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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)

Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

(Unaudited)

As at 8 August 2018, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company) 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.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

* EBITDA represents earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint ventures.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

- (a) The cash and cash equivalents of Margin Funds, Clearing House Funds, Corporate Funds reserved for supporting Skin-in-the-Game (note 16(a)) and default fund credits (note 11(b)) of clearing houses, and cash prepayments and collateral for A shares are held for specific purposes and cannot be used by HKEX and its subsidiaries (the Group) to finance other activities. These balances are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.
- (b) "Cash flows from principal operating activities" is a non-Hong Kong Financial Reporting Standard (non-HKFRS) measure used by management for monitoring cash flows of the Group and represents the cash flows generated from the trading and clearing operations of the three exchanges and five clearing houses and ancillary services of the Group. This non-HKFRS measure may not be comparable to similar measures presented by other companies. Cash flows from principal operating activities and cash flows from other operating activities together represent cash flows from operating activities as defined by Hong Kong Accounting Standard (HKAS) 7: Statement of Cash Flows.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with HKAS 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

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

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

The financial information relating to the year ended 31 December 2017 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2018 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

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

2. Adoption of new/revised HKFRSs

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

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

(a) Adoption of HKFRS 9 (2014)

(i) Impact of adoption

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

Classification and measurement

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

Impairment

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

2. Adoption of new/revised HKFRSs (continued)

- (a) Adoption of HKFRS 9 (2014) (continued)
- (ii) Accounting policies applied from 1 January 2018

Classification

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

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

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

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

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

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

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

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

2. Adoption of new/revised HKFRSs (continued)

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

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

Measurement

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

Subsequent measurement of financial assets is set out below:

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

Impairment

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

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

2. Adoption of new/revised HKFRSs (continued)

(b) Adoption of HKFRS 15

(i) Impact of adoption

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

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

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

(ii) Accounting policies applied from 1 January 2018

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

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

2. Adoption of new/revised HKFRSs (continued)

(c) Adoption of HK(IFRIC) Interpretation 22

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

(d) Impact on the condensed consolidated financial statements

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

Condensed consolidated statement of financial position (extract)	31 Dec 2017 As originally presented \$m	Impact from adoption of		1 Jan 2018 Restated \$m
		HKFRS 9 (2014) (note 2(a)(i)) \$m	HKFRS 15 (note 2(b)(i)) \$m	
Current assets				
Financial assets measured at fair value through profit or loss	95,037	(3,059)	-	91,978
Financial assets measured at fair value through other comprehensive income	-	3,059	-	3,059
Total assets	317,604	-	-	317,604
Current liabilities				
Deferred revenue ⁽¹⁾	957	-	62	1,019
Total liabilities	280,229	-	62	280,291
Equity				
Hedging and revaluation reserves	1	(4)	-	(3)
Retained earnings	12,090	4	(62)	12,032
Equity attributable to shareholders of HKEX	37,273	-	(62)	37,211
Total equity	37,375	-	(62)	37,313
Total liabilities and equity	317,604	-	-	317,604

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

2. Adoption of new/revised HKFRSs (continued)

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

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

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

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

2. Adoption of new/revised HKFRSs (continued)

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

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

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

3. Operating Segments

The Group determines its operating segments based on the internal management reports that are used to make strategic decisions reviewed by the chief operating decision-maker.

The Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group's reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, the Shanghai Stock Exchange and the Shenzhen Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (Stock Connect), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff, listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on The Stock Exchange of Hong Kong Limited (Stock Exchange) and Hong Kong Futures Exchange Limited (Futures Exchange) and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants and sales of related market data. The major sources of revenue are trading fees, trading tariff, listing fees of derivatives products and market data fees.

3. Operating Segments (continued)

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

The **Clearing** segment refers to the operations of the five clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear Limited (LME Clear), which are responsible for clearing, settlement and custodian activities of the exchanges of the Group and Northbound trades under Stock Connect, and clearing and settlement of over-the-counter derivatives contracts. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Margin Funds and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. Its major sources of revenue are network, terminal user, dataline and software sub-license fees and hosting services fees.

Central income (including net investment income of Corporate Funds) and central costs (costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segment) are included as "Corporate Items".

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA.

An analysis by operating segment of the Group's EBITDA and profit before taxation for the period is as follows:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

3. Operating Segments (continued)

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

4. Trading Fees and Trading Tariff

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

5. Net Investment Income

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

6. Staff Costs and Related Expenses

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

- (a) The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group has also sponsored a defined contribution pension scheme for all employees of LME and LME Clear (LME Pension Scheme), and has joined defined contribution retirement schemes arranged by local government labour and security authorities for employees of its PRC subsidiaries and representation office (PRC Retirement Schemes). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme, the LME Pension Scheme, the PRC Retirement Schemes and related fees.

7. Finance Costs

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

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

8. Taxation

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

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

(a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2017: 16.5 per cent) and overseas profits tax at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rate applicable to the subsidiaries in the UK being 19 per cent (2017: 19.25 per cent).

9. Earnings Per Share

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

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

10. Dividends

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

11. Financial Assets

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

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

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

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

11. Financial Assets (continued)

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

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

(a) Cash for A shares includes:

- (i) Renminbi (RMB) cash prepayments received by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such prepayments will be used to settle HKSCC's Continuous Net Settlement (CNS) obligations payable on the next business day; and
 - (ii) Hong Kong Dollar/ United States Dollar cash collateral received by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such collateral will be refunded to the Clearing Participants when they settle their RMB CNS obligations on the next business day.
- (b) At 30 June 2018, cash and cash equivalents of Corporate Funds of \$1,292 million (31 December 2017: \$Nil) were solely used to support Skin-in-the-Game and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund (note 16(a)).
- (c) Metal derivatives contracts represent the fair value of outstanding base and precious metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME. A corresponding amount was recorded under financial liabilities at fair value through profit or loss (note 13).

12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represents the Group's CNS money obligations receivable, which accounted for 78 per cent (31 December 2017: 75 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

13. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2018 \$m	At 31 Dec 2017 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
- base and precious metals futures and options contracts cleared through LME Clear (note 11(c))	66,980	85,335

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

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

15. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represents the Group's CNS money obligations payable, which accounted for 87 per cent (31 December 2017: 88 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

16. Clearing House Funds

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

(a) The Group's clearing houses, HKSCC, HKCC and SEOCH, have implemented the following key changes to their clearing house fund (default fund) resource arrangement from 1 June 2018:

- (i) contributions by HKSCC, HKCC and SEOCH to their respective default funds (Skin-in-the-Game) are set at 10 per cent of the default fund size instead of a fixed amount;
- (ii) HKCC's Contingent Advance Capital (previously provided by HKCC to relieve 50 per cent of Clearing Participants' variable default fund contribution requirement) is removed; and
- (iii) \$1 million dynamic default fund credit is granted to each HKCC Clearing Participant.

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

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

16. Clearing House Funds (continued)

(b) Designated reserves comprise:

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

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

17. Borrowings

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

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

18. Share Capital and Shares Held for Share Award Scheme

Issued and fully paid – ordinary shares with no par:

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

- (a) In June 2018, 6,949,778 new fully paid HKEX shares (year ended 31 December 2017: 15,486,905 shares) were issued and allotted at \$252.98 per share (year ended 31 December 2017: weighted average price of \$197.04 per share) to the shareholders (including 32,705 new shares (year ended 31 December 2017: 74,285 shares) allotted to the Share Award Scheme) who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme.
- (b) During the six months ended 30 June 2018, the Share Award Scheme acquired 12,100 HKEX shares (year ended 31 December 2017: 999,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$3 million (year ended 31 December 2017: \$228 million).
- (c) During the six months ended 30 June 2018, the Share Award Scheme transferred 114,830 HKEX shares (year ended 31 December 2017: 1,296,700 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$21 million (year ended 31 December 2017: \$236 million). During the year ended 31 December 2017, \$4 million was credited to share capital in respect of vesting of certain shares whose fair values were higher than cost.

19. Employee Share-based Arrangements

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

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

The employee share-based compensation expenses in relation to the share awards are charged to the condensed consolidated income statement under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

During the six months ended 30 June 2018, no Senior Executive Awards was granted and details of Employee Share Awards awarded are set out below:

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

20. Designated reserves

Clearing House Funds reserves (note 16(b))

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

21. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from principal operating activities:

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

22. Capital Expenditures and Commitments

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

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

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

23. Contingent Liabilities

At 30 June 2018, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2017: \$71 million). Up to 30 June 2018, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 635 trading Participants (31 December 2017: 622) covered by the indemnity at 30 June 2018 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$127 million (31 December 2017: \$124 million).
- (c) HKEX had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEX or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEX, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEX, and for the costs of winding up.

24. Material Related Party Transactions

(a) Key management personnel compensation

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

(b) Post-retirement benefit plans

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

25. Pledge of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$2,035 million (HK\$15,965 million) at 30 June 2018 (31 December 2017: US\$1,319 million (HK\$10,311 million)). LME Clear is obliged to return this non-cash collateral upon request when the Clearing Participants' collateral obligations have been substituted with cash collateral or otherwise discharged.

LME Clear also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$9,101 million (HK\$71,401 million) at 30 June 2018 (31 December 2017: US\$11,462 million (HK\$89,602 million)).

The above non-cash collateral, which LME Clear is permitted to sell or repledge in the absence of default by the counterparties, was not recorded on the condensed consolidated statement of financial position of the Group at 30 June 2018. Such non-cash collateral, together with certain financial assets amounting to US\$470 million (HK\$3,688 million) at 30 June 2018 (31 December 2017: US\$471 million (HK\$3,686 million)), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

26. Capital Management

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

27. Fair Value of Financial Assets and Financial Liabilities

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

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

The following tables present the carrying values of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

27. Fair Value of Financial Assets and Financial Liabilities (continued)

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

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

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

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

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

27. Fair Value of Financial Assets and Financial Liabilities (continued)

(b) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the condensed consolidated statement of financial position at their fair values. These assets and liabilities were classified under Level 2 in the fair value hierarchy.

	At 30 Jun 2018		At 31 Dec 2017	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Assets				
Financial assets measured at amortised cost:				
- other financial assets maturing over one year ⁽¹⁾	79	57	60	54
Liabilities				
Borrowings:				
- notes ⁽²⁾	1,539	1,539	1,533	1,537
- written put options to non-controlling interests ⁽²⁾	333	332	327	329
Financial guarantee to the Collector of Stamp Revenue ⁽³⁾	20	73	20	90

⁽¹⁾ The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 2.83 per cent to 3.30 per cent at 30 June 2018 (31 December 2017: 1.84 per cent to 2.56 per cent).

⁽²⁾ The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rate used was 2.90 per cent to 3.38 per cent at 30 June 2018 (31 December 2017: 2.26 per cent to 2.75 per cent).

⁽³⁾ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 2.16 per cent at 30 June 2018 (31 December 2017: 1.74 per cent).

The carrying amounts of short-term receivables (eg, accounts receivable, financial assets measured at amortised cost and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.