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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 (HKD) unless otherwise stated)

## QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

The Board<sup>1</sup> is pleased to present the unaudited consolidated results of the Group<sup>2</sup> for the three months ended 31 March 2018.

### FINANCIAL HIGHLIGHTS

| Financial figures are expressed in \$million (\$m) unless otherwise stated | Q1 2018<br>\$m | Q1 2017<br>\$m | Change |
|--|----------------|----------------|--------|
| Revenue and other income   | <b>4,150</b>   | 3,048          | 36%    |
| Operating expenses   | <b>935</b>     | 833            | 12%    |
| EBITDA <sup>3</sup>  | <b>3,215</b>   | 2,215          | 45%    |
| Profit attributable to shareholders  | <b>2,562</b>   | 1,716          | 49%    |
| Basic earnings per share   | <b>\$2.07</b>  | \$1.41         | 47%    |

#### Key messages

- Record high quarterly revenue and other income and profit attributable to shareholders were achieved in Q1<sup>4</sup> 2018.
- Revenue and other income for Q1 2018 was 36 per cent higher than Q1 2017, which was attributable to:
  - A significant increase in trading and clearing fees driven by increases in Cash Market turnover and Derivatives Market volume, as average daily number of futures and options contracts traded reached record quarterly high; and
  - Higher Stock Exchange listing fees from increased number of newly listed securities, as the number of newly listed derivative warrants (DWs) and callable bull/bear contracts (CBBCs) both reached record quarterly highs.
- Operating expenses were 12 per cent higher than Q1 2017. Excluding the one-off insurance recovery of \$23 million in Q1 2017 relating to the warehouse litigation in the United States (US), operating expenses increased by 9 per cent, attributable to increases in staff costs, information technology (IT) costs and premises expenses.
- EBITDA margin of 77 per cent was 4 per cent higher than both Q1 2017 and the year ended 31 December 2017.

|   | Q1 2018                    | Q1 2017 | Change |
|---|----------------------------|---------|--------|
| <b>KEY MARKET STATISTICS</b>  |                            |         |        |
| ADT of equity products traded on the Stock Exchange (\$bn)              | <b>113.3</b>               | 58.1    | 95%    |
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)      | <b>32.8</b>                | 16.2    | 102%   |
| ADT traded on the Stock Exchange (\$bn)                                 | <b>146.1</b>               | 74.3    | 97%    |
| ADV of derivatives contracts traded on the Futures Exchange (contracts) | <b>676,821<sup>1</sup></b> | 421,217 | 61%    |
| ADV of stock options contracts traded on the Stock Exchange (contracts) | <b>665,446<sup>1</sup></b> | 338,771 | 96%    |
| ADV of metals contracts traded on the LME (lots)                        | <b>727,403</b>             | 607,251 | 20%    |

1 New record quarterly high in Q1 2018

- 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 (SECH), OTC Clearing Hong Kong Limited (OTC Clear), 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

## BUSINESS REVIEW

### Overview

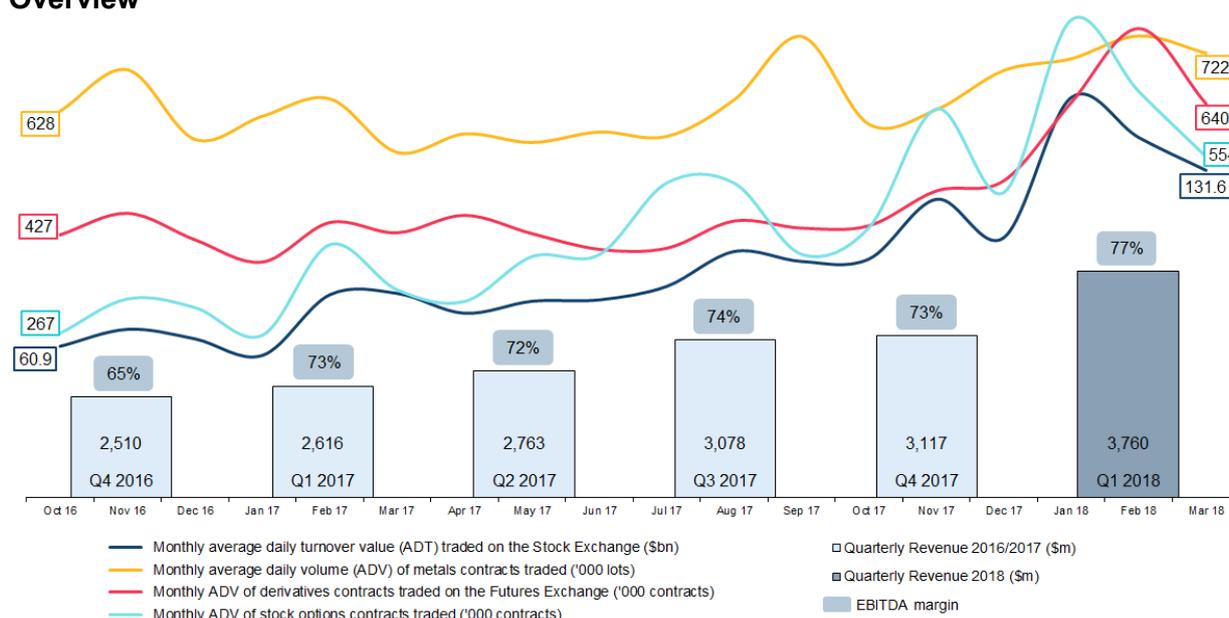


Figure 1 – Market activity and Group Revenue<sup>5</sup>

Market momentum continued to be strong in Q1 2018 despite significant corrections experienced by all major markets in February and increasing risk of trade war initiated by the US. Cash Market headline ADT rose to \$146.1 billion, 36 per cent above Q4 2017 and 97 per cent above Q1 2017. The increase in trading activities outperformed most global exchanges. Stock Connect<sup>6</sup> trading volumes continued to increase in Q1 2018, and reached record quarterly highs with Northbound and Southbound ADT being 27 per cent and 49 per cent higher respectively than the previous records achieved in Q4 2017. Strong growth in trading volumes was also seen in the Derivatives Market in Q1 2018 due to increased volatility, with 61 per cent and 96 per cent increase in the ADV of HKFE contracts and stock options traded respectively against Q1 2017. In addition, the Initial Public Offering (IPO) market became more active and new listings of DWs and CBBCs more than doubled in Q1 2018 compared with Q1 2017. As a result, revenue and other income<sup>7</sup> reached record quarterly high in Q1 2018.

Operating expenses increased by 12 per cent against Q1 2017. Excluding the one-off insurance recovery of \$23 million in Q1 2017 relating to the warehouse litigation in the US, operating expenses increased by 9 per cent compared to Q1 2017, but were 3 per cent lower than Q4 2017. Compared with Q1 2017, the increase in operating expenses was attributable to an increase in staff costs due to higher headcount, annual payroll adjustments and higher variable pay accruals, increases in premises expenses for new offices, and higher IT maintenance expenses for new IT systems and upgraded networks. The Group continues to maintain a prudent approach to cost management whilst investing in key strategic initiatives for future growth.

<sup>5</sup> Excludes net investment income and sundry income

<sup>6</sup> Includes Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

<sup>7</sup> Other income comprised net investment income and sundry income

## Business Update and Analysis of Results by Operating Segment

|                                  | Q1 2018                         |               | Q1 2017                         |               | Change                        |             |
|----------------------------------|---------------------------------|---------------|---------------------------------|---------------|-------------------------------|-------------|
|                                  | Revenue and other income<br>\$m | EBITDA<br>\$m | Revenue and other income<br>\$m | EBITDA<br>\$m | Revenue and other income<br>% | EBITDA<br>% |
| Results by segment:              |                                 |               |                                 |               |                               |             |
| Cash                             | 1,130                           | 999           | 738                             | 597           | 53%                           | 67%         |
| Equity and Financial Derivatives | 943                             | 802           | 495                             | 383           | 91%                           | 109%        |
| Commodities                      | 344                             | 174           | 369                             | 255           | (7%)                          | (32%)       |
| Clearing                         | 1,487                           | 1,293         | 1,085                           | 898           | 37%                           | 44%         |
| Platform and Infrastructure      | 146                             | 110           | 138                             | 101           | 6%                            | 9%          |
| Corporate Items                  | 100                             | (163)         | 223                             | (19)          | (55%)                         | 758%        |
|                                  | <b>4,150</b>                    | <b>3,215</b>  | <b>3,048</b>                    | <b>2,215</b>  | <b>36%</b>                    | <b>45%</b>  |

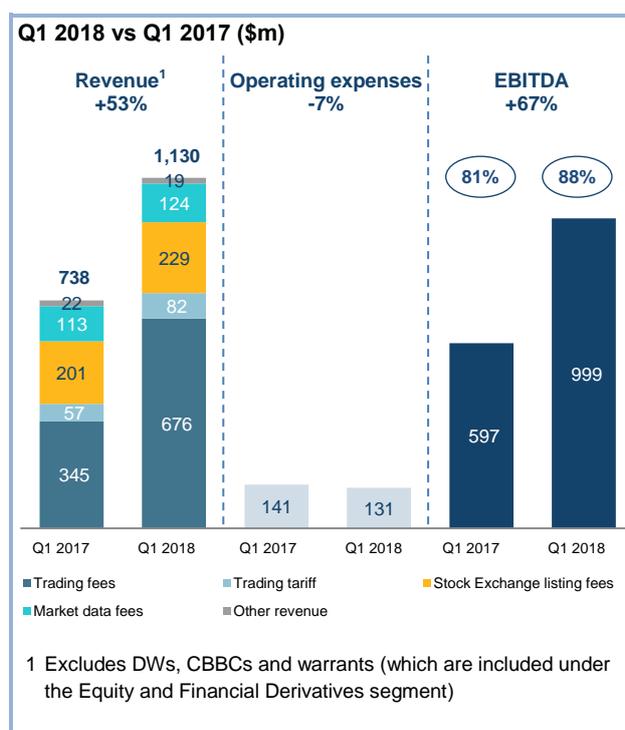
## Cash Segment

### Analysis of Results

Trading fees increased by 96 per cent compared to Q1 2017, in line with the 95 per cent higher ADT of equity products. Trading tariff only rose by 44 per cent due to an increase in average transaction size, which dampened the increase in such income.

Stock Exchange listing fees rose by \$28 million, with a \$16 million increase in annual listing fees from a higher number of listed companies, and a \$12 million increase in initial listing fees due to more IPOs than in Q1 2017.

Operating expenses dropped by 7 per cent due to lower allocated costs of the Listing Division arising from the lower percentage increase in listing fees from equities than DWs and CBBCs which are under the Equity and Financial Derivatives segment, and lower premises expenses due to the closure of the trading hall.



## Business Update

Q1 2018 recorded a historical level of trading activities, stock market performance and market capitalisation. Headline ADT in Q1 2018 was \$146.1 billion, a 97 per cent increase compared to that of Q1 2017 (\$74.3 billion), and was the second highest quarterly ADT after the previous record in Q2 2015. The level of increase in trading activities against both Q1 2017 and Q4 2017 outperformed most global exchanges. The benchmark Hang Seng Index achieved a historical intraday high of 33,484 points on 29 January 2018. Market capitalisation also reached a record high of \$37,716 billion on 26 January 2018.

The Stock Connect programme continued to gather momentum in Q1 2018. Northbound trading value (Renminbi (RMB)1,082 billion) and Southbound trading value (\$1,102 billion) in Q1 continued to set record highs, demonstrating increasing interest among Mainland investors in diversifying their investments into Hong Kong, and rising demand from Hong Kong and international investors for China A shares. Inclusion of China A shares in MSCI Inc.'s Emerging Markets Index starting in June 2018 is expected to further stimulate Northbound turnover, and HKEX will work with Mainland authorities and market participants to ensure an orderly inclusion.

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

Stock Connect generated total revenue and other income of \$172 million (Q1 2017: \$75 million), of which \$116 million (Q1 2017: \$38 million) arose from trading and clearing activities.

HKEX remains committed to bringing in high quality issuers to Hong Kong, in particular “new economy” and biotech companies. On 23 February 2018, the Stock Exchange published the Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors to seek public feedback on the proposed new rules to facilitate listings of companies from emerging and innovative sectors. The Stock Exchange received 283 responses from a broad range of respondents, and published the consultation conclusions on 24 April 2018 following overwhelming support for the new listing regime proposal. The Stock Exchange added three new chapters in the Main Board Listing Rules which took effect on 30 April 2018, the date when listing applications under the new regime may be submitted. Given the specialised nature of the biotech sector, the Stock Exchange has assembled a panel of experienced participants in the biotech industry to form a Biotech Advisory Panel to assist in the review of listing applications from biotech firms applying under the new regime.

On 22 March 2018, HKEX organised the inaugural HKEX Biotech Summit, which gathered over 600 delegates, connecting senior biotech industry leaders with the biotech investment community, sell-side advisors and research analysts. To encourage a sustainable biotech ecosystem in Hong Kong, HKEX also signed Memoranda of Understanding with leading biotech industry groups, and strengthened its efforts in promoting the new listing regime

| Key Market Indicators   | Q1                |         |
|---|-------------------|---------|
|   | 2018              | 2017    |
| ADT of equity products traded on the Stock Exchange <sup>1,2</sup> (\$bn)   | 113.3             | 58.1    |
| ADT of Northbound Trading <sup>2</sup> – Shanghai-Hong Kong Stock Connect (RMB bn)  | 10.9 <sup>4</sup> | 3.8     |
| ADT of Northbound Trading <sup>2</sup> – Shenzhen-Hong Kong Stock Connect (RMB bn)  | 8.1 <sup>4</sup>  | 2.0     |
| Average daily number of trades of equity products traded on the Stock Exchange <sup>1,2</sup>   | 1,401,740         | 954,192 |
| Number of newly listed companies on the Main Board <sup>3</sup>   | 36                | 21      |
| Number of newly listed companies on GEM   | 33 <sup>4</sup>   | 19      |
| Total equity funds raised   |                   |         |
| - IPOs (\$bn)   | 24.4              | 13.4    |
| - Post-IPOs (\$bn)  | 96.5              | 49.6    |
| Number of companies listed on the Main Board at 31 Mar  | 1,827             | 1,732   |
| Number of companies listed on GEM at 31 Mar   | 352               | 277     |
| Number of trading days  | 61                | 62      |
| <p>1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes Southbound Trading ADT of \$13.2 billion<sup>4</sup> (Q1 2017: \$6.0 billion) under Shanghai-Hong Kong Stock Connect and \$6.5 billion<sup>4</sup> (Q1 2017: \$1.1 billion) under Shenzhen-Hong Kong Stock Connect</p> <p>2 Includes buy and sell trades under Stock Connect</p> <p>3 Includes 5 transfers from GEM (Q1 2017: 1)</p> <p>4 New record quarterly high in Q1 2018</p> |                   |         |

changes at large-scale biotech conferences in the US, Tokyo and Mainland China.

HKEX announced the successful conclusion of the 2017 Annual Attestation and Inspection Programme, which aims to enhance HKEX's surveillance and monitoring of Exchange Participants (EPs). With a view to raising compliance awareness, HKEX issued a circular on 27 February 2018 to set out our key observations and compliance reminders on the relevant rules and requirements. In 2018, the Annual Attestation and Inspection Programme will be extended to cover the rules of the Derivatives Market and the Clearing business. Briefing sessions to introduce this year's Programme were conducted for Exchange and Clearing Participants in March 2018.

Bond Connect, the ground-breaking cross-border scheme broadening access to the China Interbank Bond Market (CIBM), recorded significant growth since launch. The overall foreign investor holdings in the CIBM's domestic debt securities rose to RMB1.3 trillion as of 31 March 2018, an increase of 55 per cent since the launch of Bond Connect. Trading through Bond Connect in Q1 2018 reached a total volume of RMB162.6 billion, an increase of 7 per cent compared to Q4 2017.

On 23 March 2018, it was announced that China's bonds will be, for the first time, included in the Bloomberg Barclays Global Aggregate Index<sup>8</sup> from April 2019 by phases. Once fully implemented, there will be 386 Chinese securities included in the index with a weighting of 5.49 per cent of the US\$53.73 trillion Index<sup>9</sup>. The move is expected to drive global allocation to China's bond market and demand for the Bond Connect scheme.

HKEX launched two marketing programmes in 2017 to promote the visibility and penetration of securities market data in the Mainland to facilitate Stock Connect. Both programmes received positive feedback, with 46 clients (19 Southbound brokers and 27 information vendors) enrolling in the Marketing Programme for Mobile Application Service, and 4 information vendors participating in the One Year Fixed Fee Programme.

Up to the date of this announcement, the Stock Exchange published the following guidance materials during 2018:

- A "Review of Disclosure in Issuers' Annual Reports to Monitor Rules Compliance – Report 2017" covering the findings and recommendations from a review of issuers' annual reports for financial year ended between January and December 2016.
- New guidance letters on (i) implementing a new regime for companies from emerging and innovative sectors; (ii) pricing flexibility for IPOs; and (iii) reallocation of shares from placing tranche to the public subscription tranche in an IPO.
- Updated guidance letters on (i) IPO vetting and suitability for listing and (ii) issuers using contractual arrangements or structured contracts.
- The fourth and final instalment of director training webcasts entitled "Directors' Responsibilities at IPOs" to help improve standards of corporate governance and regulatory best practices among listed issuers.
- Bi-annual Enforcement Newsletter for the twelve months ended 31 December 2017 summarising news and updates on enforcement activities and highlighting specific areas or conduct that might impact on Rule compliance.

On 9 March 2018, the SFC and the Stock Exchange signed an addendum (Addendum) to the Memorandum of Understanding Governing Listing Matters dated 28 January 2003. Pursuant to the Addendum, a new Listing Policy Panel has been established as an advisory, consultative and steering body to initiate and centralise discussions on listing policy with broader regulatory or market implications. The Addendum also clarifies that the role of the SFC as a statutory regulator has evolved to have a more direct presence in more serious listing matters while the Stock Exchange is the primary front-line regulator and remains the contact point for all listing applications save in respect of concerns raised by the SFC under the Securities and Futures (Stock Market Listing) Rules.

On 4 May 2018, the Stock Exchange published the Consultation Conclusions on Capital Raisings by Listed Issuers and will implement the proposals with minor modifications following strong support from market stakeholders. The Rule amendments will become effective on 3 July 2018.

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<sup>8</sup> A major global index tracked by global fixed income funds with an estimated tracking asset-under-management of over US\$2 trillion

<sup>9</sup> Based on data as of 31 January 2018

## Equity and Financial Derivatives Segment

### Analysis of Results

Derivatives trading volumes were boosted by increased volatility in Q1 2018. Trading fees of derivatives contracts on the Futures Exchange rose by 71 per cent due to an increase in ADV, and a larger proportion of derivatives contracts traded in Q1 2018 being higher fee contracts including Hang Seng Index (HSI) products.

Trading fees and trading tariff of DWs, CBBCs and warrants rose by 107 per cent, reflecting the 102 per cent growth in ADT.

Trading tariff of stock options contracts rose by 214 per cent due to an increase in ADV, and higher fee per contract as various stock options moved to a higher fee tier in 2018 following an increase in the value of the underlying stocks.

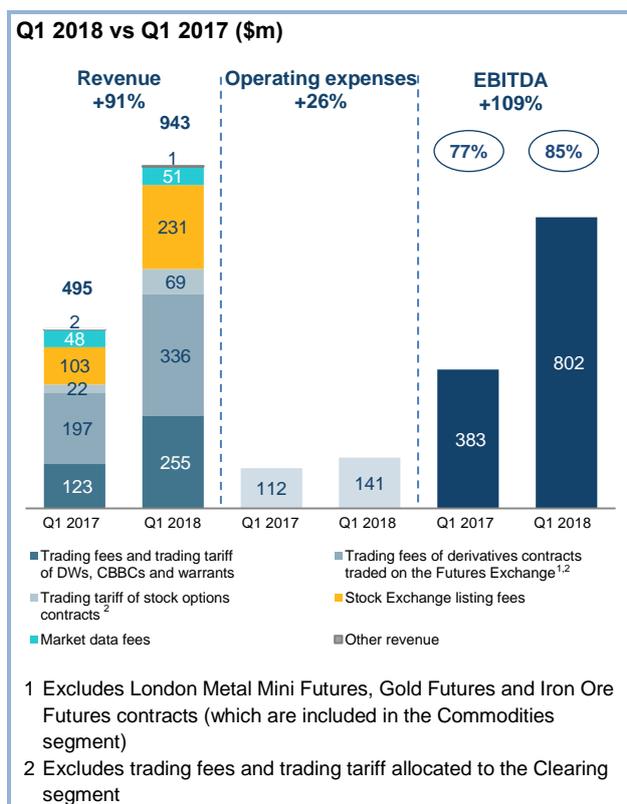
Stock Exchange listing fees rose by 124 per cent as the number of newly listed DWs and CBBCs doubled in Q1 2018 compared with Q1 2017.

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

### Business Update

The structured products market on the Stock Exchange continued to be very active in Q1 2018 in terms of the number of new listings. On a quarterly basis, the number of newly listed DWs and CBBCs both reached new record highs in Q1 2018.

Strong growth in trading volume of derivatives contracts was seen in Q1 2018, with an all-time single day record of 2,198,314 contracts<sup>10</sup> traded on 29 January 2018. ADV of futures and options<sup>10</sup> increased 76 per cent in Q1 2018 year-on-year, exceeding 1.3 million contracts for the first time. ADV of stock options climbed 96 per cent, mainly driven by heavier trading in stock options of certain large blue-chip stocks. As a result of accelerated pace of open interest accumulation on options contracts in Q1 2018, open interest of derivatives contracts established an all-time high of 18,348,438 contracts<sup>10</sup> on 27 March 2018.



| Key Market Indicators  | Q1                         |               |
|--|----------------------------|---------------|
|  | 2018                       | 2017          |
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)                     | <b>32.8</b>                | 16.2          |
| Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange | <b>412,061<sup>2</sup></b> | 172,379       |
| ADV of derivatives contracts traded on the Futures Exchange <sup>1</sup>               | <b>674,657<sup>2</sup></b> | 421,210       |
| ADV of stock options contracts traded on the Stock Exchange                            | <b>665,446<sup>2</sup></b> | 338,771       |
| Number of newly listed DWs   | <b>3,076<sup>2</sup></b>   | 1,502         |
| Number of newly listed CBBCs   | <b>7,440<sup>2</sup></b>   | 2,508         |
| ADV of contracts traded during After-Hours Futures Trading (AHFT) <sup>1</sup>         | <b>80,349<sup>2</sup></b>  | 25,168        |
| Number of trading days   | <b>61</b>                  | 62            |
|  | <b>At</b>                  | <b>At</b>     |
|  | <b>31 Mar</b>              | <b>31 Mar</b> |
|  | <b>2018</b>                | <b>2017</b>   |
| Open interest of futures and options contracts <sup>1</sup>                            | <b>13,284,183</b>          | 10,331,774    |

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)  
2 New record quarterly high in Q1 2018

<sup>10</sup> Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

The following record single day volumes and open interest positions were achieved during Q1 2018:

|  | Single Day Trading Volume |                     | Open interest |                     |
|--|---------------------------|---------------------|---------------|---------------------|
|  | Date (2018)               | Number of contracts | Date (2018)   | Number of contracts |
| Total Futures and Options <sup>1</sup>                 | 29 Jan                    | 2,198,314           | 27 Mar        | 18,348,438          |
| HSI Futures  | 26 Jan                    | 353,193             | N/A           | N/A                 |
| Mini HSI Futures                                       | 7 Feb                     | 215,927             | N/A           | N/A                 |
| Mini Hang Seng China Enterprises Index (HSCEI) Futures | 6 Feb                     | 76,471              | N/A           | N/A                 |
| HSI Options  | 23 Jan                    | 130,998             | N/A           | N/A                 |
| Mini HSI Options                                       | 23 Jan                    | 19,769              | 29 Jan        | 37,194              |
| HSCEI Options  | 9 Feb                     | 232,994             | N/A           | N/A                 |
| Mini HSCEI Options                                     | 9 Feb                     | 11,728              | 22 Feb        | 23,708              |
| Stock Options  | N/A                       | N/A                 | 27 Mar        | 13,725,731          |
| RMB Currency Options – USD/CNH <sup>2</sup> Options    | N/A                       | N/A                 | 15 Mar        | 4,128               |

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

2 USD = United States dollar (US\$), CNH = Offshore RMB traded outside Mainland China

Equity Index Futures trading volume of after-hours trading (the T+1 Session) increased significantly following the extension of trading hours to 1 am on 6 November 2017. ADV of Equity Index Futures traded in the T+1 Session in Q1 2018 increased by 167 per cent compared to the full year of 2017, and the percentage of T+1 Session volume to T Session volume of Equity Index Futures increased from 11 per cent in 2017 to 19 per cent in Q1 2018, and reached a historical high of 41 per cent on 14 February 2018.

HKEX plans to implement phase 2 of the after-hours trading enhancement and include Equity Index Options in the T+1 Session in Q2 2018. This would provide more comprehensive risk management and trading tools in the T+1 Session for investors and EPs to manage their futures and options portfolio in response to market news in Europe and the US trading hours. A Trading Halt Mechanism will be introduced in the T+1 Session to avoid potential extreme options price movements.

In Q1 2018, HKEX introduced various product initiatives in the Derivatives Markets:

- (i) narrowing strike intervals for stock index options on 22 January 2018;
- (ii) four new stock futures and five new stock options on 5 February 2018;
- (iii) contract month extension for HSI/HSCEI futures and options up to 5.5 years on 5 March 2018; and
- (iv) two new stock futures with Exchange Traded Fund (ETF) underlying (Tracker Fund of Hong Kong and HSCEI ETF) on 9 April 2018.

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

In Q1 2018, RMB exhibited strong two-way volatility against the USD, with spot movement of over 3,000 pips during the quarter. Amidst heightened RMB volatility, HKEX's RMB currency products recorded significant growth in turnover, serving as efficient hedging tools for market participants to hedge against RMB-related risks. ADV of the USD/CNH futures reached 5,272 contracts (notional value of US\$527 million) in Q1 2018, an increase of 78 per cent from full year of 2017, and open interest reached 29,887 contracts (notional value of US\$3 billion) as of 31 March 2018, an increase of 22 per cent from 31 December 2017. The contract recorded second highest single-day turnover of 17,811 contracts (notional value of US\$1,781 million) and record-high single-day AHFT turnover of 6,049 contracts (notional value of US\$605 million) on 8 February and 29 March 2018 respectively. To facilitate long-term RMB hedging and calendar rolling activities of market participants, HKEX plans to introduce additional contract month and additional calendar spreads of the USD/CNH futures in Q2 2018.

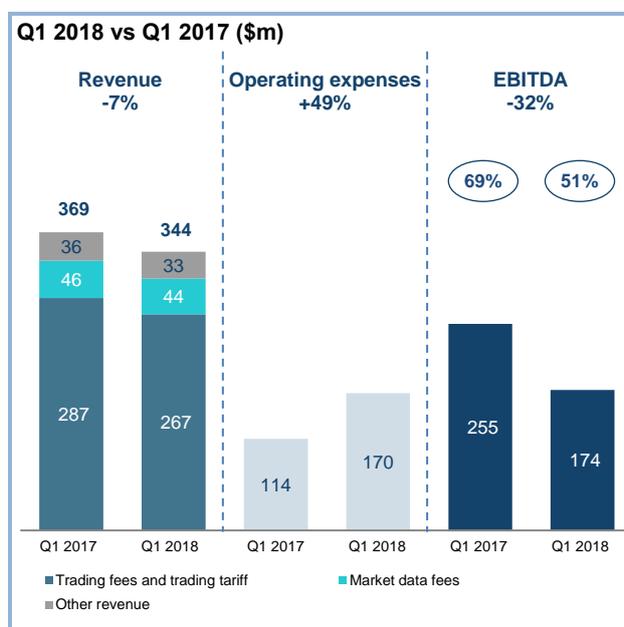
HKEX introduced a new feed package, namely Derivatives Lite (D-Lite), under its Orion Market Data Platform – Derivatives Market (OMD-D) to facilitate EPs' migration to a comparable market data source with the upgrade of Derivatives Market systems in late 2018. D-Lite was rolled out on 16 April 2018.

## Commodities Segment

### Analysis of Results

While the ADV of metals contracts traded was 20 per cent higher compared to Q1 2017, the impact of fee reductions for short- and medium-dated carry trades introduced as a result of the Strategic Pathway to enhance the market, and new non-fee generating administrative trades (Admin Trades) introduced in June 2017, resulted in a drop in trading fees by \$20 million or 7 per cent.

Operating expenses rose by 49 per cent. Excluding the one-off insurance recovery of \$23 million in Q1 2017 relating to the warehouse litigation in the US, operating expenses increased by 24 per cent, principally attributable to an increase in staff costs from additional headcount and annual payroll adjustments, increased IT costs for systems implemented for the Strategic Pathway, and the impact of stronger sterling (GBP).



### Business Update

ADV of metals contracts traded on the LME in Q1 2018 increased by 20 per cent against Q1 2017. This increase was partly due to Admin Trades, which were introduced during 2017 to assist LME members in complying with certain regulatory obligations arising from the Markets in Financial Instruments Directive II but do not generate any fees. Excluding Admin Trades, ADV in Q1 2018 increased by 3 per cent against Q1 2017.

The LME's two newest product suites, ferrous metals and LMEprecious, continued to gain traction during Q1 2018. LME steel scrap saw 1,191,650 tonnes traded and 96,850 tonnes of open interest, and LME steel rebar also saw growth with 263,710 tonnes traded and 7,820 tonnes of open interest, as of 31 March 2018.

For LMEprecious, 228,774 lots of gold (over 700 tonnes) and 47,358 lots of silver (over 7,000 tonnes) were traded in Q1 2018, and open interest for gold and silver reached 24,435 lots and 4,187 lots respectively as of 31 March 2018 with positions out to 3.5 years forwards. The LME continues to look at how it can

| Key Market Indicators                            | Q1        |           |
|--|-----------|-----------|
|  | 2018      | 2017      |
| ADV of metals contracts traded on the LME (lots) |           |           |
| Aluminium  | 259,704   | 229,826   |
| Copper   | 160,159   | 138,936   |
| Zinc   | 143,759   | 108,810   |
| Nickel   | 97,092    | 82,395    |
| Lead   | 53,572    | 39,640    |
| Ferrous  | 2,310     | 1,073     |
| Precious   | 4,383     | -         |
| Others   | 6,424     | 6,571     |
| Total  | 727,403   | 607,251   |
| Less: Admin Trades                               | (99,090)  | -         |
| Total chargeable ADV                             | 628,313   | 607,251   |
| Number of trading days                           | 63        | 64        |
|  | At        | At        |
|  | 31 Mar    | 31 Mar    |
|  | 2018      | 2017      |
| Total futures Market Open Interest (lots)        | 2,160,429 | 2,173,448 |

expand its product offering in LMEprecious, and plans are underway to expand liquidity provision into Asian hours, as well as to introduce “trade at settlement” functionality and to launch gold and silver options contracts. In Hong Kong, a total of 11,599 contracts of CNH gold futures and a total of 116,674 contracts of USD gold futures were traded during Q1 2018, with 34 kilo of gold bars being physically delivered against futures contracts.

On 1 March 2018, the LME announced the introduction of its financial over-the-counter (OTC) booking fee (OTC Fee), following a market wide consultation. The introduction of the OTC Fee aims to reduce the disparity between the fees charged for members issuing their customers with LME client contracts and those issuing OTC contracts that use LME prices for a much lower fee. The fee, payable from 1 June 2018, will be set at US\$1.00 per equivalent LME lot and will be paid by financial institutions for each OTC trade executed in place of an LME client contract, amounting to 4 US cents per tonne in respect of aluminium or copper.

The development of Qianhai Mercantile Exchange as HKEX’s onshore commodity trading platform is continuing, with the aim of building an efficient onshore commodities trading platform that serves the Mainland’s real economy by meeting the needs of domestic producers and industrial users.

**Clearing Segment**

**Analysis of Results**

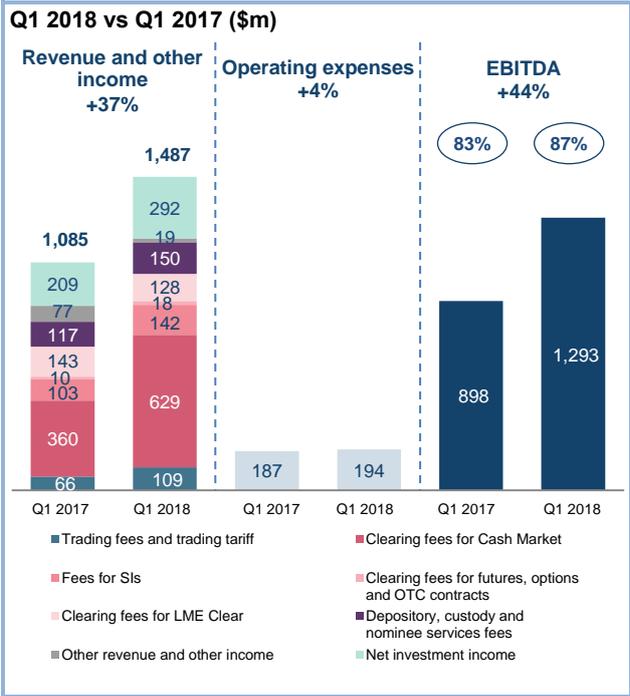
Clearing and settlement fees for the Cash Market and for Settlement Instructions (SIs) increased by 75 per cent and 38 per cent respectively. The increase was primarily driven by higher number of transactions, and a 10 per cent and a 6 per cent higher average fee per Cash Market trade and per SI transaction respectively.

Net investment income increased attributable to higher Margin Fund size and increased investment return. The increase in revenue and other income was, however, partly offset by a \$55 million one-off post-liquidation interest payment from the liquidators of Lehman Brothers Securities Asia Limited in 2017.

Operating expenses increased by 4 per cent as a result of an increase in staff costs from annual payroll adjustments and higher variable pay accruals.

**Business Update**

The inclusion of A shares in MSCI Inc.’s Emerging Markets Index starting in June 2018 is expected to boost the Northbound volume, and consequently, the demand for RMB. To alleviate Participants’ RMB funding pressure under Northbound Trading, HKSCC will accept USD or HKD, in addition to RMB, from Clearing Participants (CPs) as collateral for the early release of A shares on the trade day (T-day) starting



| Key Market Indicators                         | Q1        |           |
|---|-----------|-----------|
|   | 2018      | 2017      |
| ADT traded on the Stock Exchange (\$bn)       | 146.1     | 74.3      |
| Average daily number of Stock Exchange trades | 1,813,801 | 1,126,571 |
| Average daily value of SIs (\$bn)             | 300.1     | 183.7     |
| Average daily number of SIs                   | 114,168   | 86,237    |

from May 2018, subject to regulatory approval. The new arrangement is expected to be used by institutional investors to reduce their RMB funding cost and encourage their participation in Stock Connect.

With effect from 1 June 2018, HKSCC, HKCC and SEOCH will implement the following key changes to their default fund resource arrangement: (i) contributions by HKSCC, HKCC and SEOCH to their respective default fund will be set as 10 per cent of the default fund size instead of a fixed amount, and (ii) HKCC's Contingent Advance Capital (CAC), currently provided by HKCC to relieve 50 per cent of CPs' variable default fund contribution requirement, will be removed. These changes will enable HKSCC, HKCC and SEOCH to achieve a greater level of compliance with relevant regulatory requirements and be more in line with global industry practices.

In Q1 2018, a total of US\$21.9 billion notional amount was cleared by OTC Clear, up 5 per cent as compared to Q4 2017. CNY non-deliverable interest rate swap notional amount cleared reached US\$4.7 billion, up 163 per cent as compared to Q4 2017. More USD interest rate swaps were executed by Chinese banks to hedge their USD asset positions - total notional cleared for USD interest rate swaps was US\$4.8 billion, up 73 per cent as compared to Q4 2017.

**Platform and Infrastructure Segment**

**Analysis of Results**

Network fees rose by 3 per cent due to new EPs and China Connect EPs (CCEPs) migrating from Open Gateway to China Connect Central Gateway (CCCG), but this was partly offset by a decrease in sales of throttles.

Hosting services fees increased by 15 per cent due to growth from both new customers subscriptions and increased usage of existing customers.

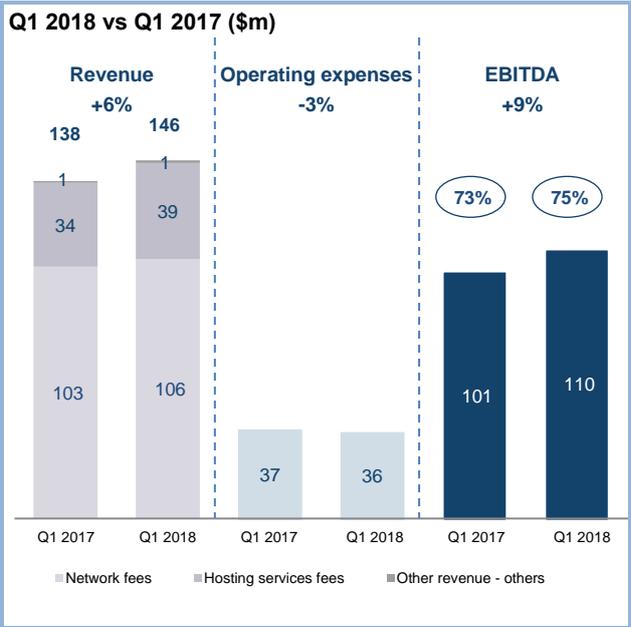
**Business Update**

During Q1 2018, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably.

The Orion Trading Platform – Securities Market platform (OTP-C), which has replaced the Third Generation Automatic Order Matching and Execution System (AMS/3.8), was successfully launched in February 2018. This new system allows HKEX to provide new functionalities and support increased trading capacity for 400 million transactions daily, double that of the previous AMS/3.8 system. The launch of the OTP-C is expected to meet capacity requirements in the next decade.

CCCG was successfully introduced on 17 July 2017 to facilitate Northbound Trading for CCEPs. Full migration from Open Gateway to CCCG was completed in Q1 2018.

HKEX continued development work on the upgrade of the derivatives platforms, The Hong Kong Futures Automated Trading System (HKATS) and The Derivatives Clearing and Settlement System (DCASS), tentatively scheduled for rollout by Q4 2018. The upgrade will bring simplified infrastructure to the Derivatives Market, with a reduction of the hardware footprint required at participants' premises.



## Corporate Items

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

### Analysis of Results

Net investment income of the Corporate Funds dropped by \$135 million compared to Q1 2017 principally due to lower fair value gains on collective investment schemes held under the external portfolio, partly offset by higher interest income earned on cash and bank deposits.

| Q1 2018 vs Q1 2017              | Q1          |             |
|---------------------------------|-------------|-------------|
|                                 | 2018<br>\$m | 2017<br>\$m |
| <b>Revenue and other income</b> |             |             |
| Net investment income           | 87          | 222         |
| Others                          | 13          | 1           |
| <b>Total</b>                    | <b>100</b>  | <b>223</b>  |
| <b>Operating expenses</b>       | <b>263</b>  | <b>242</b>  |

Operating expenses increased by 9 per cent over Q1 2017 due to increased staff costs from annual payroll adjustments and higher variable pay accruals.

### Business Update

While the Group welcomes more new economy companies to its market, it is also taking a closer look at its own approach to innovation. In Q1 2018, the Group inaugurated a new HKEX Innovation Lab, with a mission to explore and accelerate creative new ideas across the Group’s businesses. The Innovation Lab will work closely with a range of FinTech partners to test and apply emerging technologies that can bring greater efficiency to the operations and unlock new opportunities to extend the Group’s businesses. The Innovation Lab is seen as an important step in building the vision of HKEX’s future.

## FINANCIAL REVIEW

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

Margin Fund deposits of \$167.8 billion at 31 March 2018 were \$10.0 billion higher than at 31 December 2017 due to increased contributions required from HKCC Participants in response to higher margin requirement per contract at 31 March 2018. The increase was partly offset by the drop in margin deposits from members of LME Clear attributable to reduction in members’ positions. Clearing House Fund contributions increased from \$16.6 billion at 31 December 2017 to \$19.6 billion at 31 March 2018 due to higher contributions required from Participants in response to changes in risk exposures. Funds received were invested in cash and cash equivalents and financial assets.

### Borrowings

No new borrowings or repayments were made in Q1 2018.

### Capital Expenditure and Commitments

During Q1 2018, the Group incurred capital expenditure of \$153 million (Q1 2017: \$139 million) related to the development and upgrade of various trading and clearing systems, and the renovation of new offices and the HKEX Connect Hall. The Group’s capital expenditure commitments at 31 March 2018, including those authorised by the Board but not yet contracted for, amounted to \$1,417 million (31 December 2017: \$1,433 million).

## **Contingent Liabilities**

At 31 March 2018, there were no significant changes in the Group's contingent liabilities compared to 31 December 2017.

## **Pledges on Assets**

Securities and gold bullion 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 \$102,781 million at 31 March 2018 (31 December 2017: \$99,913 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 \$3,693 million at 31 March 2018 (31 December 2017: \$3,686 million) have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The 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 2017**

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

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 Q1 2018 (Q1 2017: \$Nil).

## **Review of Financial Statements**

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for Q1 2018.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

|  | Three months<br>ended<br>31 Mar 2018<br>\$m | Three months<br>ended<br>31 Mar 2017<br>\$m |
|--|---|---|
| Trading fees and trading tariff                | 1,794                                       | 1,097                                       |
| Stock Exchange listing fees                    | 460   | 304   |
| Clearing and settlement fees                   | 917   | 616   |
| Depository, custody and nominee services fees  | 150   | 117   |
| Market data fees                               | 219   | 207   |
| Other revenue                                  | 220   | 275   |
| <b>REVENUE</b>                                 | <b>3,760</b>                                | <b>2,616</b>                                |
| Investment income and sundry income            | 390   | 432   |
| <b>REVENUE AND OTHER INCOME</b>                | <b>4,150</b>                                | <b>3,048</b>                                |
| <b>OPERATING EXPENSES</b>                      |   |   |
| Staff costs and related expenses               | (599)                                       | (534)                                       |
| IT and computer maintenance expenses           | (120)                                       | (106)                                       |
| Premises expenses                              | (100)                                       | (88)  |
| Product marketing and promotion expenses       | (8)   | (5)   |
| Legal and professional fees                    | (13)  | 5   |
| Other operating expenses                       | (95)  | (105)                                       |
|  | <b>(935)</b>                                | <b>(833)</b>                                |
| <b>EBITDA</b>                                  | <b>3,215</b>                                | <b>2,215</b>                                |
| Depreciation and amortisation                  | (180)                                       | (175)                                       |
| <b>OPERATING PROFIT</b>                        | <b>3,035</b>                                | <b>2,040</b>                                |
| Finance costs                                  | (27)  | (29)  |
| Share of profits less losses of joint ventures | 2   | (2)   |
| <b>PROFIT BEFORE TAXATION</b>                  | <b>3,010</b>                                | <b>2,009</b>                                |
| <b>TAXATION</b>                                | <b>(456)</b>                                | <b>(299)</b>                                |
| <b>PROFIT FOR THE PERIOD</b>                   | <b>2,554</b>                                | <b>1,710</b>                                |
| <b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>          |   |   |
| - Shareholders of HKEX                         | 2,562                                       | 1,716                                       |
| - Non-controlling interests                    | (8)   | (6)   |
| <b>PROFIT FOR THE PERIOD</b>                   | <b>2,554</b>                                | <b>1,710</b>                                |
| <b>Basic earnings per share</b>                | <b>\$2.07</b>                               | <b>\$1.41</b>                               |
| <b>Diluted earnings per share</b>              | <b>\$2.07</b>                               | <b>\$1.40</b>                               |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

|  | Three months<br>ended<br>31 Mar 2018<br>\$m | Three months<br>ended<br>31 Mar 2017<br>\$m |
|--|---|---|
| <b>PROFIT FOR THE PERIOD</b>   | <b>2,554</b>                                | 1,710                                       |
| <b>OTHER COMPREHENSIVE INCOME</b>  |   |   |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                                  |   |   |
| Currency translation differences of foreign subsidiaries   | 81  | 42  |
| Cash flow hedges   | 2   | -   |
| Changes in fair value of financial assets measured at fair<br>value through other comprehensive income | (2)   | -   |
| <b>OTHER COMPREHENSIVE INCOME</b>  | <b>81</b>                                   | 42  |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>2,635</b>                                | 1,752                                       |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>   |   |   |
| - Shareholders of HKEX   | 2,641                                       | 1,758                                       |
| - Non-controlling interests  | (6)   | (6)   |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>2,635</b>                                | 1,752                                       |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

|  | At 31 Mar 2018 |                    |                | At 31 Dec 2017 |                    |              |
|--|----------------|--------------------|----------------|----------------|--------------------|--------------|
|  | Current<br>\$m | Non-current<br>\$m | Total<br>\$m   | Current<br>\$m | Non-current<br>\$m | Total<br>\$m |
| <b>ASSETS</b>  |                |                    |                |                |                    |              |
| Cash and cash equivalents  | 161,797        | -                  | 161,797        | 155,660        | -                  | 155,660      |
| Financial assets measured at fair value through profit or loss                           | 61,198         | -                  | 61,198         | 95,037         | -                  | 95,037       |
| Financial assets measured at fair value through other comprehensive income               | 3,063          | -                  | 3,063          | -              | -                  | -            |
| Financial assets measured at amortised cost  | 38,326         | 65                 | 38,391         | 30,757         | 60                 | 30,817       |
| Accounts receivable, prepayments and deposits  | 23,665         | 21                 | 23,686         | 16,564         | 21                 | 16,585       |
| Interests in joint ventures  | -              | 63                 | 63             | -              | 61                 | 61           |
| Goodwill and other intangible assets   | -              | 17,996             | 17,996         | -              | 17,925             | 17,925       |
| Fixed assets   | -              | 1,444              | 1,444          | -              | 1,469              | 1,469        |
| Lease premium for land   | -              | 20                 | 20             | -              | 20                 | 20           |
| Deferred tax assets  | -              | 30                 | 30             | -              | 30                 | 30           |
| <b>Total assets</b>  | <b>288,049</b> | <b>19,639</b>      | <b>307,688</b> | 298,018        | 19,586             | 317,604      |
| <b>LIABILITIES AND EQUITY</b>  |                |                    |                |                |                    |              |
| <b>Liabilities</b>   |                |                    |                |                |                    |              |
| Financial liabilities at fair value through profit or loss                               | 54,531         | -                  | 54,531         | 85,335         | -                  | 85,335       |
| Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs | 167,799        | -                  | 167,799        | 157,814        | -                  | 157,814      |
| Accounts payable, accruals and other liabilities   | 21,294         | 57                 | 21,351         | 16,159         | 51                 | 16,210       |
| Deferred revenue   | 891            | -                  | 891            | 957            | -                  | 957          |
| Taxation payable   | 713            | -                  | 713            | 505            | -                  | 505          |
| Other financial liabilities  | 55             | -                  | 55             | 58             | -                  | 58           |
| CPs' contributions to Clearing House Funds   | 19,611         | -                  | 19,611         | 16,626         | -                  | 16,626       |
| Borrowings   | 1,787          | 82                 | 1,869          | 1,027          | 833                | 1,860        |
| Provisions   | 94             | 69                 | 163            | 85             | 68                 | 153          |
| Deferred tax liabilities   | -              | 709                | 709            | -              | 711                | 711          |
| <b>Total liabilities</b>   | <b>266,775</b> | <b>917</b>         | <b>267,692</b> | 278,566        | 1,663              | 280,229      |
| <b>Equity</b>  |                |                    |                |                |                    |              |
| Share capital  |                |                    | 25,141         |                |                    | 25,141       |
| Shares held for Share Award Scheme   |                |                    | (589)          |                |                    | (606)        |
| Employee share-based compensation reserve  |                |                    | 254            |                |                    | 222          |
| Hedging and revaluation reserves   |                |                    | (3)            |                |                    | 1            |
| Exchange reserve   |                |                    | (25)           |                |                    | (104)        |
| Designated reserves  |                |                    | 824            |                |                    | 822          |
| Reserve relating to written put options to non-controlling interests                     |                |                    | (293)          |                |                    | (293)        |
| Retained earnings  |                |                    | 14,591         |                |                    | 12,090       |
| <b>Equity attributable to shareholders of HKEX</b>                                       |                |                    | <b>39,900</b>  |                |                    | 37,273       |
| Non-controlling interests  |                |                    | 96             |                |                    | 102          |
| <b>Total equity</b>  |                |                    | <b>39,996</b>  |                |                    | 37,375       |
| <b>Total liabilities and equity</b>  |                |                    | <b>307,688</b> |                |                    | 317,604      |
| <b>Net current assets</b>  |                |                    | <b>21,274</b>  |                |                    | 19,452       |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. Basis of Preparation and Accounting Policies

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

#### Adoption of new/revised Hong Kong Financial Reporting Standards (HKFRSs)

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

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

HKFRS 9 (2014) affects the classification of debt securities held for Margin Funds and recognition of impairment provisions.

Prior to the adoption of HKFRS 9 (2014), debt securities held for Margin Funds amounting to \$3,059 million as at 31 December 2017 were classified as financial assets measured at fair value through profit or loss. Under HKFRS 9 (2014), they satisfy the conditions for classification as a newly introduced category of financial assets - financial assets measured at fair value through other comprehensive income. Accordingly, the related cumulative fair value losses of \$4 million were transferred from retained earnings to the revaluation reserve on 1 January 2018. Subsequent changes in fair value of these debt securities are taken to the revaluation reserve. Interest income, foreign exchange differences, impairment losses, and gains or losses on disposal of these debt securities continue to be recognised in the consolidated income statement.

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

The Group applied HKFRS 9 (2014) retrospectively from 1 January 2018. With the practical expedients permitted under the standard, comparatives for 2017 were not restated.

HKFRS 15 is based on the principle that revenue is recognised when control of goods or services is transferred to customers. Prior to the adoption of HKFRS 15, initial listing fees for IPOs were recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever was earlier, and certain upfront fees charged by the Group were recognised upon receipt. Under HKFRS 15, initial listing fees for IPOs and upfront fees are recognised over time when the services are provided. As the timing differences of recognising initial listing fees for IPOs were insignificant, and the upfront fees were immaterial, there is no significant impact to the consolidated income statement arising from the change in revenue recognition policy adopted by the Group. The Group applied HKFRS 15 using the modified retrospective approach and comparatives were not restated.

Accordingly, the related cumulative impact of \$62 million was debited to retained earnings on 1 January 2018.

The adoption of HK(IFRIC) Interpretation 22 did not have any financial impact on the Group.

The financial information relating to the year ended 31 December 2017 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 will deliver the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies in due course 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, 9 May 2018

At the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mrs CHA May-Lung, Laura (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr CHEAH Cheng Hye, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mr HUNG Pi Cheng, Benjamin, 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.