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HKEX

香港交易所

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 2020

(Unaudited)

As at 19 August 2020, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company) 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, Mrs CHOW WOO Mo Fong, Susan, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mr HUNG Pi Cheng, Benjamin, 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 2020 \$m	Six months ended 30 Jun 2019 \$m
Trading fees and trading tariffs	4	3,330	2,940
Stock Exchange listing fees		928	847
Clearing and settlement fees		1,990	1,655
Depository, custody and nominee services fees		551	575
Market data fees		472	461
Other revenue		668	577
REVENUE		7,939	7,055
Investment income		1,167	2,142
Interest rebates to Participants		(329)	(623)
Net investment income	5	838	1,519
Sundry income		5	4
REVENUE AND OTHER INCOME		8,782	8,578
OPERATING EXPENSES			
Staff costs and related expenses	6	(1,398)	(1,328)
Information technology and computer maintenance expenses		(315)	(278)
Premises expenses		(59)	(64)
Product marketing and promotion expenses		(17)	(29)
Professional fees		(66)	(37)
Other operating expenses		(221)	(217)
		(2,076)	(1,953)
EBITDA*		6,706	6,625
Depreciation and amortisation		(545)	(495)
OPERATING PROFIT		6,161	6,130
Finance costs	7	(96)	(86)
Share of profits less losses of joint ventures		39	6
PROFIT BEFORE TAXATION		6,104	6,050
TAXATION	8	(870)	(847)
PROFIT FOR THE PERIOD		5,234	5,203
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEX		5,233	5,205
- Non-controlling interests		1	(2)
PROFIT FOR THE PERIOD		5,234	5,203
Basic earnings per share	9(a)	\$4.15	\$4.16
Diluted earnings per share	9(b)	\$4.14	\$4.15

* 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 2020 \$m	Six months ended 30 Jun 2019 \$m
PROFIT FOR THE PERIOD	5,234	5,203
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries	(92)	(35)
Cash flow hedges	(7)	(2)
Changes in fair value of financial assets measured at fair value through other comprehensive income	7	3
OTHER COMPREHENSIVE INCOME	(92)	(34)
TOTAL COMPREHENSIVE INCOME	5,142	5,169
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEX	5,144	5,168
- Non-controlling interests	(2)	1
TOTAL COMPREHENSIVE INCOME	5,142	5,169

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	At 30 Jun 2020			At 31 Dec 2019		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	129,563	-	129,563	128,152	-	128,152
Financial assets measured at fair value through profit or loss	11	67,085	705	67,790	56,729	672	57,401
Financial assets measured at fair value through other comprehensive income	11	5,046	-	5,046	4,569	-	4,569
Financial assets measured at amortised cost	11	57,380	828	58,208	39,954	718	40,672
Accounts receivable, prepayments and deposits	12	20,801	21	20,822	25,791	21	25,812
Interests in joint ventures		-	134	134	-	95	95
Goodwill and other intangible assets		-	18,472	18,472	-	18,378	18,378
Fixed assets		-	1,527	1,527	-	1,589	1,589
Right-of-use assets		-	2,325	2,325	-	2,366	2,366
Deferred tax assets		-	25	25	-	17	17
Total assets		279,875	24,037	303,912	255,195	23,856	279,051
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	13	60,914	-	60,914	48,008	-	48,008
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	14	159,558	-	159,558	142,536	-	142,536
Accounts payable, accruals and other liabilities	15	14,063	-	14,063	22,447	-	22,447
Deferred revenue		667	373	1,040	1,033	403	1,436
Taxation payable		821	-	821	1,760	-	1,760
Other financial liabilities		46	-	46	59	-	59
Participants' contributions to Clearing House Funds	16	16,076	-	16,076	14,394	-	14,394
Lease liabilities		290	2,174	2,464	272	2,234	2,506
Borrowings	17	340	81	421	338	80	418
Provisions		114	105	219	90	104	194
Deferred tax liabilities		-	836	836	-	792	792
Total liabilities		252,889	3,569	256,458	230,937	3,613	234,550
Equity							
Share capital	18			31,887			30,449
Shares held for Share Award Scheme	18			(766)			(770)
Employee share-based compensation reserve	19			369			250
Hedging and revaluation reserves				3			3
Exchange reserve				(270)			(181)
Designated reserves	20			625			587
Reserve relating to written put options to non-controlling interests				(369)			(369)
Retained earnings				15,649			14,204
Equity attributable to shareholders of HKEX				47,128			44,173
Non-controlling interests				326			328
Total equity				47,454			44,501
Total liabilities and equity				303,912			279,051
Net current assets				26,986			24,258

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 2020	29,679	250	3	(181)	587	(369)	14,204	44,173	328	44,501
Profit for the period	-	-	-	-	-	-	5,233	5,233	1	5,234
Other comprehensive income	-	-	-	(89)	-	-	-	(89)	(3)	(92)
Total comprehensive income	-	-	-	(89)	-	-	5,233	5,144	(2)	5,142
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2019 second interim dividend at \$2.99 per share	-	-	-	-	-	-	(3,761)	(3,761)	-	(3,761)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	-	10	10	-	10
- Shares issued in lieu of cash dividends	1,428	-	-	-	-	-	-	1,428	-	1,428
- Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)	-	(3)
- Vesting of shares of Share Award Scheme	17	(16)	-	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	135	-	-	-	-	-	135	-	135
- Tax relating to Share Award Scheme	-	-	-	-	-	-	2	2	-	2
- Transfer of reserves	-	-	-	-	38	-	(38)	-	-	-
	1,442	119	-	-	38	-	(3,788)	(2,189)	-	(2,189)
At 30 Jun 2020	31,121	369	3	(270)	625	(369)	15,649	47,128	326	47,454

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 \$m	Employee share-based compensation reserve \$m	Hedging and revaluation reserves \$m	Exchange reserve \$m	Designated reserves \$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 2019	27,068	218	(6)	(84)	523	(369)	13,371	40,721	174	40,895
Profit for the period	-	-	-	-	-	-	5,205	5,205	(2)	5,203
Other comprehensive income	-	-	1	(38)	-	-	-	(37)	3	(34)
Total comprehensive income	-	-	1	(38)	-	-	5,205	5,168	1	5,169
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2018 second interim dividend at \$3.07 per share	-	-	-	-	-	-	(3,830)	(3,830)	-	(3,830)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	-	8	8	-	8
- Shares issued in lieu of cash dividends	1,940	-	-	-	-	-	-	1,940	-	1,940
- Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)	-	(3)
- Vesting of shares of Share Award Scheme	16	(15)	-	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	115	-	-	-	-	-	115	-	115
- Tax relating to Share Award Scheme	-	-	-	-	-	-	1	1	-	1
- Non-controlling interests on acquisition of a subsidiary	-	-	-	-	-	-	-	-	138	138
- Transfer of reserves	-	-	-	-	24	-	(24)	-	-	-
	1,953	100	-	-	24	-	(3,846)	(1,769)	138	(1,631)
At 30 Jun 2019	29,021	318	(5)	(122)	547	(369)	14,730	44,120	313	44,433

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	21	5,075	5,880
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
Net redemption from/(payments to) external fund managers for sales/(purchases) of financial assets measured at fair value through profit or loss		2,189	(1,796)
Net cash inflow from operating activities		7,264	4,084
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(637)	(508)
Net increase in financial assets of Corporate Funds:			
Increase in time deposits with original maturities more than three months		(3,164)	(2,933)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		(305)	(130)
Payments for purchases of financial assets measured at fair value through profit or loss		(160)	(50)
Interest received from financial assets measured at fair value through other comprehensive income		32	52
Cash acquired upon acquisition of a subsidiary		-	41
Net cash outflow from investing activities		(4,234)	(3,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchases of shares for Share Award Scheme		(3)	(3)
Repayment of borrowings		-	(744)
Payments of interest on borrowings		-	(11)
Payments of other finance costs		(47)	(38)
Dividends paid to shareholders of HKEX		(2,314)	(1,872)
Lease payments			
- Capital elements		(140)	(115)
- Interest elements		(46)	(44)
Net cash outflow from financing activities		(2,550)	(2,827)
Net increase/(decrease) in cash and cash equivalents		480	(2,271)
Cash and cash equivalents at 1 Jan		10,603	11,180
Cash and cash equivalents at 30 Jun		11,083	8,909
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	11	12,113	9,775
Less: Cash reserved for supporting Skin-in-the-Game and default fund credits of clearing houses	11(b)	(1,030)	(866)
		11,083	8,909

- (a) "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 four 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 2019 annual consolidated financial statements. 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 2019.

The financial information relating to the year ended 31 December 2019 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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 2019 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 2020, the Group has adopted the following amendments to Hong Kong Financial Reporting Standards (HKFRSs) which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material
Amendments to HKFRS 3	Business Combination: Definition of a Business

The adoption of these amendments did not have any financial impact on the Group.

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 tariffs, 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 (CBBs) and warrants, and sales of related market data. The major sources of revenue are trading fees, trading tariffs, listing fees of derivatives products and market data fees.

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, ferrous, and precious metals futures and options contracts, and the operations of Qianhai Mercantile Exchange Co., Ltd. (QME), the commodity trading platform in the Mainland. It also covers the commodities contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees of commodity products, commodity market data fees and fees from ancillary operations.

The **Post Trade** 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 **Technology** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group, and services provided by BayConnect Technology Company Limited (BayConnect). Its major sources of revenue are network, terminal user, data line and software sub-license fees and hosting services fees.

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

3. Operating Segments (continued)

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, profit before taxation and analysis of revenue by timing of revenue recognition for the period, is set out as follows:

	Six months ended 30 Jun 2020						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Post Trade \$m	Technology \$m	Corporate Items \$m	Group \$m
Timing of revenue recognition:							
Point in time	1,491	1,076	616	2,586	30	-	5,799
Over time	762	562	133	268	412	3	2,140
Revenue from external customers	2,253	1,638	749	2,854	442	3	7,939
Net investment income	-	-	-	772	-	66	838
Sundry income	-	-	-	3	1	1	5
Revenue and other income	2,253	1,638	749	3,629	443	70	8,782
Operating expenses	(285)	(307)	(329)	(432)	(139)	(584)	(2,076)
Reportable segment EBITDA	1,968	1,331	420	3,197	304	(514)	6,706
Depreciation and amortisation	(60)	(51)	(169)	(106)	(22)	(137)	(545)
Finance costs	(7)	(6)	(4)	(46)	(1)	(32)	(96)
Share of profits less losses of joint ventures	39	-	-	-	-	-	39
Reportable segment profit before taxation	1,940	1,274	247	3,045	281	(683)	6,104
	Six months ended 30 Jun 2019						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Post Trade \$m	Technology \$m	Corporate Items \$m	Group \$m
Timing of revenue recognition:							
Point in time	1,128	1,144	556	2,302	34	5	5,169
Over time	735	487	138	182	339	5	1,886
Revenue from external customers	1,863	1,631	694	2,484	373	10	7,055
Net investment income	-	-	-	774	-	745	1,519
Sundry income	-	-	-	4	-	-	4
Revenue and other income	1,863	1,631	694	3,262	373	755	8,578
Operating expenses	(302)	(291)	(324)	(420)	(102)	(514)	(1,953)
Reportable segment EBITDA	1,561	1,340	370	2,842	271	241	6,625
Depreciation and amortisation	(64)	(48)	(158)	(120)	(19)	(86)	(495)
Finance costs	(8)	(6)	(4)	(39)	(1)	(28)	(86)
Share of profits less losses of joint ventures	9	(3)	-	-	-	-	6
Reportable segment profit before taxation	1,498	1,283	208	2,683	251	127	6,050

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

4. Trading Fees and Trading Tariffs

	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
Equity securities traded on the Stock Exchange and through Stock Connect	1,479	1,094
DWs, CBBCs and warrants traded on the Stock Exchange	329	358
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	949	976
Base, ferrous, and precious metals futures and options contracts traded on the LME	573	512
	3,330	2,940

5. Net Investment Income

	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
Gross interest income from financial assets measured at amortised cost	1,311	1,549
Gross interest income from financial assets measured at fair value through other comprehensive income	32	52
Interest rebates to Participants	(329)	(623)
Net interest income	1,014	978
Net (losses)/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	(138)	535
Others	(38)	6
Net investment income	838	1,519

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

6. Staff Costs and Related Expenses

	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
Salaries and other short-term employee benefits	1,174	1,124
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	135	115
Termination benefits	1	3
Retirement benefit costs (note (a))	88	86
	1,398	1,328

(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 representative 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 2020 \$m	Six months ended 30 Jun 2019 \$m
Interest on borrowings	3	4
Interest on lease liabilities	46	44
Banking facility commitment fees	26	25
Negative interest on Euro and Japanese Yen deposits	21	13
	96	86

8. Taxation

Taxation charge in the condensed consolidated income statement represents:

	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
Current tax - Hong Kong Profits Tax	724	744
Current tax - Overseas Tax	104	102
Total current tax	828	846
Deferred tax (note (b))	42	1
Taxation charge	870	847

8. Taxation (continued)

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2019: 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 (2019: 19 per cent).
- (b) Through the enactment of the Finance Act 2020, the UK Corporate Tax rate would remain at 19 per cent from 1 April 2020 instead of reducing to 17 per cent, the previously enacted rate. As a result, a one-off deferred tax charge of \$61 million was recognised during the six months ended 30 June 2020.

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 2020	Six months ended 30 Jun 2019
Profit attributable to shareholders (\$m)	5,233	5,205
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,260,758	1,250,719
Basic earnings per share (\$)	4.15	4.16

(b) Diluted earnings per share

	Six months ended 30 Jun 2020	Six months ended 30 Jun 2019
Profit attributable to shareholders (\$m)	5,233	5,205
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,260,758	1,250,719
Effect of shares awarded under Share Award Scheme (in '000)	3,172	3,010
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,263,930	1,253,729
Diluted earnings per share (\$)	4.14	4.15

10. Dividends

	Six months ended 30 Jun 2020 \$m	Six months ended 30 Jun 2019 \$m
Interim dividend declared of \$3.71 (2019: \$3.72) per share at 30 Jun	4,704	4,680
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(12)	(12)
	4,692	4,668

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

11. Financial Assets

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
Cash and cash equivalents	129,563	128,152
Financial assets measured at fair value through profit or loss	67,790	57,401
Financial assets measured at fair value through other comprehensive income	5,046	4,569
Financial assets measured at amortised cost	58,208	40,672
	260,607	230,794

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 2020 \$m	At 31 Dec 2019 \$m
<u>Cash for A shares</u> (note (a))		
Cash and cash equivalents	-	1,460
<u>Corporate Funds</u>		
Cash and cash equivalents (note (b))	12,113	11,421
Financial assets measured at fair value through profit or loss	6,876	9,393
Financial assets measured at amortised cost	11,794	8,324
	30,783	29,138
<u>Margin Funds</u> ¹		
Cash and cash equivalents	100,567	100,095
Financial assets measured at fair value through other comprehensive income	5,046	4,569
Financial assets measured at amortised cost	46,414	32,348
	152,027	137,012
<u>Clearing House Funds</u> (note 16)		
Cash and cash equivalents	16,883	15,176
<u>Metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (d))	60,914	48,008
	260,607	230,794

1 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to China Securities Depository and Clearing Corporation Limited (ChinaClear) and margin receivable from Clearing Participants of \$7,531 million (31 December 2019: \$5,524 million), which are included in accounts receivable, prepayments and deposits. If such amounts are included, total Margin Funds would be \$159,558 million (31 December 2019: \$142,536 million) (note 14).

11. Financial Assets (continued)

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

	At 30 Jun 2020						At 31 Dec 2019							
	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	\$m	\$m
Within twelve months	-	29,250	152,027	16,883	60,914	259,074	1,460	27,748	137,012	15,176	48,008	229,404		
Over twelve months	-	1,533	-	-	-	1,533	-	1,390	-	-	-	1,390		
	-	30,783	152,027	16,883	60,914	260,607	1,460	29,138	137,012	15,176	48,008	230,794		

- (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 2020, cash and cash equivalents of Corporate Funds of \$1,030 million (31 December 2019: \$818 million) 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) The cash and cash equivalents of Margin Funds, Clearing House Funds, Corporate Funds reserved for supporting Skin-in-the-Game and default fund credits of Clearing House Funds (note (b)), and Cash for A shares are held for specific purposes and cannot be used by 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.
- (d) Metals derivatives contracts represent the fair value of outstanding base, ferrous, 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 has been recognised 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 represent the Group's CNS money obligations receivable, and Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear, which accounted for 54 per cent (31 December 2019: 73 per cent) and 36 per cent (31 December 2019: 21 per cent) of the total accounts receivable, prepayments and deposits respectively. CNS money obligations receivable mature within two days after the trade date. The balance of Settlement Reserve Fund and Settlement Guarantee Fund with ChinaClear is rebalanced on a monthly basis. 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 2020 \$m	At 31 Dec 2019 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear (note 11(d))	60,914	48,008

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

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised:		
SEOCH Clearing Participants' margin deposits	12,067	8,174
HKCC Clearing Participants' margin deposits	65,203	55,664
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	17,198	12,367
OTC Clear Clearing Participants' margin deposits	7,240	5,180
LME Clear Clearing Participants' margin deposits	57,850	61,151
	159,558	142,536

15. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represent the Group's CNS money obligations payable, which accounted for 80 per cent (31 December 2019: 89 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.

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

16. Clearing House Funds

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions	16,076	14,394
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Clearing House Funds reserves (note 20)	625	587
	16,857	15,137
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)	16,883	15,176
Less: Other financial liabilities of Clearing House Funds	(26)	(39)
	16,857	15,137
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	3,817	2,281
SEOCH Reserve Fund	965	947
HKCC Reserve Fund	1,720	1,660
OTC Clear Rates and FX Guarantee Fund	2,625	2,548
OTC Clear Rates and FX Guarantee Resources	170	168
LME Clear Default Fund	7,560	7,533
	16,857	15,137

- (a) Contributions by HKSCC, SEOCH and HKCC to their respective default funds (Skin-in-the-Game) are set at 10 per cent of the size of the respective funds, and such contributions, together with default fund credits granted to HKSCC and HKCC Participants, are included in Corporate Funds. At 30 June 2020, the Skin-in-the-Game and default fund credits amounted to \$1,030 million (31 December 2019: \$818 million) (note 11(b)), and are invested in overnight deposits and monitored on a daily basis.

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

17. Borrowings

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
Written put options to non-controlling interests	421	418
Analysed as:		
Non-current liabilities	81	80
Current liabilities	340	338
	421	418

During the six months ended 30 June 2020, 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 2019	1,250,632	(3,115)	27,750	(682)	27,068
Shares issued in lieu of cash dividends (note (a))	10,569	(84)	2,694	(21)	2,673
Shares purchased for Share Award Scheme (note (b))	-	(1,115)	-	(285)	(285)
Vesting of shares of Share Award Scheme (note (c))	-	1,040	5	218	223
At 31 Dec 2019	1,261,201	(3,274)	30,449	(770)	29,679
At 1 Jan 2020	1,261,201	(3,274)	30,449	(770)	29,679
Shares issued in lieu of cash dividends (note (a))	6,636	(45)	1,438	(10)	1,428
Shares purchased for Share Award Scheme (note (b))	-	(10)	-	(3)	(3)
Vesting of shares of Share Award Scheme (note (c))	-	78	-	17	17
At 30 Jun 2020	1,267,837	(3,251)	31,887	(766)	31,121

- (a) 6,635,576 new fully paid HKEX shares were issued in April 2020 (year ended 31 December 2019: 10,569,259 shares) and allotted at \$216.70 per share (year ended 31 December 2019: weighted average price of \$254.81 per share) to the shareholders (including 45,127 shares (year ended 31 December 2019: 84,339 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 2020, the Share Award Scheme acquired 9,700 HKEX shares (year ended 31 December 2019: 1,115,300 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 2019: \$285 million).
- (c) During the six months ended 30 June 2020, a total of 78,378 HKEX shares (year ended 31 December 2019: 1,040,143 shares) were vested, and the total cost of the vested shares was \$17 million (year ended 31 December 2019: \$218 million).

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 2020, no Senior Executive Awards were 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
22 Jun 2020	9,700	307.10	17 Jun 2022 – 17 Jun 2023

20. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
Clearing House Funds reserves (note 16)		
- HKSCC Guarantee Fund reserve	188	174
- SEOCH Reserve Fund reserve	113	111
- HKCC Reserve Fund reserve	243	239
- OTC Clear Rates and FX Guarantee Fund reserve	67	51
- OTC Clear Rates and FX Guarantee Resources reserve	14	12
	625	587

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 2020 \$m	Six months ended 30 Jun 2019 \$m
Profit before taxation	6,104	6,050
Adjustments for:		
Net interest income	(1,014)	(978)
Net fair value losses/(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	138	(535)
Finance costs	96	86
Depreciation and amortisation	545	495
Employee share-based compensation benefits	135	115
Provision for impairment losses of receivables	2	7
Share of profits less losses of joint ventures	(39)	(6)
Other non-cash adjustments	3	6
Net increase in financial assets of Margin Funds	(17,015)	(10,396)
Net increase in financial liabilities of Margin Funds	17,022	10,399
Net (increase)/decrease in Clearing House Fund financial assets	(1,707)	2,383
Net increase/(decrease) in Clearing House Fund financial liabilities	1,669	(2,407)
Decrease in cash prepayments and collateral for A shares	1,460	3,014
Increase in Corporate Funds used for supporting Skin-in-the-Game and default fund credits	(212)	(142)
Decrease in accounts receivable, prepayments and deposits	7,423	6,631
Decrease in other liabilities	(8,741)	(9,446)
Net cash inflow from principal operations	5,869	5,276
Interest received from financial assets measured at amortised cost and cash and cash equivalents	1,311	1,549
Interest paid to Participants	(329)	(623)
Income tax paid	(1,776)	(322)
Net cash inflow from principal operating activities	5,075	5,880

22. Capital Expenditures and Commitments

During the six months ended 30 June 2020, the Group incurred capital expenditures of \$519 million (2019: \$368 million).

At 30 June 2020, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2020 \$m	At 31 Dec 2019 \$m
Contracted but not provided for:		
- fixed assets	40	24
- intangible assets	178	82
Authorised but not contracted for:		
- fixed assets	437	461
- intangible assets	600	650
	1,255	1,217

23. Contingent Liabilities

At 30 June 2020, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2019: \$71 million). Up to 30 June 2020, 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 646 trading Participants (31 December 2019: 658) covered by the indemnity at 30 June 2020 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$129 million (31 December 2019: \$132 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 2020 \$m	Six months ended 30 Jun 2019 \$m
Salaries and other short-term employee benefits	63	63
Employee share-based compensation benefits	30	32
Retirement benefit costs	4	4
	97	99

(b) Post-retirement benefit plans

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

25. Pledges of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margins posted by its Clearing Participants. The total fair value of this collateral was US\$1,523 million (HK\$11,804 million) at 30 June 2020 (31 December 2019: US\$1,872 million (HK\$14,586 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\$8,478 million (HK\$65,708 million) at 30 June 2020 (31 December 2019: US\$8,904 million (HK\$69,378 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 2020. Such non-cash collateral, together with certain financial assets amounting to US\$513 million (HK\$3,979 million) at 30 June 2020 (31 December 2019: US\$474 million (HK\$3,692 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 2020, the Group had set aside \$4,000 million (31 December 2019: \$4,000 million) of shareholders' funds for the purpose of supporting the risk management regime of the clearing houses in their roles as central counterparties, of which \$2,160 million (31 December 2019: \$2,160 million) had been injected into HKSCC, SEIOCH and HKCC as share capital.

27. Fair Value of Financial Assets and Financial Liabilities

(a) Financial assets and financial liabilities 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.

Recurring fair value measurements:	At 30 Jun 2020				At 31 Dec 2019			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets								
Financial assets measured at fair value through profit or loss:								
- collective investment schemes	1,123	5,543	-	6,666	2,647	6,696	-	9,343
- equity securities	-	-	210	210	-	-	50	50
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear	-	60,914	-	60,914	-	48,008	-	48,008
Financial assets measured at fair value through other comprehensive income:								
- debt securities	3,041	2,005	-	5,046	3,059	1,510	-	4,569
	4,164	68,462	210	72,836	5,706	56,214	50	61,970
Financial liabilities								
Financial liabilities at fair value through profit or loss:								
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear	-	60,914	-	60,914	-	48,008	-	48,008

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

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

During the six months ended 30 June 2020 and 30 June 2019, there were no transfers of instruments between Level 1 and Level 2 or transfer into or out of Level 3.

Level 2 fair values of collective investment schemes, debt securities, base, ferrous, 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.

Fair value measurements using significant unobservable inputs (Level 3)

	\$m
At 1 Jan 2019	-
Investment in minority stake in an unlisted company	50
At 31 Dec 2019 and 1 Jan 2020	50
Additional investments in minority stakes in unlisted companies	160
At 30 Jun 2020	210

During the six months ended 30 June 2020, no unrealised gain or loss was recognised in the condensed consolidated income statement.

The following table summarises the basis of valuation used in level 3 fair value measurements:

Description	Fair value at 30 Jun 2020 \$m	Basis of valuation
Minority stake in Fusion Bank Limited	100	Fusion Bank Limited was granted a virtual banking license by the Hong Kong Monetary Authority. The investment is not traded in an active market. The company continues to develop its virtual banking platform and is expected to launch its business in the second half of 2020. The latest fair value was based on recent market transactions.
Minority stake in Huakong TsingJiao Information Science (Beijing) Limited	110	Huakong TsingJiao Information Science (Beijing) Limited is a data technology company which supports HKEX's aspiration to develop a data marketplace. The investment is not traded in an active market. The latest fair value was based on recent market transactions.

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, except for lease liabilities where disclosure of fair values is not required. These assets and liabilities were classified under Level 2 in the fair value hierarchy.

	At 30 Jun 2020		At 31 Dec 2019	
	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:				
- debt securities maturing over one year ¹	728	728	619	619
- other financial assets maturing over one year ²	100	90	99	79
Liabilities				
Borrowings:				
- written put options to non-controlling interests ³	421	428	418	422
Financial guarantee to the Collector of Stamp Revenue ⁴	20	82	20	50

¹ The fair values are provided by a reputable independent financial institution.

² 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 1.10 per cent to 1.29 per cent at 30 June 2020 (31 December 2019: 2.44 per cent to 2.58 per cent).

³ 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 rates used ranged from 1.47 per cent to 1.58 per cent at 30 June 2020 (31 December 2019: 2.82 per cent to 2.99 per cent).

⁴ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted to perpetuity using a ten-year Hong Kong Government bond rate, adjusted by an estimated credit spread, but capped at the maximum exposure of the financial guarantee. The discount rate used was 1.97 per cent at 30 June 2020 (31 December 2019: 3.26 per cent).

The carrying amounts of short-term financial assets and 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.