017 (30 September 2016: \$330 billion) and RMB 437 billion (30 September 2016: RMB 165 billion) respectively. As a result, Stock Connect related depository, custody and nominee services fee income rose by 150 per cent to \$45 million in YTD Q3 2017 (YTD Q3 2016: \$18 million).

The USD and CNH Gold Futures contracts, the first physically delivered commodities contracts in Hong Kong, were launched in July 2017. The physical delivery process has been operating smoothly since launch. Clearing Participants (CPs) are showing increasing interest in physical delivery business as the number of "Physical Delivery Participants" increases.



Key Market Indicators	YTD Q3	
	2017	2016
ADT traded on the Stock Exchange (\$bn)	82.0	67.8
Average daily number of Stock Exchange trades	1,186,506	1,090,138
Average daily value of SIs (\$bn)	211.1	182.1
Average daily number of SIs	89,573	83,144

OTC Clear was awarded the “Best OTC Clearing and Risk Management System Implementation” by the Asian Banker and the “Clearing House of the Year” by Asia Risk in recognition of its Cross Currency Swaps (CCS) propositions. In Q3 2017, a total of US\$9 billion notional was cleared by OTC Clear, up 1,015 per cent as compared to Q3 2016. USD/CNH CCS notional cleared in Q3 2017 was US\$2.6 billion, up 200 per cent compared to Q1 2017. OTC Clear has also admitted Australia and New Zealand Banking Group (ANZ) and BNP Paribas as clearing members during this quarter.

Platform and Infrastructure Segment

Analysis of Results

Network fees rose by 4 per cent as more EPs migrated from the obsolete Open Gateway to the HKEX Orion Central Gateway.

Hosting services fees increased by 13 per cent due to organic growth from subscription from new customers and increased usage of existing customers.

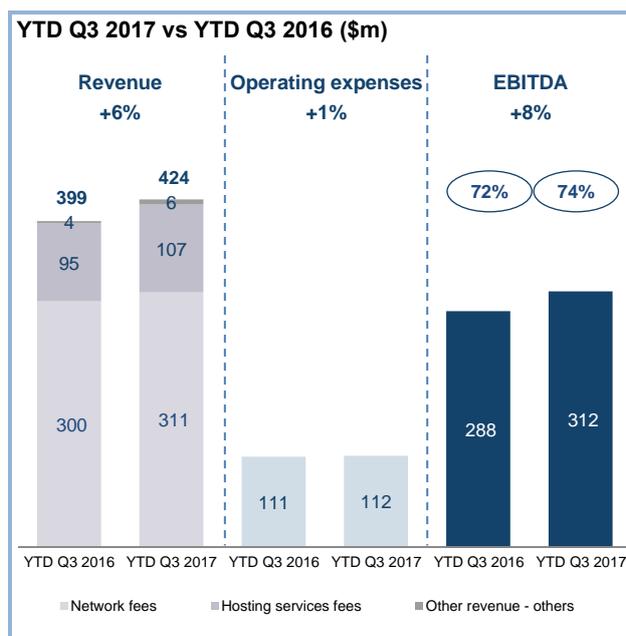
Business Update

During Q3 2017, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably.

Implementation of the Orion Trading Platform – Securities Market platform, which replaces the current Third Generation Automatic Order Matching and Execution System (AMS/3.8), remains on track and functional and technical user acceptance tests have been completed. Market rehearsals are planned for Q4 2017 and the new system introduced during 2018. This new system will allow HKEX to provide new functionalities and support increased trading capacity for the next decade.

China Connect Central Gateway (CCCG) was successfully introduced on 17 July 2017 to facilitate Northbound Trading for China Connect Exchange Participants (CCEPs). Over 60 per cent of Northbound Trading is now traded through CCEPs which have migrated onto the CCCG infrastructure.

HKEX plans to upgrade the derivatives platforms, The Hong Kong Futures Automated Trading System (HKATS) and The Derivatives Clearing and Settlement System (DCASS), by 2H 2018. The upgrade will bring simplified infrastructure to the derivatives market, with a reduction of the hardware footprint required at Participants’ premises. Initial project briefing sessions and technical briefing sessions were held in June 2017 and September 2017 to facilitate Participants implementation planning.



Corporate Items

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

In YTD Q3 2017, a one-off receipt of \$14 million deferred consideration on sale of LCH shares was recognised in net investment income. Excluding such gain, net investment income in YTD Q3 2017 increased by \$426 million principally due to fair value gains on collective investment schemes (YTD Q3 2016: fair value gains for equities and debt securities: \$119 million).

YTD Q3 2017 vs YTD Q3 2016	YTD Q3	
	2017	2016
	\$m	\$m
Revenue and Other Income		
Net investment income	609	169
Others	7	11
Total	616	180
Operating expenses	683	711

FINANCIAL REVIEW

Financial Assets and Financial Liabilities of Margin Funds and Clearing House Funds

Margin Fund deposits of \$141.2 billion at 30 September 2017 were \$14.4 billion higher than at 31 December 2016 due to an increase in open interest in futures and options contracts cleared through HKCC and SEOCH and higher margin requirement per contract at 30 September 2017. Clearing House Fund contributions rose from \$8.7 billion at 31 December 2016 to \$14.0 billion at 30 September 2017 due to higher contributions required from CPs in response to changes in risk exposures. Funds received were invested in cash and cash equivalents, financial assets measured at amortised costs and financial assets measured at fair value through profit or loss.

Borrowings

In Q3 2017, the Group fully repaid its floating rate bank borrowings of US\$205 million, reducing the outstanding debt to HK\$1,856 million at 30 September 2017.

Capital Expenditure and Commitments

During YTD Q3 2017, the Group incurred capital expenditure of \$479 million (YTD Q3 2016: \$409 million) 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. The Group's capital expenditure commitments at 30 September 2017, including those authorised by the Board but not yet contracted for, amounted to \$788 million (31 December 2016: \$981 million).

Contingent Liabilities

At 30 September 2017, there were no significant changes in the Group's contingent liabilities compared to 31 December 2016.

Charges on Assets

Securities, gold bullion and warrants were held by LME Clear as non-cash collateral for margins posted by its CPs and collateral in respect of its interest in overnight triparty reverse repurchase agreements, which together amounted to \$89,589 million at 30 September 2017 (31 December 2016: \$86,830 million). This non-cash collateral, which was not recorded on the consolidated statement of financial position of the Group, together with certain financial assets amounting to \$3,679 million at 30 September 2017 (31 December 2016: \$3,334 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 first floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

Changes since 31 December 2016

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2016.

It is the Group's practice to declare a dividend only at the half-year and year-end and no dividend will be proposed for Q3 2017 (Q3 2016: \$Nil).

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for YTD Q3 2017.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Nine months ended 30 Sept 2017 \$m	Nine months ended 30 Sept 2016 \$m	Three months ended 30 Sept 2017 \$m	Three months ended 30 Sept 2016 \$m
Trading fees and trading tariff	3,488	3,366	1,308	1,111
Stock Exchange listing fees	947	810	354	279
Clearing and settlement fees	1,945	1,774	721	587
Depository, custody and nominee services fees	715	709	256	236
Market data fees	635	605	216	201
Other revenue	727	624	223	218
REVENUE	8,457	7,888	3,078	2,632
Investment income and sundry income	1,200	590	376	216
REVENUE AND OTHER INCOME	9,657	8,478	3,454	2,848
OPERATING EXPENSES				
Staff costs and related expenses	(1,639)	(1,505)	(566)	(489)
Information technology and computer maintenance expenses	(315)	(379)	(105)	(128)
Premises expenses	(261)	(243)	(85)	(81)
Product marketing and promotion expenses	(30)	(30)	(10)	(9)
Legal and professional fees	(39)	(63)	(21)	(17)
Other operating expenses	(314)	(302)	(100)	(110)
	(2,598)	(2,522)	(887)	(834)
EBITDA	7,059	5,956	2,567	2,014
Depreciation and amortisation	(547)	(573)	(185)	(191)
OPERATING PROFIT	6,512	5,383	2,382	1,823
Finance costs	(93)	(62)	(28)	(19)
Share of losses of joint ventures	(8)	(7)	(3)	(2)
PROFIT BEFORE TAXATION	6,411	5,314	2,351	1,802
TAXATION	(910)	(806)	(328)	(266)
PROFIT FOR THE PERIOD	5,501	4,508	2,023	1,536
PROFIT/(LOSS) ATTRIBUTABLE TO:				
- Shareholders of HKEX	5,526	4,528	2,033	1,543
- Non-controlling interests	(25)	(20)	(10)	(7)
PROFIT FOR THE PERIOD	5,501	4,508	2,023	1,536
Basic earnings per share	\$4.51	\$3.74	\$1.65	\$1.27
Diluted earnings per share	\$4.50	\$3.73	\$1.65	\$1.27

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine months ended 30 Sept 2017 \$m	Nine months ended 30 Sept 2016 \$m	Three months ended 30 Sept 2017 \$m	Three months ended 30 Sept 2016 \$m
PROFIT FOR THE PERIOD	5,501	4,508	2,023	1,536
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences of foreign subsidiaries recorded in exchange reserve	136	7	16	(3)
Cash flow hedges: fair value gains of hedging instruments	3	-	3	-
OTHER COMPREHENSIVE INCOME	139	7	19	(3)
TOTAL COMPREHENSIVE INCOME	5,640	4,515	2,042	1,533
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
- Shareholders of HKEX	5,665	4,535	2,052	1,540
- Non-controlling interests	(25)	(20)	(10)	(7)
TOTAL COMPREHENSIVE INCOME	5,640	4,515	2,042	1,533

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	At 30 Sept 2017			At 31 Dec 2016		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS						
Cash and cash equivalents	134,324	–	134,324	115,723	–	115,723
Financial assets measured at fair value through profit or loss	81,389	316	81,705	70,066	–	70,066
Financial assets measured at amortised cost	33,331	72	33,403	29,093	74	29,167
Accounts receivable, prepayments and deposits	13,607	21	13,628	12,928	21	12,949
Interests in joint ventures	–	65	65	–	59	59
Goodwill and other intangible assets	–	17,966	17,966	–	17,812	17,812
Fixed assets	–	1,411	1,411	–	1,499	1,499
Lease premium for land	–	21	21	–	21	21
Deferred tax assets	–	28	28	–	22	22
Total assets	262,651	19,900	282,551	227,810	19,508	247,318
LIABILITIES AND EQUITY						
Liabilities						
Financial liabilities at fair value through profit or loss	72,179	–	72,179	61,627	–	61,627
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	141,153	–	141,153	126,846	–	126,846
Accounts payable, accruals and other liabilities	15,464	45	15,509	12,246	30	12,276
Deferred revenue	399	–	399	842	–	842
Taxation payable	910	–	910	356	–	356
Other financial liabilities	46	–	46	37	–	37
CPs' contributions to Clearing House Funds	14,009	–	14,009	8,656	–	8,656
Borrowings	–	1,856	1,856	–	3,422	3,422
Provisions	86	72	158	78	81	159
Deferred tax liabilities	–	689	689	–	713	713
Total liabilities	244,246	2,662	246,908	210,688	4,246	214,934
Equity						
Share capital			25,137			22,085
Shares held for Share Award Scheme			(604)			(599)
Employee share-based compensation reserve			363			226
Hedging reserve			3			–
Exchange reserve			(124)			(260)
Designated reserves			823			773
Reserve relating to written put options to non-controlling interests			(293)			(293)
Retained earnings			10,212			10,334
Equity attributable to shareholders of HKEX			35,517			32,266
Non-controlling interests			126			118
Total equity			35,643			32,384
Total liabilities and equity			282,551			247,318
Net current assets			18,405			17,122

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2016. Amendments to Hong Kong Financial Reporting Standards effective for the financial year ending 31 December 2017 do not have any financial impact to the Group.

The financial information relating to the year ended 31 December 2016 that is included in this Quarterly Results Announcement as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

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

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

Hong Kong, 8 November 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 CHEAH Cheng Hye, Mr Timothy George FRESHWATER, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zulu, Fred, Mrs LEUNG KO May Yee, Margaret, Mr LEUNG Pak Hon, Hugo, Mr John Mackay McCulloch WILLIAMSON, and Mr YIU Kin Wah, Stephen, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive.