

Hong Kong Exchanges and Clearing Limited

INTERIM REPORT

HKEX
香港交易所

2016

CONTENTS

(Financial figures in this Interim Report are expressed in HKD unless otherwise stated)

	Page
Financial Highlights	2
Chairman's Statement	3
Management Discussion and Analysis	
– Business Review	4
– Financial Review	16
Corporate Governance and Other Information	20
Shareholder Information	25
Auditor's Independent Review Report	26
Condensed Consolidated Financial Statements (Unaudited)	
– Condensed Consolidated Income Statement (Unaudited)	27
– Condensed Consolidated Statement of Comprehensive Income (Unaudited)	28
– Condensed Consolidated Statement of Financial Position (Unaudited)	29
– Condensed Consolidated Statement of Changes in Equity (Unaudited)	30
– Condensed Consolidated Statement of Cash Flows (Unaudited)	31
– Notes to the Condensed Consolidated Financial Statements (Unaudited)	32
Glossary	47

FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Revenue and other income	5,630	6,853	(18%)
Operating expenses	1,688	1,580	7%
EBITDA *	3,942	5,273	(25%)
Profit attributable to shareholders	2,985	4,095	(27%)
Basic earnings per share	\$2.47	\$3.49	(29%)
Interim dividend per share	\$2.21	\$3.08	(28%)

- Revenue and other income for the six months ended 30 June 2016 (1H 2016) was 18 per cent lower than the six months ended 30 June 2015 (1H 2015). The significant drivers of the Group's revenue during the period were:
 - Subdued activity on the Cash Market in Hong Kong and commodities trading on the LME.
 - Increased trading of derivatives contracts on the Futures Exchange, which reached a half-yearly record high in 1H 2016.
- Operating expenses overall increased by 7 per cent against 1H 2015. However, excluding the effect of a non-recurring recovery of \$77 million from the liquidators of Lehman Brothers Securities Asia Limited in 1H 2015, core operating expenses increased by only 2 per cent compared to the prior year.
- The EBITDA margin of 70 per cent for 1H 2016 was 7 per cent lower than 1H 2015 reflecting the decline of trading income as compared to the prior period.
- Profit attributable to shareholders decreased by 27 per cent against 1H 2015 where exceptionally high trading income delivered record high profits for the Group. Nevertheless, notwithstanding difficult trading conditions, the 1H 2016 profit attributable to shareholders compares well with pre 2015 results and was 26 per cent higher than the equivalent period in 2014.

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	48.3	96.9	(50%)
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.2	28.4	(32%)
ADT traded on the Stock Exchange (\$bn)	67.5	125.3	(46%)
Average daily number of derivatives contracts traded on the Futures Exchange	488,566	365,449	34%
Average daily number of stock options contracts traded on the Stock Exchange	292,861	442,928	(34%)
Average daily volume of metals contracts traded on the LME (lots)	635,111	695,588	(9%)

* For the purposes of this Interim Report, 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 venture.

CHAIRMAN'S STATEMENT

The global financial markets witnessed heightened volatility in the first half of the year arising from the increasing concerns over a slowing global economy and the wider divergence in monetary policies among major central banks. Considerable uncertainty surrounding the UK's EU referendum (Brexit) also intensified market volatility and dampened market activity.

During the first half of 2016, our markets experienced downward pressure on trading activity. In Hong Kong, the average daily turnover in the securities market and the average daily volume of futures and options in the derivatives market decreased by 46 per cent and 3 per cent respectively. Nonetheless, the securities market maintained its leading position worldwide in IPO fundraising, and the average daily volume of our RMB currency futures contracts increased by 186 per cent. In London, the average daily volume of metals contracts on the LME dropped 9 per cent, reflecting the continued weakness in the global metals market. The LME's contracts are denominated and cleared by LME Clear in USD so the impact of Brexit on the LME is limited to general commodity market movements. The LME will continue to monitor the changes to the regulatory infrastructure in the UK and the potential longer term market impact. Despite the volatility in our markets in both Hong Kong and London, all of our trading, clearing and other systems remain resilient and continue to perform effectively.

For the six months ended 30 June 2016, the Group recorded consolidated revenue and other income of \$5,630 million and a profit attributable to shareholders of \$2,985 million, down 18 per cent and 27 per cent respectively from the corresponding period of 2015. The Board declared an interim dividend of \$2.21 per share, which is 90 per cent of the profit attributable to shareholders.

On the strategic development front, we continue to make good progress as we seek to apply our connectivity model across asset classes, build out our RMB-ecosystem, and broaden our product suite to support the RMB's internationalisation and capitalise on the opportunities from the Mainland's integration with the world's other markets. In the first half of the year, we introduced leveraged and inverse products, sector index futures and additional RMB currency futures, and we launched the first tradeable RMB index in collaboration with Thomson Reuters. With the successful implementation of Phase 1 of the securities market's closing auction in July, we are now set to launch the Volatility Control Mechanism for selected securities later this month. In commodities, we are working on our plan to build a spot commodities platform in Shenzhen, using our experience with the LME. Details of the status of our initiatives are set out in the Business Review section of this Interim Report.

The Group will remain cautious and is committed to robust and prudent risk management for the maintenance of orderly markets in Hong Kong and London while enhancing our competitive advantages. At HKEX, we will continue to work with the SFC on our joint market consultation which will close in September, in relation to the Exchange's decision-making and governance structure for listing regulation, with an aim of ensuring that the structure addresses market development and meets future regulatory needs efficiently and effectively.

With continued support from our stakeholders and determined effort from our staff and the management, we believe that we are well-positioned to meet the challenges ahead and deliver long-term value for our shareholders.

CHOW Chung Kong
Chairman

Hong Kong, 10 August 2016

BUSINESS REVIEW

Overview

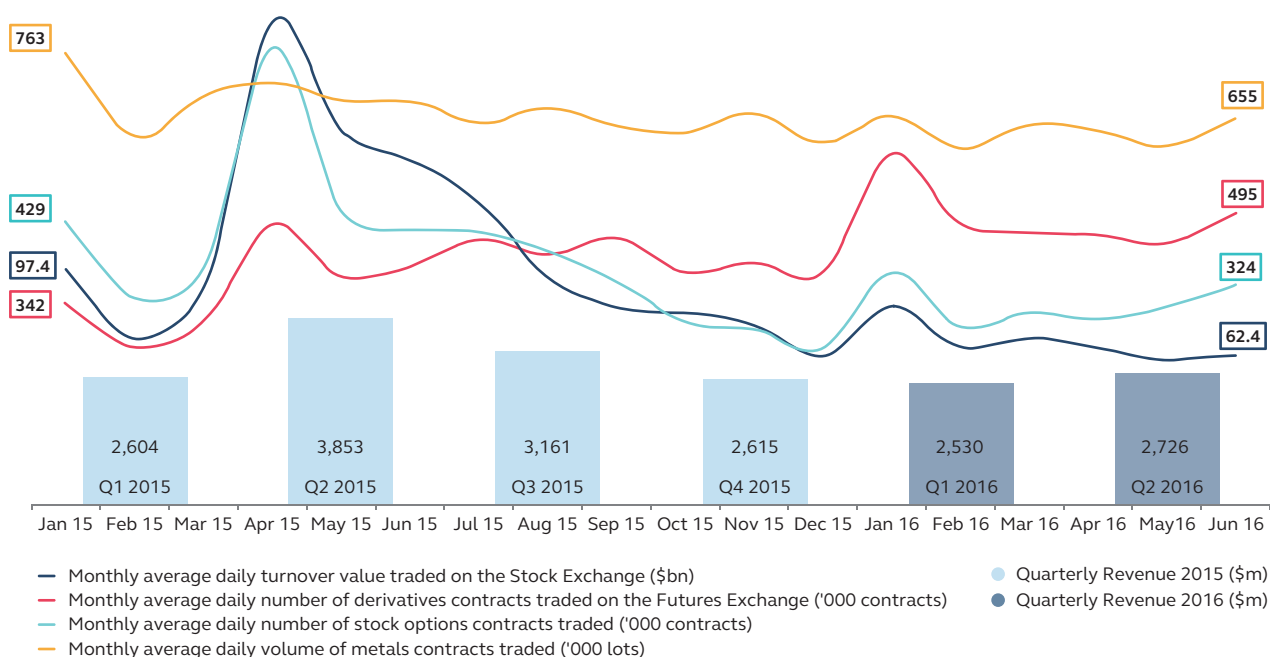


Fig. 1 – Market activity and Group Revenue

Market sentiment remained subdued in Q2 2016¹ with headline ADT declining a further 14 per cent against Q1 2016 to \$62.6 billion. Nevertheless, Revenue² was 8 per cent higher than Q1 2016 principally due to seasonal increases in depository, custody and nominee services.

Overall Revenue and Other Income for 1H 2016 dropped by \$1,223 million (18 per cent) compared to 1H 2015, due to declines in the Group's trading and clearing income. This reflected a significant drop in Hong Kong Cash Market ADT, which was 46 per cent lower than the record high of \$125.3 billion in 1H 2015, as well as more modest declines in commodities and stock options markets. However, the overall reduction in trading and clearing income was mitigated by a substantial increase in activity on the Futures Exchange where increased volatility saw average daily volumes increase by 34 per cent and overall trading income from futures and options³ increase by 33 per cent, as compared to 1H 2015.

A comparison of the 1H 2016 results with those of the exceptional trading volumes of 2015 masks what has been an historically solid performance in difficult trading conditions; 1H 2016 delivered a profit attributable to shareholders that was 26 per cent higher than the equivalent period in 2014. A full analysis of the 1H 2016 results also needs to reflect two exceptional items that increased 1H 2015 profit attributable to shareholders by a total \$89 million: a gain on sale of the Group's investment in LCH's shares and a recovery from Lehman's liquidators.

The increase of 7 per cent in overall operating expenses over 1H 2015 includes a recovery of \$77 million from Lehman's liquidators received in 1H 2015. After adjusting for this, core operating expenses increased by only 2 per cent. Nevertheless, in response to the persistence of uncertain market conditions the Group will continue to adopt a prudent approach to expenditure control. While still moving forward with strategic initiatives the timing of less critical projects has been deferred and planned headcount increases have been reduced. These measures will be kept under review and revised in line with changes in trading conditions over 2H 2016.

¹ Q1 = first quarter, Q2 = second quarter, 1H = first half, 2H = second half

² Excludes net investment income and sundry income

³ Including trading fees and trading tariff allocated to the Clearing segment

Business Update and Analysis of Results by Operating Segment

	Six months ended 30 Jun 2016		Six months ended 30 Jun 2015		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
Results by segment:						
Cash	1,282	1,012	1,886	1,610	(32%)	(37%)
Equity and Financial Derivatives	1,065	836	1,100	864	(3%)	(3%)
Commodities	804	513	886	632	(9%)	(19%)
Clearing	2,122	1,770	2,657	2,348	(20%)	(25%)
Platform and Infrastructure	264	190	248	174	6%	9%
Corporate Items	93	(379)	76	(355)	22%	7%
	5,630	3,942	6,853	5,273	(18%)	(25%)

Cash Segment

Business Update

Market sentiment continued to be weighed down by uncertainties over the Mainland's economic growth and the state of the global economy, and the Hong Kong Cash Market experienced reduced trading volume in 1H 2016, as compared to the record-highs achieved in 1H 2015. This slowdown in trading volume was also seen across a number of other Asian markets, including Japan, Singapore, Taiwan, Korea and India.

Despite the challenging environment, HKEX continued to invest in Cash Market infrastructure to meet investors' needs, strengthen market integrity and improve efficiency. The Closing Auction Session was launched on 25 July 2016 to facilitate trade executions at securities' closing prices and the Volatility Control Mechanism, which safeguards the Cash Market from abnormal price fluctuations, is set for launch on 22 August 2016.

The Stock Connect programme continued to operate smoothly and generated income of approximately \$71 million for 1H 2016 (1H 2015: \$115 million). Although ADT of 1H 2016 was down in both Northbound and Southbound Trading, compared to 1H 2015, Stock Connect turnover as a percentage of home markets' turnover increased in both directions.

Key Market Indicators		
	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	48.3	96.9
ADT of Northbound Trading ² (RMBbn)	3.0	7.4
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	913,114	1,317,560
Number of newly listed companies on the Main Board ³	25	37
Number of newly listed companies on GEM	15	14
Total equity funds raised		
– IPOs (\$bn)	43.6	129.5
– Post-IPOs (\$bn)	101.4	582.2
Number of companies listed on the Main Board at 30 Jun	1,666	1,580
Number of companies listed on GEM at 30 Jun	236	213
Number of trading days	121	121
¹ Excludes DWs, CBBCs and warrants which are included under the Equity and Financial Derivatives segment and includes \$2.6 billion (1H 2015: \$4.4 billion) of ADT of Southbound Trading under Stock Connect ² Includes buy and sell trades under Stock Connect ³ Includes 1 transfer from GEM (1H 2015: 5 transfers)		

Despite a 66 per cent drop in IPO funds raised compared to 1H 2015, HKEX remained the global leader in IPO fundraising⁴. HKEX continued to proactively promote Hong Kong as the preferred offshore listing venue for Mainland enterprises and conducted a variety of IPO seminars and presentations in the Mainland. Hong Kong listed companies were also encouraged to raise their profile with Mainland investors and in partnership with the Hong Kong Investor Relations Association, HKEX accompanied a delegation of 25 Hong Kong listed companies to deliver a roadshow to 16 leading Mainland brokers research teams in Shanghai.

On 13 June 2016, HKEX achieved an important milestone in the development of Hong Kong's Exchange Traded Fund (ETF) market by having its first listings of Leveraged and Inverse Products (commonly known as Leveraged and/or Inverse ETFs).

In the interest of maintaining the reputation and efficiency of the Cash Market, the Stock Exchange continues to provide guidance to the market on a wide variety of topics. Full details of these are published on the HKEX website⁵. In addition, a revamped Environmental, Social and Governance (ESG) webpage was launched on the HKEX website and a series of issuer training seminars were held, to provide listed issuers with updated guidance on ESG reporting.

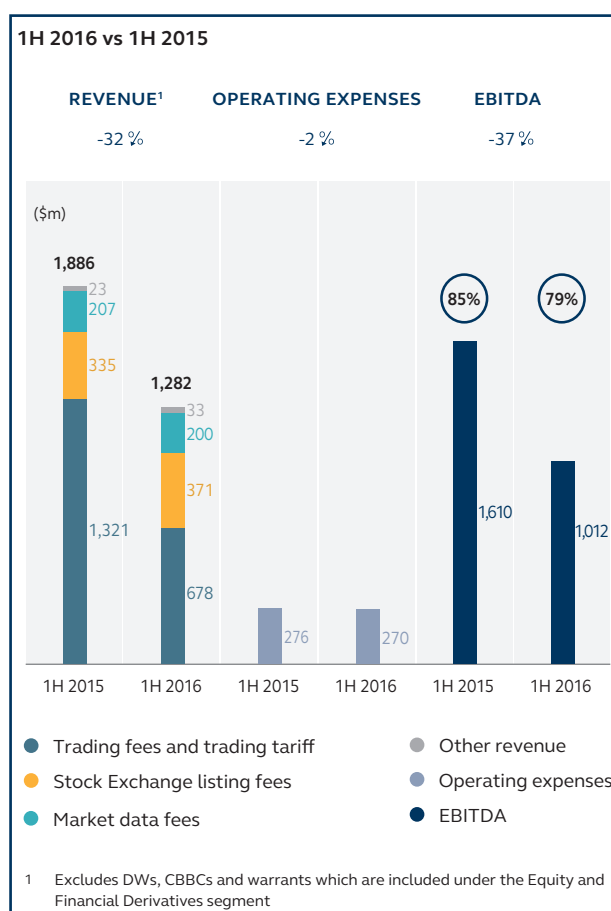
As part of the ongoing efforts to improve market quality, the Stock Exchange is conducting a holistic review of regulations in connection with listed company activities including backdoor listings, handling of long suspended companies, delistings and equity fund raisings as well as a review of GEM.

Analysis of Results

Trading fees and trading tariff dropped by 49 per cent compared to 1H 2015 mirroring the 50 per cent fall in ADT. The overall drop in revenue was partly offset by an 11 per cent increase in Stock Exchange listing fees due to an increase in the total number of listed companies compared to 30 June 2015.

Operating expenses declined by 2 per cent due to reduced volume related variable costs as well as cost control measures.

The decline in the EBITDA margin is a direct reflection of the decline in trading fees and trading tariff.



⁴ Source: Bloomberg

⁵ http://www.hkex.com.hk/eng/rulesreg/listrules/latestrelease/latest_release.htm

Equity and Financial Derivatives Segment

Business Update

The volume of derivatives contracts traded on the Futures Exchange declined slightly from that seen in Q1 but remained at an elevated level with 1H 2016 volumes 34 per cent higher than those seen in 1H 2015. The number of trades conducted in After-Hours Futures Trading (AHFT) increased even more dramatically and more than doubled, reaching a record high of 103,998 contracts traded after hours, on 27 June 2016.

The rise in trading volume reflected enhanced demand for risk management products across all key investor groups as they responded to both general and specific market volatility. International investors continue to contribute to growth in trading volume, particularly in Hang Seng Index futures and options, and there has also been strong interest from the Mainland investors following the decline in trading volumes of CSI 300 Index futures in 2H 2015. The uncertainty caused by Brexit (the EU referendum in the UK) also triggered an upturn in volumes with average daily volume traded up 11 per cent in June 2016 compared to the previous month. The overall revenue efficiency of the derivatives business has also been enhanced by an increase in the proportion of contracts from higher fee futures and options products. This was partly offset by the lower average daily number of stock options contracts traded.

New products launched during the period included:

- i. Seven Sector Index Futures on 9 May 2016;
- ii. A cash settled USD/CNH futures contract (to complement the existing physically settled USD/CNH futures contract) on 30 May 2016; and
- iii. RMB currency futures contracts against the Euro, Japanese Yen and Australian Dollar on 30 May 2016.

HKEX also launched a series of co-branded RMB currency (RXY) indices on 23 June 2016 in partnership with Thomson Reuters. These indices offer independent, transparent and timely benchmarks for the RMB against the currencies of some of the Mainland's key trade partners. This important addition to HKEX's RMB infrastructure is designed to become the basis for investing and trading products including futures, options and ETFs.

HKEX continues to introduce new products and services that provide trading and risk management tools for Exchange Participants and investors, with an emphasis on those most relevant to the ongoing internationalisation of the RMB. The third annual RMB Fixed Income and Currency Conference was held on 24 May 2016 to promote industry awareness in this area and RMB-related trends, products and market development were discussed by the 650 industry experts and business leaders who attended. A Derivatives Market Data Distribution Partnership Programme was also launched, in January 2016, to promote visibility of market data of HKEX's new derivatives products in the Mainland. Eight major Mainland information vendors have joined this programme.

Key Market Indicators		
	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.2	28.4
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	198,809	255,811
Average daily number of derivatives contracts traded on the Futures Exchange ¹	488,438	365,202
Average daily number of stock options contracts traded on the Stock Exchange	292,861	442,928
Number of newly listed DWs	2,321	3,622
Number of newly listed CBBCs	4,406	5,353
Average daily number of contracts traded during AHFT ¹	40,729	18,307
Number of trading days	121	121
	At 30 Jun 2016	At 30 Jun 2015
Open interest of futures and options contracts ¹	8,571,036	9,785,226
¹ Excludes London Metal Mini Futures contracts which are included under the Commodities segment		

A market consultation on changes to stock option position limits (SOPL) was completed during the period and consultation conclusions issued in June 2016. Responses were received from a broad spectrum of market participants with the majority expressing support for proposals that will align Hong Kong's SOPL regime more closely with international practice. HKEX will continue discussions with the SFC on implementation of the proposals.

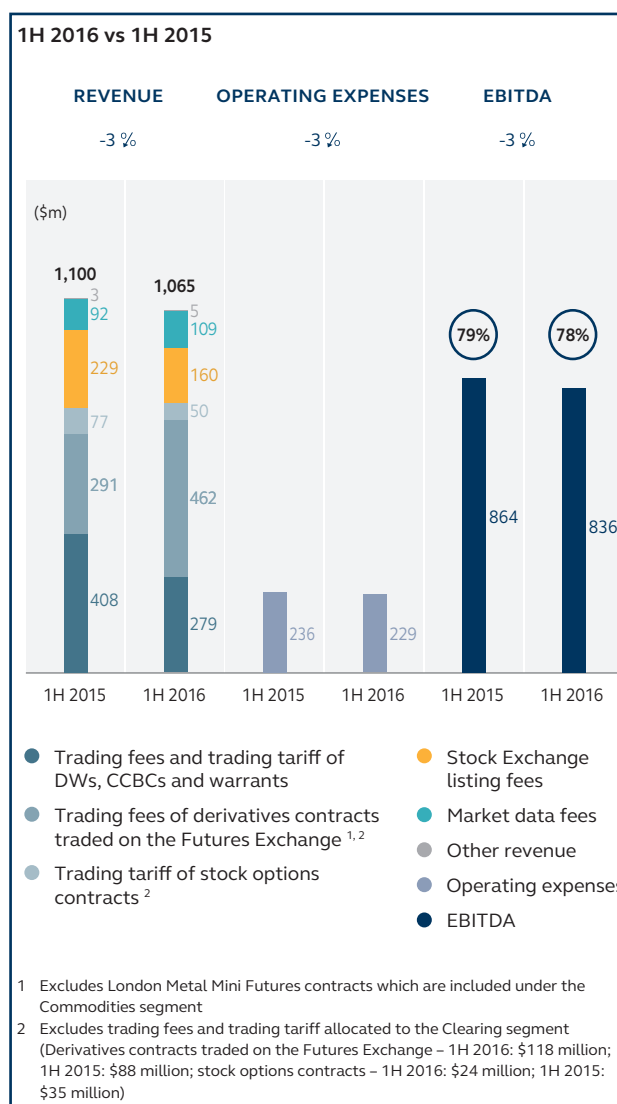
A Pre-Trade Risk Management System for the Derivatives Market was launched on 11 April 2016, which provides a tool for Exchange Participants to manage their pre-trade risk exposure.

Analysis of Results

Trading fees and trading tariff of DWs, CBBCs, warrants and stock options declined by approximately one third, in line with the drop in trading volume. This reduction was more than offset by a 59 per cent increase in trading fees of derivatives contracts traded on the Futures Exchange from more active trading. The percentage increase in HKFE trading fees was higher than the 34 per cent increase in average daily number of contracts traded as a higher proportion of derivatives contracts traded in 1H 2016 related to higher fee products.

Stock Exchange listing fees dropped by 30 per cent reflecting a decrease in the number of newly listed DWs and CBBCs.

Operating expenses decreased by 3 per cent principally due to lower staff costs including a drop in variable pay accruals, but were partly offset by higher index license fees from increased trading volume of derivatives contracts.



Commodities Segment

Business Update

Difficult market conditions prevailed in the global metals market during 1H 2016, with very little price recovery and a number of participants withdrawing from the physical market. During 1H 2016, the average daily volume of the LME decreased by 9 per cent from 1H 2015.

Market open interest (MOI), showing long term position holders, at the end of June 2016 registered a 8 per cent decrease from that reported at 30 June 2015.

The LME and the World Gold Council, together with Goldman Sachs, ICBC Standard Bank, Morgan Stanley, Natixis, OSTC and Societe Generale, announced on 9 August 2016 their intention to introduce a suite of exchange-traded and centrally-cleared precious metals products, gold and silver futures and options with London delivery (LMEprecious). LMEprecious opens up trading opportunities for existing LME members and their clients, as well as for new participants wishing to take advantage of on-exchange precious metals trading that will be cleared through a recognised clearing house, LME Clear. The offering is targeted for launch in 1H 2017.

In the latest step in the warehouse reform programme, the LME has undertaken an extensive review of the issue of increasing warehousing costs. It has been concluded that a fair and straightforward approach to this complex issue would be to cap maximum storage rates and impose a medium-term freeze on future increases and a market-wide consultation is being conducted on these proposals. The consultation will be open until 19 August 2016, with the publication of conclusions targeted for 30 September 2016. If implemented, the first capped charges would come into effect on 1 April 2017.

In a referendum held on 23 June 2016, the UK voted to exit the EU (Brexit). Despite the expected volatility on 24 June 2016, there was no disruption of the LME market. Brexit has no immediate implications for the LME's business; all existing regulatory requirements remain in place and all current implementation plans will continue. In particular, with regards to the EU Markets in Financial Instruments Directives II (MiFID II), the LME intends to be fully compliant by the January 2018 deadline.

Following extensive discussions with its membership and broader user base, the LME announced, on 5 August 2016, a set of measures, including fee reductions, designed to further enhance its market structure, strengthen its role as the global liquidity centre for metals trading, and facilitate enhanced trading opportunities for members and their clients. These measures, including fee reductions effective from 1 September 2016, are specifically designed to support active inventory management – an important tool for LME's industrial user base – and efficient position management.

Key Market Indicators		
	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Average daily volume of metals contracts traded on the LME (lots)		
Aluminium	231,148	255,767
Copper	162,932	172,533
Zinc	106,151	120,439
Nickel	81,930	82,094
Lead	44,992	55,223
Others	7,958	9,532
Total	635,111	695,588
Number of trading days	125	124
	At 30 Jun 2016	At 30 Jun 2015
Total futures MOI (lots)	2,257,622	2,449,799

The annual “LME Week Asia” event was held on 14 June 2016 in Hong Kong. The Metals Seminar attracted over 770 participants, and the Gala Dinner was attended by over 1,650 guests – the largest ever since the inception of the LME Week Asia event in 2013. During the same week, an Investment in Metals Forum, a Precious Metals and Base Metals Workshop and two educational briefing sessions for investors were also held. HKEX also organised the third joint training programme with China Futures Association, which was attended by senior staff from the top 20 Mainland Chinese futures brokers.

To enhance market awareness and encourage Mainland investors to trade both HKEX and LME products, HKEX and the LME sponsored the third Global Derivatives Trading Competition organised by the China Futures Daily. HKEX has also continued with a programme of seminars and educational training workshops in the Mainland, Hong Kong and Taiwan. Since April 2016, HKEX has partnered with 18 universities, providing students with a better understanding of global financial markets and HKEX and the LME markets.

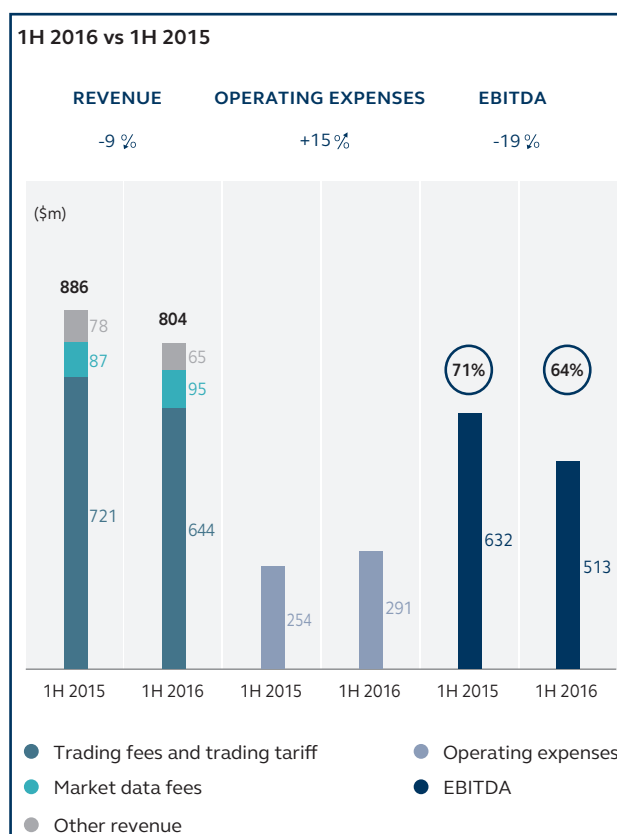
HKEX has continued to recruit Chinese firms to join the LME community, and during the period welcomed the first Chinese LME Listed Samplers and Assayers BGRIMM-SIAC (Sub-Institute of Analytical Chemistry, Beijing General Research Institute of Mining & Metallurgy).

In 1H 2016, HKEX initiated a strategic project involving the establishment of a commodities trading platform in the Mainland supported by warehousing and financing facilities. Progress has been made on developing business models and technical requirements, as well as beginning to onboard relevant personnel.

Analysis of Results

Trading fees fell by 11 per cent compared to 1H 2015 due to a 9 per cent drop in average daily volume of metals contracts traded together with the effect of incentive rebates introduced in the third quarter of 2015.

Operating expenses rose by 15 per cent. This increase in costs was principally attributable to increased headcount for strategic initiatives (including product development and the establishment of a commodities trading platform in the Mainland) but also to higher legal and professional fees incurred on strategic projects.



Clearing Segment

Business Update

The Hong Kong Securities Clearing business saw overall lower volumes in 1H 2016, largely driven by the reduced trading volume in the Cash Market compared to 1H 2015. The average daily number of Stock Exchange trades decreased by 29 per cent, while the average daily number of settlement instructions (SIs) (driven by the number of stock transfers between custodian banks and brokers) decreased by 22 per cent.

Key Market Indicators		
	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
ADT traded on the Stock Exchange (\$bn)	67.5	125.3
Average daily number of Stock Exchange trades	1,111,923	1,573,371
Average daily value of SIs (\$bn)	177.6	292.9
Average daily number of SIs	83,391	106,520

In contrast, the Clearing business in the Derivatives Market saw a slight improvement as the trading activities increased in futures and options traded on HKFE, offset partially by lower volumes in stock options.

HKSCC continued to enhance the Stock Connect clearing facility, in particular the Special Segregated Account (SPSA) model, resulting in a higher participation from asset management companies in 1H 2016.

In preparation for the anticipated Shenzhen-Hong Kong Stock Connect, HKSCC completed the development and testing of the required systems, and is technically ready to support the rollout, subject to regulatory approval.

HKCC started to offer margin offset between USD/CNH currency futures and CNH/USD currency futures in July 2016. With this new arrangement in place, Clearing Participants will benefit from a reduction in margin costs for their offsetable positions in these two products.

During 1H 2016, further progress was made to enhance the OTC Clear business. In Q1 2016, OTC Clear broadened its membership base to admit HK-incorporated licensed corporations. In April 2016, OTC Clear submitted an application for recognition as a Designated Central Counterparty for over-the-counter derivative transactions to prepare for the commencement of phase one of mandatory clearing in Hong Kong in September 2016. In July 2016, the SFC approved the clearing service of cross currency swaps with expected service launch in August 2016 – this will enable OTC Clear to become the first international clearing house to provide clearing service for USD/CNH cross currency swaps.

In Q2 2016, LME Clear won the Metals Service Provider of the Year at the Platts Global Metals Awards. This is in recognition of LME Clear's innovations in the metals trading industry, noting in particular the risk management transparency of the new clearing system and the introduction of warrants as collateral and compression services. In the coming months, LME Clear will continue to develop its clearing model in response to MiFID II regulation and work on the solution to bring over-the-counter averaging business for clearing, for delivery in 2017.

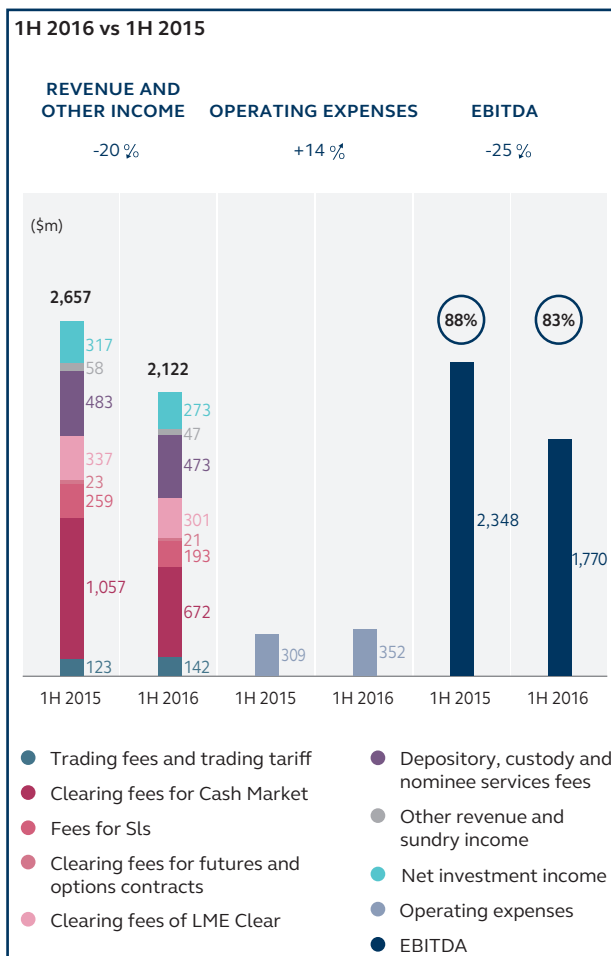
Analysis of Results

Despite the 46 per cent drop in ADT in the Cash Market, the associated clearing fees and fees for SIs decreased by a lesser 36 per cent and 25 per cent respectively. This was due to a drop in transaction size for Cash Market trades and SIs, which resulted in more transactions being subject to the minimum fee.

Clearing fees of LME Clear decreased by 11 per cent, largely reflecting the 9 per cent drop in average daily volume of metals contracts traded.

Trading fees and trading tariff reallocated from the Equity and Financial Derivatives segment increased by 15 per cent as a result of the 34 per cent increase in average daily number of derivatives contracts traded on the Futures Exchange, offsetting a 34 per cent decrease in stock options.

Revenue from the depository, custody and nominee services business remained relatively stable, as these services are less correlated with the level of trading activities.



Net investment income fell by 14 per cent compared to 1H 2015 (see the analysis below):

	Six months ended 30 Jun 2016			Six months ended 30 Jun 2015		
	Margin Funds \$m	Clearing House Funds \$m	Total \$m	Margin Funds \$m	Clearing House Funds \$m	Total \$m
Net investment income from:						
– Cash and bank deposits	253	10	263	301	10	311
– Debt securities	8	–	8	6	–	6
– Exchange gains	2	–	2	–	–	–
Total net investment income	263	10	273	307	10	317
Average fund size (\$bn)	117.2	7.6	124.8	146.4	11.4	157.8
Annualised net investment return	0.45%	0.28%	0.44%	0.42%	0.17%	0.40%

The decrease in net investment income of Margin Funds in 1H 2016 was attributable to lower interest income from cash and bank deposits on lower average fund size, resulting from lower margin requirements per contract cleared through HKCC; lower cash margins received by LME Clear due to lower margin requirements on lower prices of metal contracts; and more Clearing Participants posting non-cash collateral instead of cash margin.

Operating expenses increased by 14 per cent, which included a non-recurring recovery from Lehman's liquidators of \$77 million in 1H 2015. Excluding this, operating expenses dropped by 9 per cent, mainly a result of lower staff costs from a reduction in variable pay accruals.

The EBITDA margin declined from 88 per cent to 83 per cent (a drop of 2 per cent after adjusting for the non-recurring recovery from Lehman's liquidators mentioned above).

Platform and Infrastructure Segment

Business Update

During 1H 2016, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably. On 22 July 2016, the opening of the LME's electronic trading platform experienced a delay due to changes undertaken by a third party telecom network provider, which affected LME's member network. However, telephone trading of LME products was able to continue as normal.

The LME and LME Clear were required to vacate their offices on 19 July 2016 due to a structural deficiency in non-LME parts of the building. Back up facilities, including the trading ring, were immediately activated and all operating and support systems have functioned as expected with no disruption to market activity.

The system development phase for the implementation of Orion Trading Platform – Securities Market is progressing on schedule. The development phase is scheduled to be complete by the end of 2016 and testing and other market readiness activities will be carried out in 2017.

Enhancements to both the HKEX Group website and the HKEX Market website to improve the user experience are in progress. The launch of the revamped HKEX Group website is expected in the last quarter of 2016 and the HKEX Market website in 2017.

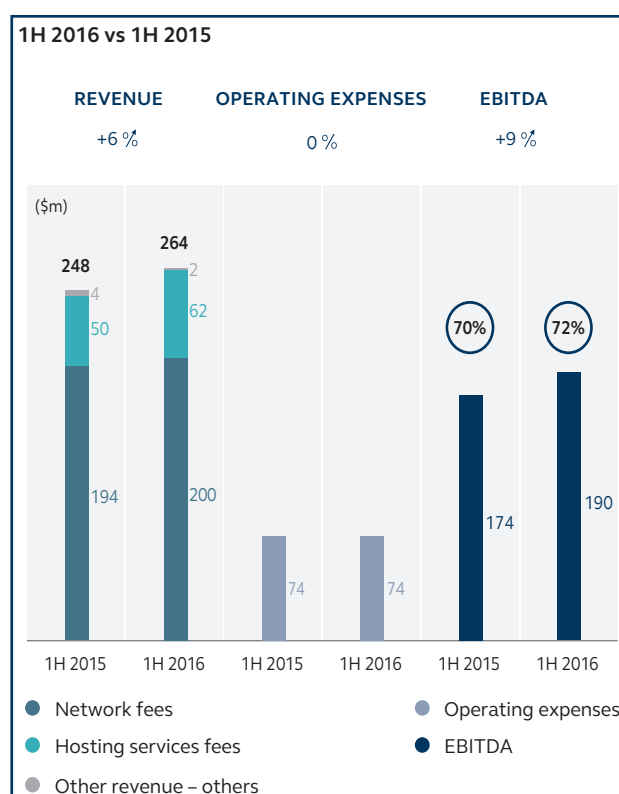
HKEX's Hosting Services continued to attract new customers. During 1H 2016, seven new customers have subscribed for the services. At the end of June 2016, 128 Exchange Participants, who accounted for approximately 47 per cent of the Cash Market turnover and 58 per cent of the Derivatives Market trading volume, were using HKEX's Hosting Services.

Analysis of Results

Network, terminal user, dataline and software sub-license fees (Network fees) rose by 3 per cent as a result of an increase in Cash Market trading system line rental income, as more Exchange Participants migrated from the obsolescent Open Gateway to HKEX Orion Central Gateway. This was partly offset by a decrease in sales of throttles.

Hosting services fees increased by 24 per cent due to an increase in the number of racks taken up by customers.

As operating expenses remained the same, EBITDA margin rose from 70 per cent to 72 per cent.



Corporate Items

“Corporate Items” is not a business segment but captures central income (mainly 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 operating segments.

Revenue and Other Income		
	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Net investment income	82	74
Others	11	2
Total	93	76

The analysis of net investment income of Corporate Funds is as follows:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Net investment income from:		
– Cash and bank deposits	41	35
– Equity securities	(16)	42
– Debt securities	80	23
– Exchange losses	(23)	(26)
Total net investment income	82	74
Average fund size (\$bn)	16.8	12.6
Annualised net investment return	0.97%	1.17%

The increase in average fund size arose from retention of cash generated by the Group over the past 12 months.

In 1H 2015, a \$31 million gain on sale of the remaining stake in shares of LCH was included in net investment income – equity securities. Excluding the LCH gain, net investment income of the Corporate Funds in 1H 2016 increased by \$39 million principally due to higher fair value gains on debt securities, partly offset by fair value losses on equity securities in 1H 2016 versus gains in 1H 2015.

As the valuations of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

Expenses, Other Costs and Taxation

Operating Expenses

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Staff costs and related expenses	1,016	1,034	(2%)
IT and computer maintenance expenses	251	251	0%
Premises expenses	162	139	17%
Product marketing and promotion expenses	21	21	0%
Legal and professional fees	46	29	59%
Other operating expenses	192	106	81%
Total	1,688	1,580	7%

Staff costs and related expenses decreased by \$18 million or 2 per cent mainly due to lower variable pay accruals, partly offset by annual payroll adjustments and increased headcount for strategic initiatives.

Premises expenses increased by \$23 million or 17 per cent due to the new offices taken up following the sale of the Group's Worldwide House office premises in Hong Kong in September 2015, and the relocation of the LME to a new office in January 2016.

Legal and professional fees increased by \$17 million or 59 per cent as more fees were incurred on strategic projects. However, this overall increase was inflated by an insurance recovery of \$5 million in 1H 2015 in respect of litigation in the UK.

Other operating expenses increased by \$86 million or 81 per cent due to the non-recurring recovery from the liquidators of LBSA of \$77 million which reduced these costs in 1H 2015. Excluding this recovery, operating expenses rose by only \$9 million or 5 per cent, which was primarily due to higher index license fees arising on the increased trading volume of derivatives contracts.

Excluding the recovery from Lehman liquidators, which reduced operating expenses in 1H 2015, underlying costs rose by only 2 per cent.

Depreciation and Amortisation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Depreciation and amortisation	382	325	18%

Depreciation and amortisation increased by \$57 million or 18 per cent due to the completion of various new systems including a new corporate Enterprise Resource Planning system and upgrades to the cash clearing system and the commodities trading and clearing systems.

Finance Costs

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Finance costs	43	77	(44%)

The decrease in finance costs was due to the conversion of all convertible bonds to equity in Q2 2015.

Taxation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Taxation	540	783	(31%)

Taxation decreased due to lower profit before taxation.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities by Funds

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial assets			
Cash and cash equivalents	98,053	110,890	(12%)
Financial assets measured at fair value through profit or loss	56,265	72,705	(23%)
Financial assets measured at amortised cost	24,286	19,496	25%
Total	178,604	203,091	(12%)

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base metals derivatives contracts, and cash prepayments for A shares traded under Stock Connect as follows:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial assets			
Corporate Funds	16,985	15,636	9%
Margin Funds ¹	105,620	114,416	(8%)
Clearing House Funds	8,156	8,430	(3%)
Base metals derivatives contracts cleared through LME Clear	47,843	64,480	(26%)
Cash prepayments for A shares ²	–	129	(100%)
Total	178,604	203,091	(12%)

1 Excludes margin receivable from Clearing Participants and Settlement Reserve Fund and Settlement Guarantee Fund which have been paid to ChinaClear of \$385 million (31 December 2015: \$797 million)

2 The trading of A shares under Stock Connect was not available on 30 June 2016 due to the public holiday in Hong Kong the following day.

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial liabilities			
Base metals derivatives contracts cleared through LME Clear	47,843	64,480	(26%)
Other financial liabilities at fair value through profit or loss	7	6	17%
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	106,005	115,213	(8%)
Participants' contributions to Clearing House Funds	7,196	7,474	(4%)
Total	161,051	187,173	(14%)

The decrease in financial assets and financial liabilities of Margin Funds at 30 June 2016 compared to 31 December 2015 was mainly due to lower contributions from Participants of HKCC as a result of lower margin requirements per contract, and lower contributions from Participants of LME Clear due to lower margin requirements as a result of lower prices of metals and more non-cash collateral received in lieu of cash margin.

The decrease in financial assets and financial liabilities of Clearing House Funds at 30 June 2016 compared to 31 December 2015 was mainly attributable to decreased contributions required from Clearing Participants in response to market volatility and changes in risk exposures.

Corporate Funds at 30 June 2016 increased by \$1,349 million or 9 per cent during 1H 2016 due to the retention of cash generated by the business over the past six months partly offset by the cash element of the 2015 final dividend payment.

Working Capital, Financial Resources and Gearing

Working capital rose by \$1,255 million or 9 per cent to \$15,850 million at 30 June 2016 (31 December 2015: \$14,595 million). The increase was primarily due to the profit of \$2,985 million generated during 1H 2016, partly offset by the 2015 final dividend, net of scrip dividend, of \$1,937 million in June 2016.

At 30 June 2016, the Group had the following outstanding borrowings:

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	1,587	July 2020 & July 2021	1,585	July 2020 & July 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,518	Dec 2018 & Jan 2019	1,516	Dec 2018 & Jan 2019
Written put options to non-controlling interests	313	N/A	308	N/A
	3,418		3,409	

At 30 June 2016, the Group had a gross gearing ratio (gross debt divided by adjusted capital) of 11 per cent (31 December 2015: 12 per cent), and a net gearing ratio (net debt divided by adjusted capital) of zero per cent (31 December 2015: zero per cent). For this purpose, gross debt is defined as total borrowings and net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds (and will be zero when the amount of cash and cash equivalents of Corporate Funds is greater than total borrowings). Adjusted capital is defined as all components of equity attributable to shareholders other than designated reserves.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 30 June 2016, the Group's total available banking facilities for its daily operations amounted to \$17,012 million (31 December 2015: \$17,012 million), which included \$10,000 million (31 December 2015: \$10,000 million) of committed banking facilities and \$7,000 million (31 December 2015: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 30 June 2016, the total amount of the facilities was RMB21,500 million (31 December 2015: RMB17,000 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2015: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect, eg, natural disasters or extreme weather conditions in Hong Kong.

At 30 June 2016, 91 per cent (31 December 2015: 92 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Capital Expenditure and Commitments

During 1H 2016, the Group incurred capital expenditure of \$266 million (1H 2015: \$262 million) related to the renovation of new offices and the development and upgrade of various IT systems including the commodities trading and clearing systems, a cash trading system, a pre-trade risk management system for Derivatives Market, trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong, and a new corporate Enterprise Resource Planning system.

The Group's capital expenditure commitments at 30 June 2016, including those authorised by the Board but not yet contracted for, amounted to \$901 million (31 December 2015: \$961 million) and were mainly related to the development and enhancement of IT systems including cash and commodities trading and clearing systems, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

The Group completed an internal reorganisation of its subsidiaries on 22 January 2016. Following the internal reorganisation, HKCC, SEOCH, The Stock Exchange Club Limited (subsequently renamed as HKEX Investment (China) Limited), HKEX Information Services Limited and HK Conversion Agency Services Limited, which were previously held by HKFE, SEHK and HKSCC, became direct wholly-owned subsidiaries of HKEX. The internal reorganisation will help the Group to focus its attention on complying with various regulatory obligations and better manage the risks associated with the businesses and operations of the recognised exchanges and clearing houses.

Save for those disclosed in this Interim Report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review. Apart from those disclosed in this Interim Report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this Interim Report.

Pledge of Assets

Details of pledge of assets are included in note 25 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

Foreign currency margin deposits received by the Group in Hong Kong are mainly hedged by investments in the same currencies, and unhedged investments in USD may not exceed 20 per cent of the Margin Funds. For LME Clear, investments of Margin Funds will generally take place in the currency in which cash was received.

The functional currency of the LME and LME Clear is USD as the majority of their income is denominated in USD. As a result, the LME Group is exposed to foreign currency risk arising from expenditure (predominantly in GBP) and bank deposits denominated in foreign currencies (mainly GBP). Their risk management policy is to forecast and monitor the amount of future GBP payments and to retain some GBP bank deposits or convert from USD to GBP as soon as deemed appropriate. Forward foreign exchange contracts may also be used to hedge the currency exposure resulting from its USD revenue against GBP payments.

The aggregate net open foreign currency positions at 30 June 2016 amounted to HK\$3,201 million, of which HK\$581 million were non-USD exposures (31 December 2015: HK\$970 million, of which HK\$179 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$904 million (31 December 2015: HK\$2,261 million). All forward foreign exchange contracts mature within two months (31 December 2015: three months).

Contingent Liabilities

Details of contingent liabilities are included in note 23 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Changes since 31 December 2015

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 for the year ended 31 December 2015.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2016 in conjunction with HKEX's external auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Unaudited Condensed Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Board and Committees

Board

Independent Non-executive Directors

CHOW Chung Kong *¹ GBS, JP (Chairman)
Apurv BAGRI²
CHAN Tze Ching, Ignatius BBS, JP
Timothy George FRESHWATER *³
FUNG Yuen Mei, Anita * BBS, JP
Rafael GIL-TIENDA *
John Barrie HARRISON *
HU Zulu, Fred
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall BBS
LEUNG KO May Yee, Margaret * SBS, JP
John Mackay McCulloch WILLIAMSON
WONG Sai Hung, Oscar⁴

Executive Director

LI Xiaojia, Charles (Chief Executive)

Committees

Audit Committee

John Barrie HARRISON (Chairman)
CHAN Tze Ching, Ignatius
FUNG Yuen Mei, Anita
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Environmental, Social and Governance Committee

CHOW Chung Kong⁵ (Chairman)
Apurv BAGRI⁶
Rafael GIL-TIENDA⁷
LEE Kwan Ho, Vincent Marshall
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON

Executive Committee

CHOW Chung Kong⁵ (Chairman)
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
LEUNG KO May Yee, Margaret
LI Xiaojia, Charles

Investment Advisory Committee

Timothy George FRESHWATER⁸ (Chairman)
WONG Sai Hung, Oscar⁴ (ex-Chairman)
FUNG Yuen Mei, Anita
HU Zulu, Fred
LEE Kwan Ho, Vincent Marshall⁶

Committees (continued)

Nomination Committee

CHOW Chung Kong⁹ (Chairman)
CHAN Tze Ching, Ignatius
Timothy George FRESHWATER⁹
HU Zulu, Fred
John Mackay McCulloch WILLIAMSON

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)
FUNG Yuen Mei, Anita
Rafael GIL-TIENDA⁶
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
WONG Sai Hung, Oscar⁴

Project Oversight Committee¹⁰

FUNG Yuen Mei, Anita⁶ (Chairman)
Apurv BAGRI⁶
Rafael GIL-TIENDA⁶
HU Zulu, Fred⁶
KWOK Chi Piu, Bill⁶

Remuneration Committee

CHOW Chung Kong⁹ (Chairman)
Timothy George FRESHWATER⁹
KWOK Chi Piu, Bill
LEE Kwan Ho, Vincent Marshall
John Mackay McCulloch WILLIAMSON

Risk Committee

CHOW Chung Kong⁵ (Chairman)
CHAN Tze Ching, Ignatius
Rafael GIL-TIENDA
John Barrie HARRISON
LEUNG KO May Yee, Margaret

Risk Management Committee (statutory)^Δ

CHOW Chung Kong⁵ (Chairman)
CHAN Tze Ching, Ignatius
CHENG Fat, Henry^{** 11}
CHENG Siu Hong, Raymond^{** 12}
LAM Yuk Kun, Lawrence^{**}
LEE Tat Chi, Howard^{** 13}
LEUNG KO May Yee, Margaret
LUI Kei Kwong, Keith^{** 14}
Barbara SHIU^{**}
TAN Siow Boi, May^{** 15}

* Government Appointed Director

** Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

1 Re-appointed as Director and Chairman effective 28 April 2016 and 10 May 2016 respectively until the conclusion of the AGM to be held in 2018

2 Elected as Director from 28 April 2016 until the conclusion of the AGM to be held in 2019

3 Re-appointed as Director from 28 April 2016 until the conclusion of the AGM to be held in 2018

4 Retired on 28 April 2016

5 Re-appointment effective 10 May 2016 by virtue of being HKEX Chairman

6 Appointment effective 29 April 2016

7 Appointment ceased to be effective on 29 April 2016

8 Appointed as the chairman effective 29 April 2016

9 Re-appointment effective 29 April 2016

10 Established on 29 April 2016

11 Appointment effective 26 February 2016 by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority

12 Appointment effective 20 January 2016 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

13 Appointment ceased to be effective on 26 February 2016

14 Member by virtue of being Executive Director (Supervision of Markets) of the SFC

15 Appointment ceased to be effective on 20 January 2016

Changes in Information

Changes in Directors' other major offices which are required to be disclosed under Rule 13.51B(1) of the Main Board Listing Rules are set out below.

	Appointment (effective)	Cessation (effective)
C K Chow		
• Advisory Committee on Admission of Quality Migrants and Professionals – chairman	1 July 2016	–
Tim Freshwater		
• Aquarius Platinum Limited (listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange) – independent non-executive director	–	12 April 2016
Anita Fung		
• The Hong Kong Mortgage Corporation Limited – director	25 April 2016	–
Fred Hu		
• Armada Holdings Limited * (formerly known as SCMP Group Limited) – independent non-executive director	–	6 June 2016
Bill Kwok		
• HSBC Private Bank (Suisse) SA – non-executive director	–	2 April 2016
Margaret Leung		
• Chong Hing Bank Limited * – chief executive	27 May 2016	–
• China Construction Bank Corporation * – independent non-executive director	–	17 June 2016

* Currently listed on the Stock Exchange

The biographies of Directors are available in the About HKEX (Organisation) section of the HKEX website.

Consultative Panels

Taking into account the changes in the Board composition and the expiry of the terms or the resignation of certain members of the three Consultative Panels, the Board approved changes in the composition of the three Consultative Panels in April and May 2016. The member lists of the Consultative Panels are available in the About HKEX (Organisation) section of the HKEX website.

Save as disclosed above, there is no other information required to be disclosed under Rule 13.51B(1) of the Main Board Listing Rules.

Compliance with Corporate Governance Code

Throughout the six months ended 30 June 2016, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by the SFO. HKEX's Chief Executive in his capacity as a Director is also not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles of Association.

Compliance with Model Code

HKEX has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code at all applicable times during the six months ended 30 June 2016.

Directors' Interests and Short Positions in Shares and Underlying Shares of HKEX

The interests and short positions of Directors, including HKEX's Chief Executive, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code, as at 30 June 2016 are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name of Director	Number of shares/underlying shares held				Total	% of HKEX ¹ shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 ²	–	–	–	15,000	0.00
Margaret Leung	–	3,101 ³	–	–	3,101	0.00
Charles Li	707,418 ⁴	–	–	–	707,418	0.05

¹ Based on 1,217,399,317 HKEX shares in issue as at 30 June 2016

² Mr Chow was the beneficial owner of those shares.

³ Mrs Leung's spouse was the beneficial owner of those shares.

⁴ It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 385,368 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in "Share Award Scheme" below.

Save as disclosed above, as at 30 June 2016, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEX or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code.

Apart from the Share Award Scheme, during the period under review, neither HKEX nor any of its subsidiaries was a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEX or any other body corporate. Save as disclosed above, during the six months ended 30 June 2016, none of the Directors (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of HKEX or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEX

Minority Controllers

Under Section 61 of the SFO, no person shall become a Minority Controller except with the SFC's approval in writing after consultation with the Financial Secretary. A Minority Controller is a person who either alone or with any associated person(s) is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller.

As at the date of this Interim Report, other than the Government, which has been a Minority Controller since 7 September 2007, nine entities had been approved as Minority Controllers on the basis that they held HKEX shares in custody for their clients. According to the Participant Shareholding Report as at 30 June 2016, these Minority Controllers in aggregate held approximately 59 per cent of HKEX shares in issue.

Other persons' interests and short positions in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange, as at 30 June 2016 are set out below.

Long Positions in Shares and Underlying Shares of HKEX				
Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
JPMorgan Chase & Co	Beneficial owner Investment manager Trustee (other than a bare trustee) Custodian corporation/ approved lending agent	40,514,119 4,097,578 2,431 34,055,063	78,669,191 ²	6.46
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 ³	66,730,300	5.48

Short Positions in Shares and Underlying Shares of HKEX				
Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
JPMorgan Chase & Co	Beneficial owner	10,710,814	10,710,814 ⁴	0.87

¹ Based on 1,217,399,317 HKEX shares in issue as at 30 June 2016

² It included an aggregate interest in 6,488,356 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (2,551,696 underlying shares), physically settled unlisted equity derivatives (202,342 underlying shares), cash settled listed equity derivatives (2,657,100 underlying shares) and cash settled unlisted equity derivatives (1,077,218 underlying shares). It also included 34,055,063 shares in a lending pool.

³ Based on a confirmation to HKEX by the Government in respect of its holding immediately following completion of a placing of new HKEX shares as announced on 30 November 2012.

⁴ It included an aggregate interest in 9,978,079 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (701,900 underlying shares), physically settled unlisted equity derivatives (757,122 underlying shares), cash settled listed equity derivatives (7,157,340 underlying shares) and cash settled unlisted equity derivatives (1,361,717 underlying shares).

Save as disclosed above, as at 30 June 2016, no other persons had any interests or short positions in the shares or underlying shares of HKEX as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange.

Share Award Scheme

HKEX has adopted the Share Award Scheme to recognise the contributions of certain employees and help retain them for the Group's operations and further development. The Scheme was adopted by the Board on 14 September 2005 (Adoption Date) and shall be valid until 31 December 2025. The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of the HKEX shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Scheme is 1 per cent (ie, 10,623,858 shares). The rules and trust deed of the Scheme are available in the About HKEX (Organisation) section of the HKEX website.

From the Adoption Date to 30 June 2016, a total of 8,346,023 shares had been awarded under the Scheme, representing 0.8 per cent of the HKEX shares in issue as at the Adoption Date. As at 30 June 2016, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,193,564 shares held in trust under the Scheme.

Non-executive Directors are not entitled to participate in the Share Award Scheme. Details of the interests of HKEX's Chief Executive in the Awarded Shares (save for those which had been fully vested as of 31 December 2015) are set out below.

	Date of ² award	Number of Awarded Shares	As at 1 Jan 2016	Number of shares ¹			As at 30 Jun 2016	Vesting period ³
				Shares acquired during the six months ended 30 Jun 2016 out of the dividends	Vested during the six months ended 30 Jun 2016	Lapsed during the six months ended 30 Jun 2016		
Charles Li	3 Dec 2014	23,733 ⁴	24,344	–	23,614 ⁵	730 ⁵	–	End of a performance period of 2013 – 2015
	3 Dec 2014	48,681	24,968	414	–	–	25,382	9 Dec 2015 – 9 Dec 2016
	3 Dec 2014	47,467 ⁴	48,691	808	–	–	49,499	End of a performance period of 2014 – 2016
	2 Jan 2015	88,345	90,629	1,505	–	–	92,134	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015	95,100 ⁴	97,558	1,620	–	–	99,178	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	60,429	1,003	–	–	61,432	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 ⁴	56,800	943	–	–	57,743	End of a performance period of 2016 – 2018

1 Includes shares acquired out of the dividends from the Awarded Shares according to the Scheme

2 The date of award refers to the date on which the trustee allocated the Awarded Shares to Mr Li.

3 Save for those Senior Executive Awards referred to in note 4 below, the Awarded Shares and the related income are vested in two equal tranches in the second and third year after the grant.

4 The awards were granted under the Scheme as long-term incentives for selected senior executives of the Group (Senior Executive Awards).

The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the Remuneration Committee and approved by the Board. These performance criteria include total shareholder return, achievements in business development and sustaining the organisation's effectiveness.

5 On 2 March 2016, the Board approved the vesting of 23,614 shares to Mr Li based on his actual performance for the period 2013-2015. Pursuant to the terms of the Scheme, the remaining 730 Awarded Shares previously allocated to Mr Li lapsed on 2 March 2016.

Purchase, Sale or Redemption of HKEX's Listed Securities

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any HKEX shares.

Sustainable Workplace

During the six months ended 30 June 2016, the Group organised 63 in-house courses for employees to enhance their job knowledge, skills and well-being. Moreover, the Group sponsored a total of 206 employees to attend external training.

As at 30 June 2016, the Group had 1,610 employees, including 58 temporary staff and 29 interns. HKEX's remuneration policy has remained unchanged since the date of the 2015 Annual Report. Information regarding employees' remuneration and benefits for the six months ended 30 June 2016 is set out in note 5 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Details of HKEX's principles and practices related to governance and sustainability are set out in the About HKEX (Corporate Governance and Corporate Social Responsibility) section of the HKEX website.

SHAREHOLDER INFORMATION

Interim Report

This Interim Report is printed in English and Chinese, and is available in the About HKEX (Financial Statements) section of the HKEX website. Shareholders are encouraged to access HKEX's corporate communications electronically via the HKEX website to help protect the environment. Shareholders may at any time change their choice of language or means of receiving HKEX's corporate communications free of charge by giving not less than seven days' notice to HKEX's registrar, Hong Kong Registrars Limited, in writing by post (17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) or email (hkex.ecom@computershare.com.hk).

Shareholders who would like to be alerted when HKEX publishes its corporate communications on the HKEXnews website can register for alerts in the Investment Service Centre section of the HKEX website.

Interim Dividend and Closure of Register of Members

The Board has declared an interim dividend of \$2.21 per share (2015: \$3.08 per share) for the year ending 31 December 2016. The interim dividend will be payable in cash with a scrip dividend alternative where a 5 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto. Details of the scrip dividend alternative will be set out in a circular to Shareholders.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	23 August 2016
Closure of HKEX's Register of Members	25 to 26 August 2016 (both dates inclusive)
Record date	26 August 2016
Despatch of scrip dividend circular and election form	On or about 31 August 2016
Announcement of scrip share subscription price	On or about 6 September 2016
Despatch of dividend warrants/definitive share certificates	23 September 2016

To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEX's registrar at the address below no later than 4:30 pm on Wednesday, 24 August 2016.

Hong Kong Registrars Limited

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel: +852 2862 8555

Fax: +852 2865 0990/2529 6087

The About HKEX (Investor Relations) section of the HKEX website contains further information which may be of interest to Shareholders.

AUDITOR'S INDEPENDENT REVIEW REPORT

Report on Review of Interim Financial Information to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 27 to 46, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10 August 2016

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Trading fees and trading tariff	3	2,255	2,941
Stock Exchange listing fees		531	564
Clearing and settlement fees		1,187	1,676
Depository, custody and nominee services fees		473	483
Market data fees		404	386
Other revenue		406	407
REVENUE	2	5,256	6,457
Investment income		410	402
Interest rebates to Participants		(55)	(11)
Net investment income	4	355	391
Sundry income		19	5
REVENUE AND OTHER INCOME		5,630	6,853
OPERATING EXPENSES			
Staff costs and related expenses	5	(1,016)	(1,034)
Information technology and computer maintenance expenses		(251)	(251)
Premises expenses		(162)	(139)
Product marketing and promotion expenses		(21)	(21)
Legal and professional fees		(46)	(29)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	6	-	77
Others		(192)	(183)
		(1,688)	(1,580)
EBITDA*		3,942	5,273
Depreciation and amortisation		(382)	(325)
OPERATING PROFIT		3,560	4,948
Finance costs	7	(43)	(77)
Share of loss of a joint venture		(5)	(5)
PROFIT BEFORE TAXATION	2	3,512	4,866
TAXATION	8	(540)	(783)
PROFIT FOR THE PERIOD		2,972	4,083
PROFIT/(LOSS) ATTRIBUTABLE TO:			
– Shareholders of HKEX		2,985	4,095
– Non-controlling interests		(13)	(12)
PROFIT FOR THE PERIOD		2,972	4,083
Basic earnings per share	9(a)	\$2.47	\$3.49
Diluted earnings per share	9(b)	\$2.47	\$3.47

* 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 venture.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
PROFIT FOR THE PERIOD	2,972	4,083
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	<u>10</u>	<u>(3)</u>
OTHER COMPREHENSIVE INCOME	<u>10</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME	<u>2,982</u>	<u>4,080</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
– Shareholders of HKEX	2,995	4,092
– Non-controlling interests	<u>(13)</u>	<u>(12)</u>
TOTAL COMPREHENSIVE INCOME	<u>2,982</u>	<u>4,080</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		At 30 Jun 2016			At 31 Dec 2015		
	Note	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	98,053	–	98,053	110,890	–	110,890
Financial assets measured at fair value through profit or loss	11	56,265	–	56,265	72,705	–	72,705
Financial assets measured at amortised cost	11	24,224	62	24,286	19,439	57	19,496
Accounts receivable, prepayments and deposits	11, 12	7,903	21	7,924	15,535	21	15,556
Taxation recoverable		2	–	2	2	–	2
Interest in a joint venture		–	63	63	–	68	68
Goodwill and other intangible assets		–	17,842	17,842	–	17,872	17,872
Fixed assets		–	1,491	1,491	–	1,560	1,560
Lease premium for land		–	21	21	–	22	22
Deferred tax assets		–	32	32	–	22	22
Total assets		186,447	19,532	205,979	218,571	19,622	238,193
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	13	47,850	–	47,850	64,486	–	64,486
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	14	106,005	–	106,005	115,213	–	115,213
Accounts payable, accruals and other liabilities	15	8,073	22	8,095	15,270	15	15,285
Deferred revenue		495	–	495	773	–	773
Taxation payable		845	–	845	653	–	653
Other financial liabilities		49	–	49	42	–	42
Participants' contributions to Clearing House Funds	16	7,196	–	7,196	7,474	–	7,474
Borrowings	17	–	3,418	3,418	–	3,409	3,409
Provisions		84	68	152	65	70	135
Deferred tax liabilities		–	754	754	–	761	761
Total liabilities		170,597	4,262	174,859	203,976	4,255	208,231
Equity							
Share capital	18			20,816			19,285
Shares held for Share Award Scheme	18			(578)			(590)
Employee share-based compensation reserve	19			281			199
Exchange reserve				(244)			(254)
Designated reserves	20			776			778
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings				10,229			10,691
Equity attributable to shareholders of HKEX				30,987			29,816
Non-controlling interests				133			146
Total equity				31,120			29,962
Total liabilities and equity				205,979			238,193
Net current assets				15,850			14,595

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	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	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 2016	18,695	199	(254)	778	(293)	10,691	29,816	146	29,962
Profit/(loss) for the period	-	-	-	-	-	2,985	2,985	(13)	2,972
Other comprehensive income	-	-	10	-	-	-	10	-	10
Total comprehensive income	-	-	10	-	-	2,985	2,995	(13)	2,982
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:									
– 2015 final dividend at \$2.87 per share	-	-	-	-	-	(3,459)	(3,459)	-	(3,459)
– Unclaimed HKEX dividends forfeited (note 15)	-	-	-	-	-	11	11	-	11
– Shares issued in lieu of cash dividends	1,522	-	-	-	-	-	1,522	-	1,522
– Vesting of shares of Share Award Scheme	21	(20)	-	-	-	(1)	-	-	-
– Employee share-based compensation benefits	-	102	-	-	-	-	102	-	102
– Transfer of reserves	-	-	-	(2)	-	2	-	-	-
Total transactions with shareholders recognised directly in equity	1,543	82	-	(2)	-	(3,447)	(1,824)	-	(1,824)
At 30 Jun 2016	20,238	281	(244)	776	(293)	10,229	30,987	133	31,120

	Attributable to shareholders of HKEX									
	Share capital and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Convertible bond 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 2015	11,743	142	(247)	409	643	(217)	8,800	21,273	86	21,359
Profit/(loss) for the period	-	-	-	-	-	-	4,095	4,095	(12)	4,083
Other comprehensive income	-	-	(3)	-	-	-	-	(3)	-	(3)
Total comprehensive income	-	-	(3)	-	-	-	4,095	4,092	(12)	4,080
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:										
- 2014 final dividend at \$2.15 per share	-	-	-	-	-	-	(2,533)	(2,533)	-	(2,533)
- Unclaimed HKEX dividends forfeited (note 15)	-	-	-	-	-	-	9	9	-	9
- Shares issued upon exercise of employee share options	3	-	-	-	-	-	-	3	-	3
- Shares issued in lieu of cash dividends	1,293	-	-	-	-	-	-	1,293	-	1,293
- Vesting of shares of Share Award Scheme	13	(13)	-	-	-	-	-	-	-	-
- Employee share-based compensation benefits	-	80	-	-	-	-	-	80	-	80
- Tax credit relating to Share Award Scheme (note 8(b))	-	-	-	-	-	-	6	6	-	6
- Conversion of convertible bonds	3,877	-	-	(409)	-	-	266	3,734	-	3,734
- Transfer of reserves	-	-	-	-	(1)	-	1	-	-	-
- Transfer of reserves - surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant	-	-	-	-	100	-	(100)	-	-	-
Total changes in ownership interests in subsidiaries that do not result in a loss of control:										
- Changes in ownership interest in a subsidiary	-	-	-	-	-	-	(35)	(35)	35	-
Total transactions with shareholders recognised directly in equity	5,186	67	-	(409)	99	-	(2,386)	2,557	35	2,592
At 30 Jun 2015	16,929	209	(250)	-	742	(217)	10,509	27,922	109	28,031

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	21	3,436	5,052
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
(Payments to)/receipts from external fund managers for (purchases)/sales of financial assets measured at fair value through profit or loss		(2,000)	400
Net cash inflow from operating activities		1,436	5,452
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(277)	(268)
Net (increase)/decrease in financial assets of Corporate Funds:			
Increase in time deposits with original maturities more than three months		(1,017)	(285)
Payments for purchase of financial assets measured at amortised cost (excluding time deposits)		(464)	-
Net proceeds from sales of financial assets measured at fair value through profit or loss		-	187
Interest received from financial assets measured at fair value through profit or loss		9	8
Net cash outflow from investing activities		(1,749)	(358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares upon exercise of employee share options		-	3
Payments of finance costs		(34)	(38)
Dividends paid to shareholders of HKEX		(1,918)	(1,226)
Net cash outflow from financing activities		(1,952)	(1,261)
Net (decrease)/increase in cash and cash equivalents		(2,265)	3,833
Cash and cash equivalents at 1 Jan		12,744	8,067
Cash and cash equivalents at 30 Jun (note (a))		10,479	11,900
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	11	10,479	11,900

- (a) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash prepayments 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.
- (b) “Cash flows from principal operating activities” is a non-Hong Kong Financial Reporting Standard (non-HKFRS) measure used by management for monitoring cash flows of the Group and represents the cash flows generated from the trading and clearing operations of the three exchanges and five clearing houses and ancillary services of the Group. 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. This non-HKFRS measure may not be comparable to similar measures presented by other companies.

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 2015 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2015. Amendments to Hong Kong Financial Reporting Standards (HKFRSs) effective for the financial year ending 31 December 2016 do not have any financial impact to the Group.

The financial information relating to the year ended 31 December 2015 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2016 as comparative information does not constitute the statutory annual consolidated financial statements of Hong Kong Exchanges and Clearing Limited (HKEX or 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 2015 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. Operating Segments

HKEX and its subsidiaries (collectively the Group) determine its operating segments based on the 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 and the Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect (Stock Connect), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff and listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on Hong Kong Futures Exchange Limited (Futures Exchange) and The Stock Exchange of Hong Kong Limited (Stock 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 (CBCBs) and warrants and sales of market data relating to these products. The major sources of revenue are trading fees, trading tariff and 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 United Kingdom (UK) for the trading of base metals futures and options contracts and the development and operations of the new commodity trading platform in the Mainland. It also covers the Asia Commodities contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

2. Operating Segments (continued)

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

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

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

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis by operating segment of the Group’s EBITDA and profit before taxation for the period is as follows:

Six months ended 30 Jun 2016							
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,282	1,065	804	1,838	264	3	5,256
Net investment income	-	-	-	273	-	82	355
Sundry income	-	-	-	11	-	8	19
Revenue and other income	1,282	1,065	804	2,122	264	93	5,630
Operating expenses	(270)	(229)	(291)	(352)	(74)	(472)	(1,688)
Reportable segment EBITDA	1,012	836	513	1,770	190	(379)	3,942
Depreciation and amortisation	(44)	(45)	(147)	(88)	(22)	(36)	(382)
Finance costs	-	-	-	-	-	(43)	(43)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	968	786	366	1,682	168	(458)	3,512
Six months ended 30 Jun 2015							
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,886	1,100	886	2,335	248	2	6,457
Net investment income	-	-	-	317	-	74	391
Sundry income	-	-	-	5	-	-	5
Revenue and other income	1,886	1,100	886	2,657	248	76	6,853
Operating expenses	(276)	(236)	(254)	(309)	(74)	(431)	(1,580)
Reportable segment EBITDA	1,610	864	632	2,348	174	(355)	5,273
Depreciation and amortisation	(49)	(36)	(129)	(69)	(22)	(20)	(325)
Finance costs	-	-	-	-	-	(77)	(77)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,561	823	503	2,279	152	(452)	4,866

3. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Trading fees and trading tariff were derived from:		
Equity securities traded on the Stock Exchange and the Shanghai Stock Exchange through Stock Connect	678	1,321
DWs, CBBCs and warrants traded on the Stock Exchange	279	408
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	654	491
Base metals futures and options contracts traded on the LME	644	721
	2,255	2,941

4. Net Investment Income

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Gross interest income from financial assets measured at amortised cost	359	357
Interest rebates to Participants	(55)	(11)
Net interest income	304	346
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	68	57
Others	(17)	(12)
Net investment income	355	391

5. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Salaries and other short-term employee benefits	843	879
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	102	80
Termination benefits	2	7
Retirement benefit costs (note 24(b))	69	68
	1,016	1,034

6. Reversal of Provision for Impairment Losses Arising from Participants' Default on Market Contracts

During the six months ended 30 June 2015, the liquidators of Lehman Brothers Securities Asia Limited paid dividends of \$77 million, and these were recognised within operating expenses in the Group's condensed consolidated income statement, as a reversal of a provision for impairment losses recognised in prior years.

7. Finance Costs

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interest expenses on borrowings	40	78
Net foreign exchange losses/(gains) on financing activities	3	(1)
	43	77

8. Taxation

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2015: 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 rate applicable to the subsidiaries in the UK being 20 per cent (2015: 20.25 per cent).

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

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Current tax – Hong Kong Profits Tax	447	648
Current tax – Overseas Tax	111	172
	558	820
Deferred tax	(18)	(37)
	540	783

(b) Taxation credited directly to retained earnings represented:

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Current tax – Overseas Tax	-	(2)
Deferred tax	-	(4)
	-	(6)

Under the tax rules in the UK, tax deduction on employee share awards is available at the time of vesting based on the prevailing market value. The tax credits in 2015 were related to tax deductions arising from increases in the value of Awarded Shares to employees of the LME Group under the Share Award Scheme since award date. The amount of taxation charged directly to retained earnings in 2016 was under \$1 million.

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 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Basic earnings per share (\$)	2.47	3.49

(b) Diluted earnings per share

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Interest expenses on convertible bonds (net of tax) (\$m)	-	41
Adjusted profit attributable to shareholders (\$m)	2,985	4,136
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Effect of employee share options (in '000)	-	12
Effect of shares awarded under Share Award Scheme (in '000)	3,173	2,821
Effect of convertible bonds (in '000)	-	17,829
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,209,909	1,193,500
Diluted earnings per share (\$)	2.47	3.47

10. Dividends

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interim dividend declared of \$2.21 (2015: \$3.08) per share at 30 Jun	2,690	3,688
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(7)	(9)
	2,683	3,679

11. Financial Assets

The financial assets of Clearing House Funds, Margin Funds, base metals derivatives contracts, cash prepayments for A shares and Corporate Funds are allocated into cash and cash equivalents, financial assets measured at fair value through profit or loss, financial assets measured at amortised cost, and accounts receivable and deposits, details of which are as follows:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Clearing House Funds (note 16)</u>		
Cash and cash equivalents	8,000	8,210
Financial assets measured at amortised cost	156	220
	8,156	8,430
<u>Margin Funds (note 14)</u>		
Cash and cash equivalents	79,574	89,807
Financial assets measured at fair value through profit or loss	3,913	5,844
Financial assets measured at amortised cost	22,133	18,765
Accounts receivable and deposits	385	797
	106,005	115,213
<u>Base metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (a))	47,843	64,480
<u>Cash prepayments for A shares</u>		
Cash and cash equivalents	-	129
<u>Corporate Funds</u>		
Cash and cash equivalents	10,479	12,744
Financial assets measured at fair value through profit or loss	4,509	2,381
Financial assets measured at amortised cost	1,997	511
	16,985	15,636
	178,989	203,888

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

	At 30 Jun 2016						At 31 Dec 2015					
	Clearing House Funds \$m	Margin Funds \$m	Base metals derivatives contracts \$m	Cash prepayments for A shares \$m	Corporate Funds \$m	Total \$m	Clearing House Funds \$m	Margin Funds \$m	Base metals derivatives contracts \$m	Cash prepayments for A shares \$m	Corporate Funds \$m	Total \$m
Within twelve months	8,156	106,005	47,843	-	16,923	178,927	8,430	115,213	64,480	129	15,579	203,831
Over twelve months	-	-	-	-	62	62	-	-	-	-	57	57
	8,156	106,005	47,843	-	16,985	178,989	8,430	115,213	64,480	129	15,636	203,888

- (a) The amount represents the fair value of outstanding base metals futures and options contracts of LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME. A corresponding amount was recorded under financial liabilities at fair value through profit or loss (note 13).

12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 80 per cent (31 December 2015: 87 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

13. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
– base metals futures and options contracts cleared through LME Clear (note 11(a))	47,843	64,480
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts	7	6
	<u>47,850</u>	<u>64,486</u>

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

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Margin deposits, Mainland Security and Settlement Deposits and cash collateral from Clearing Participants comprised (note (a)):</u>		
SECH Clearing Participants' margin deposits	6,136	6,773
HKCC Clearing Participants' margin deposits	39,786	45,123
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	5,071	4,103
OTC Clear Clearing Participants' margin deposits	232	54
LME Clear Clearing Participants' margin deposits	54,780	59,160
	<u>106,005</u>	<u>115,213</u>

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash collateral.

15. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 79 per cent (31 December 2015: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement 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.

During the six months ended 30 June 2016, \$11 million (2015: \$9 million) of dividends declared by HKEX, which were unclaimed over a period of six years from the date of payment, were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association.

16. Clearing House Funds

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions (note (a))	7,196	7,474
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (note 20)	776	778
	8,128	8,408
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)	8,156	8,430
Less: Other financial liabilities of Clearing House Funds	(28)	(22)
	8,128	8,408
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,718	2,926
SEIOCH Reserve Fund	502	542
HKCC Reserve Fund	1,032	1,134
OTC Clear Rates and FX Guarantee Fund	556	505
OTC Clear Rates and FX Guarantee Resources	159	158
LME Clear Default Fund	3,161	3,143
	8,128	8,408

- (a) Amounts excluded non-cash collateral received and utilised as alternatives to cash contributions.

17. Borrowings

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Bank borrowings	1,587	1,585
Notes	1,518	1,516
Written put options to non-controlling interests	313	308
Total borrowings	3,418	3,409

During the six months ended 30 June 2016, there were no repayments of the bank borrowings or notes, and none of the written put options were exercised.

18. Share Capital, Share Premium and Shares Held for Share Award Scheme

	Number of shares '000	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2015	1,165,264	12,225	(482)	11,743
Shares issued upon exercise of employee share options	144	3	–	3
Shares issued in lieu of cash dividends (note (a))				
– total	15,632	3,180	–	3,180
– to Share Award Scheme	(73)	–	(15)	(15)
	15,559	3,180	(15)	3,165
Share purchased for Share Award Scheme	(1,137)	–	(227)	(227)
Vesting of shares of Share Award Scheme (note (b))	853	–	134	134
Conversion of convertible bonds	24,594	3,877	–	3,877
At 31 Dec 2015	1,205,277	19,285	(590)	18,695
At 1 Jan 2016	1,205,277	19,285	(590)	18,695
Shares issued in lieu of cash dividends (note (a))				
– total	8,863	1,531	–	1,531
– to Share Award Scheme	(53)	–	(9)	(9)
	8,810	1,531	(9)	1,522
Vesting of shares of Share Award Scheme (note (b))	119	–	21	21
At 30 Jun 2016	1,214,206	20,816	(578)	20,238

- (a) In June 2016, 8,862,992 new fully paid HKEX shares (year ended 31 December 2015: 15,632,464 shares) were issued and allotted at \$172.81 per share (year ended 31 December 2015: weighted average price of \$203.39 per share) to the shareholders (including 53,390 new shares (year ended 31 December 2015: 73,236 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 2016, the Share Award Scheme transferred 119,176 HKEX shares (year ended 31 December 2015: 852,317 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$21 million (year ended 31 December 2015: \$134 million).

19. Employee Share-based Arrangements

The Group operates the Share Award Scheme as part of the benefits of its employees. Under the Share Award Scheme, the Board is allowed to make awards as long-term incentives for selected senior executives of the Group (Senior Executive Awards) in addition to any other awards (Employee Share Awards) which they may be eligible to receive under the Share Award Scheme.

The employee share-based compensation expenses in relation to the share awards are charged to profit or loss 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 2016, no Senior Executive Awards and Employee Share Awards were granted.

20. Designated reserves

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

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Clearing House Funds reserves (note 16)		
– HKSCC Guarantee Fund reserve	315	318
– SEOCH Reserve Fund reserve	104	104
– HKCC Reserve Fund reserve	350	351
– OTC Clear Rates and FX Guarantee Fund reserve	4	3
– OTC Clear Rates and FX Guarantee Resources reserve	3	2
	776	778

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 2016 \$m	Six months ended 30 Jun 2015 \$m
Profit before taxation	3,512	4,866
Adjustments for:		
Net interest income	(304)	(346)
Dividend income	(3)	(4)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(68)	(57)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(11)	(5)
Amortisation of lease premium for land under premises expenses	1	1
Finance costs	43	77
Depreciation and amortisation	382	325
Employee share-based compensation benefits	102	80
Provision for/(reversal of provision for) impairment losses of receivables	2	(71)
Share of loss of a joint venture	5	5
Changes in provisions	11	19
Net decrease/(increase) in financial assets of Margin Funds	9,207	(25,065)
Net (decrease)/increase in financial liabilities of Margin Funds	(9,208)	25,062
Net decrease/(increase) in Clearing House Fund financial assets	274	(3,996)
Net (decrease)/increase in Clearing House Fund financial liabilities	(272)	3,897
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(58)	(9)
Decrease in cash prepayments for A shares	129	619
Decrease/(increase) in accounts receivable, prepayments and deposits	7,211	(4,515)
(Decrease)/increase in other current liabilities	(7,503)	3,987
Net cash inflow from principal operations	3,452	4,870
Dividends received	2	2
Interest received from bank deposits	359	357
Interest received from financial assets measured at fair value through profit or loss	43	26
Interest paid to Participants	(55)	(11)
Income tax paid	(365)	(192)
Net cash inflow from principal operating activities	3,436	5,052

22. Capital Expenditures and Commitments

During the six months ended 30 June 2016, the Group incurred capital expenditures of \$266 million (2015: \$262 million) related to renovation of new offices and the development and upgrade of various information technology systems including the commodities trading and clearing systems, a cash trading system, a pre-trade risk management system for Derivatives Market, trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong, and a new corporate Enterprise Resource Planning system.

At 30 June 2016, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Contracted but not provided for		
– fixed assets	19	4
– intangible assets	67	43
Authorised but not contracted for		
– fixed assets	220	264
– intangible assets	595	650
	901	961

The Group's capital expenditure commitments were mainly related to the development and enhancement of information technology systems including cash and commodities trading and clearing systems, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

23. Contingent Liabilities

At 30 June 2016, 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 Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2015: \$71 million). Up to 30 June 2016, 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 530 trading Participants covered by the indemnity at 30 June 2016 (31 December 2015: 515) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$106 million (31 December 2015: \$103 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.

23. Contingent Liabilities (continued)

(d) US litigation

In 2013, the LME, LME Holdings Limited (LMEH) and HKEX were named as defendants in aluminium warehousing litigation alleging anti-competitive behaviour in the United States (US). Following vigorous defence by the Group, the US District Court for the Southern District of New York (District Court) dismissed all the claims in a series of orders. In 2014, plaintiffs classified as “consumer end users” and “commercial end users” filed appeals against the District Court’s decisions but the appeals were all dismissed by the US Court of Appeals in July 2015 with the agreement of the plaintiffs. While the direct action plaintiffs and plaintiffs classified as “first level” purchasers do not currently have a right to appeal against the District Court’s decisions, they may do so after their claims against the other non-HKEX group defendants have concluded or if the court grants them permission to appeal in the meantime. It is not clear when the litigation against the non-HKEX group defendants will conclude but to date, no application to appeal has been filed by any of the direct action plaintiffs or the “first level” purchasers against the District Court’s decisions.

24. Material Related Party Transactions

(a) Key management personnel compensation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Salaries and other short-term employee benefits	60	69
Employee share-based compensation benefits	33	27
Retirement benefit costs	4	5
	97	101

(b) Post-retirement benefit plans

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 LMEH, LME and LME Clear (LME Pension Scheme). 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 and the LME Pension Scheme and related fees (note 5). At 30 June 2016, the contributions payable to the post-retirement benefit plans were below \$1 million (31 December 2015: \$3 million).

(c) Transactions and balance with a joint venture, China Exchanges Services Company Limited (CESC)

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Transactions with CESC:		
– Management fee charged to CESC	2	2
	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Balance with CESC:		
– Amount due from CESC	1	5

(d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

25. Pledge of Assets

LME Clear receives debt securities and gold bullion as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$1,717 million (HK\$13,320 million) at 30 June 2016 (31 December 2015: US\$2,015 million (HK\$15,617 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\$6,803 million (HK\$52,777 million) at 30 June 2016 (31 December 2015: US\$7,911 million (HK\$61,311 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 2016. Such non-cash collateral, together with certain financial assets amounting to US\$450 million (HK\$3,487 million) at 30 June 2016 (31 December 2015: US\$639 million (HK\$4,953 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. Fair Value of Financial Assets and Financial Liabilities

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

At 30 June 2016 and 31 December 2015, no non-financial assets or liabilities were carried at fair value.

The following tables present the carrying value 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.

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

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

Recurring fair value measurements:	At 30 Jun 2016		
	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	420	–	420
– debt securities	3,023	4,974	7,997
– forward foreign exchange contracts	–	5	5
– base metals futures and options contracts cleared through LME Clear	–	47,843	47,843
	3,443	52,822	56,265
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	–	7	7
– base metals futures and options contracts cleared through LME Clear	–	47,843	47,843
	–	47,850	47,850
At 31 Dec 2015			
Recurring fair value measurements:	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets			
Financial assets measured at fair value through profit or loss:			
– equity securities	185	–	185
– debt securities	4,953	3,081	8,034
– forward foreign exchange contracts	–	6	6
– base metals futures and options contracts cleared through LME Clear	–	64,480	64,480
	5,138	67,567	72,705
Financial liabilities			
Financial liabilities at fair value through profit or loss:			
– forward foreign exchange contracts	–	6	6
– base metals futures and options contracts cleared through LME Clear	–	64,480	64,480
	–	64,486	64,486

During the six months ended 30 June 2016, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities, forward foreign exchange contracts and base metals futures and options contracts have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input are market interest rates and market prices of metals.

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.

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

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

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

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Assets				
Financial assets measured at amortised cost:				
– other financial assets maturing over one year ¹	62	56	57	53
Liabilities				
Borrowings:				
– notes ²	1,518	1,566	1,516	1,544
– written put options to non-controlling interests ²	313	325	308	316
Financial guarantee to the Collector of Stamp Revenue ³	20	106	20	85

1 The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 1.47 per cent to 2.46 per cent at 30 June 2016 (31 December 2015: 0.80 per cent to 2.32 per cent).

2 The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 1.58 per cent to 1.86 per cent at 30 June 2016 (31 December 2015: 2.20 per cent to 2.40 per cent).

3 The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 0.94 per cent at 30 June 2016 (31 December 2015: 1.52 per cent).

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

GLOSSARY

ADT	Average daily turnover value
AGM	HKEX's annual general meeting
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEX's board of directors
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
Corporate Governance Code	Refers to Appendix 14 to the Main Board Listing Rules
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
EU	European Union
Euro	The official currency of the Eurozone
Exchange or SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBP	Pounds sterling
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEX and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEX or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
IPO(s)	Initial Public Offering(s)
IT	Information Technology
JP	Justice of the Peace
LBSA or Lehman	Lehman Brothers Securities Asia Limited
LCH	LCH.Clearnet Group Limited
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LME Holdings Limited, the LME and LME Clear
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange through the Stock Connect
OTC Clear	OTC Clearing Hong Kong Limited
RMB	Renminbi
SBS	Silver Bauhinia Star
SEOH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

GLOSSARY

Shanghai-Hong Kong Stock Connect or Stock Connect	A pilot programme that links the stock markets in Shanghai and Hong Kong. Under the programme, investors in Hong Kong and Mainland China can trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholders	HKEX's shareholders
Share Award Scheme or the Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through the Stock Connect
UK	United Kingdom
US\$/USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million



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