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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 2019

The Board¹ is pleased to present the unaudited consolidated results of the Group² for the three months ended 31 March 2019.

Commenting on the results, Charles Li, Chief Executive said, “HKEX had a good start to 2019 despite a more challenging macro environment driving year-on-year softness in Cash Market volumes. HKEX continues to focus on its 3-year strategic plan and good cost discipline. We remain well positioned to capture further growth opportunities.”

HIGHLIGHTS

Financial figures are expressed in \$million (\$m) unless otherwise stated	Q1 2019 \$m	Q1 2018 \$m	Change
Revenue and other income	4,288	4,150	3%
Operating expenses	970	935	4%
EBITDA ³	3,318	3,215	3%
Profit attributable to shareholders	2,608	2,562	2%
Basic earnings per share	\$2.09	\$2.07	1%

- Revenue and other income was 3 per cent higher than Q1⁴ 2018, driven by:
 - An increase in net investment income from fair value gains on collective investment schemes and higher interest income from Margin Funds and Corporate Funds; and
 - Record high quarterly revenue and other income from Stock Connect; which more than offset
 - A reduction in trading and clearing fees driven by lower Cash Market turnover and Derivatives Market volume.
- Operating expenses were 4 per cent higher than Q1 2018, attributable to increases in staff costs and IT costs, partly offset by lower premises expenses as a result of adopting the new accounting standard for leases⁵.
- EBITDA margin was 77 per cent, the same as in Q1 2018 and 3 per cent higher than 2018.

	Q1 2019	Q1 2018	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	74.3	113.3	(34%)
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	26.8	32.8	(18%)
ADT of the Stock Exchange (Headline ADT) (\$bn)	101.1	146.1	(31%)
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	659	677	(3%)
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	528	665	(21%)
Chargeable ADV of metals contracts traded on the LME ('000 lots)	611	628	(3%)

1 The board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company)

2 HKEX and its subsidiaries, which include The Stock Exchange of Hong Kong Limited (SEHK or the Stock Exchange), Hong Kong Futures Exchange Limited (HKFE or the Futures Exchange), Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC), The SEHK Options Clearing House Limited (SEOCH), OTC Clearing Hong Kong Limited (OTC Clear), The London Metal Exchange (LME), LME Clear Limited (LME Clear) and other subsidiaries.

3 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.

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

5 As a result of the adoption of HKFRS 16: Leases, operating lease rentals are no longer recognised under operating expenses. Please refer to note 1 to the condensed consolidated financial statements for further details.

BUSINESS REVIEW

Overview

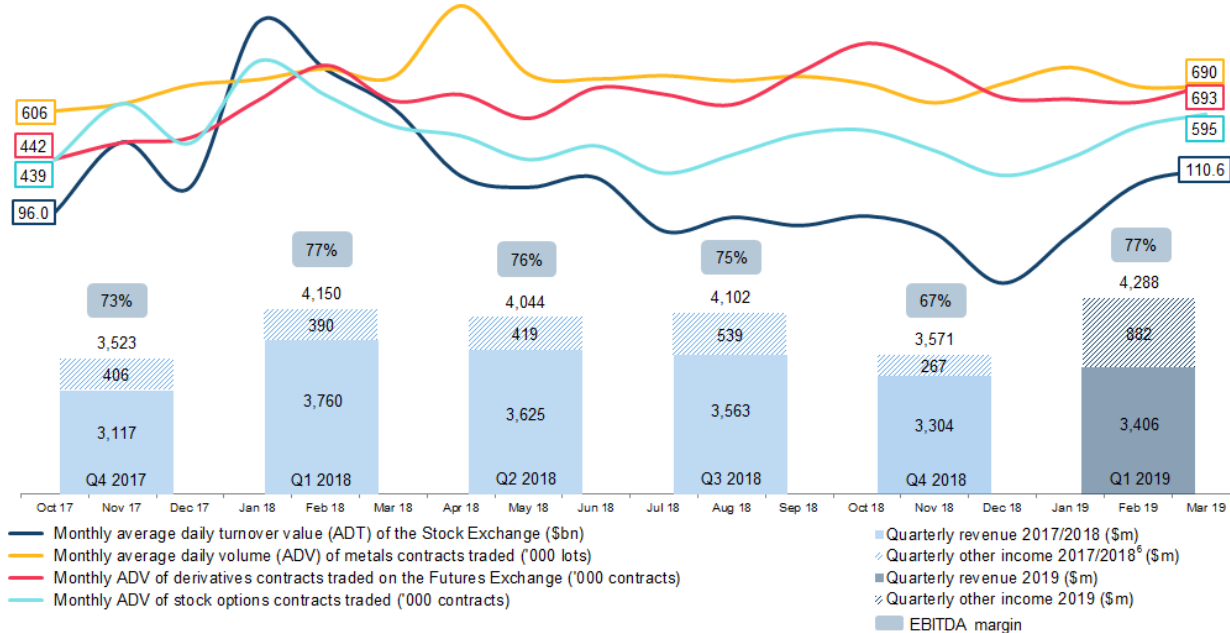


Figure 1 – Market activity and Group's revenue and other income

Global market sentiment improved in Q1 2019, driven in part by the adoption of a series of measures by the PRC Government to boost the economy and the positive news on the trade negotiation between China and the US. Headline ADT⁷ rose to \$101.1 billion, 18 per cent above Q4 2018 but 31 per cent below Q1 2018. With the proposed further inclusion of China A shares in MSCI, FTSE Russell and S&P Dow Jones indexes, ADT of Northbound Trading of Stock Connect reached record quarterly high in Q1 2019, being 67 per cent higher than the previous record achieved in Q4 2018.

Despite the drop in Cash Market headline ADT and modest declines in trading volume in the Derivatives and Commodities Markets against Q1 2018, revenue and other income reached record quarterly high. The reduction in trading and clearing fees was more than offset by an increase in net investment income from fair value gains on collective investment schemes and higher net interest income from the Corporate Funds and Margin Funds.

Operating expenses increased by 4 per cent against Q1 2018, but were 17 per cent lower than Q4 2018. Compared with Q1 2018, the increase was attributable to increased headcount and annual payroll adjustments, and higher maintenance expenses for new information technology (IT) systems and upgraded networks, partly offset by lower premises expenses as a result of adopting the new accounting standard for leases⁵. The Group continues to maintain a prudent approach to cost management while pursuing initiatives under the Group's Strategic Plan 2019-2021.

6 Includes net investment income and sundry income

7 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange

Business Update and Analysis of Results by Operating Segment

	Q1 2019		Q1 2018	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m
Results by segment:				
Cash	915	767	1,130	999
Equity and Financial Derivatives	862	710	943	802
Commodities	349	189	344	174
Post-Trade	1,475	1,267	1,487	1,293
Technology	171	121	146	110
Corporate Items	516	264	100	(163)
	4,288	3,318	4,150	3,215

To optimise resources to successfully deliver the initiatives set out in the Group's Strategic Plan 2019-2021, the Group's operating segments have been reorganised. As a result, the "Clearing segment" has been renamed as the "Post-Trade segment" with effect from 8 April 2019, and the "Platform and Infrastructure segment" has been renamed as the "Technology segment".

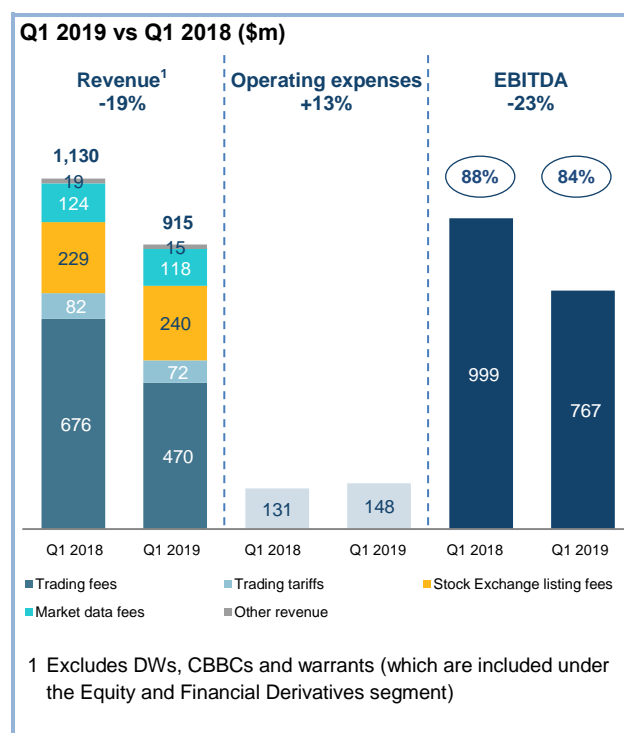
Cash Segment

Analysis of Results

Trading fees decreased by 30 per cent compared with Q1 2018, less than the 34 per cent drop in equity products ADT. This was primarily due to record high fees from Northbound Stock Connect Trading. Trading tariffs dropped by 12 per cent, in line with the decrease in the number of trades of equity products.

Stock Exchange listing fees rose by \$11 million, attributable to a \$4 million increase in annual listing fees from a higher number of listed companies and a \$7 million increase in initial listing fees due to more forfeitures.

Operating expenses rose by 13 per cent due to additional headcount for strategic projects and annual payroll adjustments, partly offset by lower premises expenses (\$10 million) as a result of adopting the new accounting standard for leases⁵.



Business Update

The Hong Kong Cash Market benefitted from improved sentiment during Q1 2019 as compared to Q4 2018, with headline ADT rising by 18 per cent to \$101.1 billion. The increase in trading activities outperformed most global and Asia-Pacific exchanges. However, headline ADT dropped by 31 per cent compared to Q1 2018 which recorded very high headline ADT.

Stock Connect generated record quarterly high revenue and other income of \$232 million in Q1 2019 (Q1 2018: \$172 million), of which \$168 million (Q1 2018: \$116 million) arose from trading and clearing activities. In particular, Northbound Trading turnover reached record quarterly high, with a number of daily record highs set in February and March, reaching a new record turnover of RMB75.0 billion on 4 March.

Following the successful implementation of the initial 5 per cent inclusion of China A shares in MSCI Indexes, MSCI Inc. (MSCI) announced on 28 February 2019 that it will further increase the weighting of China A shares (including ChiNext shares) in MSCI Indexes using a three-step inclusion process in May, August and November 2019. According to MSCI, on completion of this three-step implementation, China A shares will represent 3.3 per cent in the pro forma index, up from the current 0.72 per cent. In addition, FTSE Russell and S&P have announced their plans to include China A shares for the first time in their respective indexes during 2019. These inclusions are expected to further stimulate Northbound Trading.

Bond Connect made significant progress in Q1 2019 with ADT reaching RMB5.9 billion, a 119 per cent increase as compared with Q1 2018, with the market reacting positively to the planned inclusion of Chinese RMB-denominated bonds in the Bloomberg Barclays Global Aggregate Indices from April 2019. As of 31 March 2019, there were 711 approved investors from 25 jurisdictions, up from 503 as of 31 December 2018. In March 2019, the Central Bank of Ireland gave approval for Irish Undertakings for Collective Investments in Transferable Securities and Alternative Investment Funds to invest in the Chinese interbank bond market via Bond Connect.

The Primary Market Information Platform for the Chinese bond market was launched in February 2019, being the first English language portal for the dissemination of Chinese primary bond market information. The new portal provides global Bond Connect users with timely and reliable information on new Chinese bond issuances.

On 2 January 2019, HKEX enhanced the Designated Specialist programme for its Exchange Traded Products (ETPs), which comprise Exchange Traded Funds (ETFs) and Leveraged and Inverse (L&I) Products, to permit global liquidity providers that are not its Securities Market Makers (SMMs) to participate in ETP market making activities. The “experience requirement” as part of the SMM’s eligibility for L&I Products has also been removed.

Key Market Indicators	Q1	
	2019	2018
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	74.3	113.3
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect ² (RMBbn)	20.7⁴	10.9
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect ² (RMBbn)	17.8⁴	8.1
ADT of Bond Connect (RMBbn)	5.9	2.7
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2} ('000)	1,254	1,402
Number of newly listed companies on the Main Board ³	38	36
Number of newly listed companies on GEM	5	33
Total equity funds raised		
- IPOs (\$bn)	21.2	24.4
- Post-IPOs (\$bn)	22.2	96.5
Number of companies listed on the Main Board at 31 Mar	1,959	1,827
Number of companies listed on GEM at 31 Mar	387	352
Number of trading days	60	61
<p>1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes \$7.5 billion (Q1 2018: \$13.2 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$4.3 billion (Q1 2018: \$6.5 billion) under Shenzhen-Hong Kong Stock Connect</p> <p>2 Includes buy and sell trades under Stock Connect</p> <p>3 Includes 6 transfers from GEM (Q1 2018: 5)</p> <p>4 New record quarterly high in Q1 2019</p>		

During the period, HKEX actively participated in various global events to present listing opportunities to corporates, industry associations and investor communities in the US, Japan and South East Asia. The positive momentum of the New Biotech Chapter under the Main Board Listing Rules (Chapter 18A) continued, with two additional pre-revenue biotech companies listed in Hong Kong in Q1 2019.

On 18 January 2019, the Stock Exchange published the Consultation Conclusions on Review Structure in relation to Listing Committee Decisions and also updated the structure for reviews of Listing Committee decisions. The revised Rules will take effect around mid-2019 (subject to the establishment of the new Listing Review Committee).

On 1 February 2019, the Stock Exchange published the Consultation Conclusions on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments to simplify and streamline the administrative procedures involved in the submission and collection of documents to enhance procedural efficiency. The Rule amendments came into effect on 1 March 2019.

As at the date of this announcement, the Stock Exchange has published the following guidance materials during 2019:

- A “Review of Issuers’ Annual Report Disclosure – Report 2018” covering findings and recommendations from a review of issuers’ annual reports for financial year that ended between January and December 2017.
- New guidance letters on (i) sanctions risks; (ii) competition between the businesses of a new applicant and its controlling shareholder; (iii) accounting policies and stock-taking procedures performed by the reporting accountants; and (iv) presentation of the non-GAAP financial measures in a listing document, and updated ten guidance letters as part of its continuous effort to streamline guidance materials.
- A new listing decision to provide guidance on why the Stock Exchange rejected certain listing applications in 2018.
- New country guides on “Austria” and “Netherlands” for listing of overseas companies.
- Bi-annual Enforcement Newsletter for the twelve months ended 31 December 2018 summarising news and updates on enforcement activities and highlighting specific areas or conduct that might impact Rule compliance.

Equity and Financial Derivatives Segment

Analysis of Results

ADV of derivatives contracts traded on the Futures Exchange⁸ was 3 per cent lower against Q1 2018. As a result, derivatives trading fees of the Futures Exchange decreased marginally.

Trading fees and trading tariffs of derivative warrants (DWs), callable bull/ bear contracts (CBBCs) and warrants dropped by 21 per cent, reflecting the 18 per cent decline in ADT and lower trading fees from new issues of DWs and CBBCs.

Stock Exchange listing fees dropped by 8 per cent, due to a lower number of newly listed DWs and CBBCs in Q1 2019 compared with Q1 2018.

Operating expenses rose by 8 per cent due to additional headcount for strategic projects and annual payroll adjustments, partly offset by lower premises expenses (\$10 million) as a result of adopting the new accounting standard for leases⁵.

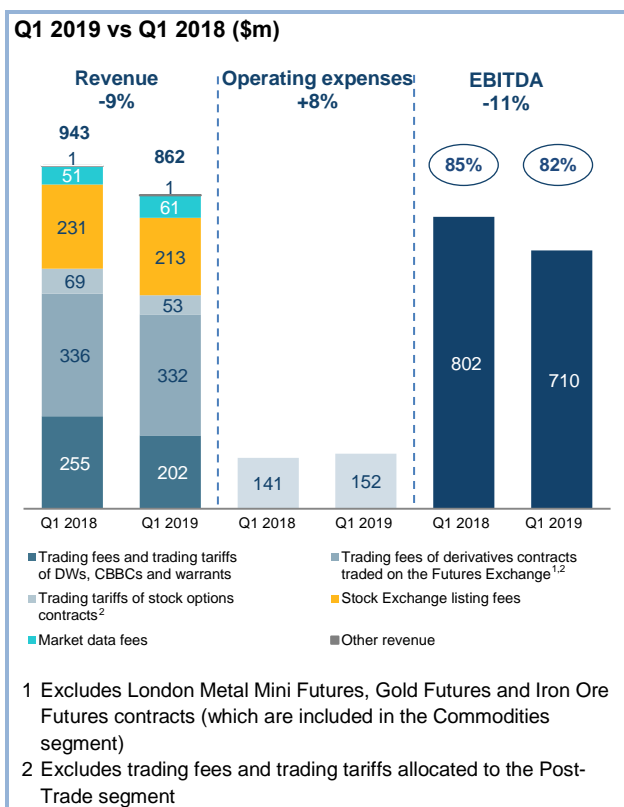
Business Update

ADV of derivatives contracts traded on the Futures Exchange⁸ dropped by 3 per cent and 13 per cent against Q1 2018 and Q4 2018 respectively due to lower volatility. Notwithstanding this, the following record single day volumes were achieved during Q1 2019:

	Single Day Trading Volume	
	Date (2019)	Number of contracts
Total Futures and Options ¹	25 Feb	2,247,881
Hang Seng China Enterprises Index (HSCEI) Futures	25 Feb	477,061

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

On 11 March 2019, the Futures Exchange signed a licence agreement with MSCI Limited to facilitate the introduction of MSCI China A Index futures contracts, subject to regulatory approval and market conditions.



Key Market Indicators

	Q1	
	2019	2018
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	26.8	32.8
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000)	391	412
ADV of derivatives contracts traded on the Futures Exchange ¹ ('000 contracts)	658	675
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	528	665
Number of newly listed DWs	2,965	3,076
Number of newly listed CBBCs	6,467	7,440
ADV of contracts traded during After-Hours Trading (AHT) ¹ ('000 contracts)	83	80
Number of trading days	60	61
	At 31 Mar 2019	At 31 Mar 2018
Open interest of futures and options contracts ¹ ('000 contracts)	12,187	13,284

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

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

HKEX targets to further extend trading hours to 3 a.m. from mid-2019, for 27 products including equity index futures and options, currency futures and commodity futures. This follows the successful rollout and positive market feedback from the extension of trading hours to 1 a.m. in November 2017, and the inclusion of equity index options in the After-Hours Trading (T+1) Session in May 2018. The extension of trading hours will be possible following the completion of the upgrade of the Hong Kong Futures Automated Trading System (HKATS) and the Derivatives Clearing and Settlement System (DCASS). HKEX has been actively engaging with participants to ensure market readiness as well as communicating with the Securities and Futures Commission (SFC) to finalise the launch date for the extension.

After the inclusion in the T+1 Session on 14 May 2018, ADV of equity index options increased to 10,282 contracts in Q1 2019, 59 per cent higher than in 2018⁹. Equity index options volume in the T+1 Session reached 7 per cent of the T Session volume in Q1 2019, compared to 4 per cent in 2018⁹. The number of equity index options traded in the T+1 Session reached a daily record high of 31,377 contracts on 25 February 2019.

RMB currency derivative volumes continued to grow in Q1 2019 due to the expanding market participant base, despite the relatively subdued volatility of USD/CNH. ADV of USD/CNH futures in Q1 2019 stood at 8,573 contracts, an increase of 33 per cent from Q4 2018 and 63 per cent from Q1 2018. Open interest of USD/CNH futures at 31 March 2019 was 7 per cent up from 31 December 2018 and 10 per cent up from 31 March 2018, as the contracts are increasingly viewed by investors as capital efficient risk management tools.

In January 2019, two new liquidity providers were recruited for USD/CNH futures calendar spread contracts, which will facilitate efficient calendar rolling activities of market participants. Going forward, HKEX also plans to explore the addition of new interest rate derivatives to cater for the growing hedging demand of Bond Connect investors.

HKEX hosted its sixth annual RMB FIC Pan-Asian Conference in the first week of April 2019, attracting over 1,200 industry participants and experts from across Asia, in both Hong Kong and Singapore. Key regulatory and business issues were discussed, with a focus on Bond Connect and the inclusion of Chinese bonds in global indexes.

The Derivatives Lite datafeed, which aims to facilitate the migration of Exchange Participants (EPs) to a comparable market data source with the upgrade of derivatives market systems, has maintained its positive uptake since its rollout in April 2018. As of 31 March 2019, over 110 eligible EPs had been on-boarded.

9 For the period from 14 May 2018 to 31 December 2018

Commodities Segment

Analysis of Results

Chargeable ADV of metals contracts traded was 3 per cent lower compared with Q1 2018, resulting in a drop in LME trading fees of \$6 million (2 per cent).

Operating expenses dropped by 6 per cent primarily due to lower premises expenses (\$9 million) as a result of adopting the new accounting standard for leases⁵, and lower costs at Qianhai Mercantile Exchange (QME).

Business Update

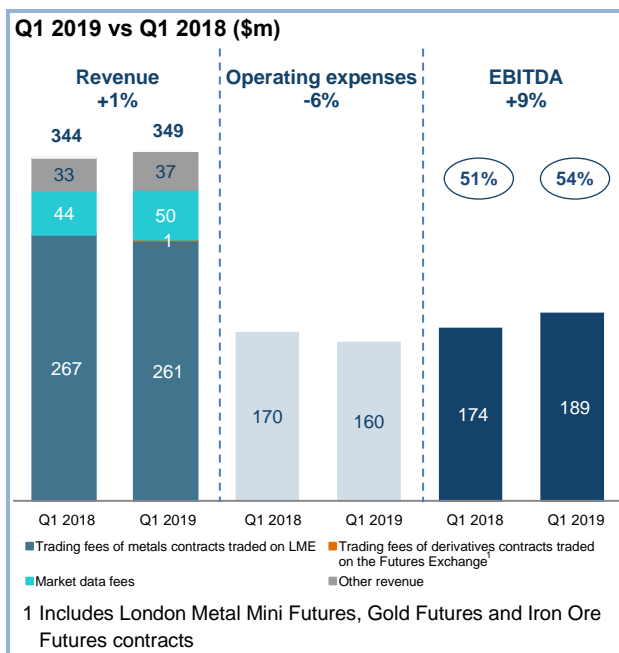
On 11 March 2019, the LME expanded its product offering with seven new cash-settled contracts referencing licensed prices across three product suites: aluminium, ferrous and minor metals. In addition, the aluminium suite was complemented with two regional premium contracts and an alumina contract. For minor metals, a new cash-settled cobalt contract has been introduced to complement the existing physical contract, and a cash-settled molybdenum contract replaces the physical contract. A six-month suspension of listing fee for cobalt brands was also introduced on 26 March 2019.

In Q1 2019, the LME launched a new trade-at-settlement (TAS) functionality for three-month nickel contracts. The electronic closing price trial began on 18 March 2019 and will be open for three months. Market response to the trial will be monitored closely. The LME is also engaging with the market to enhance its options price calculation and data dissemination capabilities in 2019.

Following a recent market consultation, a new Registered Intermediating Broker (RIB) membership category has been introduced in Q1 2019. RIBs arrange trades between market counterparties and bring these on exchange for registration and clearing. This type of broker can significantly boost liquidity development in smaller or newer markets.

On 29 March 2019, the LME published a discussion paper requesting market feedback on proposals for warehousing reform.

In Hong Kong, research and market consultations are in progress for the enhancement of the existing London Metal Mini Futures and Iron Ore Futures and for the potential launch of other metals derivatives products and metals indexes.



Key Market Indicators

	Q1	
	2019	2018
ADV of metals contracts traded on the LME ('000 lots)		
Aluminium	289	260
Copper	154	160
Zinc	124	144
Nickel	88	97
Lead	46	54
Ferrous	2	2
Precious	2	4
Others	7	6
Total	712	727
Less: Admin Trades ¹ and other non-chargeable trades	(101)	(99)
Total chargeable ADV	611	628
Number of trading days	63	63
	At	At
	31 Mar	31 Mar
	2019	2018
Total futures Market Open Interest ('000 lots)	2,091	2,160

¹ Administrative trades (Admin Trades) were introduced to meet requirements resulting from Markets in Financial Instruments Directive (MiFID) II but do not generate any fees.

In Shenzhen, QME's alumina trading volumes have achieved stable growth since the launch of the trading platform, and the price of alumina traded has attracted increasing recognition from key industry players. As one of the key initiatives supported by the PRC Central Government under the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area", QME will continue to grow its client and participant network, and expand its service offerings and product portfolio to better serve the physical market needs.

Post-Trade Segment

Analysis of Results

Clearing and settlement fees for the Cash Market and for Settlement Instructions (SIs) decreased by 11 per cent and 13 per cent respectively, primarily driven by lower number of transactions.

Net investment income increased by 27 per cent mainly due to higher interest income from rising interest rates, partly offset by lower average Margin Fund size of HKCC and SEOCH due to lower margin requirements per contract reflecting reduced volatility.

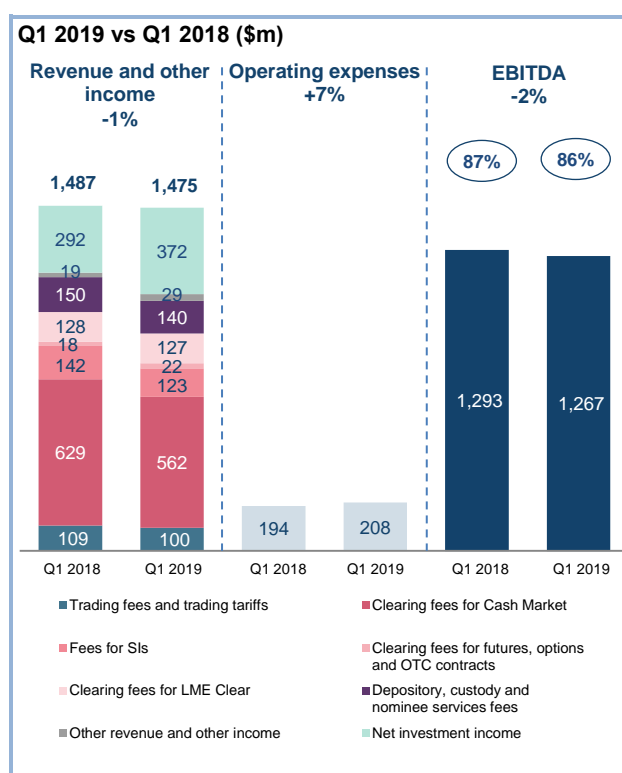
Operating expenses rose by 7 per cent due to additional headcount for strategic projects and annual payroll adjustments, partly offset by lower premises expenses (\$13 million) as a result of adopting the new accounting standard for leases⁵.

Business Update

Stock Connect clearing facilities have seen significant usage growth, with a 9 per cent increase in the number of Special Segregated Accounts (7,681 accounts as at 31 March 2019 as compared with 7,062 as at 31 December 2018) and 82 per cent increase in the ADV of Northbound SIs in Q1 2019 as compared with Q1 2018. In addition, Northbound portfolio value of A shares reached a record high of RMB1,033 billion in March 2019.

In Q1 2019, the volume cleared by OTC Clear reached record quarterly high, with a total of US\$51 billion of notional amount cleared, up 130 per cent as compared with Q1 2018. More HKD interest rate swaps (IRS) were cleared in Q1 2019 with a total of US\$26 billion of notional amount cleared, up 363 per cent compared with Q1 2018. Meanwhile, with robust activities within the dim sum bond market, there was a good flow of USD/CNH cross currency swaps with a total of US\$8 billion of notional amount cleared, up 7 per cent as compared with Q1 2018. As a result of the record high volume, OTC Clear has turned profitable in Q1 2019.

A joint market consultation paper with the SFC and Federation of Share Registrars Limited (FSR) on the proposed operating model for an uncertificated securities market in Hong Kong was issued in January 2019 with consultation ended on 27 April 2019. The proposed model



Key Market Indicators

	Q1	
	2019	2018
ADT traded on the Stock Exchange (\$bn)	101.1	146.1
Average daily number of Stock Exchange trades ('000)	1,645	1,814
Average daily value of SIs (\$bn)	235.5	300.1
Average daily number of SIs ('000)	101	114

strikes a balance between preserving existing settlement efficiency and providing options for investors to hold securities in uncertificated form. Consultation conclusion will be issued in Q3 2019. HKEX is working with the SFC and FSR to solicit feedback from various industrial bodies on the consultation.

Following the success of the Northbound Stock Connect Distributed Ledger Technology (DLT) prototype in 2018, a series of bilateral meetings with major global institutional investors, securities firms, global custodians, Clearing Participants (CPs) and local custodians, were held in Q1 2019 to develop a roadmap from prototype to production and explore options to provide ease of integration for market participants.

HKEX announced the successful conclusion of the 2018 Annual Attestation and Inspection Programme, which aimed to enhance the surveillance and monitoring of participants' compliance with the relevant exchange and clearing house rules and regulations. In 2019, HKEX will continue the Annual Attestation and Inspection Programme, with focus on three areas: (1) position limits and large open position reporting; (2) risk management; and (3) China Connect rules. Briefing sessions to introduce this year's Programme were conducted in March and April 2019.

In March 2019, LME Clear amended its rules to allow clients and UK affiliates of Members to use Warrants as Collateral. Work on changing LME Clear's existing SPAN margin methodology to a Value at Risk model continues as LME Clear looks to bring a more efficient and accurate margin calculation methodology to the market.

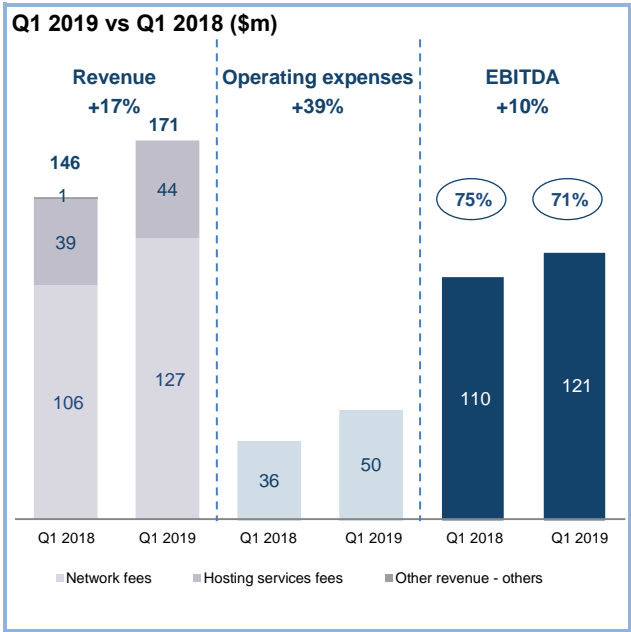
Technology Segment

Analysis of Results

Network fee income rose by 20 per cent due to increased usage of Orion Central Gateway by new EPs, additional fees arising from the newly introduced throttle monthly usage fees, and increased China Connect Central Gateway (CCCG) fees as more China Connect EPs (CCEPs) migrated from Open Gateway to CCCG.

Hosting services fees increased by 13 per cent due to organic growth from both new customer subscriptions and increased usage by existing customers.

Operating expenses increased due to higher IT costs directly consumed by participants, and costs of the Innovation Lab (which were previously included in Corporate Items).



Business Update

During Q1 2019, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform robustly.

Development of the Orion Trading Platform – China Stock Connect (OTP-CSC) was completed in Q4 2018. Market readiness activities are underway. The OTP-CSC is tentatively scheduled for rollout by Q3 2019 to replace the existing legacy proprietary platform to support Northbound Trading of Stock Connect.

Subject to regulatory approval, the upgrade of the derivatives platforms, HKATS and DCASS, are scheduled for rollout in Q2 2019 following the successful completion of the market rehearsal in March 2019. The upgrade will enhance the stability and reliability of the Derivatives Market infrastructure, enable the swift adaptation to future market developments, and reduce the hardware footprint required at participants' premises.

The first phase of the Next Generation Post-Trade Programme, Client Connect is now set to be rolled out in Q2 2019 after thorough internal testing to ensure overall system stability. Client Connect is a single platform to unify all client access to HKEX services to improve customer experience. The majority of the current paper-based services will be digitised to enhance operational efficiency on Client Connect, and the platform will integrate with other Next Generation Post-Trade applications.

On 20 February 2019, HKEX signed a letter of intent to acquire a 51 per cent equity interest in Shenzhen Ronghui Tongjin Technology Co Ltd (Ronghui Tongjin), a Shenzhen-based financial markets technology firm that specialises in financial exchanges, regulation technologies and data applications. The proposed acquisition will support HKEX's strategy to further build its financial markets technological capabilities, at a time of rapid change in the global exchange landscape.

HKEX's Innovation Lab successfully deployed several projects into the production phase in Q1 2019, including robotic process automation and a credit risk knowledge graphics. With "Technology Empowered" being one of the three focus areas of the Group's Strategic Plan 2019-2021, the Innovation Lab will continue to explore, accelerate and deploy new technologies in our businesses, leveraging both in-house development capabilities and external partnerships.

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 rose by \$423 million compared with Q1 2018, principally due to higher fair value gains on collective investment schemes held under the external portfolio, and higher interest income earned on cash and bank deposits from the increased fund size and higher deposit rates.

Q1 2019 vs Q1 2018	Q1	
	2019 \$m	2018 \$m
Revenue and other income		
Net investment income	510	87
Others	6	13
Total	516	100
Operating expenses	252	263

Operating expenses decreased by 4 per cent against Q1 2018 due to lower premises expenses (\$27 million) as a result of adopting the new accounting standard for leases⁵, partly offset by higher maintenance expenses for new IT systems and upgraded networks, and increased staff costs from annual payroll adjustments.

FINANCIAL REVIEW

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

Margin Fund deposits of \$140.5 billion at 31 March 2019 were \$16.8 billion higher than at 31 December 2018 due to the increase in Mainland security and settlement deposits from HKSCC CPs attributable to the increase in Northbound Stock Connect Trading, and increased contributions required from HKCC CPs in response to higher margin requirements per contract. Clearing House Fund contributions decreased from \$14.8 billion at 31 December 2018 to \$10.9 billion at 31 March 2019 due to lower contributions required from members of LME Clear in response to changes in risk exposures. Funds received were invested in cash and cash equivalents and financial assets.

Borrowings

In Q1 2019, the Group fully repaid the fixed rate notes due in January 2019 of US\$95 million.

Capital Expenditure and Commitments

During Q1 2019, the Group incurred capital expenditure of \$145 million (Q1 2018: \$153 million) related to the development and upgrade of various trading and clearing systems. The Group's capital expenditure commitments at 31 March 2019, including those authorised by the Board but not yet contracted for, amounted to \$1,199 million (31 December 2018: \$935 million).

Contingent Liabilities

At 31 March 2019, there were no significant changes in the Group's contingent liabilities compared with 31 December 2018.

Pledges on Assets

Securities, gold bullion and warrants were held by LME Clear as non-cash collateral for margins posted by its CPs and collateral in respect of its interest in overnight triparty reverse repurchase agreements, which together amounted to \$70,564 million at 31 March 2019 (31 December 2018: \$71,561 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 \$4,396 million at 31 March 2019 (31 December 2018: \$3,288 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 2018

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 2018.

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 2019 (Q1 2018: \$Nil).

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for Q1 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Three months ended 31 Mar 2019 \$m	Three months ended 31 Mar 2018 \$m
Trading fees and trading tariffs	1,491	1,794
Stock Exchange listing fees	453	460
Clearing and settlement fees	834	917
Depository, custody and nominee services fees	140	150
Market data fees	229	219
Other revenue	259	220
REVENUE	3,406	3,760
Investment income and sundry income	882	390
REVENUE AND OTHER INCOME	4,288	4,150
OPERATING EXPENSES		
Staff costs and related expenses	(669)	(599)
IT and computer maintenance expenses	(143)	(120)
Premises expenses	(31)	(100)
Product marketing and promotion expenses	(11)	(8)
Legal and professional fees	(12)	(13)
Other operating expenses	(104)	(95)
	(970)	(935)
EBITDA	3,318	3,215
Depreciation and amortisation	(248)	(180)
OPERATING PROFIT	3,070	3,035
Finance costs	(44)	(27)
Share of profits less losses of joint ventures	3	2
PROFIT BEFORE TAXATION	3,029	3,010
TAXATION	(422)	(456)
PROFIT FOR THE PERIOD	2,607	2,554
PROFIT/(LOSS) ATTRIBUTABLE TO:		
- Shareholders of HKEX	2,608	2,562
- Non-controlling interests	(1)	(8)
PROFIT FOR THE PERIOD	2,607	2,554
Basic earnings per share	\$2.09	\$2.07
Diluted earnings per share	\$2.09	\$2.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended 31 Mar 2019 \$m	Three months ended 31 Mar 2018 \$m
PROFIT FOR THE PERIOD	2,607	2,554
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries	54	81
Cash flow hedges	-	2
Changes in fair value of financial assets measured at fair value through other comprehensive income	6	(2)
OTHER COMPREHENSIVE INCOME	60	81
TOTAL COMPREHENSIVE INCOME	2,667	2,635
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEX	2,668	2,641
- Non-controlling interests	(1)	(6)
TOTAL COMPREHENSIVE INCOME	2,667	2,635

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	At 31 Mar 2019			At 31 Dec 2018		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS						
Cash and cash equivalents	143,768	-	143,768	121,196	-	121,196
Financial assets measured at fair value through profit or loss	50,208	50	50,258	61,004	-	61,004
Financial assets measured at fair value through other comprehensive income	4,472	-	4,472	3,755	-	3,755
Financial assets measured at amortised cost	30,353	398	30,751	31,487	398	31,885
Accounts receivable, prepayments and deposits	14,656	21	14,677	18,341	21	18,362
Interests in joint ventures	-	66	66	-	63	63
Goodwill and other intangible assets	-	18,078	18,078	-	18,019	18,019
Fixed assets	-	1,537	1,537	-	1,625	1,625
Right-of-use assets	-	2,394	2,394	-	-	-
Lease premium for land	-	20	20	-	20	20
Deferred tax assets	-	16	16	-	19	19
Total assets	243,457	22,580	266,037	235,783	20,165	255,948
LIABILITIES AND EQUITY						
Liabilities						
Financial liabilities at fair value through profit or loss	41,754	-	41,754	53,915	-	53,915
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	140,503	-	140,503	123,728	-	123,728
Accounts payable, accruals and other liabilities	23,307	-	23,307	18,316	53	18,369
Dividend payable	3,830	-	3,830	-	-	-
Deferred revenue	849	408	1,257	1,000	418	1,418
Taxation payable	831	-	831	678	-	678
Other financial liabilities	59	-	59	59	-	59
CPs' contributions to Clearing House Funds	10,913	-	10,913	14,787	-	14,787
Lease liabilities	232	2,223	2,455	-	-	-
Borrowings	252	162	414	1,005	161	1,166
Provisions	96	90	186	93	89	182
Deferred tax liabilities	-	739	739	-	743	743
Total liabilities	222,626	3,622	226,248	213,581	1,464	215,045
Equity						
Share capital			27,752			27,750
Shares held for Share Award Scheme			(671)			(682)
Employee share-based compensation reserve			263			218
Hedging and revaluation reserves			-			(6)
Exchange reserve			(30)			(84)
Designated reserves			533			523
Reserve relating to written put options to non-controlling interests			(369)			(369)
Retained earnings			12,138			13,379
Equity attributable to shareholders of HKEX			39,616			40,729
Non-controlling interests			173			174
Total equity			39,789			40,903
Total liabilities and equity			266,037			255,948
Net current assets			20,831			22,202

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 2018.

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

In 2019, the Group has adopted the following new standard and interpretation which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2019:

HKFRS 16	Leases
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments

HKFRS 16 affects the accounting for the Group's operating leases.

Prior to the adoption of HKFRS 16, leases where substantially all the rewards and risks of ownership of assets remained with the lessor were accounted for as operating leases. Operating lease rentals were recognised under operating expenses in the condensed consolidated income statement on a straight-line basis over the lease term. Commitments under operating leases for future periods were not recognised as liabilities.

Upon adoption of HKFRS 16, the majority of operating leases (except for short-term leases with lease terms of less than 12 months) are recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments and are subsequently measured at amortised cost. The right-of-use assets are measured at cost (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received) and depreciated on a straight-line basis during the lease term. For short-term leases, lease rentals are recognised under operating expenses in the condensed consolidated income statement on a straight-line basis over the lease terms.

The Group has applied HKFRS 16 from 1 January 2019. As permitted by the simplified transitional provision of HKFRS 16, comparatives for 2018 were not restated. Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets of \$2,419 million and current and non-current lease liabilities amounting to \$235 million and \$2,277 million respectively, and de-recognised provision for lease incentives included under current and non-current liabilities of \$32 million and \$53 million respectively, with the net difference of \$8 million being recognised as a reduction in retained earnings. In addition, reinstatement costs of \$36 million, which were previously included under fixed assets, were reclassified to right-of-use assets. As a result, the Group's net current assets and its shareholders' equity decreased by \$203 million and \$8 million respectively.

The following table shows the impact on each individual line item of the condensed consolidated income statement for the three months ended 31 March 2019 following the adoption of HKFRS 16. Line items that were not affected by the changes have not been included and, therefore, the line items disclosed do not add up to the sub-totals and totals below.

Condensed consolidated income statement (extracts)	Before adoption of HKFRS 16 \$m	Impact of adoption of HKFRS 16 \$m	As reported \$m
OPERATING EXPENSES			
IT and computer maintenance expenses	(145)	2	(143)
Premises expenses	(105)	74	(31)
Other operating expenses	(105)	1	(104)
	(1,047)	77	(970)
EBITDA	3,241	77	3,318
Depreciation and amortisation	(182)	(66)	(248)
OPERATING PROFIT	3,059	11	3,070
Finance costs	(22)	(22)	(44)
PROFIT BEFORE TAXATION	3,040	(11)	3,029
TAXATION	(422)	-	(422)
PROFIT FOR THE PERIOD	2,618	(11)	2,607
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF HKEX	2,619	(11)	2,608

The adoption of HK(IFRIC) Interpretation 23 did not have any financial impact on the Group.

The financial information relating to the year ended 31 December 2018 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 2018 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, 8 May 2019

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mrs Laura May-Lung CHA (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, Mr LEUNG Pak Hon, Hugo, Ms MA Xuezheng, Mary, 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.