



2020 Annual Results Analyst Presentation

Calvin Tai *Interim Chief Executive, HKEX Group*

Romnesh Lamba *Co-President, HKEX Group*

Vanessa Lau *Group Chief Financial Officer, HKEX Group*

24 February 2021

HKEX
香港交易所

Disclaimer

The information contained in this document is for general informational purposes only and does not constitute an offer, solicitation, invitation or recommendation to subscribe for or purchase any securities, or other products or to provide any investment advice or service of any kind. This document is solely intended for distribution to and use by professional investors. This document is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited (“HKEX”) to any registration requirement within such jurisdiction or country.

This document contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs and assumptions of HKEX about the businesses and the markets in which it and its subsidiaries operate. These forward-looking statements are not guarantees of future performance and are subject to market risk, uncertainties and factors beyond the control of HKEX. Therefore, actual outcomes and returns may differ materially from the assumptions made and the statements contained in this document.

Where this document refers to Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (together, the “Stock Connect” programs), please note that currently, access to northbound trading is only available to intermediaries licensed or regulated in Hong Kong; southbound trading is only available to intermediaries licensed or regulated in Mainland China. Direct access to the Stock Connect is not available outside Hong Kong and Mainland China.

Where this document refers to Bond Connect, please note that currently, access to northbound trading is only available to foreign investors that are able to trade onshore bonds on the China Foreign Exchange Trade System & National Interbank Funding Centre.

Although the information contained in this document is obtained or compiled from sources believed to be reliable, HKEX does not guarantee the accuracy, validity, timeliness or completeness of the information or data for any particular purpose, and shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this document is provided on an “as is” and “as available” basis and may be amended or changed. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. HKEX shall not be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this document.



Agenda

01 | 2020 Key Highlights

02 | HKEX Group Financial Review

03 | Business and Strategic Update

04 | Appendix



2020 Key Highlights

1 | Financial Performance

- Record financial results for third consecutive year
- Record revenue and other income of HK\$19,190mn with core business revenue up by 24% YoY, reflecting higher trading and clearing fees driven by record headline ADT
- Record Stock Connect revenue and other income of HK\$1,926mn (+91% YoY)
- Net investment income down by 18% YoY at HK\$2,228mn, due to lower fair value gains from collective investment schemes and lower interest income
- Profit attributable to shareholders at record high of HK\$11,505mn (+23% YoY)

2 | Business and Strategy

- Strong IPO market – #2 globally by IPO funds raised (HK\$400.2bn, 27% YoY) and #4 by number of new company listings (154)
- Strong performance in Connect schemes – record high ADT across all channels
- Launched 38 MSCI Asia and Emerging Markets Index Futures, representing a major step forward in the expansion of HKEX's derivatives product portfolio
- LME demonstrated resiliency and adaptability, including a successful temporary migration of trading activities from the Ring to electronic pricing since March
- Launched HKEX's Sustainable and Green Exchange (STAGE), Asia's first multi-asset sustainable investment product platform; Launch of HKEX Foundation



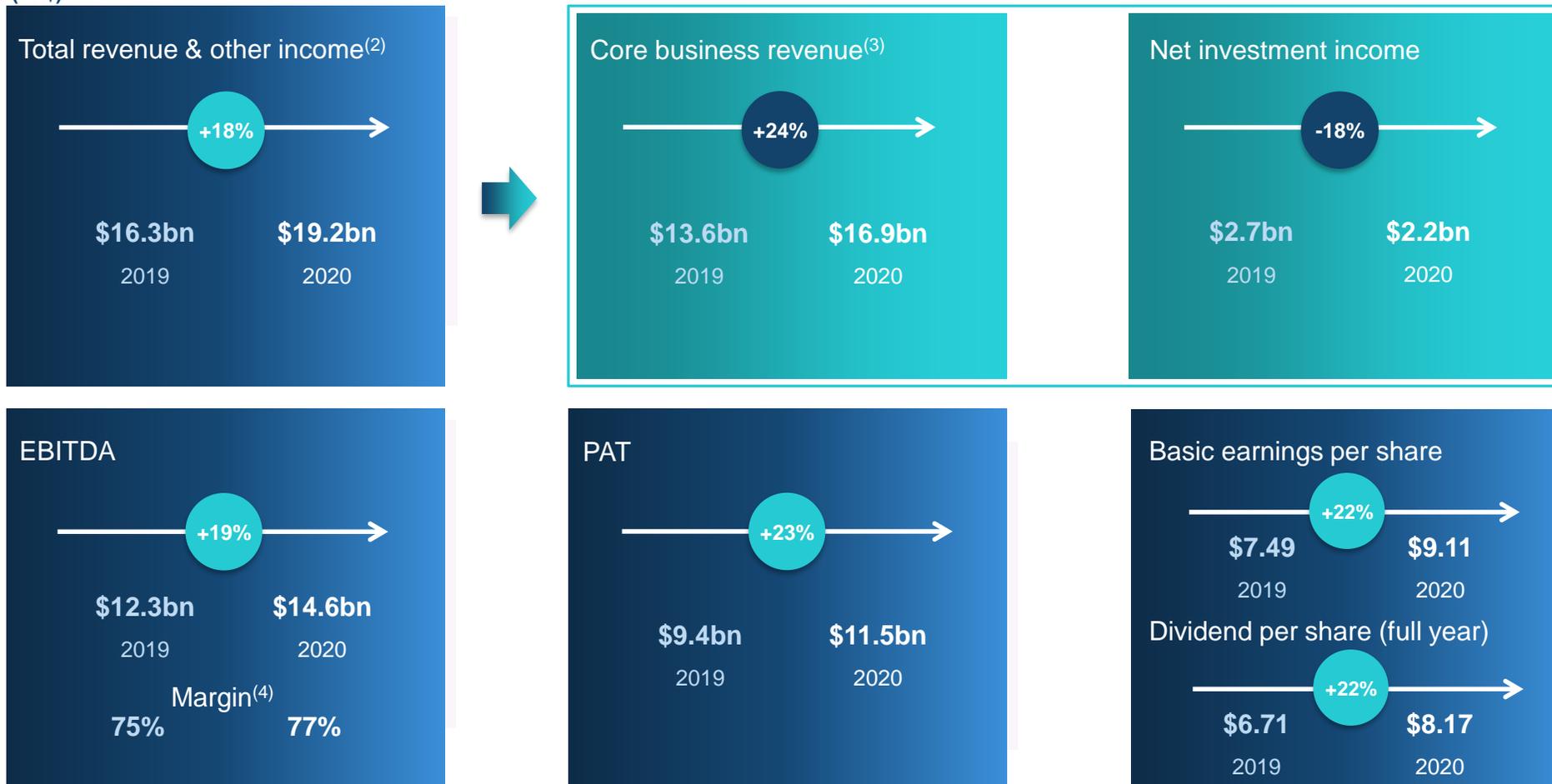
HKEX Group Financial Review



Key Financial Highlights

Record revenue and profit for third consecutive year
 Low interest rate environment impacted investment income

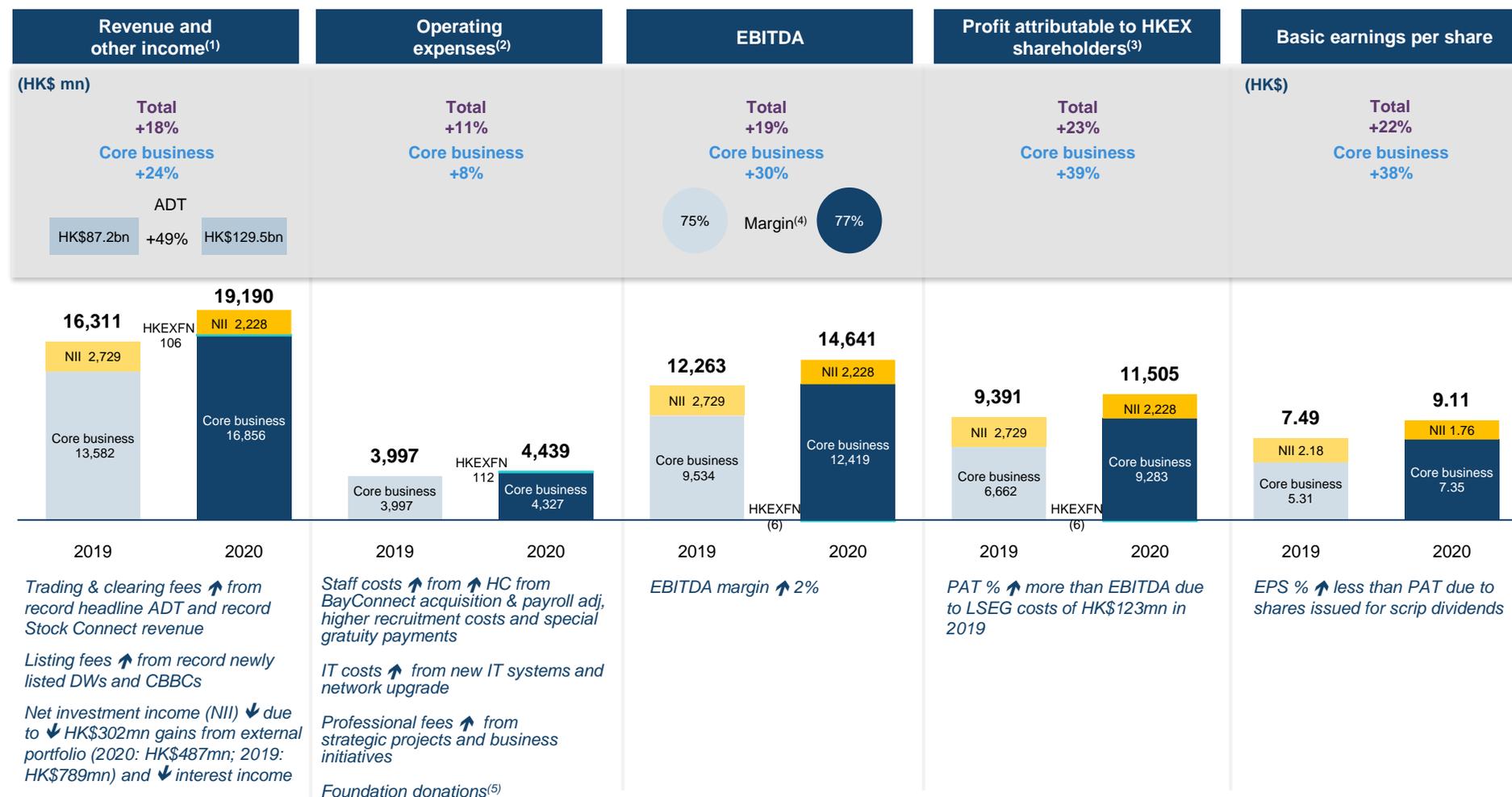
(HK\$)



1. All percentage changes are computed based on amounts reported in financial statements.
2. Represents gross revenue and other income before deducting transaction-related expenses (2020: HK\$110mn; 2019: HK\$51mn)
3. Core business revenue represents total revenue and other income, excluding net investment income and HKEX Foundation donation income (2020: HK\$106mn; 2019: \$Nil).
4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses.



2020: Record Revenue and Profit for Third Consecutive Year



1. Represents gross revenue and other income before deducting transaction-related expenses (2020: HK\$110mn; 2019: HK\$51mn)

2. Excludes transaction-related expenses, depreciation and amortisation, finance costs, share of profits/(losses) of joint ventures, and costs arising from the proposed combination with London Stock Exchange Group plc (LSEG)

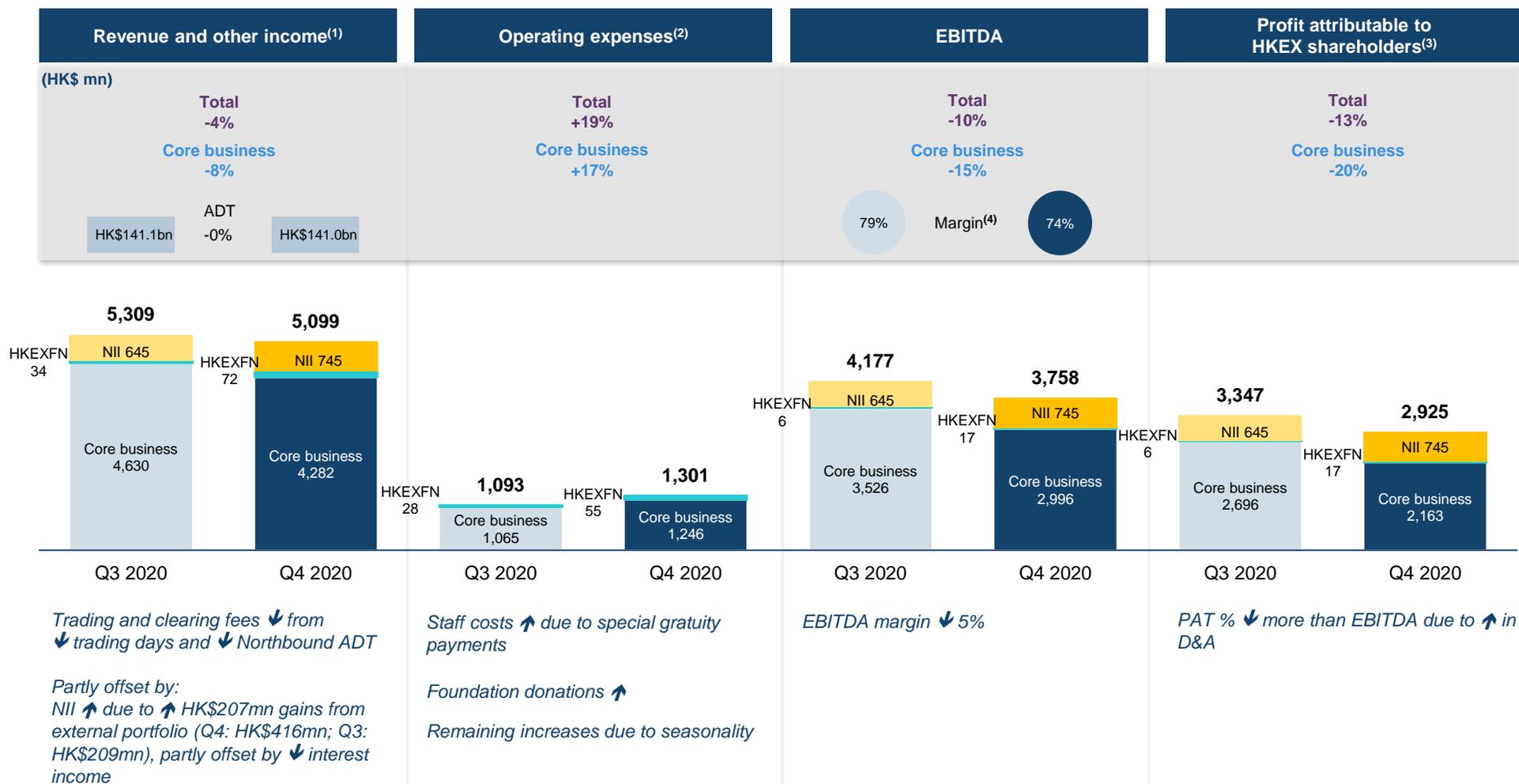
3. For the purpose of this presentation, tax impact of NII is not considered when calculating the PAT attributable to NII.

4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses.

5. From 2H 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme were received by HKEX Foundation (HKEXFN), and the amounts previously paid by the issuers directly to the Hong Kong Community Chest were paid by HKEX Foundation. As a result, HKEX recorded donation income of HK\$106mn, under revenue and other income, and HKEX Foundation charitable donations of HK\$112mn, under operating expenses in 2020.



Q4 Reflects Fewer Trading Days, Lower Stock Connect and Derivatives Volumes, and Seasonality in Expenses



1. Represents gross revenue and other income before deducting transaction-related expenses (Q3 2020: HK\$39mn; Q4 2020: HK\$40mn)
2. Excludes transaction-related expenses, depreciation and amortisation, finance costs, and share of profits/(losses) of joint ventures
3. For the purpose of this presentation, tax impact of NII is not considered when calculating the PAT attributable to NII.
4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses.



2020 Performance Above Historical Trendline



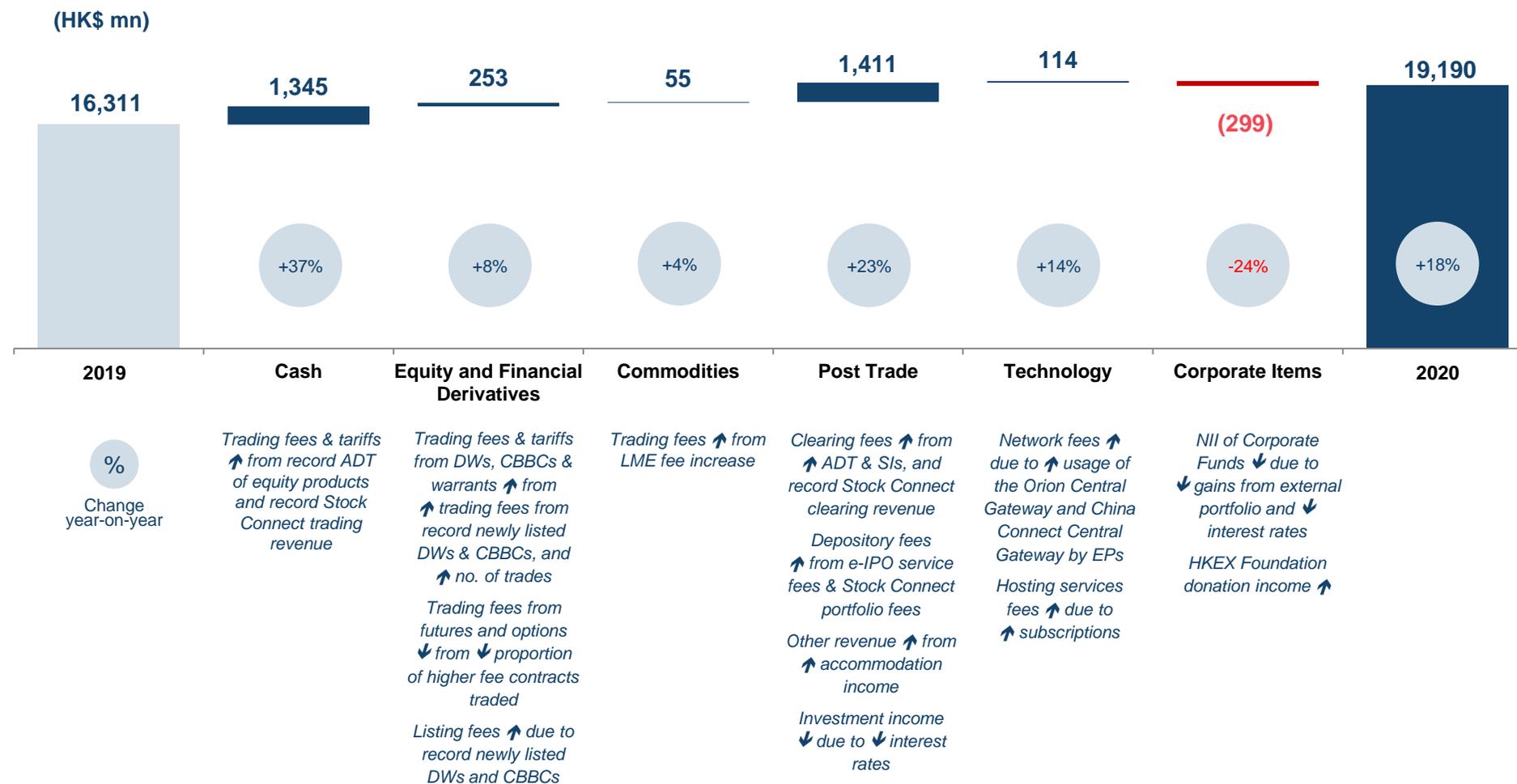
2020 record financial results despite COVID-19 outbreak and volatile macroeconomic backdrop.

1. Represents gross revenue and other income before deducting transaction-related expenses
2. Operating expenses exclude transaction-related expenses, depreciation and amortisation, finance costs, share of profits/(losses) of joint ventures, and costs arising from the proposed combination with LSEG. The figures have been restated to conform with latest presentation in the financial statements.
3. Dotted trend lines are illustrative and do not constitute a forward forecast.



Higher Revenue Across All Business Segments, Offsetting Lower Net Investment Income

Segmental revenue



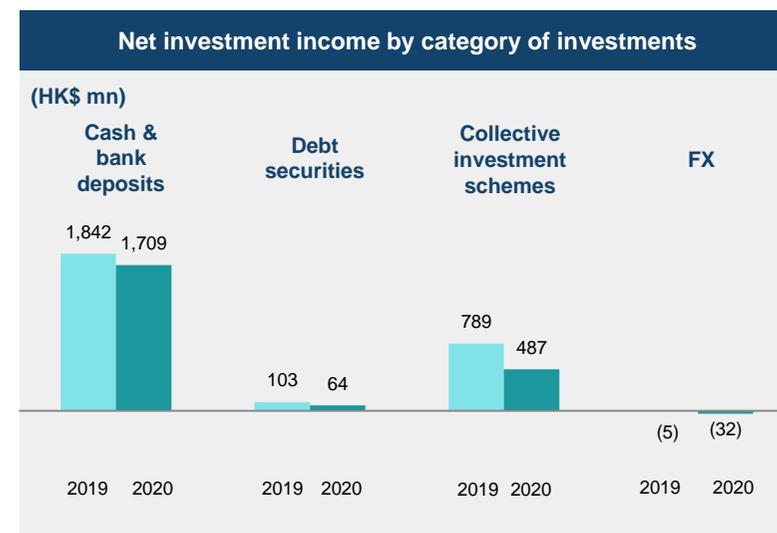
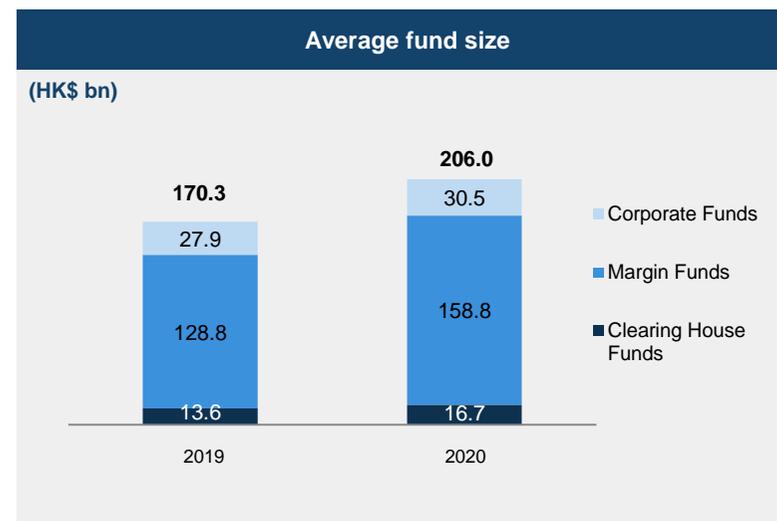
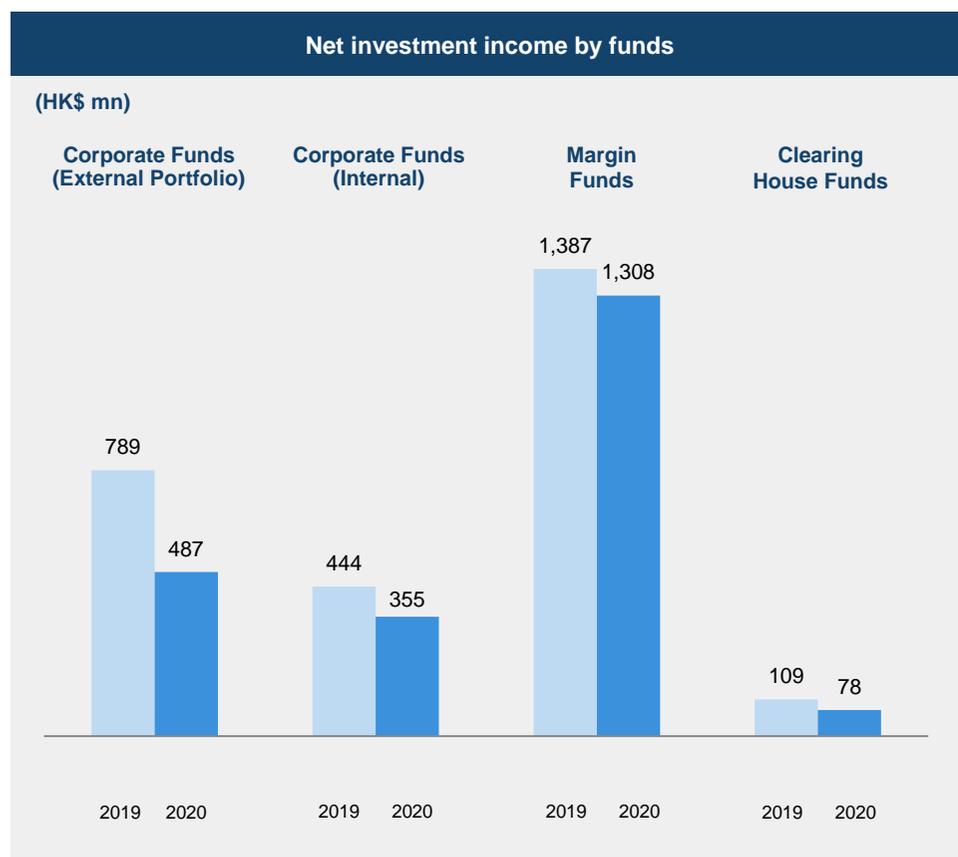
- Headline ADT up 49% (2020: HK\$129.5bn; 2019: HK\$87.2bn); ADT of equity products included under Cash segment up 60% (2020: HK\$110.9bn; 2019: HK\$69.2bn); ADT of DWs, CBBCs and warrants included under Equity and Financial Derivatives segment up 3% (2020: HK\$18.6bn; 2019: HK\$18.0bn)



Lower Net Investment Income in a Low Interest Rate Environment

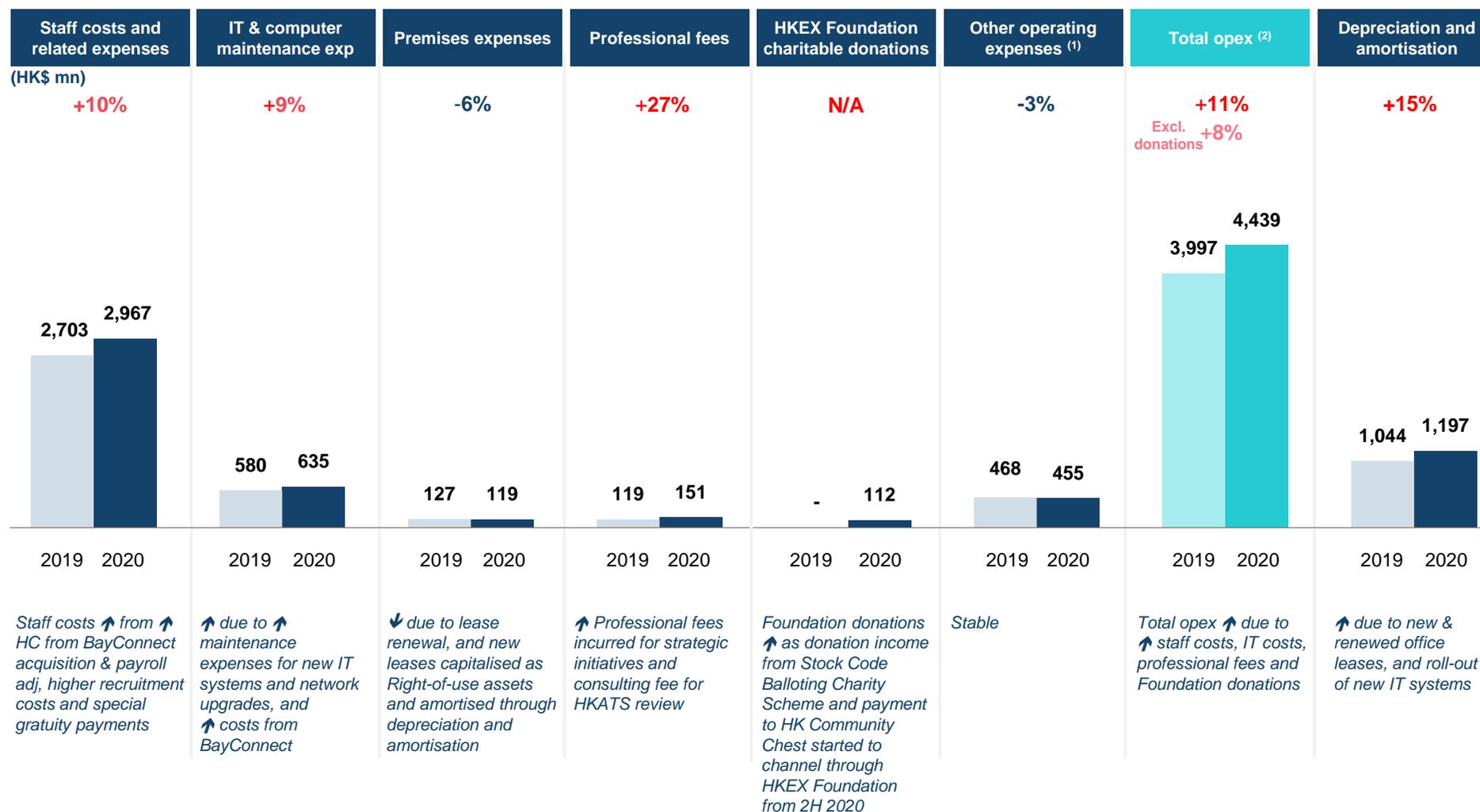
2020: HK\$2,228mn (2019: HK\$2,729mn)

- External portfolio – lower gains reflecting market valuations
- Internal funds – lower income from reduced interest rates, partly offset by higher fund sizes



Operating Expenses, Depreciation & Amortisation

Investment in Talent, Infrastructure and Strategic Initiatives



1. Includes product marketing and promotion expenses

2. Excludes transaction-related expenses, depreciation and amortisation, finance costs, share of profits/(losses) of joint ventures, and costs arising from the proposed combination with LSEG



Business and Strategic Update



1 | Key Growth Drivers

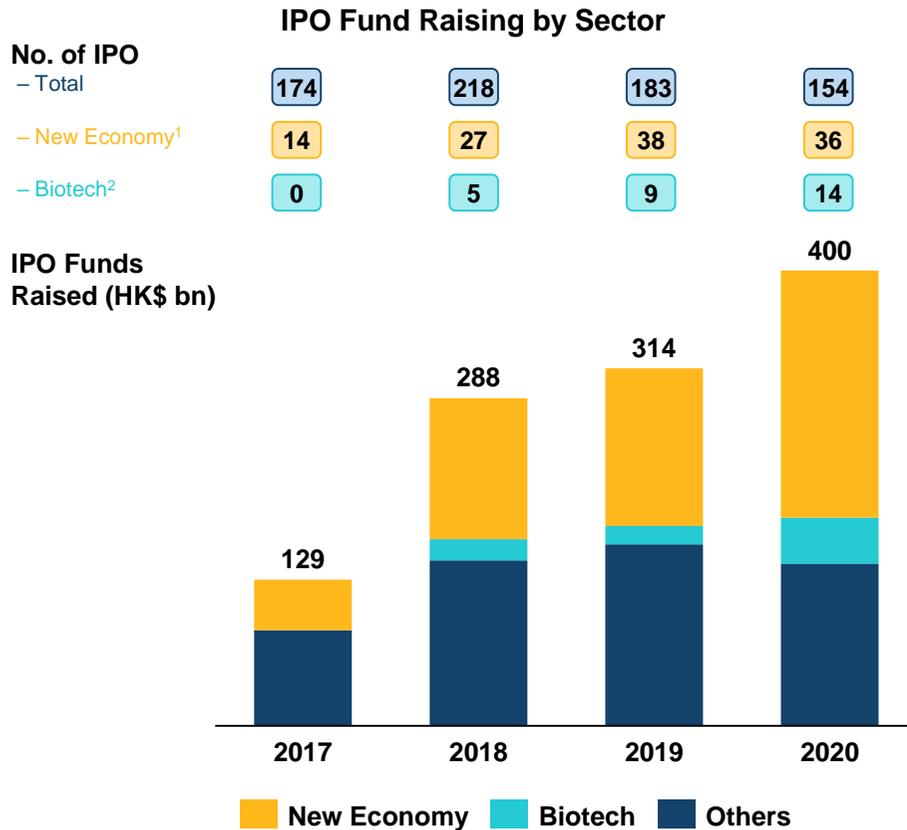
Emerging New Economy Sectors Enhancing HK Market's Strength and Relevance as an IFC

Continued Reform and Opening-up of China's Capital Markets Supporting Growing Capital Inflow

Structural Shifts Attracting Southbound Capital into the HK Market



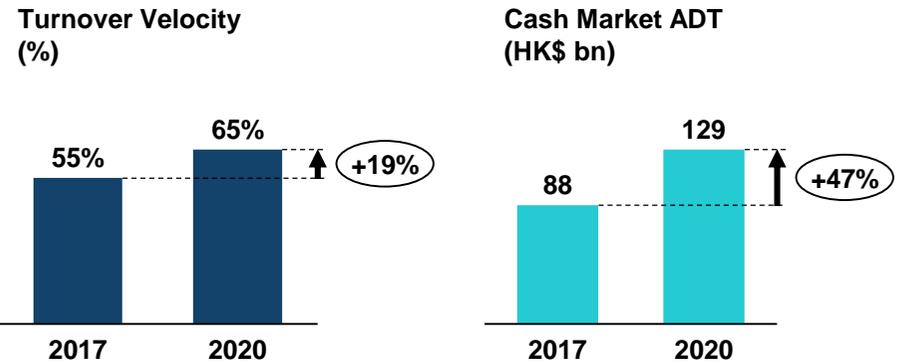
1 | Emerging New Economy Sectors Enhancing HK Market's Strength and Relevance as an IFC



~60% of the IPO funds raised since listing reforms in 2018 are from new economy sectors



Tech stocks outperformed the broader HK market in 2020



Structural improvements in market velocity and liquidity

Source: HKEX, Bloomberg

1. Include Non-18A biotech companies
2. Only include Chapter 18A biotech companies



2 | Business Strength and Resiliency Delivering Strong Performance

Robust Core Business Performance Against Challenging Macro Backdrop

- Strong performance in Cash Market; Derivatives and FICC also performing well
- Cash Market ADT +49%YoY at HK\$129.5bn (record high)
- Futures & Options ADV +6%YoY
- LME chargeable ADV -7%YoY

Strongest Performance in IPO Market since 2010

- #2 by IPO funds raised (HK\$400.2bn), 27%YoY growth (highest since 2010) and 64% contributed by new economy and biotech companies
- #4 globally by number of new company listings (154), including 50 new economy and biotech companies
- 16 jumbo IPOs (e.g. JD.com, JD Health and NetEase) in 2020, each raising US\$1bn+
- 24% of cash ADT and 16% of stock option ADV in 2020 was contributed by the 28 jumbo IPOs since 2018

New Records Across All Connect Schemes

- Stock Connect: Record revenue of HK\$1,926mn (+91%YoY); Northbound ADT of RMB91.3bn (+119%YoY) and Southbound ADT of HK\$24.4bn (+126%YoY)
- Bond Connect: Record ADT of RMB19.8bn (+85%YoY)



3 | Strategic Plan on Track – 2020 Highlights (1/2)

China Anchored – Facilitating China’s Internationalisation and Investment Diversification

- **Expanded Stock Connect underlying** – inclusion of Shanghai STAR Market A-shares and their corresponding H-shares; HK-listed pre-revenue biotech companies
- **Improved Stock Connect access** – Master SPSA to better support NB Stock Connect trading; stocks under SB Stock Connect added to Mainland annuity funds’ investment scope
- **Enhanced Bond Connect** – settlement cycles, launch of electronic bond issuance system (ePrime), trading hours extension
- **Extended China onshore capabilities** – minority investment in Guangzhou Futures Exchange (announced in Feb 2021)

Globally Connected – Bringing Global Liquidity to China and Asia Pacific Underlying

- **Enhanced IPO regime** – new grandfather arrangements enabling qualifying issuers with Corporate WVR to seek secondary listings in Hong Kong
- **Broadened product ecosystem** – MSCI suite of 38 Asia and Emerging Markets Index Futures, Hang Seng TECH Index Futures (2020) and Options (2021), USD/CNH silver futures
- **Strengthened ETF ecosystem** – new types of ETPs, introduced new spread table and continuous quoting market making obligation to enhance liquidity
- **Improved market microstructure** – enhanced Volatility Control Mechanism and Pre-Opening Session, temporary migration of LME trading from the Ring to electronic pricing



3 | Strategic Plan on Track – 2020 Highlights (2/2)

Technology Empowered – Leveraging New Technology for Modernisation and Growth

- **Streamlining IPO subscription and settlement cycle** – published FINI concept paper
- **Automating and streamlining post trade work flow for NB Stock Connect** – proposed launch of Synapse in Q1 2022
- **Enhancing business operational efficiencies** – ongoing deployment of technologies (e.g., Robotic Process Automation, AI) across HKEX businesses
- **Expanding our horizons** – launch of Fusion Bank, minority investment in Huakong TsingJiao

Embedding Sustainability within Our Business

- **Anchoring sustainable finance ecosystem** – launch of Sustainable and Green Exchange (STAGE), Asia's first multi-asset sustainable investment product platform
- **Deepening commitment to our communities** – launch of HKEX Foundation with its flagship HKEX Charity Partnership Programme
- **Enhancing issuers' ESG disclosure** – additional guidance materials on ESG reporting
- **Promoting sustainability in global metal markets** – LME discussion paper proposing the way forward to make metals a cornerstone of a sustainable future



Looking Ahead

- **Strong momentum into 2021** – record high monthly ADT in January
- **Continued strong flow in Stock Connect** – record monthly Southbound ADT in January; Northbound ADT reached the second highest monthly record
- **Strong IPO pipeline** – new economy, biotech and homecoming listings
- **Signs of post-COVID recovery** – Strong economic performance in China, global vaccine rollout, policy support from world's major central banks
- **But macro-economy remains fragile** – path ahead will not be straightforward, low interest rate environment may negatively impact investment income
- **However, HKEX remains resilient and well placed to capitalise on opportunities and address challenges** – core business performing well with new products and initiatives in the pipeline
- **HKEX CEO-designate announced** – focus remains on strategic delivery and excellence in operational execution, through good cost discipline, talent and risk management



2020 Financial Performance (vs. 2019)

- Record Revenue and PAT for third consecutive year
- Core Business Revenue up 24%; Total Revenue and Other Income up 18% to HK\$19.2bn
- Record Revenue for Connect Schemes; HKEX #2 by IPO funds raised
- EBITDA up 19% to HK\$14.6bn
- PAT up 23% to HK\$11.5bn
- Dividend per share for 2020 up 22% to \$8.17

... Welcome questions

Q&A Session begins now



Appendix



Financial Highlights – Income Statement

(HK\$ mn, unless stated otherwise)	2020	% of Revenue & Other Income	2019	% of Revenue & Other Income	YoY Change
Results					
Revenue and other income	19,190	100%	16,311	100%	18%
Less: Transaction-related expenses	(110)	(1%)	(51)	(0%)	116%
Revenue and other income less transaction-related expenses	19,080	99%	16,260	100%	17%
Operating expenses	(4,439)	(23%)	(3,997)	(25%)	11%
EBITDA	14,641	76%	12,263	75%	19%
Depreciation and amortisation	(1,197)	(6%)	(1,044)	(6%)	15%
Operating profit	13,444	70%	11,219	69%	20%
Costs relating to proposed combination with LSEG	-	0%	(123)	(1%)	(100%)
Finance costs and share of profits less losses of joint ventures	(112)	(1%)	(145)	(1%)	(23%)
Profit before taxation	13,332	69%	10,951	67%	22%
Taxation	(1,845)	(10%)	(1,561)	(10%)	18%
Loss attributable to non-controlling interests	18	0%	1	0%	1,700%
Profit attributable to HKEX shareholders	11,505	60%	9,391	58%	23%
Capex	1,388		1,068		30%
Basic earnings per share	HK\$9.11		HK\$7.49		22%
Headline ADT on the Stock Exchange	HK\$129.5 bn		HK\$87.2 bn		49%

1. % does not add up due to roundings.



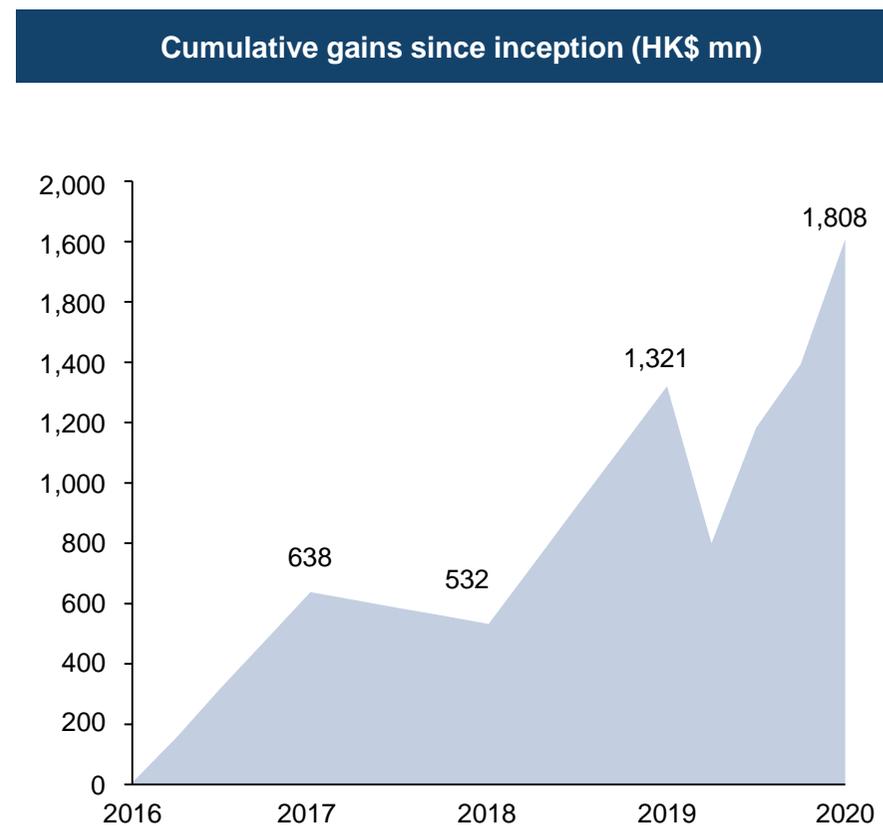
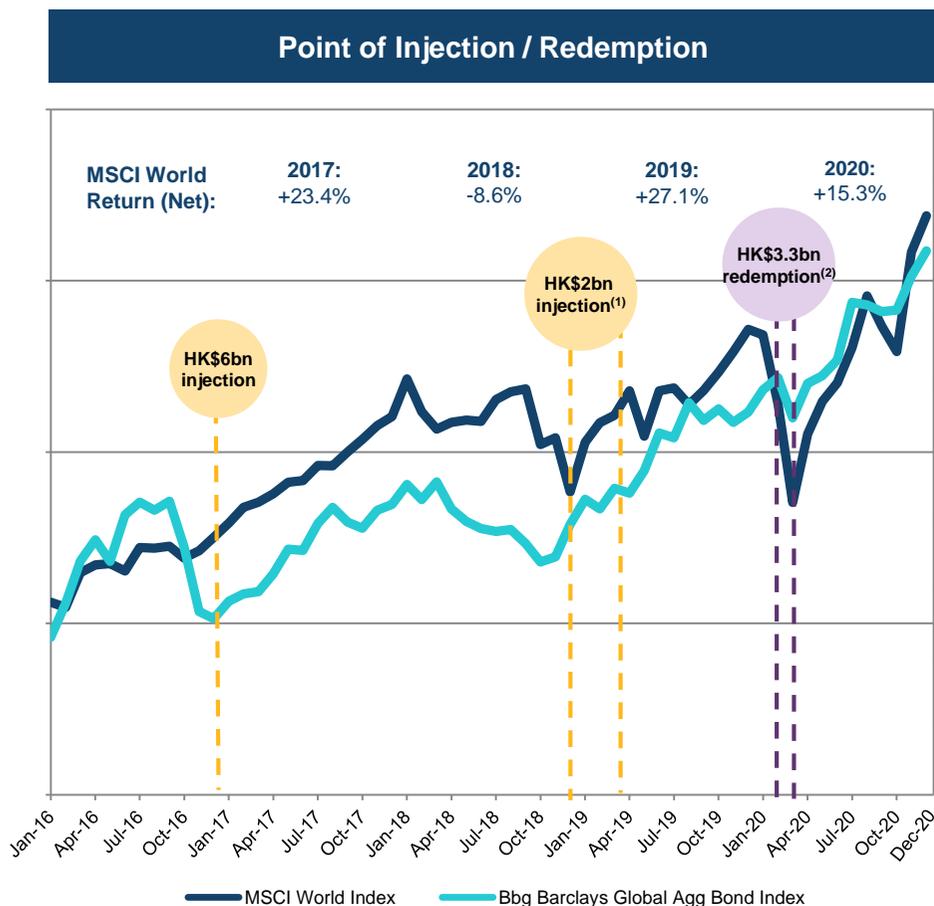
Performance by Operating Segment

HK\$ mn	Cash	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Group 2020	Group 2019
Revenue and other income	4,991	3,241	1,454	7,637	910	957	19,190	16,311
<i>% of Group Total</i>	<i>26%</i>	<i>17%</i>	<i>7%</i>	<i>40%</i>	<i>5%</i>	<i>5%</i>	<i>100%</i>	<i>100%</i>
Less: Transaction-related expenses	-	(85)	-	(25)	-	-	(110)	(51)
Revenue and other income less transaction-related expenses	4,991	3,156	1,454	7,612	910	957	19,080	16,260
Operating expenses	(595)	(607)	(692)	(860)	(304)	(1,381)	(4,439)	(3,997)
EBITDA	4,396	2,549	762	6,752	606	(424)	14,641	12,263
<i>% of Group Total</i>	<i>30%</i>	<i>18%</i>	<i>5%</i>	<i>46%</i>	<i>4%</i>	<i>(3%)</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin⁽¹⁾</i>	<i>88%</i>	<i>81%</i>	<i>52%</i>	<i>89%</i>	<i>67%</i>	<i>N/A</i>	<i>77%</i>	<i>75%</i>
Depreciation and amortisation	(133)	(114)	(340)	(322)	(38)	(250)	(1,197)	(1,044)
Costs relating to proposed combination with LSEG	-	-	-	-	-	-	-	(123)
Finance costs	(13)	(13)	(8)	(84)	(2)	(61)	(181)	(177)
Share of profits less losses of joint ventures	68	1	-	-	-	-	69	32
Profit before taxation	4,318	2,423	414	6,346	566	(735)	13,332	10,951

1. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses.



External Portfolio – Annualised Return of 6.7% since Inception



After a year of extreme volatility, the external portfolio made a gain of HK\$487mn in 2020 (8.8% return). The cumulative gains of the portfolio since inception four years ago amounted to HK\$1.8 bn (annualised return of 6.7%).

1. HKEX added HK\$2bn to the portfolio during the period from Q4 2018 to Q2 2019.
2. HK\$3.3bn was redeemed in 1H 2020 and converted into cash and money market funds.

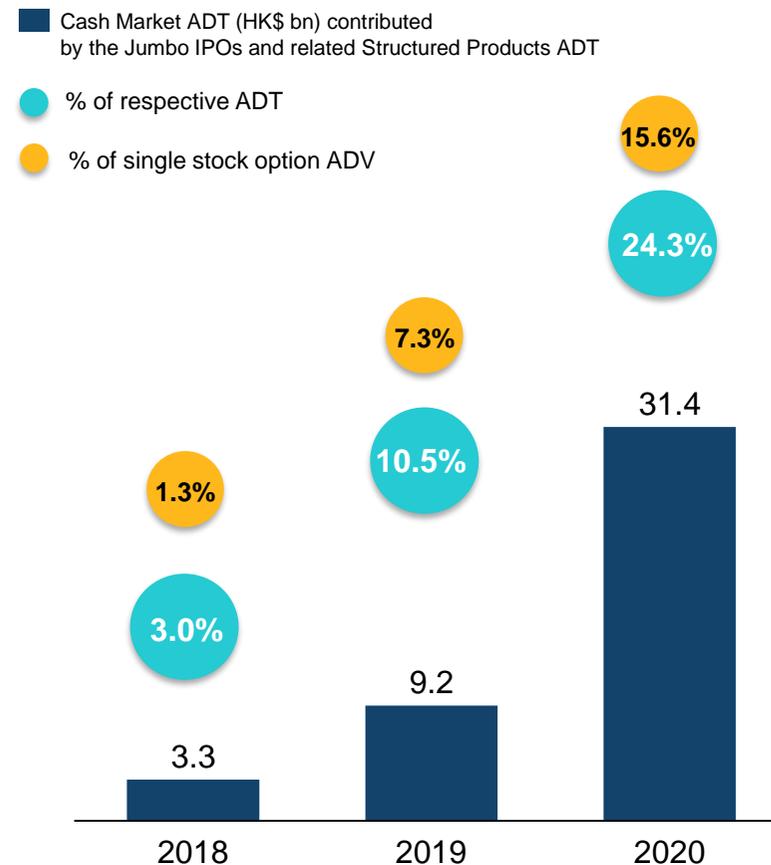


Jumbo IPOs Contributing to Increased Trading Activity

28 Jumbo IPOs >US\$1bn (HK\$7.8bn) since Jan 2018

Rank	Company name	IPO date	IPO size (HK\$bn)
1	Alibaba Group - SW	26/11/2019	101.20
2	China Tower - H	08/08/2018	58.80
3	Budweiser Brewing APAC	30/09/2019	45.08
4	Xiaomi Corporation - W	09/07/2018	42.61
5	JD.COM - SW	18/06/2020	34.56
6	Meituan Dianping - W	20/09/2018	33.14
7	JD Health International	08/12/2020	31.00
8	Netease - S	11/06/2020	24.26
9	Yum China - S	10/09/2020	17.27
10	China Bohai Bank - H	16/07/2020	15.90
11	GDS - SW	02/11/2020	14.88
12	Evergrande Property	02/12/2020	14.27
13	ESR Cayman Ltd.	01/11/2019	14.06
14	Tigermed - H	07/08/2020	12.31
15	China Resources Mixc	09/12/2020	12.27
16	New Oriental - S	09/11/2020	11.65
17	Blue Moon Group	16/12/2020	11.31
18	ZTO Express - SW	29/09/2020	11.28
19	Shimao Services	30/10/2020	9.95
20	Nongfu Spring - H	08/09/2020	9.60
21	Shenwan Hongyuan - H	26/04/2019	9.09
22	Hansoh Pharmaceutical Group	14/06/2019	9.04
23	Topsports International	10/10/2019	9.01
24	Ping An Healthcare &Tech	04/05/2018	8.77
25	Jiangxi Bank - H	26/06/2018	8.60
26	WuXi AppTec - H	13/12/2018	8.28
27	Smooore	10/07/2020	8.19
28	Sunac Service	19/11/2020	8.00

Rising contribution to volumes from Jumbo IPOs



In 2020, 24% of cash ADT and 16% of stock option ADV was contributed by the top 28 IPOs over the last three years

Source: HKEX, as of Dec 2020.

1. Ranked by IPO size.

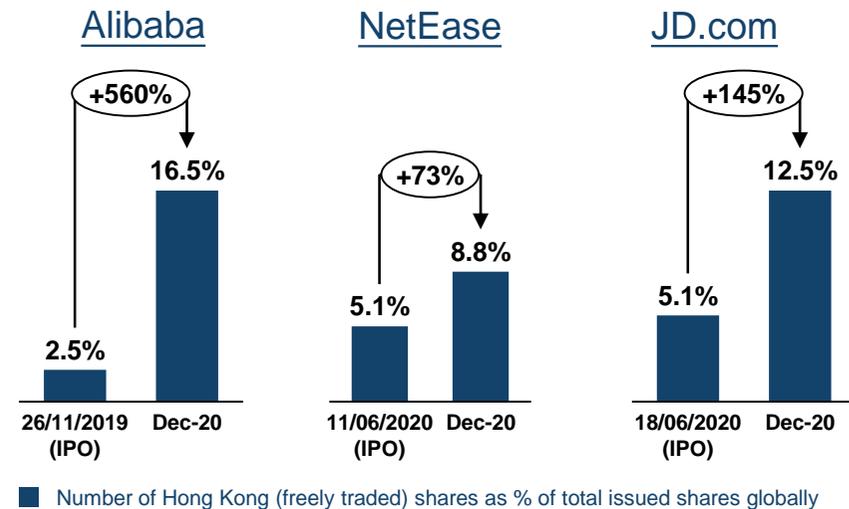


Trading Volume Migration and ADR Conversion from Secondary Listings

HKEX Trading Share – 2020

% of Trading	Alibaba	NetEase	JD.com
SEHK	18.1%	32.9%	22.5%
FINRA ADF	29.5%	16.5%	26.9%
NYSE	15.4%	2.4%	1.5%
NASDAQ	11.3%	27.4%	26.3%
NYSE Arca	7.8%	7.2%	7.8%
Other US Exchanges	17.8%	13.5%	15.0%

ADR conversion to HK shares



Strong Boost to HK Markets Trading

ADT/ADV in HKEX	Alibaba, NetEase & JD	Market Total	%
Equities + DWs + CBBCs (HK\$ bn)	10.9	129.5	8.4
SSO (Volume, '000)	24.8	526.2	4.7

Alibaba, NetEase and JD.com secondary listings contributed to ~8% of Hong Kong market's ADT in 2020, with a clear trend of ADR conversion to HK shares

Source: HKEX, FactSet, as of 31 December 2020 (quarterly update)

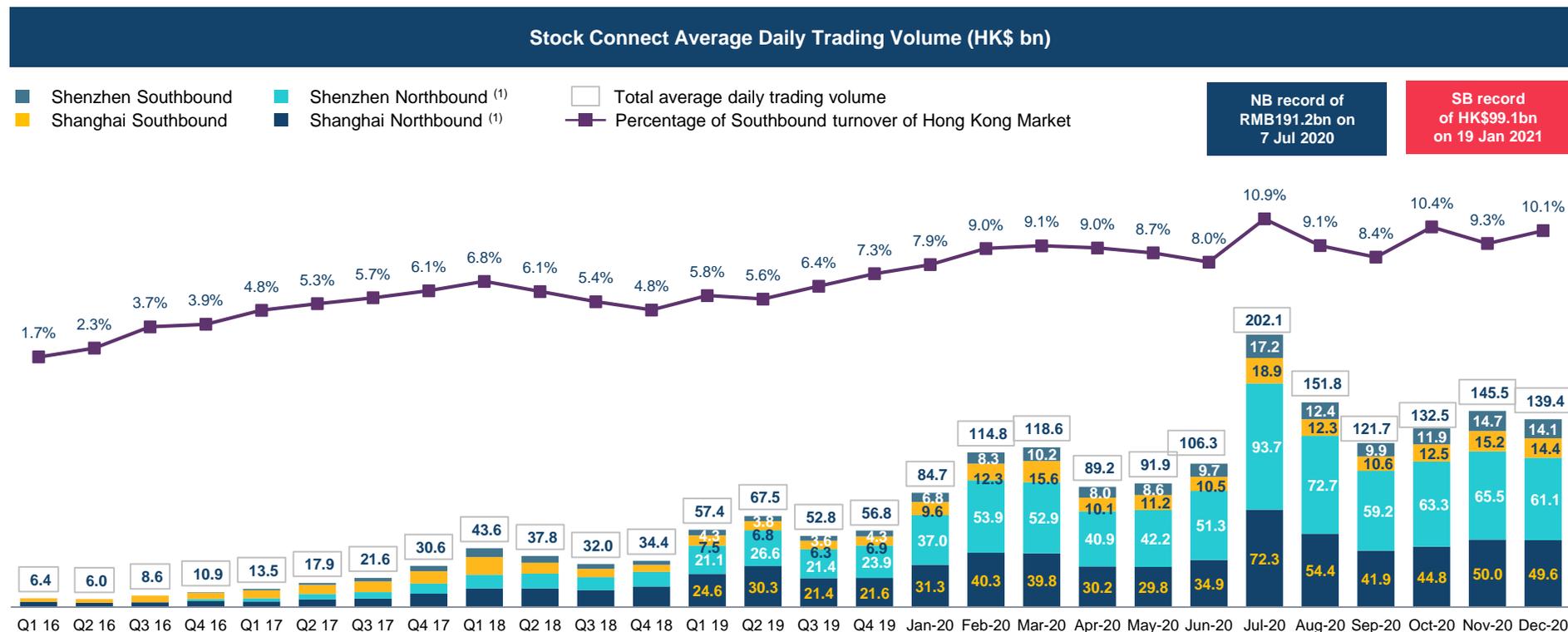
Note: Alibaba is listed on NYSE, while NetEase and JD.com are listed on NASDAQ (figures as bold)

1. Based on total CCASS balance deducting the balance of main custodian bank as reference



Stock Connect – Trading Trends

Stock Connect generated record revenue of HK\$1,926mn in 2020, 91% higher than 2019 (HK\$1,009mn)



Stock Connect Northbound and Southbound Trading ADT reached RMB91.3bn and HK\$24.4bn respectively in 2020

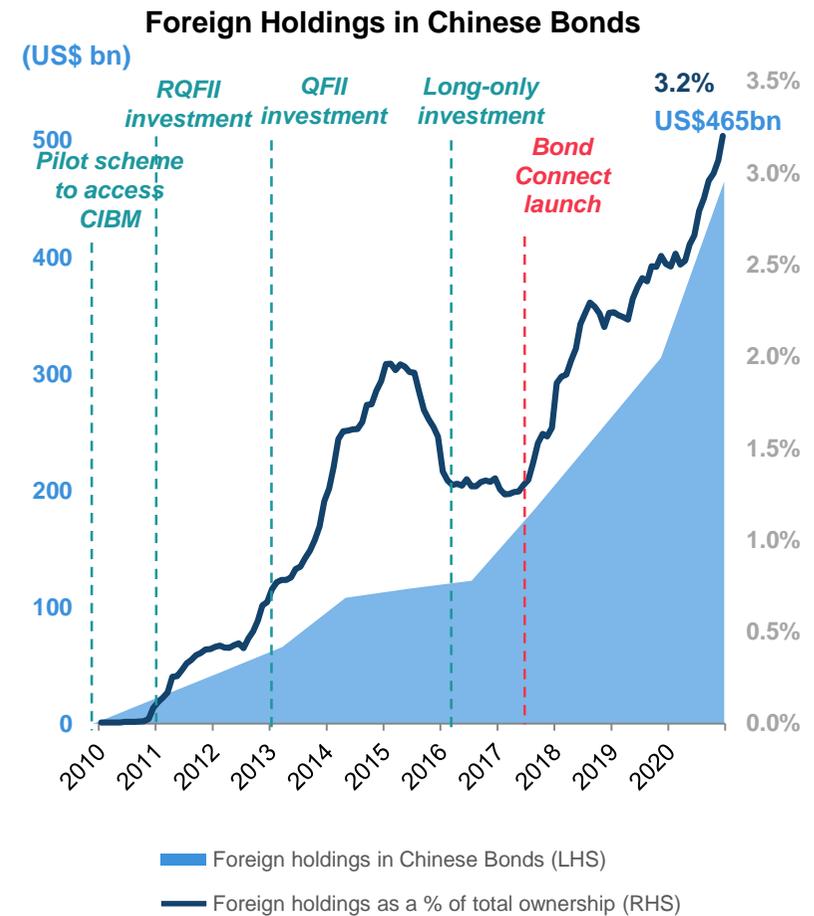
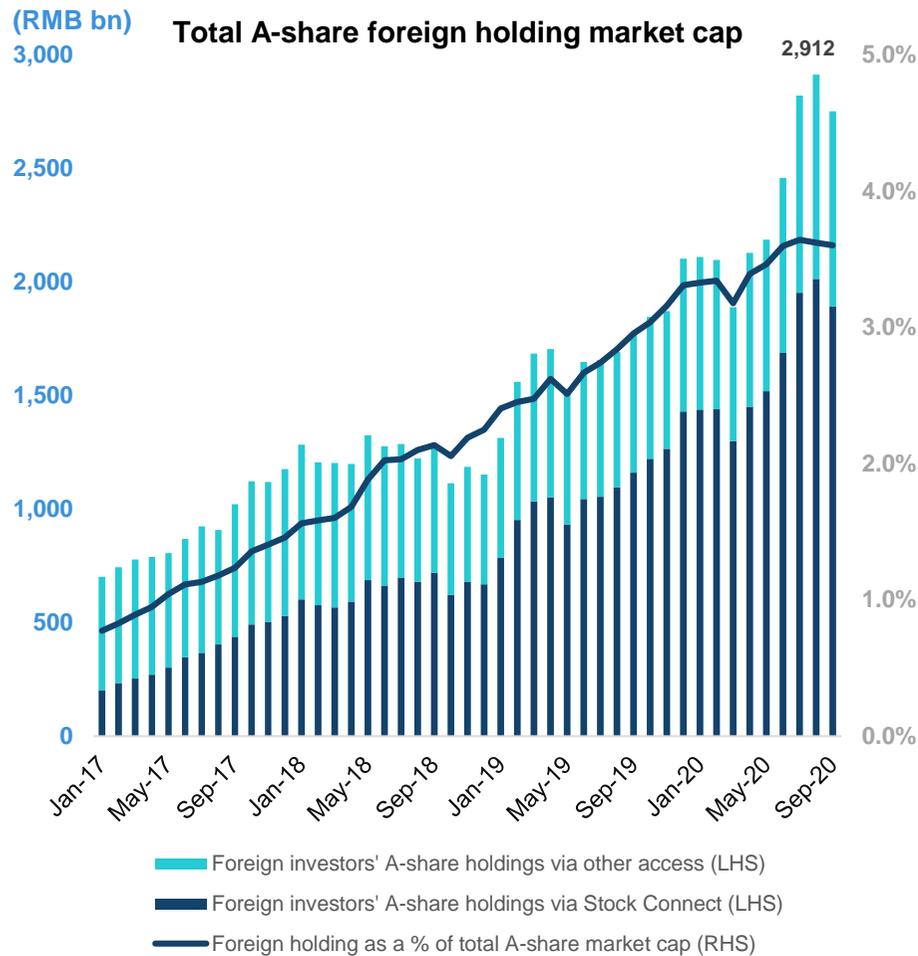
Stock Connect revenue continued to set record highs, reaching 10% of the Group's total revenue and other income in 2020 (2019: 6%)

Source: HKEX, SSE and SZSE data

1. Northbound (NB) trading is conducted in RMB; the NB figures in the chart are converted to HKD based on the month-end exchange rate.
2. May not add up due to roundings



Continued Reform and Opening Up of China's Capital Markets



In 2020, over 65% of foreign holding in A-shares were under Stock Connect, vs 30% in 2017 1H.

In 2020, number of Bond Connect participants increased by over 700 to 2,352

Our Connect schemes remain the preferred channel for most investors to invest in Mainland

Source: Wind, PBOC, ChinaBond, SCH



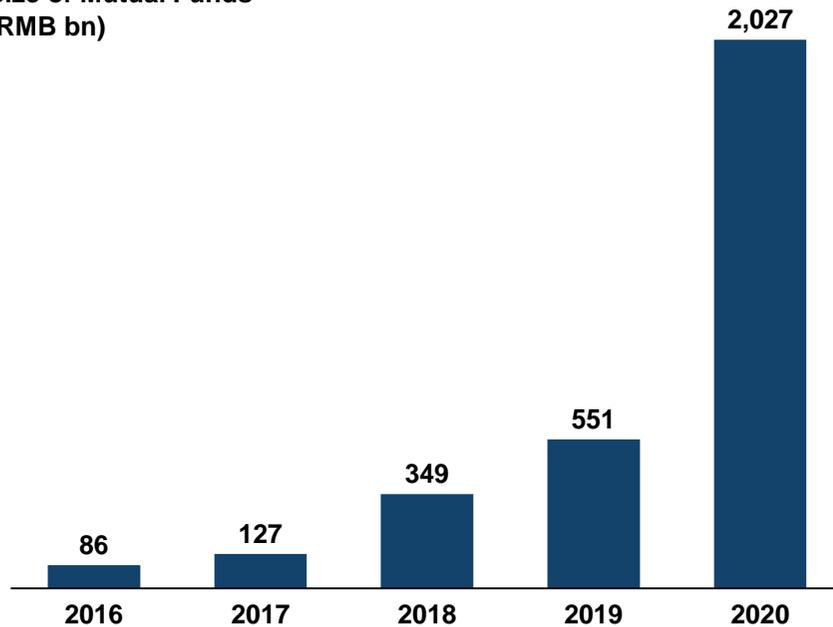
Structural Shifts Attracting Southbound Capital into HK

Mainland Mutual Funds with Ability to Invest into HK

of Mutual Funds



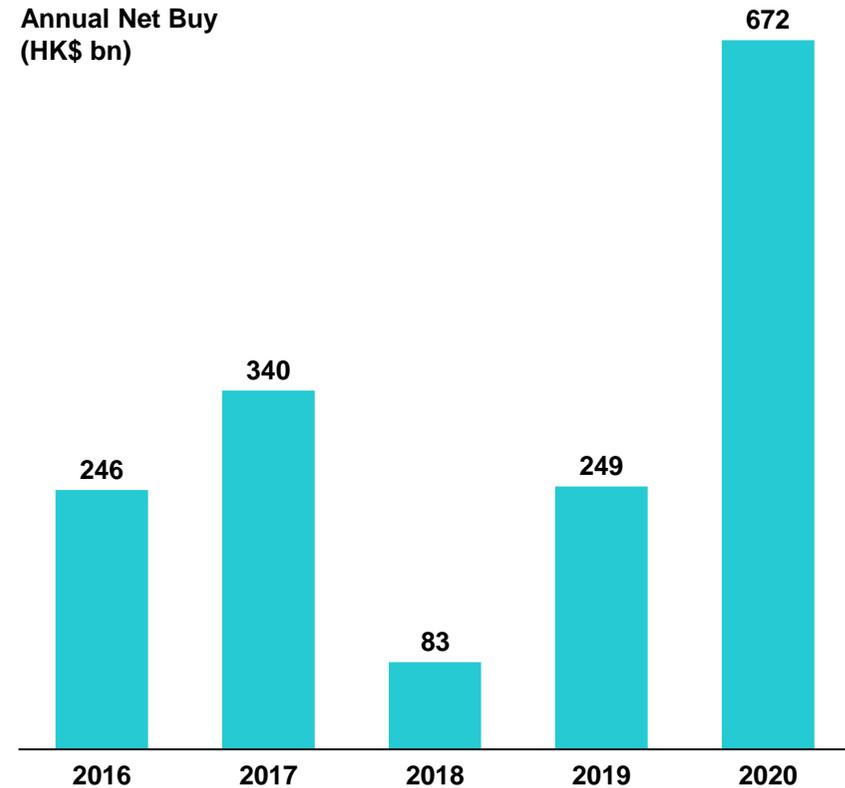
Size of Mutual Funds (RMB bn)



Increasing scale of Mainland funds with ability to invest into the HK market

Southbound Stock Connect Net Buy

Annual Net Buy (HK\$ bn)

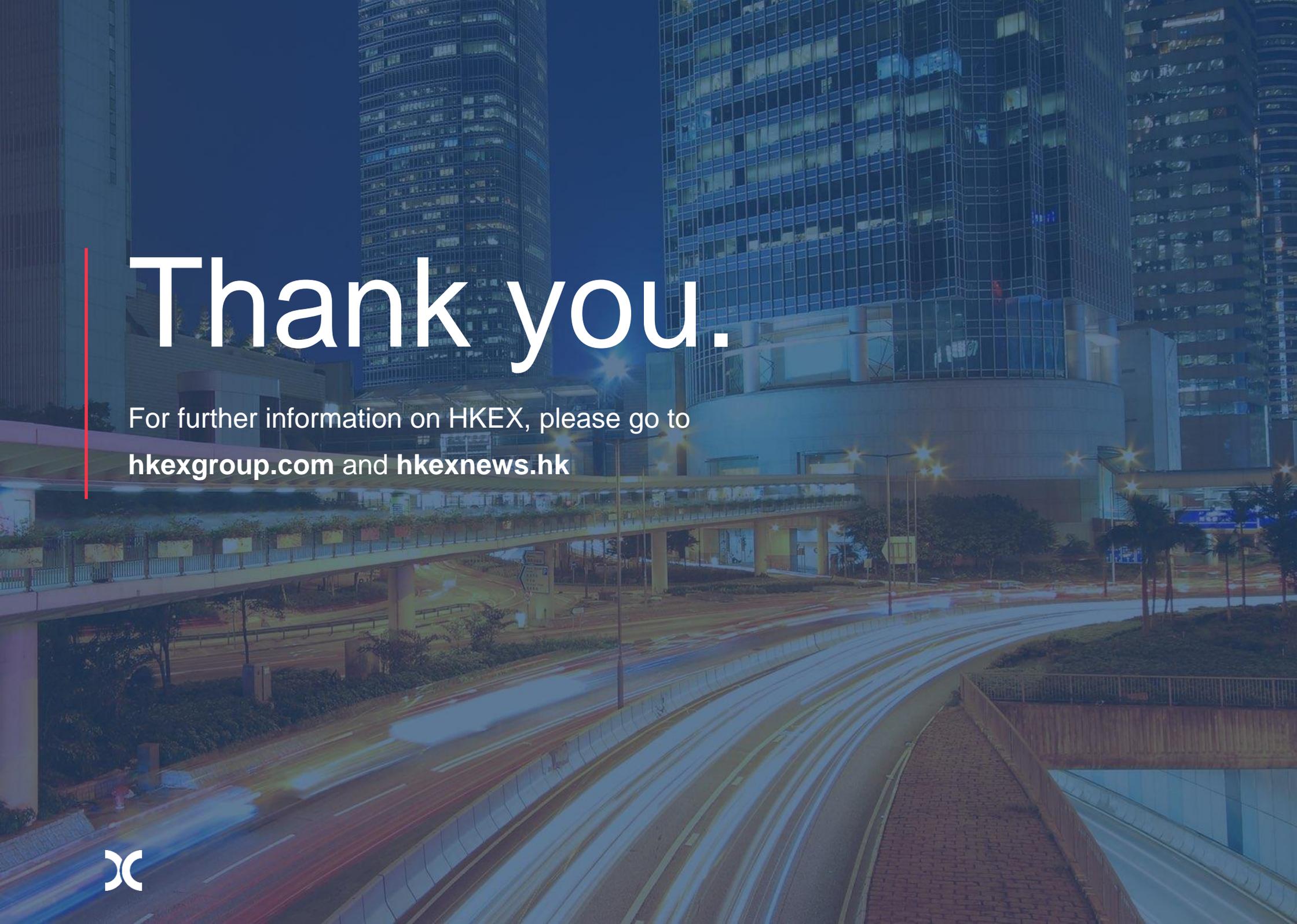


Strong net buy in 2020 into the HK market by Mainland investors

Mainland capital has been flowing into the HK stock market via Southbound Stock Connect

Source: HKEX, WIND, CICC



A nighttime cityscape featuring several tall, modern skyscrapers with illuminated windows. In the foreground, a multi-lane highway shows long, colorful light trails from moving vehicles. A pedestrian walkway with a brick pattern runs alongside the road. The overall scene is bathed in a cool blue light, with some warmer tones from streetlights and building lights.

Thank you.

For further information on HKEX, please go to
hkexgroup.com and hkexnews.hk

