

# ANNUAL REPORT

Stock Code: 388

**HKEX**  
香港交易所

2015

We are  
connecting  
China with  
the world  
and reshaping  
the global  
market  
landscape.

HKEX is about connecting  
markets, connecting growth,  
and connecting opportunity.

We are creating the most effective  
platform for cross-border market  
access and building a unique  
destination market in Hong Kong  
for products with both Chinese and  
international relevance.

We aim to be the international  
market of choice for Chinese  
issuers and investors, and the  
China market of choice for  
international issuers and investors.

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

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# HIGHLIGHTS OF THE YEAR

4 May

HKEX's 4 clearing houses received third-country CCP recognition from the European Securities and Markets Authority

30 March

Enhanced CCASS to enable investors to settle their Northbound trades of A shares through Stock Connect in a similar manner to their trades of Hong Kong stocks

19-21 May

Hosted third LME Week Asia in Hong Kong



11 June

Hosted second RMB FIC Conference



19 June

Published consultation conclusions to concept paper on Weighted Voting Rights



22 June

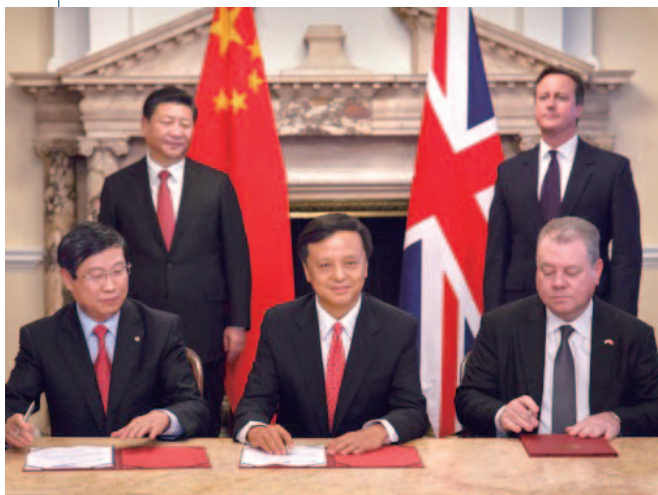
Celebrated 15<sup>th</sup> anniversary of listing

### 3 July

Published consultation conclusions on proposed introduction of Volatility Control Mechanism and Closing Auction Session in Hong Kong

### 21 October

Signed a memorandum of understanding on proposed development of “London-Hong Kong Connect” to link the Group’s commodities markets in Hong Kong and London



### 17 November

First anniversary of Stock Connect programme



### 14 December

Rolled out 3 new London Metal Mini Futures

### 21 December

Published consultation conclusions on review of the Environmental, Social and Governance Reporting Guide

## FINANCIAL HIGHLIGHTS

	2015 \$m	2014 \$m	Change
Revenue and other income	13,375	9,849	36%
Operating expenses	3,290	2,958	11%
EBITDA <sup>1</sup>	10,085	6,891	46%
Profit attributable to shareholders	7,956	5,165	54%
Basic earnings per share	\$6.70	\$4.44	51%
Interim dividend per share	\$3.08	\$1.83	68%
Final dividend per share	\$2.87	\$2.15	33%
	\$5.95	\$3.98	49%
Dividend payout ratio	90%	90%	-

- Revenue and other income experienced a significant uplift in 2015 and reached a record high of \$13.4 billion. The majority of this revenue growth was derived from:
  - A substantial increase in market activity on the Cash and Derivatives Markets in Hong Kong, in particular during the second quarter, which drove significant growth in trading and clearing income;
  - A considerable increase in the contribution from the Group's UK operations due to the commercialisation of the LME's trading fees effective from 1 January 2015 and a full year's contribution from LME Clear, which was launched in September 2014; and
  - A one-off gain of \$445 million on the disposal of a Hong Kong leasehold property in the third quarter.
- Operating expenses increased by 11 per cent against 2014 primarily reflecting the cost of additional headcount to support strategic initiatives and higher operating costs following the launch of LME Clear. The overall increase was mitigated by lower litigation costs.
- The EBITDA margin of 75 per cent was 5 per cent higher than 2014, as the significant growth in revenue and other income outpaced the increase in operating expenses.
- Profit attributable to shareholders increased by 54 per cent to a record high of \$7,956 million, reflecting increased EBITDA, lower finance costs arising from the full conversion of the Convertible Bonds and a modest increase in depreciation and amortisation.

	2015	2014	Change
<b>KEY MARKET STATISTICS</b>			
ADT of equity products traded on the Stock Exchange (\$bn)	79.9	56.2	42%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	25.7	13.3	93%
ADT traded on the Stock Exchange (\$bn)	105.6	69.5	52%
Average daily number of derivatives contracts traded on the Futures Exchange	394,174	274,879	43%
Average daily number of stock options contracts traded on the Stock Exchange	374,346	301,797	24%
Average daily volume of metals contracts traded on the LME (lots)	670,189	700,204	(4%)

<sup>1</sup> For the purposes of this Annual 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



2015 was the 15<sup>th</sup> anniversary of the Company's listing. Whilst celebrating the anniversary, we reflected on our past and are glad that HKEX has evolved from a local exchange into a global multiple asset-class exchange group through the accomplishment of a number of significant initiatives which have paved the way for the Group's long-term success.

## Performance and Dividend

Following a notable uplift in trading volume in the second quarter of 2015, the Hong Kong stock market trended downward throughout the third and fourth quarters in light of the increased uncertainties and concerns over the global and China's economic prospects. Despite the volatility experienced during the year, our markets demonstrated their strengths as mature, orderly and fair. Our risk management measures have remained effective, and our trading and clearing systems continue to perform up to our high standards.

In 2015, there were a number of highs in our markets: our securities market was ranked first globally for IPO fundraising; our securities market and derivatives market had a number of record highs in their trading activity; and the turnover of our securitised derivatives<sup>2</sup> remained the world's largest for the ninth consecutive year<sup>1</sup>.

Following robust performances across all segments, including solid contributions from the LME and LME Clear, we are pleased to announce a strong set of financial results for 2015. For the year ended 31 December 2015, the Group's total revenue and other income reached \$13.4 billion, up 36 per cent from 2014, resulting in a record high profit attributable to shareholders of \$7,956 million, up 54 per cent. The Board recommends a final dividend of \$2.87 per share, resulting in the full-year dividend of \$5.95 per share, an increase of 49 per cent as compared with that for 2014.

## Strategic Accomplishments and Plans

2015 was the final year of our previous strategic plan. We are pleased that milestones have been laid in line with the plan, which paved the way for us to take advantage of the opportunities available. Details of the Group's performance in 2015 and new initiatives are set out in the Chief Executive's Review and Business Review sections of this Annual Report.

### Key Highs in 2015

#### Record highs for HKEX

IPO and post-IPO fundraising	\$1.1 trillion
Total securities market turnover	\$26.1 trillion
ETF turnover	\$2.2 trillion
Total turnover of futures and options	189,824,363 contracts
Open interest of futures and options	13,968,838 contracts on 25 Sep 2015

#### World's highest for the year<sup>1</sup>

IPO fundraising	\$263.1 billion
Total turnover of securitised derivatives <sup>2</sup>	\$6.3 trillion

<sup>1</sup> Source: World Federation of Exchanges

<sup>2</sup> DWs and CBBCs

With the International Monetary Fund's decision to include RMB in its Special Drawing Rights basket, the upcoming QDII2 scheme and the "Belt and Road" initiative, two way capital flows as well as RMB internationalisation are expected to accelerate. As noted in our new strategic plan announced on 21 January 2016, we aim to extend and deepen HKEX's value proposition as China and the world markets accelerate their mutual integration. Building on the breakthrough of Stock Connect, we will seek to continue strengthening our role in providing the most competitive and convenient cross-border platform for the Mainland and international investors, and expanding our mutual market access strategy to a wider range of asset classes including commodities, fixed income and currencies. We will use the LME's global strength in physical commodities to expand its global benchmarks' reach in Asia, in particular on the Mainland, and to help develop physical commodity benchmarks on the Mainland.

Our new strategic plan is outlined in the HKEX Strategic Plan 2016-2018 section of this Annual Report, and is available on the HKEX website.

## Quality Market

We never lose sight of our roles in maintaining the quality and integrity of our markets. In Hong Kong, we announced in 2015 our plan to implement a Volatility Control Mechanism and a Closing Auction Session to put us on par with the operations of other exchanges. We also made changes to the Corporate Governance Code and Corporate Governance Report and the Environmental, Social and Governance Reporting Guide to strengthen the oversight of issuers' internal control and risk management and ESG disclosures. In the UK, the LME completed the final stages of its 12-step warehouse reform programme in 2015 to address the warehouse queue problem with the implementation of load-out rate increase and queue-based rent capping. The Group will continue to work closely with its regulators and other stakeholders to ensure maintaining robust market regulation in the evolving market environment.

## Environmental, Social and Governance Performance

We are committed to good ESG practices, as they help us fulfil our obligations to our stakeholders. Sound and effective risk management measures are implemented to ensure our business is conducted responsibly and remains sustainable. Following the establishment of the Risk Committee in March 2015 to oversee the Group's overall risk management, we include a Risk Committee Report in this Annual Report to outline our risk management framework, key risk exposures and mitigation measures, and to summarise the work performed by the committee during the year. In 2015, the Board approved the implementation of Group-wide anti-bribery, anti-corruption and whistleblowing policies to reinforce a strong culture of ethics and compliance across the organisation.

As a responsible corporate citizen, we continue our wide range of CSR-related initiatives to support the communities where the Group operates. Our commitments and efforts are summarised in our 2015 CSR Report which will be published on the HKEX website together with this Annual Report.

## Looking Ahead

The political instability spreading from the Middle-East to Europe, the pace of the US interest rate-hike cycle, the fall in global commodities prices, and the slowdown in the Mainland's economy have all cast a shadow over the global financial markets. In Hong Kong, in anticipation of possible increases in Hong Kong interest rates, there have been corrections in asset values since mid-2015. At HKEX, we will continue our efforts to sharpen our competitiveness to meet the challenges ahead. We will use our best efforts to pursue our strategic goals and to take advantage of our opportunities as the Mainland continues to develop its capital markets to make them more open.

I am grateful for the good guidance and wise counsel from my fellow Board members. In particular, I would like to express my gratitude to Mr Oscar Wong for his advice and contributions throughout his 13 years of service on the Board. We appreciate the ongoing support of our Shareholders and other stakeholders, as well as our employees' unwavering dedication to working collaboratively to achieve our strategic goals.

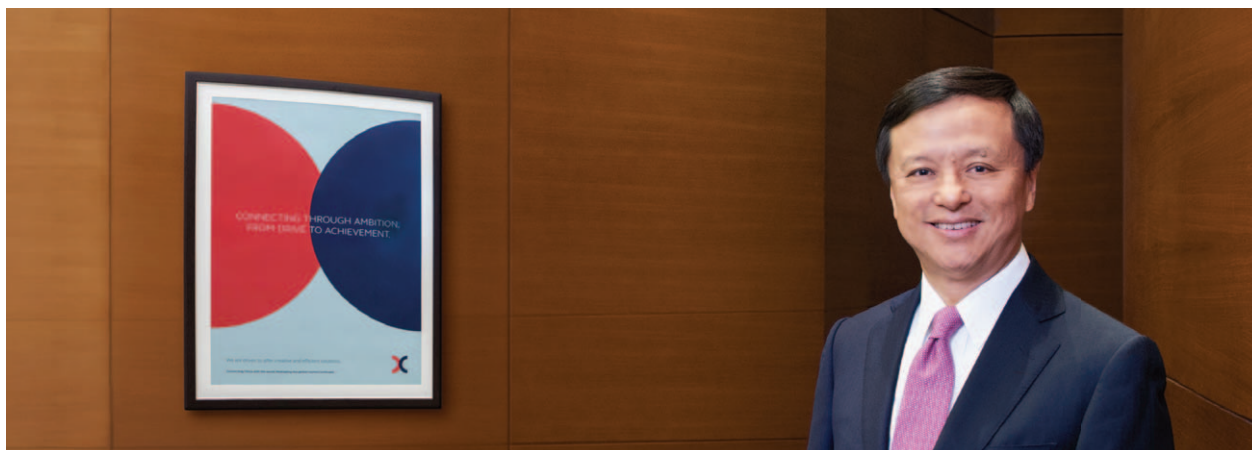
### CHOW Chung Kong

Chairman

Hong Kong, 2 March 2016



# CHIEF EXECUTIVE'S REVIEW



2015 was a record-setting year for the Company. Although we experienced high volatility during the year, our markets continued to operate in a reliable manner and various new records in the securities and derivatives markets were set. Shanghai-Hong Kong Stock Connect operated smoothly throughout its first full year, with gradually improving adoption. In addition, various new products were launched across different asset classes, with an increasing focus on meeting the demands of new investors from the Mainland.

2015 was also a year of two halves for the Mainland A share market with the first half marked by record turnover and new highs, and the second half witnessing a dramatic market rout leading to subsequent regulatory reforms which have become increasingly relevant to our own market since the launch of Stock Connect. Against this backdrop, in concluding our Strategic Plan 2013-2015, we comprehensively reviewed our performance and progress across equities, commodities and FIC, and the platforms and capabilities that support our businesses. This has allowed us to build on existing strong foundations by developing a series of new business initiatives, which are outlined in the Strategic Plan 2016-2018.

## Market Performance

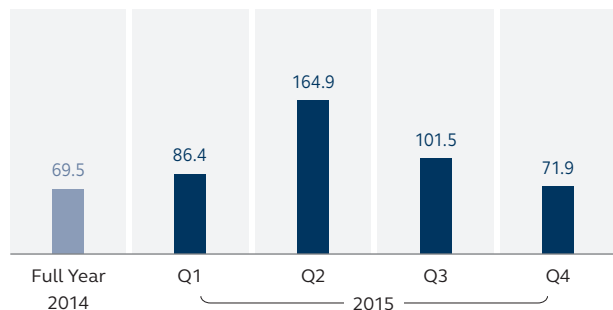
In 2015, our primary market performed well despite the market turbulence. HKEX ranked first globally in IPOs with a record high 138<sup>1</sup> companies listing and raising \$263.1 billion in total, representing a 13 per cent rise in IPO funds raised from 2014. Our existing listed companies also raised \$852.5 billion, an increase of 20 per cent over 2014. Total funds raised set another record of \$1.1 trillion.

In the secondary market, market momentum reached its peak during the second quarter. The full-year 2015 ADT reached a record high of \$105.6 billion, a 52 per cent increase compared to 2014. We witnessed record high daily trading volume of \$293.9 billion on 9 April 2015, and there were a total of 15 trading days with daily turnover exceeding \$200 billion.

<sup>1</sup> Includes transfers of listing from GEM to Main Board in 2015

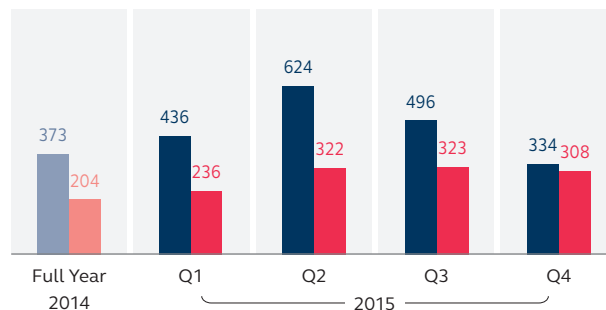
Derivatives turnover saw another record year with total turnover of 189,824,363 contracts, an increase of 33 per cent from 2014. This was largely driven by stock options and index futures and options. Open interest at year-end was 7,266,980 contracts, down from 7,960,406 at the end of 2014.

**Average Daily Turnover Value on Cash Market**



● \$bn

**Average Daily Number of Contracts Traded on Derivatives Market**



● Options Contracts ('000) ● Futures Contracts ('000)

## Business Development Review

### Maintaining Growth Momentum in Core Businesses

For primary listings in 2015, we continued to carry out a wide range of marketing activities to attract issuers from both the Mainland and other countries and regions. We worked closely with market participants and the SFC to enhance our regulatory environment and corporate governance standards. In order to ensure our rules and practices address developments in the market, SEHK reviewed and published guidance letters on Cash Company Rules and Trading Halts, and made amendments to the Listing Rules and the Environmental, Social and Governance Reporting Guide following the conclusion of relevant consultations. In addition, we conducted and concluded a public consultation on Weighted Voting Rights (WVR) structures for both Primary and Secondary Listings in mid-2015. After considering the views of the board of the SFC, the Listing Committee of SEHK decided not to proceed with its draft proposal on WVR, but to keep the matter under review.

In the secondary market, we have continued to improve the market microstructure to enhance market capacity and efficiency. We published consultation conclusions on 3 July 2015 on the proposed introduction of a Volatility Control Mechanism (VCM) in the securities and derivatives markets and a Closing Auction Session (CAS) in the securities market. The VCM is designed to safeguard market integrity from extreme price volatility arising from automated trading, and to contain systemic risks caused by the inter-connectedness of Hong Kong's securities and derivatives markets, particularly with respect to benchmark index products. The new CAS is designed to meet the diverse trading needs of investors by enabling trade execution at the securities' closing prices, which is a key investment mandate of some funds such as index trackers. Having carefully considered the responses and the rationale behind them, we concluded that there is substantial market support for the introduction of a VCM and a CAS in the Hong Kong markets, and we will proceed with the implementation of the two initiatives in phases, starting from the third quarter of 2016.

As mentioned in the 2016-17 Budget presented by the Financial Secretary on 24 February 2016, in order to further reinforce Hong Kong's status as the premier capital formation centre, the SFC and HKEX are planning to conduct a joint public consultation exercise on enhancing the regulatory structure in respect of listing matters.

## Transforming our Commodities Business

Global commodities markets faced significant challenges in 2015 with the prices of most commodities having been under pressure. Total volume on the LME was 169.6 million lots, a modest decrease of 4 per cent versus 2014. Trading in key products including LME Aluminium, Zinc, Tin and Lead declined, with LME copper remaining flat and LME nickel bucking the trend to rise 7 per cent from 2014, hitting record volume of 20.7 million lots. Year-end LME futures market open interest was at 2.3 million lots, which represented an increase of 2 per cent compared to 2014.

Following two market-wide consultations, on 25 November 2015, LME announced its intention to introduce a cap on the rent that can be charged by an LME-approved warehouse for metal held in a delivery queue and an increased minimum load-out rate for metal stored in LME warehouses. As part of the implementation of queue-based rent capping rules, the LME is also introducing a mechanism to address potential abuse of the new regime. This measure will stagger the dates at which the rent caps would come into effect to ensure that metal owners cancelling large amounts of metal do not benefit from discounted rent in a queue of their own creation. Increase in the standard load-out rate was implemented on 1 March 2016 and the queue-based rent capping rule (including the anti-abuse provisions) is due to be implemented on 1 May 2016.

As part of our initial effort to “financialise” the LME through drawing liquidity into products from both the international and China markets, we have announced innovative initiatives and launched new products including:

- **Liquidity Roadmap:** The LME announced a set of initiatives designed to make monthly (third Wednesday) futures trading on its electronic platform, LMEselect, more liquid, transparent and accessible. As part of the Liquidity Roadmap, the LME introduced market-making programmes in August 2015 to support the launch of new products and enhance liquidity on existing contracts.
- **New products in London and Hong Kong:** In 2015, we successfully launched LME Aluminium Premiums, LME Steel Rebar and LME Steel Scrap in London, and rolled-out three more London Metal Mini Futures in Hong Kong namely London Nickel, Tin and Lead Mini Futures.
- **London-Hong Kong Connect:** On 21 October 2015, Chinese President Xi Jinping and British Prime Minister David Cameron witnessed the signing of a memorandum of understanding (MOU) by HKFE, HKCC, the LME, and LME Clear. The MOU proposed to develop a trading link between HKFE and the LME, and a clearing link between HKCC and LME Clear. Subject to regulatory approvals, this will enable HKFE's eligible Exchange Participants to trade LME products, and HKCC's eligible Clearing Participants to clear those trades.

## Embracing Opportunities in FIC

2015 was a landmark year for the internationalisation of the RMB. On 30 November 2015, the International Monetary Fund announced its decision to include the RMB into the Special Drawing Rights (SDR). The SDR inclusion is likely to be regarded as a key tipping point on the RMB's path to full internationalisation. With the RMB's inclusion into the SDR basket, we see vast opportunities in the RMB related FIC business and we are working to build Hong Kong into a premier offshore risk management centre for RMB-related exposure.

Our RMB currency futures contract continued to serve as an effective risk management tool in periods of unexpected USD/CNH volatility. Turnover in HKEX's RMB currency futures contract reached an all-time high of 262,433 contracts in 2015. In order to solidify the development of our RMB currency futures market, the Active Trader Programme introduced at the beginning of 2015 has been extended for another year until the end of 2016.

In London, LME Clear successfully obtained regulatory approval from the Bank of England to accept CNH as eligible cash collateral in response to demand from LME Clear members. This marked a milestone for LME Clear in attracting and connecting market participants from Mainland China and the rest of the world.

### Shanghai-Hong Kong Stock Connect

17 November 2015 marked the first anniversary of Shanghai-Hong Kong Stock Connect. Despite a very volatile market environment at times, Stock Connect has proved to be a reliable and important part of our market's infrastructure. The ADT of Northbound and Southbound trading under Stock Connect was RMB6.4 billion and HK\$3.4 billion respectively. Northbound and Southbound trading turnover hit a record of RMB23.4 billion and HK\$26.1 billion respectively on 6 July 2015 and 9 April 2015.

One of our priorities is to continue listening to the market and keep improving Stock Connect. There is still a lot of room for enhancement in terms of additional products, expanded quotas, enlarged stock eligibility criteria, and more.

### Internal Organisation Changes

In November 2015, we announced changes to our Group structure in preparation for the launch and implementation of the Strategic Plan 2016-2018. A new Platform Development Division was formed to oversee and execute the Group's major platform projects, including Next Generation trading and clearing platforms, and strategic connectivity projects. Two divisions, namely the Clearing Division and Markets Division, were created as an initial effort to gradually consolidate all Hong Kong clearing and trading businesses to better exploit synergies over time. In regard to our businesses in both the international and Mainland markets, a new Market Development Division was created with responsibility for developing new revenue and product initiatives across all asset classes.

### Strategic Outlook – HKEX Strategic Plan 2016-2018

Over the course of the previous two Strategic Plans, HKEX has taken important steps towards securing its future as Mainland China looks to new horizons and the world looks for greater access to Mainland China's capital markets. A more open China presents tremendous new opportunities for capital formation, capital exchange and risk management – activities in which HKEX must actively strive to entrench its long-term role. The foundations we built over the past years have now enabled us to pursue a number of ambitious but important initiatives which will shape HKEX's future.

In our Strategic Plan 2016-2018, the two key themes are to (i) build the most effective platform for cross-border market access and (ii) develop a unique destination market in Hong Kong for products with both Chinese and international relevance. Building on our heritage as a leading cross-border access platform and a destination market in our own right, we aim to expand and entrench the model across equity, commodities and FIC in order to become a true multi-asset platform that connects China with the world.

I am confident that these initiatives will build on HKEX's achievements to date, and position us for continued leadership among global exchanges during this historic time in the global economy.

## Appreciation

It has been a great year for HKEX overall, and I would like to take the opportunity to express my greatest gratitude towards the HKEX Group staff. They work tirelessly to ensure HKEX remains one of the top exchanges in the world and they are among the reasons Hong Kong is a respected global centre of finance. I would like to thank Mr Henry Ingrouille (Former Chief Operating Officer), Mr Pont Chiu (Former Group Head of Internal Audit) and Mr Gerald Greiner (Former Advisory Chairman of Global Clearing and Regulatory Affairs), who have left the Company, for their great contributions to the Group.

I also thank our regulator, the SFC, market participants and other stakeholders for their continuous support on our various initiatives. I look forward to continuing to work with them closely over the course of implementing the HKEX Strategic Plan 2016-2018.

Last but not least, I would like to thank my fellow members of the Board for their tremendous trust and support. It has been a demanding year full of challenges, and they have contributed immeasurably to delivering our strategic achievements and to keeping our ship on the right course.

### **LI Xiaojia, Charles**

Director and Chief Executive

Hong Kong, 2 March 2016

# HKEX STRATEGIC PLAN 2016-2018

## Overview

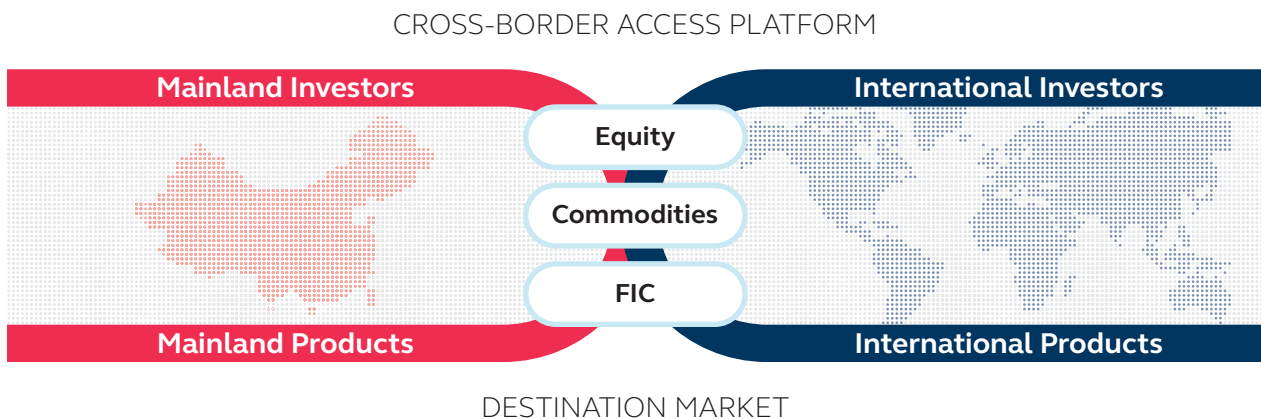
Hong Kong is entering a new phase as a leading international financial centre. The scale and depth of the world's interaction with Mainland China's markets and investors are being transformed by two-way capital flow opening, domestic reforms and RMB globalisation. While Mainland corporates begin to formulate their internationalisation blueprints, a large number of Mainland investors are starting to meaningfully enter the global financial markets for the first time, seeking investment opportunities and wealth diversification. At the same time, the Mainland markets themselves are changing, especially in commodities where an increasing need for the market to "physicalise" and internationalise has become apparent.

We believe that this new chapter in financial markets history presents Hong Kong and HKEX with a large number of compelling, even transformative opportunities in multiple asset classes. Building on our heritage as a leading cross-border access platform and as a destination market in our own right, we aim to expand and entrench this model across equity, commodities, fixed income and currency – becoming a true multi-asset platform that connects China with the world.

## Our Vision

**Connecting China with the World, we are Reshaping the Global Market Landscape.** We aim to be the global exchange of choice across asset classes both for our Chinese clients and our international clients seeking China exposure.

## Key Themes of our Strategic Plan 2016-2018



Our strategic goal in 2016-2018 is to extend and deepen HKEX's value proposition against the backdrop of Mainland China's accelerating capital market internationalisation. We see our value proposition as having two principal, inter-related facets, which will enable HKEX to:

- **Build the most effective platform for cross-border market access.** Building on the breakthrough of Stock Connect, we will seek to ensure that HKEX continues to offer the most competitive and convenient cross-border access platform for both our Chinese and international clients seeking exposure to each other's markets.

To achieve this, in 2016-2018 we will focus on expanding and scaling the "Connect" model to new asset classes; and modernising our core platforms and market microstructure to deliver an integrated trading and clearing solution that breaks down the barriers for cross-border capital flows.

- **Develop a unique destination market in Hong Kong for products with both Chinese and international relevance.** Mutual connectivity has led to the arrival of a vast group of investors from the Mainland on our doorstep along with the rising demand for a wider range of international products that they bring. At the same time, the launch of new products that provide exposure to Mainland China's development trajectory is set to attract more international investors to Hong Kong.

This confluence of international and Mainland investors and products represents, in our view, the most transformational opportunity in the 15-year history of HKEX, capable of structurally transforming the breadth, depth and global relevance of Hong Kong's markets. We see a unique opportunity for HKEX to build price discovery capabilities, benchmarks and risk management tools in fixed income, currency and commodities – asset classes in which Chinese and international liquidity will increasingly converge.

### Major Strategic Initiatives in 2016-2018

With these themes as its foundation, our 2016-2018 Strategic Plan features the following key initiatives, covering all 3 of our asset classes:

#### Equity

- Grow and strengthen our core franchise as a compelling listing and fundraising venue;
- Significantly expand mutual connectivity: extend Shanghai-Hong Kong Stock Connect, launch Shenzhen-Hong Kong Stock Connect and launch "Primary Equity Connect";
- Launch new derivatives products in Hong Kong, with Mainland, Hong Kong and international underlying assets.

#### Commodities

- Expand our suite of products both on the LME and in Hong Kong into adjacent commodities;
- Build a convenient channel for Asian liquidity to access the LME market and products, as a way to further "financialise" the LME;
- Develop a spot commodities trading platform in the Mainland market in order to service the real economy, with a view to producing and internationalising "Chinese benchmarks" as well as "physicalising" the Mainland commodities market using the LME model;
- Pursue cross-border connectivity with Mainland commodities exchanges and products.

#### FIC

- Launch new exchange-traded derivatives in Hong Kong on RMB and onshore interest rates;
- Offer a broader product suite in OTC Clear, delivering tangible benefits to market users;
- Explore mutual market access with the Mainland in the institutional cash bond market through a "Bond Connect" scheme.

The following section elaborates on our asset class strategy.

## Business Strategy

We classify our business into 3 asset classes: Equity, Commodities and FIC. While our capabilities in each asset class are at different stages of development, they share an important advantage. We believe that our biggest strength – and the ultimate driver of our success – is our ability to deliver cross-border access between the Mainland and international markets, backed by a strong suite of investment, financing and risk management products that provide a unique blend of Chinese and international price discovery and risk management.

### Equity

In cash equity, we have already taken significant steps towards achieving this vision. In November 2014, we delivered a cross-border connectivity breakthrough, launching Shanghai-Hong Kong Stock Connect. Going forward, this gives us a tremendous opportunity to not only expand Stock Connect itself, but also to enhance our historically strong Hong Kong cash and equity derivatives franchise with new products that fulfil the needs of both our established international clients and relatively new pool of Mainland clients.

### Key Equity Initiatives

- Our core equity market is strong and remains a major engine of our business. To grow and strengthen our core listing franchise and retain our competitiveness as a world-leading fundraising venue, we will seek to implement reforms that will strengthen our listing regime and help us attract a wider range of issuers from more diverse economic sectors.
- In order to extend and enhance mutual connectivity, we will firstly seek to enhance the functionality of Shanghai-Hong Kong Stock Connect, launch Shenzhen-Hong Kong Stock Connect, and add ETFs, listed bonds and convertible bonds to the two Stock Connect schemes. Secondly, we will work with regulators in Hong Kong and the Mainland to relax trading restrictions including quotas, eligible securities, eligible investors, holiday trading, and stock borrowing and lending. Our third area of focus will be to enable investors to subscribe to primary market offerings using a “Primary Equity Connect” structure, which we believe will fundamentally change Hong Kong’s proposition as a listing venue for international issuers, and offer new diversification opportunities for our Mainland investors.
- Finally, to help cross-border investors better manage their risks, we will seek to expand our derivatives suite, covering Mainland China, Hong Kong and international underlying. This will include listing A-share index benchmarks, adding sector-specific products, and exploring international benchmark derivatives in Hong Kong.

### Commodities

In Commodities, our goal is to reinforce and extend the global price benchmarks that we own today through the LME, and to draw additional liquidity into those products from both the international and Mainland markets – especially from new participants outside of the physical metals value chain.

At the same time, we will pursue a breakthrough in the Mainland commodities market. To do this, we will focus on the physical foundations of the market, where our strengths position us well to address market needs by developing stronger domestic benchmarks and, ultimately, cross-border access with the international commodities markets.



## Key Commodities Initiatives

- Firstly, we intend to expand our Commodities product complex in London and Hong Kong into contiguous areas where we see significant market demand, including precious and ferrous metals, as well as value chain products in the base metals delivery chain and in the steel complex. We also plan to expand LME Clear's service into the large and important OTC-traded market.
- To bring untapped Asian liquidity to the LME, we will list LME products in Hong Kong in various forms in the near future. In the medium- to long-term, we are undertaking preparatory work for "London-Hong Kong Connect", a scheme that connects the LME and HKFE more directly. Initially, the scheme will focus on "Westbound" trading and clearing of LME products for HKFE Participants. This will facilitate access to the LME for Mainland QDII2 investors, as well as Asian corporates seeking to manage their international metals exposure.
- In the Mainland market, we will explore the creation of a Mainland spot commodity trading and financing platform as a service to key stakeholders, including investors, warehouse operators, physical producers and consumers, and financing banks. With the trusted status of HKEX and the unique expertise of the LME in the physical metals market, we anticipate being able to develop credible and internationally relevant onshore benchmarks that are firmly grounded in the physical market.
- After the linkages are in place for "London-Hong Kong Connect", we plan to extend its scope at a subsequent stage by establishing a mutually beneficial Mainland-Hong Kong "Commodities Connect" mechanism that expands the bridge between the two markets and makes onshore commodities derivatives accessible to Hong Kong and international participants.

## FIC

In FIC, the internationalisation of the RMB has given us a unique opportunity to entrench Hong Kong as a gateway for cross-border fund flows and as a risk management venue. As international investors look to increase their exposure to RMB assets, we believe they will naturally demand interest rate and currency derivatives to manage their risk, and we expect Mainland investors coming out into the international markets will want the same kind of products. Our aim in 2016-18 is therefore to build the platform and product suite that facilitates these interactions as the Mainland FIC market continues to open up.

## Key FIC Initiatives

- Building on our existing USD/CNH Futures contract, we plan to launch more benchmark derivatives with China relevance in Hong Kong, including additional RMB currency products as well as derivatives on onshore interest rates.
- To complement our listed derivatives offering, we also plan to launch a number of new products and services in OTC Clear, including deliverable foreign exchange forward and swap contracts, cross-currency swaps, OTC currency options and client clearing.
- We believe that stimulating cross-border capital flows in the underlying RMB cash bond market is an important prerequisite for our long-term success in FIC derivatives. To facilitate these flows, we will explore the creation of a "Bond Connect" scheme to provide cross-border cash bond trading and settlement connectivity with China's major onshore bond market infrastructures, with a focus on the institutional bond market.

## Platforms and Capabilities

We will support our Business Strategy by developing a strong client relationship management culture throughout the Group and rolling out targeted platform upgrades and enhancements. On the market microstructure front, we will continue to pursue enhancements that help improve efficiency for our market participants, ease access and reduce risks.

### Client and Marketing Services

To better understand and cater for all of our market participants, we are developing a comprehensive client relationship management function. As part of this, we will also undertake a review of our market maker and other incentive schemes to ensure that we are achieving the best value for our investments and optimising the provision of liquidity, particularly in connection with new products.

### Platform Enhancements

In Hong Kong, we are undertaking two major projects to upgrade the core systems in our Cash Market. Firstly, the Orion Trading Platform will be introduced to replace the current securities trading system, thus complementing the Orion Market Data and Orion Central Gateway systems as the final building block of our Cash Market trading infrastructure upgrade. Secondly, we will commence the phased replacement of the current system for cash clearing, starting with its clearing, risk and collateral management elements, before replacing the central securities depository function with a new system.

Following the opening of our new primary data centre in Hong Kong in 2012, we plan to consolidate our back-up data centres to provide the necessary capacity for our future business needs. We will also further leverage the capabilities of our recently launched Mainland Technology Centre facility to support IT development across the Group. Information security remains a key focus for our business, and we will invest to ensure that our capabilities in this regard are up to date and fit for purpose in both Hong Kong and London. In addition, we are in an era of rapid advances in technology, and these advances are capable of dramatically reshaping the financial industry. We will invest to stay on top of emerging trends in financial technologies to protect our core competitiveness.

Finally, to fully align our evolving platform capabilities with the delivery of our business strategy, we have created a dedicated Platform Development Division that will consolidate our development resources, providing us with greater agility and efficiency going forward.

### Market Microstructure and Regulation

In the area of market microstructure in Hong Kong, a number of initiatives are already under development following market consultation, including the Closing Auction Session and Volatility Control Mechanism. Initiatives we intend to pursue in 2016-2018 include new capabilities in pre-trade risk management, stock borrowing and lending, remote Participantship, a new hedge exemption regime for derivatives position limits, and new after-hours and holiday trading arrangements.

In London, we intend to explore measures to further enhance access to the LME and improve transparency. We also plan to continue delivering the LME Liquidity Roadmap.

Across our clearing houses in both London and Hong Kong, we will continue to review our risk management measures to ensure an optimal balance of market security and capital efficiency for our Participants. In our Cash Market, we will continue to review our existing margin model with a view to implementing dynamic and product-specific margin requirements. In our Derivatives Markets, we will continue reviewing our margin and collateral arrangements, seeking to widen the range of collateral we accept. We will also explore portfolio margining in selected product suites.

On the regulatory front, we will continue to adhere to international regulatory requirements emanating from regulatory authorities in the US, Europe and other relevant jurisdictions, as well as local regulators in our markets.

## Conclusion

Over the past several years, we have progressively prepared ourselves for Mainland China's accelerated opening of its financial markets and the internationalisation of the RMB by expanding our asset class reach and consolidating our vertically integrated business model. Those achievements now enable us to pursue a number of ambitious but important initiatives which will shape HKEX's future.

In our Strategic Plan 2016-2018, we intend to:

- Build the most effective platform for cross-border market access, facilitating capital flows into and out of Mainland China across multiple asset classes; and
- Develop a unique destination market in Hong Kong for products with both Chinese and international relevance, focusing on a compelling product suite that serves the needs of our expanding client base.

In our Equity business, we will focus our efforts on strengthening our listing regime, growing and entrenching Shanghai-Hong Kong Stock Connect, launching Shenzhen-Hong Kong Stock Connect, exploring "Primary Equity Connect" and introducing new derivatives in Hong Kong that are actively traded by both Mainland and international investors.

In Commodities, we believe that true cross-border linkages between the Mainland and international commodities markets require closer alignment between physical and financial market participants. We are therefore planning to pursue initiatives to further "financialise" the LME, and will explore developing a Mainland spot commodities platform capable of "physicalising" Mainland market benchmarks.

Finally, in FIC we are preparing a suite of derivatives focusing on China-related currency and interest rates as a valuable tool for investors looking to hedge their growing exposures in both areas. We will also seek to achieve a cross-border breakthrough in cash bond trading through "Bond Connect".

We believe that these initiatives will build on HKEX's achievements to date, and position us for continued leadership among global exchanges during this historic time in the world economy.

# BOARD AND COMMITTEES



## Board

### INEDs

CHOW Chung Kong \* GBS, JP (Chairman)  
CHAN Tze Ching, Ignatius <sup>1</sup> BBS, JP  
Timothy George FRESHWATER \*  
FUNG Yuen Mei, Anita \* <sup>2</sup> BBS, JP  
Rafael GIL-TIENDA \* <sup>2</sup>  
John Barrie HARRISON \* <sup>3</sup>  
HU Zulu, Fred <sup>4</sup>  
HUI Chiu Chung, Stephen \* <sup>5</sup> JP  
KWOK Chi Piu, Bill JP  
LEE Kwan Ho, Vincent Marshall  
LEE Tze Hau, Michael \* <sup>5</sup> JP  
LEUNG KO May Yee, Margaret \* <sup>3</sup> SBS, JP  
John Mackay McCulloch WILLIAMSON <sup>1</sup>  
WONG Sai Hung, Oscar

### Executive Director

LI Xiaojia, Charles (Chief Executive) <sup>6</sup>

## Committees

### Audit Committee

John Barrie HARRISON <sup>7</sup> (Chairman)  
LEE Kwan Ho, Vincent Marshall <sup>8</sup> (ex-Deputy Chairman)  
CHAN Tze Ching, Ignatius <sup>7</sup>  
FUNG Yuen Mei, Anita <sup>9</sup>  
KWOK Chi Piu, Bill  
LEE Tze Hau, Michael <sup>5</sup>  
John Mackay McCulloch WILLIAMSON <sup>7</sup>

### Environmental, Social and Governance Committee

CHOW Chung Kong (Chairman)  
Rafael GIL-TIENDA <sup>9</sup>  
HUI Chiu Chung, Stephen <sup>5</sup>  
LEE Kwan Ho, Vincent Marshall <sup>9</sup>  
LEE Tze Hau, Michael <sup>5</sup>  
LI Xiaojia, Charles  
John Mackay McCulloch WILLIAMSON <sup>7</sup>

### Executive Committee

CHOW Chung Kong (Chairman)  
Timothy George FRESHWATER <sup>8</sup>  
KWOK Chi Piu, Bill  
LEE Kwan Ho, Vincent Marshall  
LEUNG KO May Yee, Margaret <sup>9</sup>  
LI Xiaojia, Charles

\* Government Appointed Director

\*\* Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

<sup>1</sup> Re-elected as Director from 29 April 2015 until the conclusion of the AGM to be held in 2018

<sup>2</sup> Appointed as Director from 29 April 2015 until the conclusion of the AGM to be held in 2017

<sup>3</sup> Re-appointed as Director from 29 April 2015 until the conclusion of the AGM to be held in 2017

<sup>4</sup> Elected as Director from 29 April 2015 until the conclusion of the AGM to be held in 2018

<sup>5</sup> Retired on 29 April 2015

<sup>6</sup> Re-appointed as HKEX's Chief Executive (Ex-officio Director) for a further 3-year term until 15 October 2018



### Investment Advisory Committee

WONG Sai Hung, Oscar (Chairman)  
 Timothy George FRESHWATER  
 FUNG Yuen Mei, Anita<sup>9</sup>  
 HU Zulu, Fred<sup>9</sup>  
 HUI Chiu Chung, Stephen<sup>5</sup>  
 LEE Tze Hau, Michael<sup>5</sup>  
 LUI Yin Tat, David<sup>10</sup>

### Nomination Committee

CHOW Chung Kong (Chairman)  
 CHAN Tze Ching, Ignatius<sup>7</sup>  
 Timothy George FRESHWATER  
 HU Zulu, Fred<sup>9</sup>  
 John Mackay McCulloch WILLIAMSON<sup>7</sup>  
 WONG Sai Hung, Oscar<sup>8</sup>

### Panel Member Nomination Committee

CHAN Tze Ching, Ignatius<sup>7</sup> (Chairman)  
 FUNG Yuen Mei, Anita<sup>9</sup>  
 KWOK Chi Piu, Bill  
 LEE Kwan Ho, Vincent Marshall  
 LEE Tze Hau, Michael<sup>5</sup>  
 WONG Sai Hung, Oscar

### Remuneration Committee

CHOW Chung Kong (Chairman)  
 Timothy George FRESHWATER<sup>9</sup>  
 KWOK Chi Piu, Bill  
 LEE Kwan Ho, Vincent Marshall  
 LEUNG KO May Yee, Margaret<sup>5</sup>  
 John Mackay McCulloch WILLIAMSON<sup>7</sup>

### Risk Committee<sup>11</sup>

CHOW Chung Kong<sup>12</sup> (Chairman)  
 CHAN Tze Ching, Ignatius<sup>12,7</sup>  
 Rafael GIL-TIENDA<sup>9</sup>  
 John Barrie HARRISON<sup>12,7</sup>  
 LEUNG KO May Yee, Margaret<sup>12,7</sup>

### Risk Management Committee (statutory)<sup>Δ</sup>

CHOW Chung Kong (Chairman)  
 CHAN Ngai Hang<sup>\*\* 13</sup>  
 CHAN Tze Ching, Ignatius<sup>7</sup>  
 CHENG Fat, Henry<sup>\*\* 14</sup>  
 CHENG Siu Hong, Raymond<sup>\*\* 15</sup>  
 LAM Yuk Kun, Lawrence<sup>\*\* 16</sup>  
 LEE Tat Chi, Howard<sup>\*\* 17</sup>  
 LEUNG KO May Yee, Margaret<sup>7</sup>  
 LIU Swee Long, Michael<sup>\*\* 13</sup>  
 LUI Kei Kwong, Keith<sup>\*\*</sup>  
 Barbara SHIU<sup>\*\* 16</sup>  
 TAN Siew Boi, May<sup>\*\* 18</sup>

<sup>7</sup> Re-appointment effective 30 April 2015

<sup>8</sup> Appointment ceased effective 30 April 2015

<sup>9</sup> Appointment effective 30 April 2015

<sup>10</sup> Retired on 30 April 2015

<sup>11</sup> Established on 5 March 2015

<sup>12</sup> Appointment effective 5 March 2015

<sup>13</sup> Appointment ceased effective 1 July 2015

<sup>14</sup> Appointment effective 26 February 2016

<sup>15</sup> Appointment effective 20 January 2016

<sup>16</sup> Appointment effective 1 July 2015

<sup>17</sup> Appointment ceased effective 26 February 2016

<sup>18</sup> Appointment ceased effective 20 January 2016

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Board of Directors



**CHOW Chung Kong**  
GBS, JP

Chairman, INED  
Aged 65

Director since 23 April 2012  
Chairman since 27 April 2012  
Term of office: 16 April 2014  
(re-appointed) to 2016 AGM

### Other positions held with the Group

**HKEX** – chairman of Environmental, Social and Governance Committee, Executive Committee, Nomination Committee, Remuneration Committee, Risk Committee and Risk Management Committee (statutory)

**SEHK** – chairman of Listing Appeals Committee and member of Listing Nominating Committee

**LME** – independent non-executive director and member of Nomination Committee

**LMEH** – independent non-executive director

### Other major offices

**AIA Group Limited** \* – independent non-executive director (2010~)

**The Hong Kong Jockey Club** – steward (2011~)

**World Federation of Exchanges** – director (2012~)

### Past offices

**Anglo American plc** (listed on the London Stock Exchange and Johannesburg Stock Exchange) – independent non-executive director (2008-2014)

**Brambles Industries plc** – chief executive (2001-2003)

**GKN plc** – chief executive (1997-2001)

**MTR Corporation Limited** \* – chief executive officer (2003-2011)

### Public service<sup>1</sup>

**Commission on Strategic Development** – non-official member (2013~)

**Council of the Queen Elizabeth Foundation for the Mentally Handicapped** – member (2015~)<sup>2</sup>

**Economic Development Commission** – non-official member and convenor of Working Group on Transportation (2013~)

**Executive Council of the HKSAR** – non-official member (2012~)

**Independent Commission Against Corruption**

– chairman of Advisory Committee on Corruption (2013~)

### Qualifications

**Chartered Engineer** (The Institution of Chemical Engineers, UK)

**Bachelor of Science (Chemical Engineering)** (University of Wisconsin, US)

**Master of Science (Chemical Engineering)** (University of California, US)

**Master of Business Administration** (The Chinese University of Hong Kong)

**Honorary Doctor of Engineering** (The University of Bath, UK)

**Honorary Fellow** (The Chinese University of Hong Kong,

The Hong Kong Institution of Engineers, and

The Institution of Engineering and Technology)

**Fellow** (City & Guilds of London Institute,

Hong Kong Academy of Engineering Sciences,

The Chartered Institute of Logistics and Transport in Hong Kong,

The Institution of Chemical Engineers, and

The Royal Academy of Engineering)

\* Currently listed on the Stock Exchange

1 Ceased to be a member of the Standing Committee on Judicial Salaries and Conditions of Service effective 1 January 2016

2 Appointment effective 15 August 2015



### LI Xiaojia, Charles

Executive Director,  
Chief Executive  
Aged 54

Joined on 16 October 2009

Chief Executive since  
16 January 2010

Ex-officio member of  
the Board

Term of office: renewed  
up to 15 October 2018

#### Other positions held with the Group

**HKEX** – member of Environmental, Social and Governance Committee, and Executive Committee  
**SEHK** – member of Listing Committee and GEM Listing Committee  
**HKCC, HKFE, HKSCC, SEHK** and **SEOCH** – chairman  
**LME**<sup>1</sup> – member of Nomination Committee  
**HKEX's certain subsidiaries** – director

#### Other major office

**China Entrepreneurs Forum** – director (2005~)

#### Past offices

**Brown & Wood, New York** – associate (1993-1994)  
**Davis Polk & Wardwell, New York** – associate (1991-1993)  
**JP Morgan China** – chairman (2003-2009)  
**Merrill Lynch China** (1994-2003: president (1999-2003))

#### Public service

**Consulting Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen** – member (2012~)

#### Qualifications

**Bachelor of Arts (English Literature)** (Xiamen University, China)  
**Master of Arts (Journalism)** (University of Alabama, US)  
**Juris Doctor** (Columbia University, US)

<sup>1</sup> Ceased to be a member of the Special Committee effective 15 October 2015



### CHAN Tze Ching, Ignatius

BBS, JP

INED  
Aged 59

Director since 23 April 2009  
Term of office: 29 April 2015  
(re-elected) to 2018 AGM

#### Other positions held with the Group

**HKEX** – chairman of Panel Member Nomination Committee, member of Audit Committee, Nomination Committee, Risk Committee and Risk Management Committee (statutory), and deputy chairman of Clearing Consultative Panel  
**HKSCC** – member of Disciplinary Appeals Committee

#### Other major offices

**AFFIN Holdings Berhad** (listed on Bursa Malaysia) – non-executive director (2013~)  
**CVC Capital Partners Limited** – senior adviser (2010~)  
**Mongolian Mining Corporation** \* – independent non-executive director (2010~)  
**Rizal Commercial Banking Corporation** (listed on the Philippine Stock Exchange) – non-executive director (2011~)  
**The Bank of East Asia Limited** \* – senior adviser (2009~)

#### Past offices

**Bank of China (Hong Kong) Limited** – deputy chief executive (2008)  
**Citigroup** (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))  
**Larry Jewelry International Company Limited** \* – independent non-executive director (2012-2014)

#### Public service

**Financial Reporting Council** – member (2014~)  
**Hong Kong Tourism Board** – member (2013~)  
**Investor Education Centre** (established by the SFC) – member of Executive Committee (2012~)  
**Standing Commission on Civil Service Salaries and Conditions of Service** – member (2014~)  
**The Hong Kong Polytechnic University** – chairman of council (2016~)<sup>1</sup>

#### Qualifications

**Bachelor of Business Administration** and **Master of Business Administration** (University of Hawaii, US)  
**Certified Public Accountant** (American Institute of Certified Public Accountants)

\* Currently listed on the Stock Exchange

<sup>1</sup> Appointment effective 1 January 2016



**Timothy George  
FRESHWATER**

INED  
Aged 71

Director since 23 April 2012  
Term of office: 16 April 2014  
(re-appointed) to 2016 AGM

#### Other positions held with the Group

**HKEX** – member of Investment Advisory Committee, Nomination Committee and Remuneration Committee  
**SEHK** – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee

#### Other major offices

**Aquarius Platinum Limited** (listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange)  
– independent non-executive director (2006–)  
**Goldman Sachs (Asia) LLC** – advisory director (2012–)  
**Savills plc** (listed on the London Stock Exchange)  
– independent non-executive director (2012–)  
**Swire Pacific Limited** \* – independent non-executive director (2008–)

#### Past offices

**Chong Hing Bank Limited** \* – independent non-executive director (1997-2014)  
**COSCO Pacific Limited** \* – independent non-executive director (2005-2015)  
**Goldman Sachs (Asia) LLC** (2001-2012: director (2001-2012), vice chairman (2005-2012), and chairman, corporate finance (2001-2004))  
**HKEX** – INED (2000-2006)  
**Jardine Fleming** (1996-2000: chairman (1999-2000))  
**Slaughter and May** (1967-1996: head of worldwide corporate practice (1993-1996) and partner (1975-1996))

#### Public service

**Financial Services Development Council**  
– member and member of New Business Committee (2015–)

#### Qualifications

**Solicitor** (Hong Kong, and England & Wales)  
**Bachelor of Laws** and **Master of Arts** (University of Cambridge, UK)

\* Currently listed on the Stock Exchange



**FUNG Yuen Mei, Anita**  
BBS, JP

INED  
Aged 55

Director since 29 April 2015  
Term of office: 29 April 2015  
(appointed) to 2017 AGM

#### Other positions held with the Group

**HKEX** – member of Audit Committee, Investment Advisory Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel  
**HKFE** – member of Disciplinary Appeals Committee

#### Other major office

**Hang Lung Properties Limited** \* – independent non-executive director (2015–)

#### Past offices

**Bank of Communications Co Ltd** \* – non-executive director (2010-2015)  
**Hang Seng Bank Limited** \* – non-executive director (2011-2014)  
**HSBC Holdings plc** \* – group general manager (2008-2015)  
**The Hongkong and Shanghai Banking Corporation Limited**  
(1996-2015: chief executive officer Hong Kong (2011-2015), head of global banking and markets, Asia Pacific (2010-2011), and treasurer and head of global markets, Asia Pacific (2005-2010))

#### Public service

**Airport Authority Hong Kong**  
– independent non-executive member of the board (2010–)  
**Hong Kong Housing Authority** – non-official member (2012–)  
**Hong Kong Monetary Authority** – member of Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee (2011–)

#### Qualifications

**Bachelor of Social Science** (The University of Hong Kong)  
**Master of Applied Finance** (Macquarie University, Australia)

\* Currently listed on the Stock Exchange





### Rafael GIL-TIENDA

INED  
Aged 63

Director since 29 April 2015  
Term of office: 29 April 2015  
(appointed) to 2017 AGM

#### Other positions held with the Group

**HKEX** – member of Environmental, Social and Governance Committee, and Risk Committee, and deputy chairman of Cash Market Consultative Panel  
**SEHK** – member of Disciplinary Appeals Committee

#### Other major offices

**China CITIC Bank International Limited** – independent non-executive director (2003–)  
**CITIC International Financial Holdings Limited**  
– independent non-executive director (2004–)  
**Oliver Wyman** – chairman of Asia Pacific region (2012–)

#### Past offices

**Citibank** (1977-1998: country manager of Citibank for Spain (1992-1998), for Malaysia (1988-1992) and for China (1984-1988))  
**Marsh & McLennan Companies** – chairman of Asia Pacific region (2003-2011)  
**Standard Chartered Bank** (1998-2003: head of Asian wholesale banking business (2001-2003), and head of corporate and institutional banking business, Greater China (1998-2001))

#### Qualifications

**Bachelor of Arts (Philosophy, Politics and Economics)** (University of Oxford, UK)  
**Master of Business Administration** (University of California, Berkeley, US)



### John Barrie HARRISON

INED  
Aged 59

Director since 20 April 2011  
Term of office: 29 April 2015  
(re-appointed) to 2017 AGM

#### Other positions held with the Group

**HKEX** – chairman of Audit Committee and member of Risk Committee  
**LME** – independent non-executive director, and chairman of Audit and Risk Committee  
**LME Clear** – independent non-executive director, chairman of Audit Committee, and member of Nomination Committee and Remuneration Committee

#### Other major offices

**AIA Group Limited** \* – independent non-executive director (2011–)  
**BW Group Limited** – independent non-executive director (2010–)  
**BW LPG Limited** (listed on Oslo Borse)  
– vice-chairman and independent non-executive director (2013–)  
**Cathay Pacific Airways Limited** \* – independent non-executive director (2015–)

#### Past offices

**KPMG** (1977-2010: deputy chairman of KPMG International (2008-2010), chairman of KPMG's Asia Pacific region and chairman of KPMG China and Hong Kong (2003-2009), and partner of KPMG Hong Kong (1987-2009))

#### Qualifications

**Bachelor of Science (Mathematics)** (Durham University, UK)  
**Fellow** (Institute of Chartered Accountants in England & Wales)  
**Member** (HKICPA)

\* Currently listed on the Stock Exchange



**HU Zulu, Fred**

INED  
Aged 52

Director since  
10 November 2014  
Term of office: 29 April 2015  
(elected) to 2018 AGM

**Other positions held with the Group**

**HKEX** – member of Investment Advisory Committee and Nomination Committee

**Other major offices**

**Dalian Wanda Commercial Properties Co Ltd \***

– independent non-executive director (2014–)

**Hang Seng Bank Limited \*** – independent non-executive director (2011–)

**Lloyd's** – council member (2014–)

**Primavera Capital Limited** – founder and chairman (2011–)

**SCMP Group Limited \*** – independent non-executive director (2010–)

**Shanghai Pudong Development Bank Co Ltd** (listed on the Shanghai Stock Exchange)

– external supervisor (2008–)

**Tsinghua University** – professor and co-director of National Center for Economic Research (1996–)

**Past offices**

**Goldman Sachs Group Inc** (1997-2010: chairman of Greater China (2008-2010) and managing director (2000-2010))

**International Monetary Fund, Washington DC** – economist (1991-1996)

**Qualifications**

**Master and Doctor of Philosophy (Economics)** (Harvard University, US)

**Master of Science (Engineering Science)** (Tsinghua University, China)

\* Currently listed on the Stock Exchange



**KWOK Chi Piu, Bill**

JP  
INED  
Aged 63

Director since 3 April 2000  
Term of office: 16 April 2014  
(re-elected) to 2017 AGM

**Other positions held with the Group**

**HKEX** – member of Audit Committee, Executive Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Derivatives Market Consultative Panel

**HKFE** – chairman of Disciplinary Appeals Committee

**OTC Clear** – chairman, independent non-executive director and chairman of Risk Management Committee

**Other major offices**

**HSBC Private Bank (Suisse) SA** – non-executive director (2006–)

**Wing On Company International Limited \*** – non-executive director (1992–)

**Wing On International Holdings Limited** – executive director (1991–)

**Wocom Holdings Limited** – managing director (1992–)

**Past offices**

**Bloomberg LP** – member of Asia Pacific Advisory Board (2006-2010)

**HKFE** – director (1991-2000) and vice-chairman (1997-2000)

**Public service**

**SFC** – member of Committee on Real Estate Investment Trusts (2011–)

**Qualifications**

**Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, US)

**Doctor of Philosophy (Biochemistry)** (University of Chicago, US)

**Senior Fellow** (Hong Kong Securities and Investment Institute)

\* Currently listed on the Stock Exchange



**LEE Kwan Ho,  
Vincent Marshall**

Officer of the Order of  
the Crown (Belgium)

INED  
Aged 60

Director since 3 April 2000  
Term of office: 16 April 2014  
(re-elected) to 2017 AGM

**Other positions held with the Group**

**HKEX** – member of Environmental, Social and Governance Committee,  
Executive Committee, Panel Member Nomination Committee and  
Remuneration Committee, and chairman of Cash Market Consultative Panel  
**SEHK** – chairman of Disciplinary Appeals Committee

**Other major offices**

**Guangdong Land Holdings Limited** \* – independent non-executive director (2009–)  
**LT Commercial Real Estate Limited** \* – non-executive director (2013–)  
**Tung Tai Group of Companies** – chairman (2010–)

**Past offices**

**Coopers and Lybrand, Los Angeles & Boston** – certified public accountant (1978-1981)  
**HSBC Group, Hong Kong & Vancouver** – senior banker (1981-1990)  
**Tung Tai Group of Companies** – managing director (1990-2010)

**Public service**

**Clearing and Settlement Systems Appeals Tribunal** – member (2013–)  
**Correctional Services Children’s Education Trust Committee** – member (2011–)  
**Financial Services Development Council** – member (2013–) and  
member of Policy Research Committee (2014–)  
**Sir Murray MacLehose Trust Fund Investment Advisory Committee**  
– chairman (2012–)

**Qualifications**

**Bachelor of Science (Accounting and International Finance) (Magna Cum Laude)**  
(University of Southern California, US)  
**Master of Economics** (London School of Economics and Political Science, UK)  
**Certified Public Accountant** (State of California, US)  
**Fellow** (HKICPA)

\* Currently listed on the Stock Exchange



**LEUNG KO May Yee, Margaret**

SBS, JP

INED

Aged 63

Director since 24 April 2013

Term of office: 29 April 2015  
(re-appointed) to 2017 AGM

#### Other positions held with the Group

**HKEX** – member of Executive Committee, Risk Committee and Risk Management Committee (statutory)

**SEHK** – member of Listing Nominating Committee

#### Other major offices

**China Construction Bank Corporation** \* – independent non-executive director (2013–)

**Chong Hing Bank Limited** \* – deputy chairman, executive director and managing director (2014–)

**First Pacific Company Limited** \* – independent non-executive director (2012–)

**Li & Fung Limited** \* – independent non-executive director (2013–)

**QBE Insurance Group Limited** (listed on the Australian Securities Exchange) – independent non-executive director (2013–)

**Sun Hung Kai Properties Limited** \* – independent non-executive director (2013–)

**The Hong Kong Jockey Club** – steward (2014–)

**Yuexiu Financial Holdings Limited** – vice-chairman, executive director and chief executive (2014–)

#### Past offices

**Hang Seng Bank Limited** \* – vice-chairman and chief executive (2009–2012)

**HSBC Group** – global co-head, commercial banking (2003–2009)

**HSBC Holdings plc** \* – group general manager (2005–2012)

**Wells Fargo HSBC Trade Bank, NA** – director (2007–2010)

#### Public service<sup>1</sup>

**Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development** – member (2012–)

**The Guangzhou Municipal Committee of the Chinese People's Political Consultative Conference** – member (2008–)

**The Henan Provincial Committee of the Chinese People's Political Consultative Conference** – member of Standing Committee (2009–)

**The National Committee of the Chinese People's Political Consultative Conference** – member (2013–)

#### Qualifications

**Bachelor in Economics, Accounting and Business Administration**  
(The University of Hong Kong)

\* Currently listed on the Stock Exchange

<sup>1</sup> Ceased to be a board member and a member of Finance Committee of the Hospital Authority effective 1 December 2015



**John Mackay McCulloch WILLIAMSON**

INED

Aged 57

Director since 18 June 2008

Term of office: 29 April 2015  
(re-elected) to 2018 AGM

#### Other positions held with the Group

**HKEX** – member of Audit Committee, Environmental, Social and Governance Committee, Nomination Committee and Remuneration Committee

#### Other major offices

**SAIL Advisors Limited** – chief executive officer (2011–)

**Search Investment Group Limited** – senior managing director (2012–) and chief financial officer (2007–)

#### Past offices

**HKEX** – member of Clearing Consultative Panel (2000–2007)

**Morgan Stanley Dean Witter Asia Limited** – managing director, and head of infrastructure and operational risk (1998–2007)

**NatWest Investment Services, London** – managing director (1992–1994)

**NatWest Securities Asia Holdings Limited** – chief operating officer (1994–1998)

**Search Investment Group Limited** – managing director (2007–2011)

#### Qualifications

**Bachelor of Arts (Accountancy & Computer Science)** (Heriot-Watt University, UK)

**Chartered Accountant** (The Institute of Chartered Accountants of Scotland)

**Fellow** (Chartered Institute for Securities and Investment, UK)

**Senior Fellow** (Hong Kong Securities and Investment Institute)



**WONG Sai Hung, Oscar**

INED  
Aged 60

Director since 15 April 2003  
Term of office: 24 April 2013  
(re-elected) to 2016 AGM

#### Other positions held with the Group

**HKEX** – chairman of Investment Advisory Committee, member of Panel Member Nomination Committee and chairman of Clearing Consultative Panel  
**HKSCC** – chairman of Disciplinary Appeals Committee

#### Other major offices

**China Regenerative Medicine International Limited** \*  
– chairman (2014~) and executive director (2016~) <sup>1</sup>  
**Credit China Holdings Limited** \* – non-executive director (2014~)  
**JPMorgan Chinese Investment Trust plc** (listed on the London Stock Exchange)  
– independent non-executive director (2014~)  
**Ping An Insurance (Group) Company of China Ltd** \*  
– independent non-executive director (2013~)

#### Past offices

**ARN Investment Sicav** (listed on the Luxembourg Stock Exchange)  
– non-executive director (2010-2014)  
**BOCI-Prudential Asset Management Limited** – chief executive officer (2001-2005)  
**China Regenerative Medicine International Limited** \*  
– chairman and executive director (2012-2013), vice-chairman (2009-2012 and 2013-2014), and non-executive director (2008-2012 and 2013-2016) <sup>1</sup>  
**ICBC (Asia) Investment Management Company Limited**  
– business adviser (2012), and chief executive and executive director (2008-2011)  
**INVESCO Asia Limited** – deputy chief executive (1998)  
**LW Management Advisors Limited** – executive director (2013-2014)  
**Prudential Portfolio Managers Asia** – regional managing director (1999-2000)

#### Qualifications

**Higher Diploma in Business Studies (Marketing)**  
(The Hong Kong Polytechnic University)

\* Currently listed on the Stock Exchange

<sup>1</sup> Re-designated from a non-executive director to an executive director effective 11 January 2016

## Company Secretary



**MAU Kam Shing, Joseph**

Company Secretary and  
Head of Secretarial Services  
Aged 57

Joined in June 2000

#### Past office

**Hysan Development Company Limited** – company secretary (1988-2000)

#### Qualifications

**Master of Science (Business Administration)** (The University of Bath, UK)  
**Master of Laws in Corporate and Financial Laws** (The University of Hong Kong)  
**Fellow** (The Hong Kong Institute of Chartered Secretaries,  
The Institute of Chartered Secretaries and Administrators, and  
Association of Chartered Certified Accountants)  
**Associate** (HKICPA, and Institute of Chartered Accountants in England & Wales)

## Senior Management



**CHENG Wai Ching, Margaret**

Group Head of  
Human Resources  
Aged 50

Joined in August 2013

### Past offices

#### **The Hongkong and Shanghai Banking Corporation Limited**

(2001-2013: head of human resources, Hong Kong and global businesses, Asia Pacific (2011-2013), head of human resources, regional personal financial services & Hong Kong (2009-2011), head of human resources, China (2004-2009), head of human resources, treasury & capital markets, Asia Pacific (2002-2004), and head of human resources, investment banking division, Asia Pacific (2001-2002))

**Bank of America** – vice president, regional human resources (2001)

**JP Morgan** – vice president, human resources (1997-2001)

**Citibank** – human resources manager (1993-1997)

### Public service

**Civil Service Bureau** – member of the Standing Committee on Disciplined Services Salaries and Conditions of Service (2015~)

**Education Bureau** – vice chairperson of the Cross-Industry Training Advisory Committee for the Human Resource Management sector (2014~)

**Labour and Welfare Bureau** – member of Manpower Development Committee (2015~)

### Qualifications

**Bachelor of Arts (Business Administration)** (California State University, US)

#### **Master of Business Administration**

(Kellogg School of Management, Northwestern University, US, and The Hong Kong University of Science and Technology)



**CHOW Tang Bill, Bill**

Chief Technology Officer  
and Co-head of  
Information Technology  
Aged 59

Joined in May 1993

### Past offices

**Systek Information Technology Limited** – senior project manager (1991-1993)

**Westpac Banking Corporation (Australia)** – consultant applications engineer (1987-1991)

**China Light & Power Company Limited** – senior systems analyst (1985-1987)

### Qualifications

**Bachelor of Science (Computer Science & Chemistry)** (The University of Hong Kong)

**Master of Science (Electronic Commerce)** (City University of Hong Kong)



### Adrian John Winston FARNHAM

Chief Executive, LME Clear  
(effective 1 January 2016)  
Aged 51

Joined the LME  
in January 2013

#### Other positions held with the Group

**LME** – member of Charity Committee and Executive Committee  
**LME Clear** – chairman of Executive Committee

#### Past offices

**LME Clear** – chief operating officer (2013-2015)  
**Turquoise Global Holdings Limited** – chief executive officer (2010-2012) and  
chief operating officer (2007-2009)  
**Morgan Stanley** – executive director of operations and several senior positions  
in audit, finance and operations (1994-2006)

#### Qualifications

**Bachelor of Science (Management Sciences)** (London School of Economics, UK)  
**Associate** (Institute of Chartered Accountants in England & Wales)



### David GRAHAM

Chief Regulatory Officer  
and Head of Listing  
Aged 57

Joined in January 2013

#### Other positions held with the Group

**LME** – chairman of Enforcement Committee, and member of Arbitration Panel  
Committee, Audit and Risk Committee, and Special Committee

#### Past offices

**Nomura** – global head of legal and general counsel, wholesale division (2011-2013)  
**UBS** (2004-2011: global/co-global general counsel (UBS Investment Bank)  
(2008-2011), group general counsel (Europe, Middle East and Africa) (2009-2011), and  
general counsel (Asia Pacific) (2004-2008))  
**Morgan Stanley** – general counsel, Asia ex-Japan (2001-2004)  
**Freshfields Bruckhaus Deringer LLP** (1982-2001: partner (1991-2001))

#### Public service

**SFC** – member of Advisory Committee (2013~)  
**Standing Committee on Company Law Reform** – member (2013~)

#### Qualifications

**Master of Arts (Jurisprudence)** (The University of Oxford, UK)  
**Solicitor** (Hong Kong, and England & Wales)



**Garry Peter JONES**

Chief Executive, LME  
Aged 57

Joined in September 2013

**Other positions held with the Group**

**LME** – chairman of Executive Committee, vice chairman of Aluminium Committee, and member of Charity Committee, Enforcement Committee, Trustee Committee (LME Pension Scheme) and User Committee

**Past offices**

**HKEX** – Co-head of Global Markets (2013-2015)

**NYSE Euronext** – group executive vice president and head of global derivatives (2009-2012)

**NYSE LIFFE** (2007-2012: chief executive officer (2009-2012) and head of business development (2007-2009))

**ICAP Electronic Broking** – chief executive officer (2003-2006)

**Brokertec Europe Limited** – chief executive officer and president (1999-2003)

**Qualifications**

**Bachelor and Master of Arts (Geology)** (University of Oxford, UK)

**Master of Business Administration** (Stanford University, US)



**Paul Michael KENNEDY**

Group Chief Financial Officer  
Aged 58

Joined in January 2013

**Past offices**

**HKEX** – special adviser to HKEX's Chief Executive (2012-2013)

**The Hongkong and Shanghai Banking Corporation Limited** – managing director, financial institutions group of Hong Kong's global banking division (2010-2012)

**SFC** – several senior positions including chief operating officer and executive director (2006-2010)

**KPMG** (1983-2006: financial services partner of KPMG Hong Kong (1991-2006) and managing partner of KPMG's Shanghai office (2000-2005))

**Qualifications**

**Bachelor of Arts (Accounting and Financial Administration)** (Bangor University, UK)

**Fellow** (HKICPA, and Institute of Chartered Accountants in England & Wales)



**Romnesh LAMBA**

Co-head of Market Development  
(effective 1 January 2016)  
Aged 52

Joined in February 2010

**Other positions held with the Group**

**HKFE** – chief executive

**SEHK** – chief executive

**Past offices**

**HKEX** – Co-head of Global Markets (2013-2015) and Head of Market Development (2010-2013)

**JP Morgan (Hong Kong)** – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010)

**Merrill Lynch (Asia Pacific)** (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006))

**Indosuez WI Carr Securities (Hong Kong)** – head of equity capital markets and director, investment banking (1997-2000)

**Qualifications**

**Bachelor of Science in Economics (Magna Cum Laude)** and **Master of Business Administration (Distinction)**

(The Wharton School, University of Pennsylvania, US)





**LEE Kwok Keung, Roger**

Head of Markets  
(effective 1 January 2016)  
Aged 57

Joined in March 1997

#### Other positions held with the Group

**SEHK** – chairman of Compensation Committee, and Disciplinary Committee

#### Past offices

**HKEX** – Deputy Head of Global Markets, Asia and Head of Market Operations (2014-2015), Head of Structured Products, Fixed Income and Primary Market Information of the Listing and Regulatory Affairs Division (2013-2014), Co-head of Information Technology (2010-2011), Head of Listing Operations (2007-2010 and 2012-2013), Head of Cash Market (2005-2007), and Head of Information Services (2000-2005)

**SEHK** – director of Trading and Information Services (1997-2000)

#### Public service

**SFC** – member of Securities Compensation Fund Committee and Investor Compensation Fund Committee (2014-) and member of the Advisory Committee of the Investor Education Centre (2015-)

**Vocational Training Council** – member of Banking and Finance Industry Training Board (2013-)

#### Qualifications

**Bachelor of Business Administration** (The Chinese University of Hong Kong)

**Master of Business Administration** (The University of Hong Kong)

**Fellow** (CPA Australia)

**Senior Fellow** (Hong Kong Securities and Investment Institute)



**LEUNG Chung Kwong, Richard**

Co-head of Information  
Technology  
Aged 52

Joined in October 2011

#### Past offices

**Chi-X Global** – chief technology officer (2008-2011)

**Cicada Corporation** – chief technology officer (1999-2008)

**Telerate Inc** – regional technical development manager, Asia Pacific (1985-1999)

#### Qualifications

**Master of Science (E-Commerce)** (The Hong Kong Polytechnic University)



**LI Gang**

Co-head of Market Development (effective 1 January 2016)  
Aged 49

Joined in March 2013

**Past offices**

**HKEX** – Co-head of Mainland (2015) and Senior Adviser (2013-2015)  
**Shanghai Billionton Metal** – chief executive officer (2004-2012)

**Qualifications**

**Bachelor of Science (Earth and Space Sciences)**  
(University of Science and Technology of China, China)



**MAO Zhirong**

Head of Mainland Affairs (effective 1 January 2016)  
Aged 52

Joined in March 2013

**Other major offices**

**China Exchanges Services Company Limited**  
– chief executive (2014-) and director (2013-)

**Past offices**

**HKEX** – Co-head of Mainland (2015) and Head of Mainland Development (2013-2015)  
**Shenzhen Stock Exchange** – several senior positions including director of strategy and international affairs, director of financial innovation lab and head of derivative product task force, and deputy director at member supervision department (2001-2013)  
**WellPoint Inc** – various positions across functions including information technology, product development and risk management (1993-2001)

**Qualifications**

**Bachelor of Arts (Economics)** (Fudan University, China)  
**Master of Arts (Economics) and Doctor of Philosophy (International Affairs)**  
(University of California, San Diego, US)



**Ketan B PATEL**

Group Risk Officer (effective 1 January 2015)  
Aged 37

Joined in September 2011

**Other positions held with the Group**

**LME Clear** – member of Audit Committee and Nomination Committee

**Past offices**

**HKEX** – Co-head of Clearing Risk Management and Head of FIC and OTC Clearing Risk Management (2013-2014) and Co-deputy Head of Risk Management (2012-2013)  
**OTC Clear** – chairman of Default Management Group (2013-2014)  
**CME Group** (2005-2011: executive director (2009-2011), and director of risk management (2009))

**Qualifications**

**Bachelor in Management** (Purdue University, US)  
**Master of Business Administration (Economics and Analytical Finance)**  
(Booth School of Business, The University of Chicago, US)



**Trevor William  
SPANNER**

Chief Operating Officer  
(effective 1 January 2016)  
Aged 56

Joined the LME  
in November 2011

**Other positions held with the Group**

**LME Clear** – member of Nomination Committee

**Past offices**

**HKEX** – Head of Global Clearing (Europe) (2014-2015)

**LME Clear** – chief executive (2013-2015)

**LME** – managing director of Post Trade Services (2011-2013)

**European Central Counterparty Ltd (EuroCCP)** – chief operating officer (2007-2011)

**Merrill Lynch Europe** – managing director (European) and head of transaction and custody services (2001-2006)

**UBS AG** – managing director (global operations and logistics division) (1996-2001)

**Qualifications**

**Bachelor of Arts** (University of Kent, UK)

**Associate** (Institute of Chartered Accountants in England & Wales)



**TAI Chi Kin, Calvin**

Head of Clearing  
(effective 1 January 2016)  
Aged 53

Joined in July 1998

**Other positions held with the Group**

**HKSCC** – chief executive and member of Risk Management Committee

**OTC Clear** – chief executive and chairman of User Committee

**Other major office**

**China Exchanges Services Company Limited** – director (2012-)

**Past offices**

**HKEX** – Head of Global Clearing (Asia) (2014-2015),

Co-head of the Equities and Fixed Income and Currency Business (2013-2014),

Head of Trading Division (2010-2013), and

Head of Derivatives Market Development and Operations (2003-2010)

**HKFE** – head of products (1998-2000)

**ABN-Amro Bank NV** – senior vice president of treasury division (1995-1998)

**Royal Bank of Canada** – head of treasury department (1994-1995)

**HSBC** – various positions in general banking and treasury (1984-1994)

**Qualifications**

**Bachelor of Social Sciences** (The University of Hong Kong)

Adrian Farnham, David Graham, Garry Jones, Paul Kennedy, Romnesh Lamba, Roger Lee, Richard Leung, Mao Zhirong, Ketan Patel, Trevor Spanner and Calvin Tai also act as directors in certain HKEX's subsidiaries.

# MANAGEMENT COMMITTEE



## Management Committee

- |                   |                         |
|-------------------|-------------------------|
| 1. Charles Li     | 11. Matthew Chamberlain |
| 2. Garry Jones    | 12. Christine Wong      |
| 3. Li Gang        | 13. Bill Chow           |
| 4. Roger Lee      | 14. David Graham        |
| 5. Adrian Farnham | 15. Paul Kennedy        |
| 6. Romnesh Lamba  | 16. Richard Leung       |
| 7. Calvin Tai     | 17. Mao Zhirong         |
| 8. Trevor Spanner | 18. Iain Greig          |
| 9. Stuart Sloan   | 19. Margaret Cheng      |
| 10. Ketan Patel   |                         |



# BUSINESS REVIEW

## 2015 Major Achievements

### Cash Segment

- Published:
  - consultation conclusions on review of Listing Rules on disclosure of financial information with reference to new Companies Ordinance and HKFRSs
  - consultation conclusions to concept paper on Weighted Voting Rights
  - consultation paper and consultation conclusions on proposed amendments to Environmental, Social and Governance Reporting Guide
  - new country guides on “India” and “United States of America – Nevada” for listing of overseas companies
  - report on the findings of the latest review of listed issuers’ corporate governance practices in 2014 annual reports
- Reviewed various listing-related matters, including:
  - placing guidelines
  - disciplinary and review procedures under Chapters 2A and 2B of Main Board Listing Rules and GEM Listing Rules equivalent
  - simplification of listing documents
- Launched a new dedicated section of “Listing Disciplinary & Enforcement” on HKEX website to enhance transparency and publicity of enforcement matters
- Implemented Stock Connect enhancements, including short selling and enhanced pre-trade checking model, Special Segregated Accounts, for Northbound Trading
- Published consultation paper and conclusions on Volatility Control Mechanism and Closing Auction Session in Cash Market and commenced related system development
- Introduced several new market data promotion programmes to increase accessibility of real-time HKEX data in the Mainland

### Equity and Financial Derivatives Segment

- Introduced rule amendments for introduction of sector index futures
- Introduced 5 new stock options classes and 34 new stock futures contracts
- Published consultation paper and conclusions on Volatility Control Mechanism in Derivatives Market and commenced related system development
- Strengthened Large Open Positions (LOP) monitoring for stock index futures and options by requiring investors with open position exceeding 60 per cent of position limit with same underlying index to report all positions in products concerned
- Enhanced Stock Options Mobile Apps to include stock index options information
- Encouraged participation in existing RMB futures market by holding training sessions in the Mainland, participating in seminars held by EPs and holding onshore trading competition
- Approval obtained from the Securities and Exchange Commission of the US for Class No-Action Relief to allow EPs to engage eligible broker-dealers/institutions in the US in trading of stock options, H-shares Index Options and Mini-Hang Seng Index Options at HKEX
- Hosted second annual RMB FIC Conference
- Stipulated in trading rules capital adjustment methods for stock options and futures in relation to bonus warrant issues, spin-offs, mergers and privatisation
- Expanded Primary Market Maker programme to include a total of 18 stock option classes

## Commodities Segment

- Introduced cash-settled London Nickel, Tin and Lead mini contracts on HKFE
- Launched LME premium contracts and ferrous contracts
- Enhanced Platinum and Palladium price administration process and obtained independent confirmation that this process complies with principles of the International Organization of Securities Commissions
- Implemented full 12 point plan on warehouse reform
- Extended HKFE/LME reciprocal membership arrangement for one year to 31 December 2016
- Organised LME Week, LME Week Asia, LME Singapore Metals Night and LME Dinner
- Promoted the Group's commodities business (in particular in Asia) by organising and participating in metal-related seminars held in Greater China

## Clearing Segment

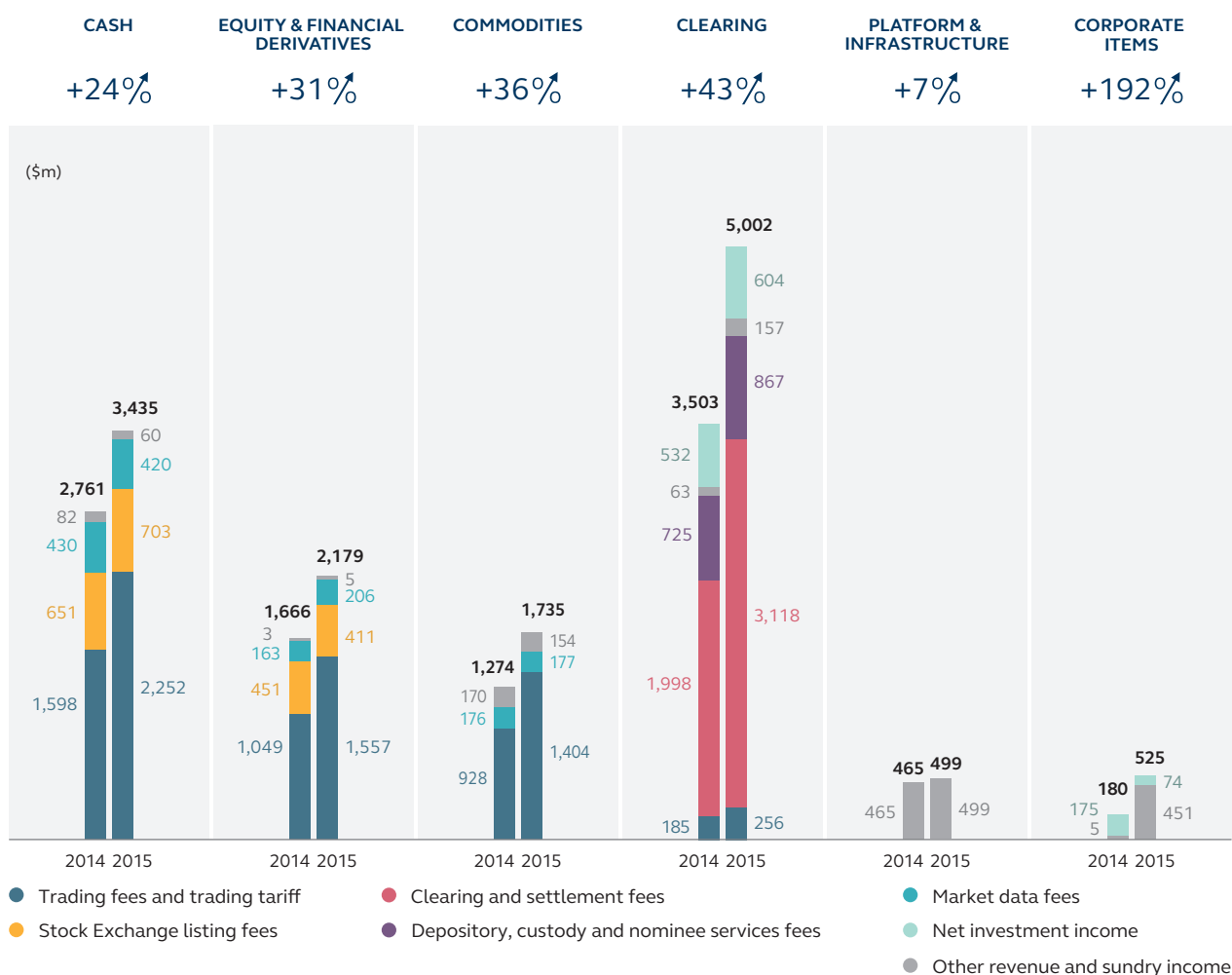
- Obtained third country Central Counterparty recognition in EU for HKSCC, HKCC, SEOCH and OTC Clear
- Launched risk management data repository for HKSCC, HKCC and SEOCH
- Completed validation of HKSCC, HKCC and SEOCH's risk management policies and models by an independent consultant, confirming that existing policies and models conform to "Principles for Financial Market Infrastructures" published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions
- Enhanced the triggering and collection mechanisms of Guarantee/Reserve Funds of HKSCC, HKCC and SEOCH
- Tightened concentration risk policy of HKCC and SEOCH
- Completed system development for client clearing services, non-cash collateral services and cross currency swaps clearing in OTC Clear
- Enhanced OTC Clear's collateral risk policy for acceptance of non-cash collateral
- Prepared for introduction of mandatory OTC derivatives clearing and reporting by starting trade reporting to Hong Kong Trade Repository
- Obtained approval from US Commodity Futures Trading Commission for exempt derivative clearing organisation status for OTC Clear
- Expanded clearing solution provided by LME Clear to support launch of LME premium futures and ferrous contracts, and accept RMB as collateral
- Introduced two new services by LME Clear for the LME market including a compression service and acceptance of LME warrants as collateral

## Platform and Infrastructure Segment

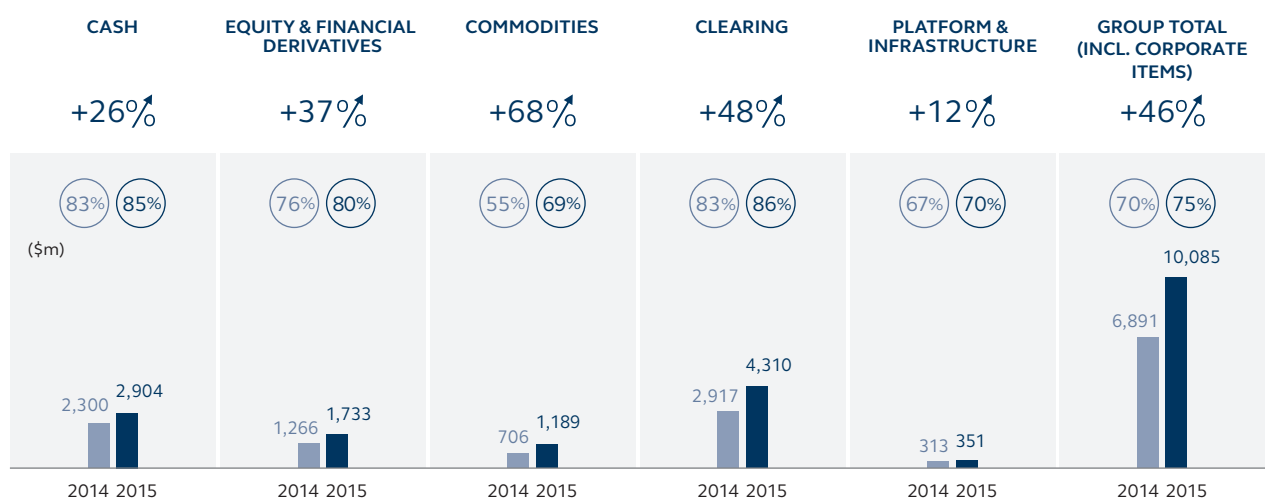
- Implemented enhancements to HKEX Orion Market Data Platform-Derivatives Market (OMD-D)
- Completed requirement phase for new Cash Market trading platform – HKEX Orion Trading Platform-Securities Market (OTP-C)
- Defined the CCASS functional boundary and technical architecture roadmap for next generation clearing platform
- Completed the Proof of Concept of cloud computing technologies

## Business Update and Analysis of Results by Operating Segment

### Analysis of Revenue and Other Income by Segment



### Analysis of EBITDA and EBITDA Margin by Segment \*



% EBITDA margin = EBITDA divided by Revenue and Other Income

\* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

## Cash Segment

### Key Market Indicators

	2015	2014	Change
ADT of equity products traded on the Stock Exchange <sup>1,2</sup> (\$bn)	79.9	56.2	42%
ADT of Northbound Trading <sup>2</sup> (RMBbn)	6.4	5.6	14%
Average daily number of trades of equity products traded on the Stock Exchange <sup>1,2</sup>	1,197,332	889,684	35%
Number of newly listed companies on Main Board <sup>3</sup>	104	103	1%
Number of newly listed companies on GEM	34	19	79%
Number of companies listed on Main Board at 31 Dec	1,644	1,548	6%
Number of companies listed on GEM at 31 Dec	222	204	9%
<b>Total</b>	<b>1,866</b>	<b>1,752</b>	<b>7%</b>
Market capitalisation of companies listed on Main Board at 31 Dec (\$bn)	24,426	24,892	(2%)
Market capitalisation of companies listed on GEM at 31 Dec (\$bn)	258	179	44%

1 Excludes DWs, CBBCs and warrants which are included under the Equity and Financial Derivatives segment and includes \$3.4 billion of average daily trade value for Southbound Trading under Stock Connect (2014: \$0.9 billion)

2 Includes buy and sell trades under Stock Connect which was launched in November 2014

3 Includes 14 transfers from GEM (2014: 7)

	2015 \$bn	2014 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	260.3	230.3	13%
– Post-IPO	833.2	699.0	19%
Total equity funds raised on GEM			
– IPOs	2.8	2.2	27%
– Post-IPO	19.3	11.2	72%
<b>Total</b>	<b>1,115.6</b>	<b>942.7</b>	<b>18%</b>

### Business Update

The Cash segment experienced strong momentum in the second quarter of 2015 and a number of new records were set in 2015:

### New Record Highs

	2015	Pre-2015 record
Market capitalisation (\$bn)	31,550 (26 May 2015)	26,540 (4 Sep 2014)
Total turnover of equity products traded on the Stock Exchange (\$bn)	19,746	16,895 (2007)
ADT of equity products traded on the Stock Exchange (\$bn)	79.9	68.7 (2007)
ETFs turnover (\$bn)	2,171	1,168 (2014)
Number of newly listed companies (including transfers from GEM)	138	122 (2014)
Total equity funds raised (\$bn)	1,115.6	942.7 (2014)
Post-IPO funds raised (\$bn)	852.5	710.2 (2014)



## Listing Rules

In 2015, the Stock Exchange made various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2015 as well as the proposals that will be under review in 2016 are set out in the 2015 Listing Committee Report which is available on the HKEX website.

### Proposals and Conclusions in 2015

	Consultation paper <sup>1</sup>	Consultation conclusions <sup>1</sup>	Effective date of changes (if any)
<ul style="list-style-type: none"> <li>• Review of Listing Rules on disclosure of financial information with reference to the new Companies Ordinance and HKFRSs and proposed minor housekeeping Rule amendments               <ul style="list-style-type: none"> <li>– amendments relating to disclosure of financial information</li> <li>– amendments unrelated to disclosure of financial information</li> </ul> </li> </ul>	Aug 2014	Feb 2015	Accounting periods ended on or after 31 Dec 2015 1 Apr 2015
<ul style="list-style-type: none"> <li>• Concept paper on Weighted Voting Rights</li> </ul>	Aug 2014	Jun 2015	N/A
<ul style="list-style-type: none"> <li>• Review of the Environmental, Social and Governance Reporting Guide (ESG Reporting Guide)               <ul style="list-style-type: none"> <li>– Rule amendments and upgrade of General Disclosures in ESG Reporting Guide from recommended to “comply or explain”, as well as revised recommended disclosures</li> <li>– upgrade of Key Performance Indicators in “Environmental” subject area of ESG Reporting Guide from recommended to “comply or explain”</li> </ul> </li> </ul>	Jul 2015	Dec 2015	Financial years commencing on or after 1 Jan 2016 Financial years commencing on or after 1 Jan 2017

<sup>1</sup> All the consultation papers and conclusions are available under the News & Consultations (Market Consultations) section of the HKEX website.

### Key Initiatives by the Stock Exchange in 2015 to Promote Issuers’ Self-compliance with the Listing Rules

- Issued series of (i) guidance letters on major areas concerning market quality and listed issuers, including cash company rules, trading halts, and issue of convertible securities by issuers; and (ii) listing decisions on interpretation of the Listing Rules, including placing of unlisted warrants under general mandate, application of sufficient operations/assets under Main Board Listing Rule 13.24
- Published reports on the Stock Exchange’s review of disclosure in issuers’ annual reports and key observations under the financial statements review programme, and provided guidance and recommendations to issuers to promote transparency and high quality disclosures
- Published findings of the Stock Exchange’s latest review of listed issuers’ corporate governance practices which examined the level of issuers’ compliance with the Corporate Governance Code and Corporate Governance Report
- Organised 12 seminars (10 sessions in Hong Kong, and 2 sessions in Beijing and Shanghai) for issuers and market practitioners on listing compliance updates, listing enforcement strategies, current themes and case studies, and updates on the new internal control section of the Corporate Governance Code and ESG Reporting Guide

## IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

### Stock Exchange's IPO Work

	2015	2014
• Number of listing applications vetted <sup>1</sup>	256	232
• Number of applications brought to the Listing Committees (or their delegates) for decisions	149	140
– within 120 calendar days	104	101
– between 121 to 180 calendar days	26	26
– after more than 180 calendar days	19	13
• Number of applications for which approval was granted in principle <sup>2</sup>	151	148
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	170	124
– Average response time (in business days)	6	6
• Number of listing applications for transfer of listing from GEM to Main Board accepted	18	12
• Applications listed <sup>3</sup>	156	135
• New listing applications rejected <sup>4</sup>	9	13
• New listing applications withdrawn	9	7
• New listing applications returned	3	4
• Application in process at year-end	74	39

<sup>1</sup> Comprises 217 (2014: 194) new applications and 39 (2014: 38) existing applications brought forward from previous year

<sup>2</sup> At the end of 2015, 14 (2014: 21) approved applications had not yet been listed, and 1 (2014: 8) approved application had lapsed during the year.

<sup>3</sup> Includes 18 investment vehicles listed on Main Board and deemed new listings (2014: 13)

<sup>4</sup> In 2015, 1 rejection decision (2014: 2) was subsequently reversed by the Listing (Review) Committee upon review.

The Listing Rules complementing the new sponsor regulation came into full effect on 1 October 2014. The return rate of listing applications in 2015 (ie, the number of applications returned by the Stock Exchange expressed as a percentage of the total number of applications received during the relevant period) was 1 per cent compared with 2 per cent in 2014.

### Number of Compliance and Monitoring Actions

	2015	2014
• Announcements of issuers vetted	54,688	48,761
• Circulars of issuers vetted	2,085	1,761
• Share price and trading volume monitoring actions undertaken <sup>1</sup>	13,757	7,417
• Complaints handled	558	445
• Cases (including complaints) referred to Listing Enforcement Team for investigation	26	22

<sup>1</sup> In 2015, monitoring actions undertaken included 1,931 enquiries (2014: 1,356) on unusual share price and trading volume movements, and the actions undertaken led to 182 resumption announcements (2014: 129) on trading suspensions.

## Long Suspension

Status of Long Suspended Companies (at year-end)	Main Board		GEM	
	2015	2014	2015	2014
Resumption of trading of securities during the year	25	21	3	3
Cancellation/withdrawal of listing during the year	1	6	2	0
Companies in the third stage of delisting	2	2	N/A	N/A
Companies notified of the Stock Exchange's intention to cancel their listing <sup>1</sup>	1	0	3	3
Companies suspended for 3 months or more	51	37	7	8

<sup>1</sup> For GEM, the figures represent companies who had failed to maintain sufficient operations or assets to warrant their continued listing. In these cases, the Stock Exchange had notified the companies of its intention to cancel the companies' listing and place them in a one-stage delisting procedure (as compared to 3 stages for Main Board).

## Listing Enforcement

The 5 themes approved by the Listing Committee during 2014 remained the focus for investigation and enforcement activity for the year. Details are set out in the 2015 Listing Committee Report which is available on the HKEX website. To improve transparency, a dedicated "Enforcement" section, housing all enforcement related information and statistics in a single location on the HKEX website, was launched during the year.

### Enforcement Statistics

	2015	2014
Investigations <sup>1</sup>	52 <sup>2,3</sup>	60
Public censures <sup>4</sup>	5	4
Public statements/criticisms <sup>4</sup>	1	1
No sanction following disciplinary action	0	1
Warning/caution letters <sup>5</sup>	5	14

<sup>1</sup> Figures cover cases concluded during the year, and cases which remained active at year-end.

<sup>2</sup> There were 22 outstanding investigations (82 per cent of which commenced in 2015) at the end of 2015 as compared to 20 investigations (80 per cent of which commenced in 2014) at the end of 2014.

<sup>3</sup> In 2015, 2 cases originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings after investigation.

<sup>4</sup> Figures represent only the primary regulatory action from a disciplinary matter. They exclude any other actions taken at a lower level, eg private reprimand, in the same case.

<sup>5</sup> The warning and caution letters were primarily delivered in circumstances where action before the Listing Committees was not considered appropriate.

## Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments based on the listing fee income of the two segments.

## ETF Market Development

Following the enactment of the Stamp Duty (Amendment) Bill 2014 on 4 February 2015, a stamp duty waiver for all ETFs listed in Hong Kong took effect on 13 February 2015. The total turnover of ETFs increased by 86 per cent to \$2,171 billion (2014: \$1,168 billion), a record high.

ETFs Statistics	2015	2014	Underlying benchmark of ETFs newly listed in 2015	Number
Total turnover of ETFs (\$bn)	2,171	1,168	A-share market	6
Number of newly listed ETFs	14	12	Hong Kong equity futures	2
Number of ETFs delisted	3	6	US equity market	2
Number of listed ETFs at 31 Dec	133	122	Hong Kong equity market	1
Number of ETF managers at 31 Dec	26	26	Hong Kong and US sector	1
Number of ETF market makers at 31 Dec	34	34	Asia-Pacific equity market	1
Number of ETFs that have RMB counters at 31 Dec	29	20	Onshore RMB bond market	1

The HKEX website was awarded the 11<sup>th</sup> Annual ETF Global Awards – Most Informative ETF Website in Asia-Pacific by [exchangetradedfunds.com](http://exchangetradedfunds.com) and HKEX was awarded the ETF and Indexing Awards 2015 – Best ETF Exchange by Asia Asset Management.

## Shanghai-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect has been operating smoothly following its launch in the fourth quarter of 2014 despite volatile markets over the past year.

HKEX has continued to enhance the Stock Connect programme including allowing short selling of eligible SSE Securities and the introduction of an enhanced pre-trade checking model, Special Segregated Accounts (see also commentary under the Clearing segment).

Since the launch of Stock Connect, the number of information vendors in the Mainland has more than doubled. 17 of the key Mainland brokers are participating in the Fixed Fee Monthly Fee Service or Daily Charge Service promotion programmes which were launched in March 2015 and together contributed over 60 per cent of Southbound Trading.

To continue promoting growth in market data usage in the Mainland, HKEX has further extended a number of Mainland related marketing programmes.

HKEX organised around 100 workshops, reaching over 10,000 market practitioners and investors on the mechanism and rules of Stock Connect.

The total revenue and other income generated by Stock Connect during 2015 was \$200 million (2014: \$68 million).

## Mainland Development

Throughout the year, HKEX increased efforts to promote Hong Kong as the preferred listing venue for quality Mainland issuers, including hosting 19 and presenting at over 100 listing seminars and training workshops.

HKEX will continue to monitor major Mainland policy changes including the registration-based listing regime and the potential launch of the Strategic Emerging Industries Board. HKEX will also continue to focus on attracting quality Mainland enterprises to list in Hong Kong given the broader and deeper investor pool coupled with Hong Kong's efficient and transparent listing regime.

## Volatility Control Mechanism and Closing Auction Session

After consulting the market during the year, HKEX concluded that there is substantial market support for the introduction of Volatility Control Mechanism and Closing Auction Session for securities. The Volatility Control Mechanism is designed to safeguard market integrity from extreme price volatility arising from trading incidents and covers HSI and H-shares Index constituent stocks in the securities market. Implementation is planned for the second half of 2016. The new Closing Auction Session is designed to meet the diverse trading needs of investors by enabling trade execution at the securities' closing prices and will be rolled out in 2 phases. Phase 1 is planned for the third quarter of 2016 and will include all the Hang Seng Composite LargeCap and MidCap index constituent stocks, as well as H shares which have corresponding A shares listed on the exchanges in Mainland China and all ETFs. Phase 2 will be rolled out after a review of the operation of Phase 1 and will include all equity securities and funds.

## Analysis of Results

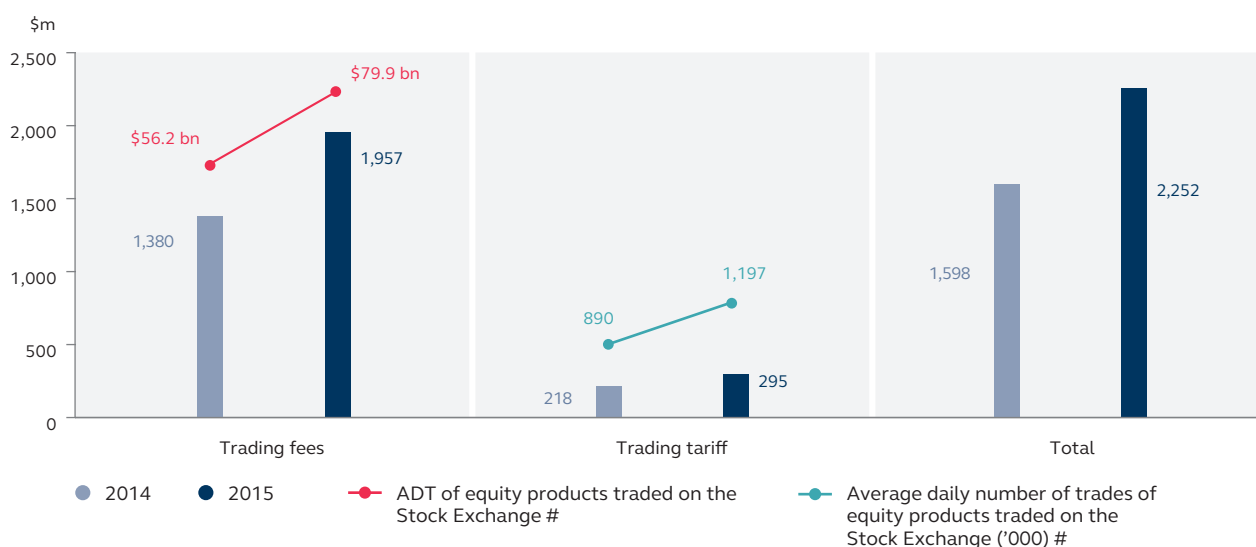
### Summary

	2015 \$m	2014 \$m	Change
Trading fees and trading tariff <sup>1</sup>	2,252	1,598	41%
Stock Exchange listing fees <sup>1</sup>	703	651	8%
Market data fees <sup>1</sup>	420	430	(2%)
Other revenue and sundry income	60	82	(27%)
Total revenue and other income	3,435	2,761	24%
Operating expenses <sup>2</sup>	(531)	(461)	15%
EBITDA	2,904	2,300	26%
EBITDA margin	85%	83%	2%

<sup>1</sup> Excludes DWs, CBBCs and warrants which are included under the Equity and Financial Derivatives segment

<sup>2</sup> Includes Listing Division costs related to equity products traded on the Stock Exchange

### Trading Fees and Trading Tariff



# Excludes DWs, CBBCs and warrants which are included under the Equity and Financial Derivatives segment

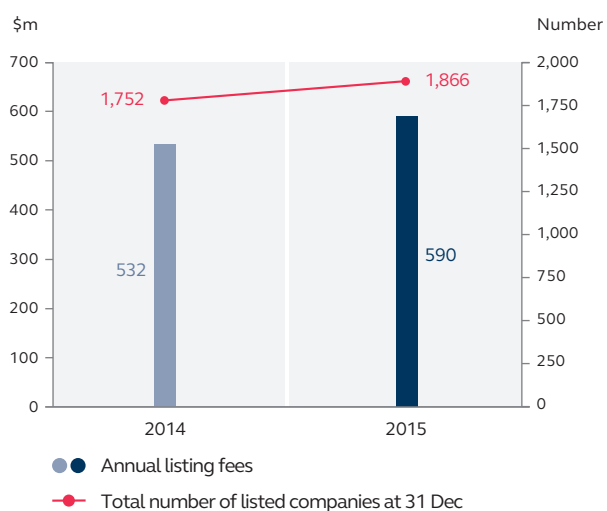
Trading fees and trading tariff rose by \$654 million or 41 per cent due to a rise in ADT and average daily number of trades of equity products. The percentage increase was slightly less than the 42 per cent growth in ADT as the increase was partly offset by more market maker exempt trades on ETFs<sup>1</sup> and an increase in average transaction size, which impacted the growth in trading tariff (income is based on number of trades).

<sup>1</sup> Approximately 50 per cent of ETF trades were exempted.

## Stock Exchange Listing Fees

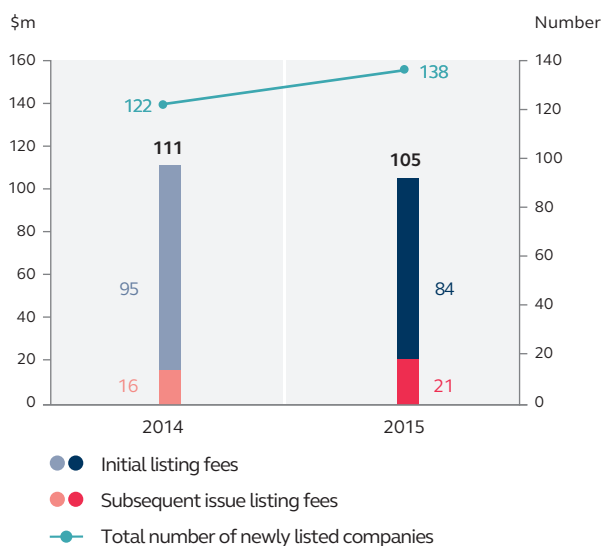
	2015 \$m	2014 \$m	Change
Annual listing fees	590	532	11%
Initial and subsequent issue listing fees	105	111	(5%)
Others	8	8	0%
<b>Total</b>	<b>703</b>	<b>651</b>	<b>8%</b>

### Annual Listing Fees



Annual listing fees increased with the rise in the total number of listed companies. The 11 per cent increase in annual listing fees exceeded the 7 per cent increase in the number of listed companies due to the full year impact of the annual listing fees of companies that were listed in 2014.

### Initial and Subsequent Issue Listing Fees



Despite an increase in the number of newly listed companies and the total IPO funds raised, initial and subsequent issue listing fees declined due to a cap on listing fees for newly listed companies and a lower number of lapsed and withdrawn IPO applications not listed within 6 months of application.

## Other Revenue

Other revenue dropped by \$22 million or 27 per cent due to lower brokerage fees on direct IPO allotments.

## EBITDA

Operating expenses increased by \$70 million or 15 per cent mainly due to higher legal and professional fees on strategic initiatives, an increase in IT maintenance expenses and staff costs. The higher staff costs were attributable to headcount increases for strategic initiatives including Stock Connect, annual payroll adjustments and an increase in variable pay. As the percentage increase in revenue was higher than that of operating expenses, the EBITDA margin increased from 83 per cent to 85 per cent.

## Equity and Financial Derivatives Segment

### Key Market Indicators

	2015	2014	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	25.7	13.3	93%
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	242,948	172,815	41%
Average daily number of derivatives contracts traded on the Futures Exchange <sup>1</sup>	393,948	274,844	43%
Average daily number of stock options contracts traded on the Stock Exchange	374,346	301,797	24%
Number of newly listed DWs	6,336	7,560	(16%)
Number of newly listed CBBCs	11,213	9,983	12%
Average daily number of contracts traded during AHFT <sup>1,2</sup>	21,555	11,903	81%

	At 31 Dec 2015	At 31 Dec 2014	Change
Open interest of futures and options <sup>1</sup>	7,266,630	7,958,356	(9%)

<sup>1</sup> Excludes London Metal Mini Futures contracts which are included under the Commodities segment

<sup>2</sup> Equivalent to 8 per cent of the total number of the same contracts traded during the day session (2014: 6 per cent)

## Business Update

As with the Cash segment, 2015 was also a record year for the Equity and Financial Derivatives segment, with a number of new records set.

## New Record Highs – Full Year

	2015	Pre-2015 record	
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	25.7	19.4	(2007)
Total turnover of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	6,345	4,771	(2007)
Number of newly listed CBBCs	11,213	9,983	(2014)

	2015 Number of contracts	Pre-2015 record Number of contracts	
Total futures and options <sup>1</sup>	189,768,610	142,430,249	(2014)
H-shares Index Futures	33,379,310	21,984,297	(2014)
Mini H-shares Index Futures	7,506,543	3,429,393	(2014)
USD/CNH Futures	262,433	205,049	(2014)
Stock futures	729,013	459,190	(2013)
H-shares Index Options	15,304,215	8,998,897	(2014)
Flexible H-shares Index Options	39,848	36,621	(2014)
Stock options	92,463,479	74,543,861	(2014)
AHFT <sup>1</sup>	5,237,882	2,892,507	(2014)

<sup>1</sup> Excludes London Metal Mini Futures contracts which are included under the Commodities segment

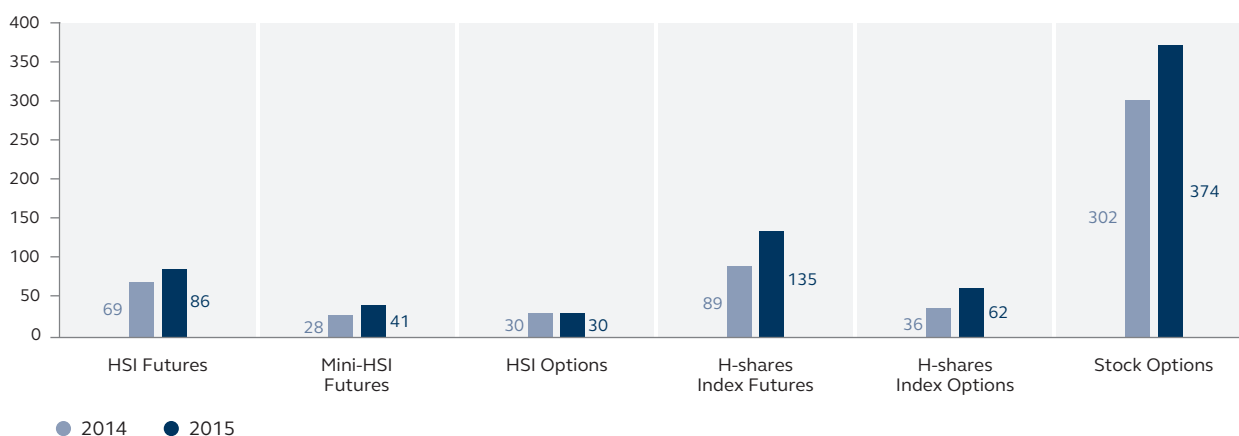
## New Record Highs – Single Day Volume and Open Interest

Apart from the record high full-year trading volumes, a number of record high single day volumes and open interest of various contracts were achieved during 2015 as follows:

	Single Day Volume		Open Interest	
	Date (2015)	Number of contracts	Date (2015)	Number of contracts
Stock options	13 Apr	1,221,324	27 May	11,159,128
H-shares Index Futures	26 Aug	467,559	29 Dec	519,817
Mini H-shares Index Futures	8 Jul	74,511	-	-
H-shares Index Options	4 Sep	188,957	25 Sep	2,618,350
Mini Hang Seng Index Futures	25 Aug	94,001	-	-
USD/CNH Futures	12 Aug	8,061	-	-
HSI Volatility Index Futures	29 May	105	-	-
Flexible H-shares Index Options	-	-	26 Jun	44,480
HSCEI Dividend Point Index Futures	-	-	30 Dec	101,430

## Average Daily Volume of Major Futures and Options Contracts

Numbers of contracts ('000)



## Stock Options Market Development

5 new stock option classes were introduced in 2015. At the end of December 2015, there were 84 stock option classes available for trading, 18 of which were under the Primary Market Maker programme.

Advanced options education courses were held for more than 450 experienced options traders in April and May 2015 to improve their product knowledge. The courses covered advanced topics including implied volatility, options Greeks concept and their trading strategies and risk management methods. Other stock options seminars and briefing sessions held by HKEX in the year attracted over 6,000 attendees.

## Stock Futures Market Development

In response to the increased demand for investment products from Mainland investors, 34 new stock futures contracts were introduced in the fourth quarter of 2015. The underlying stocks of these new futures contracts, together with 6 existing stock futures contracts, were the top 40 active stocks in Southbound Trading under Stock Connect, which accounted for about 60 per cent of Southbound Trading turnover. At 31 December 2015, the total number of stock futures contracts available for trading was 74.



## RMB Currency Futures Market Development

People's Bank of China introduced a new daily fixing framework on 11 August 2015 leading to depreciation of the USD/CNH rate by around 3 per cent. Subsequently, the trading volume of USD/CNH Futures hit an all-time high of 8,061 contracts on 12 August 2015. The overall number of USD/CNH Futures traded in 2015 increased by 28 per cent over 2014 to 262,433 contracts, a record high. HKEX has continued to promote USD/CNH Futures to investors in Hong Kong and other parts of Asia in particular in the Mainland and Singapore. The Active Trader Programme launched in January 2015 helped to further develop the market by introducing additional players from the international and regional trading community.

## Other FIC Development

In light of the continuing internationalisation of the RMB, HKEX continued to evaluate the market appetite for RMB FIC products. On 11 June 2015, HKEX hosted its second RMB FIC Conference and received positive feedback from attendees, which included industry experts and business leaders.

## Volatility Control Mechanism

A consultation paper was released in January 2015 on the proposed introduction of Volatility Control Mechanism in the Derivatives Market in addition to the Cash Market. The consultation conclusions, which were released in July 2015, indicated substantial market support. HKEX plans to implement the Volatility Control Mechanism in the Derivatives Market in the fourth quarter of 2016.

## Pre-Trade Risk Management System

The increasing use of automated electronic trading has introduced new risks to the Derivatives Market. In order to promote stability in Hong Kong's market, HKEX will introduce a Pre-Trade Risk Management System to facilitate EPs' own pre-trade risk management needs. The system will be mandatorily applied to all orders of the Hong Kong Futures Automated Trading System. EPs can set limits for their firms according to their risk profiles and orders that breach the limits will be rejected. Internal testing was completed in October 2015 and external readiness test was conducted in January 2016. The system is currently scheduled for launch in the second quarter of 2016.

## Service Enhancement and Other Product Development

Under an order granted by the Commodity Futures Trading Commission in March 2015, SFC-licensed corporations are now permitted to solicit and accept orders and funds for trading futures on HKFE directly from US customers. In August 2015, HKEX obtained approval from the US Securities and Exchange Commission for a Class No-Action Relief in order to allow its EPs to engage eligible broker-dealers/institutions in the US in trading Stock Options, H-shares Index Options and Mini-Hang Seng Index Options at HKEX. These allow broadening of HKEX's derivatives product distribution to US investors.

HKEX is working closely with the SFC on a proposed hedging exemption regime that would enable institutional investors to apply for additional position limits to facilitate hedging or arbitrage.

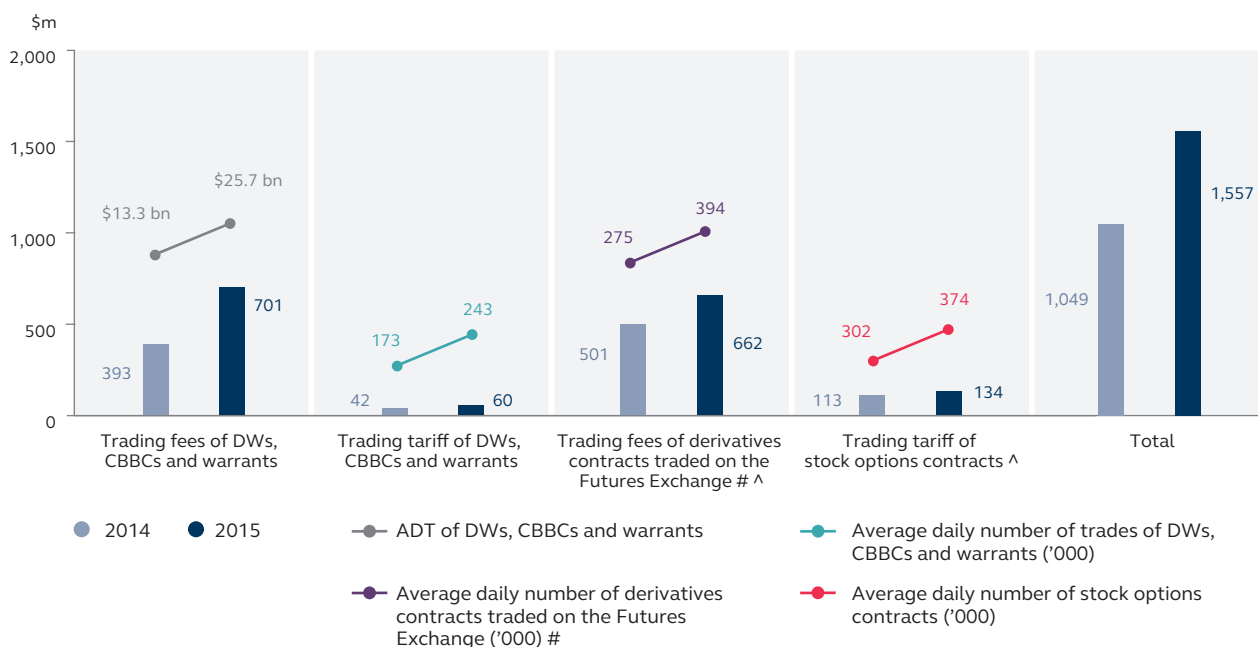
## Analysis of Results

### Summary

	2015 \$m	2014 \$m	Change
Trading fees and trading tariff	1,557	1,049	48%
Stock Exchange listing fees	411	451	(9%)
Market data fees	206	163	26%
Other revenue and sundry income	5	3	67%
<b>Total revenue and other income</b>	<b>2,179</b>	<b>1,666</b>	<b>31%</b>
Operating expenses <sup>1</sup>	(446)	(400)	12%
<b>EBITDA</b>	<b>1,733</b>	<b>1,266</b>	<b>37%</b>
<b>EBITDA margin</b>	<b>80%</b>	<b>76%</b>	<b>4%</b>

<sup>1</sup> Includes Listing Division costs related to DWs, CBBCs and warrants

### Trading Fees and Trading Tariff



# Excludes London Metal Mini Futures contracts which are included under the Commodities segment

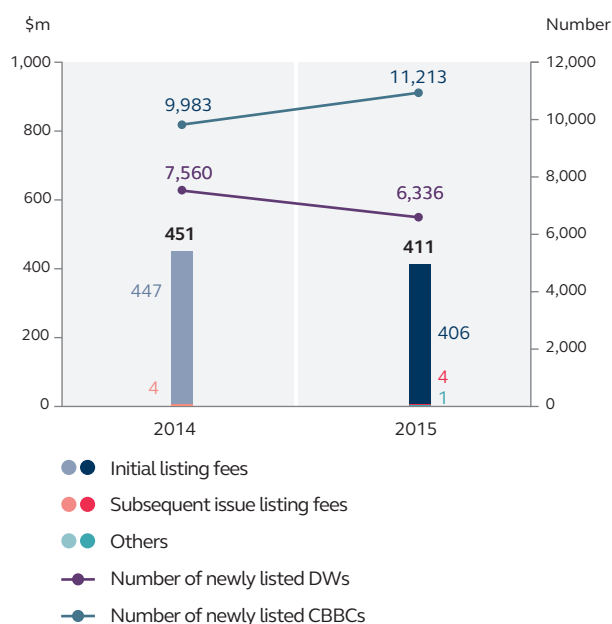
^ Excludes trading fees and trading tariff allocated to the Clearing segment (Derivatives contracts traded on the Futures Exchange – 2015: \$195 million; 2014: \$136 million; stock options contracts – 2015: \$61 million; 2014: \$49 million)

Trading fees and trading tariff for the segment are generated from trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariff for the futures and options contracts is allocated to the Clearing segment (see Clearing Segment below) as the trading and clearing fees of these products are bundled together in the form of trading fees and tariff.

Trading fees and trading tariff from trading of DWs, CBBCs and warrants rose due to increased ADT and average daily number of trades. The percentage increase was less than the 93 per cent growth in ADT as the increase was partly offset by lower growth in fees from new issues and the impact of an increase in average transaction size which reduced the growth in trading tariff.

Trading fees from futures and options traded on the Futures Exchange rose with the increase in average daily number of contracts traded. The overall growth was partly offset by a higher proportion of derivatives contracts in 2015 being lower fee products such as H-shares Index Futures and Options.

## Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The decrease in fees by \$40 million or 9 per cent was due to a lower number of newly listed DWs, partly offset by an increase in the number of newly listed CBBCs (which generate a lower fee than DWs).

## EBITDA

Operating expenses rose by \$46 million or 12 per cent principally due to higher index license fees from increased trading volume and higher staff costs attributable to increased headcount, annual payroll adjustments and higher variable pay. As the percentage revenue growth was higher than that of operating expenses, the EBITDA margin improved from 76 per cent to 80 per cent.

## Commodities Segment

### Key Market Indicators

	2015	2014	Change
Average daily volume of metals contracts traded on the LME (lots)			
Aluminium	247,198	272,015	(9%)
Copper	162,247	161,403	1%
Lead	51,271	51,756	(1%)
Nickel	81,817	76,533	7%
Zinc	118,723	125,846	(6%)
Others	8,933	12,651	(29%)
<b>Total</b>	<b>670,189</b>	<b>700,204</b>	<b>(4%)</b>
	<b>At</b>	<b>At</b>	<b>Change</b>
	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	
Total futures MOI (lots)	2,314,219	2,268,769	2%

## Business Update

### LME

The commercialisation of the LME's trading fees was implemented on 1 January 2015. Although there was a significant downturn in the demand for base metals in 2015, the average daily volume of metals contracts traded was only 4 per cent lower than 2014.

The total futures MOI at the end of the year rose by 2 per cent to 2,314,219 lots. During the year, MOI peaked at 2,507,186 lots.

In the first quarter of 2015, the LME disposed of its remaining shareholding in LCH to Borsa Istanbul.

The key focus for the LME in 2015 was to continue its reform of the physical delivery network and widening participation in the market it operates.

In respect of the physical delivery network, during 2015, the LME conducted a series of market wide consultations on further reforms with the intention of introducing a cap on the rent that can be charged by an LME-approved warehouse for metal held in a delivery queue, and an increased minimum load-out rate for metal stored in LME warehouses.

Connected with the LME's reform package and as part of the overall strategy to enhance market participation, the LME successfully launched its LME Aluminium Premium contracts, which now allows participants to hedge the regional "all-in" price to ensure the metal they receive is readily available in a non-queued LME warehouse at a convenient location.

In addition to these, the LME successfully launched 2 new cash settled ferrous contracts – LME Steel Rebar and LME Steel Scrap in the fourth quarter of 2015. These new contracts allow industry participants to reduce their risk exposure by hedging more steps in the steel production process.

During 2015, as part of its Liquidity Roadmap, the LME successfully introduced a series of measures designed to encourage market participation by simplifying access to the market. These included (i) increasing the LMEselect tick sizes to align both the electronic and open outcry markets, (ii) lifting the LMEselect order-to-trade ratio restriction for outright 3<sup>rd</sup> Wednesday monthly contracts, (iii) encouraging liquidity on nearby monthly prompts for the market, (iv) introducing pre-trade risk management functionality for LMEselect, (v) reforming membership structure to facilitate market participation and liquidity on LMEselect, and (vi) introducing liquidity provider programmes and market making programmes designed to enhance liquidity for the market.

### Introduction of Second Asia Commodities Contracts

On 14 December 2015, the second batch of London Metal Mini Futures – London Nickel/Tin/Lead Mini Futures – commenced trading in Hong Kong on the Futures Exchange. The Active Trader Programme for London Metal Mini Futures was successfully completed by the end of 2015.

As part of its strategy to transform into a leading global vertically-integrated multi-asset class exchange, HKEX will continue to research and develop new commodities-related products and set new commodities benchmarks, in particular for Mainland China.

### Extension to the HKFE/LME Reciprocal Membership Arrangement

The HKFE/LME Reciprocal Membership Arrangement has been extended for 1 year to 31 December 2016 in order to broaden access to and provide liquidity for the London Metal Mini Futures contracts and to encourage the Futures Exchange's Participants to become LME members. Under the reciprocal arrangement, HKFE and the LME will waive their respective first year's annual subscription and application processing fees for new applicants who already hold a membership at either one of the exchanges.

## Promotional Activities

The LME held its third LME Week Asia in Hong Kong in May 2015. The annual event consisted of the Metals Seminar and Gala Dinner, which attracted over 700 participants and over 1,600 guests respectively. The 2016 LME Week Asia will be held in Hong Kong on 14 June 2016.

The China Reception held during LME Week in London in October 2015 attracted over 400 senior executives. The first bespoke exchange programme with China Futures Association members was a special highlight for the week – the one-week training was attended by more than 30 senior executives from over 20 high-profile Chinese financial firms.

HKEX also continued to organise and participate in a series of metal-related seminars held in Greater China.

## London-Hong Kong Connect

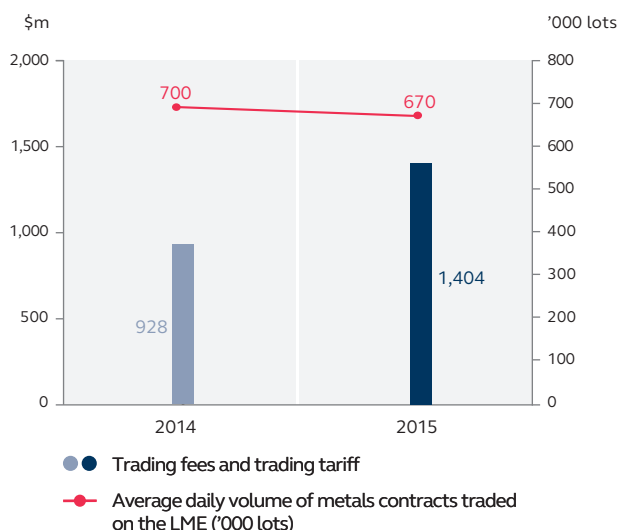
On 21 October 2015, HKFE, HKCC, the LME and LME Clear signed a memorandum of understanding for the proposed development of a trading link between HKFE and the LME and a clearing link between HKCC and LME Clear, to be named “London-Hong Kong Connect”. The proposal is aimed at expanding the potential investor base of the LME market, giving the LME a new presence in Asia and supporting the development of Hong Kong as a commodities trading centre. Implementation of the trading and clearing links is subject to regulatory approvals in Hong Kong, the UK and the EU.

## Analysis of Results

### Summary

	2015 \$m	2014 \$m	Change
Trading fees and trading tariff	1,404	928	51%
Market data fees	177	176	1%
Other revenue:			
Commodities stock levies and warehouse listing fees	102	117	(13%)
Others	52	53	(2%)
Total revenue	1,735	1,274	36%
Operating expenses	(546)	(568)	(4%)
EBITDA	1,189	706	68%
EBITDA margin	69%	55%	14%

### Trading Fees and Trading Tariff



Despite a 4 per cent drop in the average daily volume of metals contracts traded, trading fees and trading tariff rose by \$476 million or 51 per cent as a result of commercialising the LME's trading fees effective from 1 January 2015.

## EBITDA

Operating expenses dropped by \$22 million or 4 per cent. The decrease was attributable to a reduction in legal fees for litigation as no material legal costs were incurred in 2015 and \$5 million was recovered from the insurers in respect of previous litigation in the UK (2014: \$43 million of litigation costs were incurred). Other reductions in operating expenses were due to lower legal and professional fees incurred for strategic projects and savings on IT costs as a result of insourcing a previously outsourced IT team in May 2014. The decrease in operating expenses was partly offset by higher staff costs due to increased headcount, annual payroll adjustments and increase in variable pay. As a result, EBITDA increased by 68 per cent to \$1,189 million and the EBITDA margin rose from 55 per cent in 2014 to 69 per cent in 2015.

## Clearing Segment

### Key Market Indicators

	2015 \$bn	2014 \$bn	Change
ADT on the Stock Exchange	105.6	69.5	52%
Average daily value of Settlement Instructions (SIs) settled by CCASS	254.7	205.6	24%

## Business Update

### Regulatory Review

In April 2015, HKSCC, HKCC, SEOCH and OTC Clear were recognised by the European Securities and Markets Authority as Third-Country CCPs under the European Market Infrastructure Regulation, allowing European financial institutions to continue to participate in our markets. The European Market Infrastructure Regulation recognition also gives our CCPs a “qualifying CCP” (QCCP) status across the EU, enabling the European CPs to benefit from lower capital requirements under the European Union Capital Requirements Regulation.

In response to the Public Quantitative Disclosure Standards for Central Counterparties published by Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions in February 2015, HKSCC, HKCC, SEOCH and OTC Clear published their quantitative disclosure on the HKEX website to give stakeholders a better understanding of the risks associated with our CCPs.

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Ordinance was gazetted in March 2015. HKEX is working closely with the SFC and other stakeholders on finalising the details of the operational arrangements to prepare for the launch of an uncertificated securities market in Hong Kong.

### Cash and Derivatives Clearing

Since the launch of Stock Connect, the clearing and settlement services of Northbound and Southbound trades have been operating smoothly. Several enhancements were made to Stock Connect in 2015, the most notable of which was the Special Segregated Account model. This addressed Northbound investors’ biggest concern by enabling them to meet Stock Connect’s pre-trade checking requirement without first transferring shares to their brokers before their sell orders are executed. Counterparty risk in A-share settlement faced by investors is therefore significantly reduced under the Special Segregated Account model (see also commentary under the Cash segment). In addition, to enhance CPs’ operational efficiency in Northbound trade settlement, a number of CCASS settlement functions have been enhanced and the service hours of certain CCASS functions were extended since December 2015.

Looking forward, the next important enhancement to Stock Connect will be the introduction of an additional same-day RMB money settlement run for payments related to Stock Connect SIs in April 2016. This enhancement will offer SIs same-day stock delivery against RMB payments, thereby reducing overnight counterparty risk that may arise between CPs, custodians and investors.

To make our clearing houses more responsive to market turnover and volatility changes, HKSCC, HKCC and SEOCH revised the triggering and collection mechanism of their Guarantee/Reserve Funds in July 2015. Under the enhanced mechanism, the 3 clearing houses collect a 25 per cent (previously 5 per cent) buffer on top of the calculated maximum risk exposure. In addition, HKCC and SEOCH implemented revised concentration risk policies in September 2015 to require higher margin collateral from CPs with concentrated risk exposures.

To ensure international best practices, an independent consultant was engaged by HKSCC, HKCC and SEOCH to validate their risk management models in 2015. The validation concluded that the existing risk management policies and models conform to the PFMI. HKSCC, HKCC and SEOCH have also set out plans to enhance their margining and stress testing methodologies based on the recommendations made by the consultant.

HKEX has now recovered 100 per cent of its admitted claims from the liquidators of Lehman Brothers Securities Asia Limited, totalling \$160 million plus a further \$38 million of post-liquidation interest (\$118 million of this was recovered in 2015).

### OTC Clear

In 2015, OTC Clear issued 1,260 ordinary shares and 420 non-voting ordinary shares to HKEX and the holders of its non-voting ordinary shares respectively at a total consideration of \$353 million. This additional funding will support OTC Clear's future development needs and product expansion plans.

Having obtained the various necessary regulatory recognitions, OTC Clear admitted Hong Kong branches of PRC-incorporated, UK-incorporated and US-incorporated banks as Clearing Members in 2015. Subject to regulatory approval, OTC Clear plans to introduce client clearing service, cross currency swaps clearing service and accept non-cash collateral in the first half of 2016. In addition, OTC Clear aims to introduce a clearing service for Foreign Exchange deliverables by the end of 2016.

### LME Clear

LME Clear had a successful first full year of operation in 2015 and demonstrated its ability to deliver a robust, resilient service with risk management focus. LME Clear was also able to demonstrate its capability for innovation through expanding its clearing service and implementing new services for the LME metals market in 2015 which included accepting RMB and LME warrants as collateral, the launch of LME premium and ferrous contracts, and the introduction of compression services. In 2016, LME Clear intends to launch further ferrous contracts in conjunction with the LME and to prepare for The Markets in Financial Instruments Directive 2.

## Analysis of Results

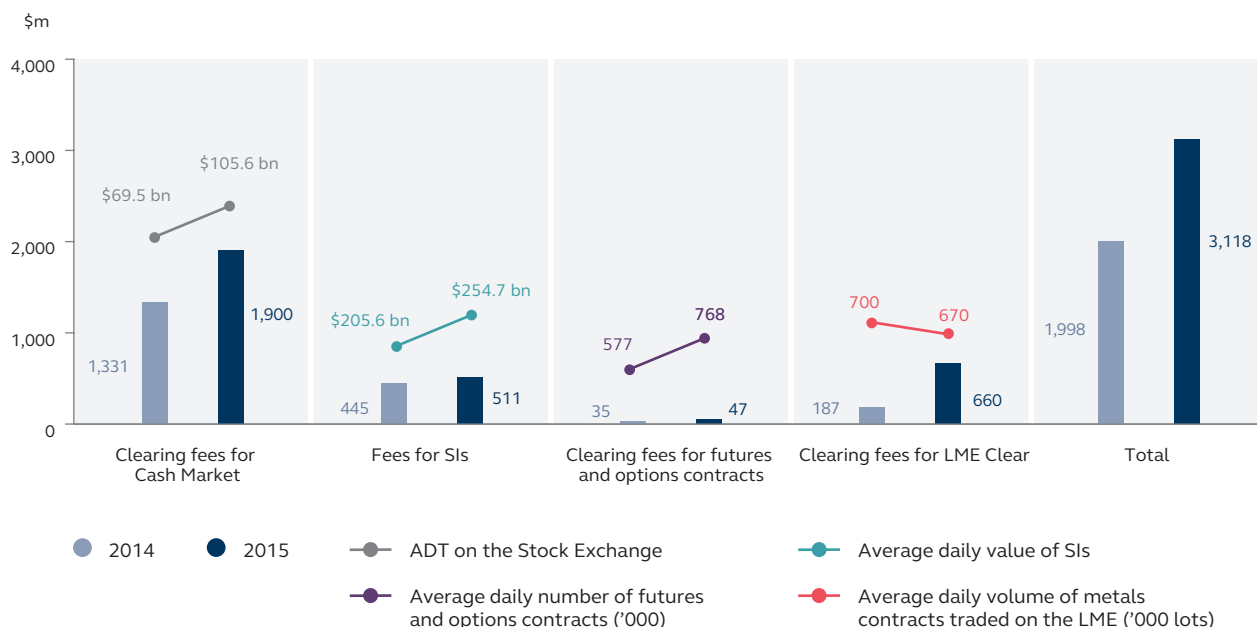
### Summary

	2015 \$m	2014 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	256	185	38%
Clearing and settlement fees	3,118	1,998	56%
Depository, custody and nominee services fees	867	725	20%
Other revenue and sundry income	157	63	149%
	<b>4,398</b>	2,971	48%
Net investment income	604	532	14%
Total revenue and other income	<b>5,002</b>	3,503	43%
Operating expenses	(692)	(586)	18%
EBITDA	<b>4,310</b>	2,917	48%
EBITDA margin	<b>86%</b>	83%	3%

### Trading Fees and Trading Tariff

Trading fees and trading tariff reallocated for clearing derivatives products rose due to an increase in the number of derivatives contracts traded (see commentary for the Equity and Financial Derivatives segment above).

### Clearing and Settlement Fees



Clearing and settlement fees rose due to increased ADT on the Stock Exchange, higher volume of SIs, and \$660 million of clearing fees generated by LME Clear, which was launched in September 2014 (2014: \$187 million). Excluding LME Clear, the increase in clearing and settlement fees for the Cash Market and fees from SIs was lower than the 52 per cent increase in ADT on the Cash Market and the 24 per cent increase in average daily value of SIs respectively. The differences were due to an increase in transaction size that resulted in fewer transactions being subject to the minimum clearing fee and more transactions being subject to the maximum clearing fee.

### Depository, Custody and Nominee Services Fees

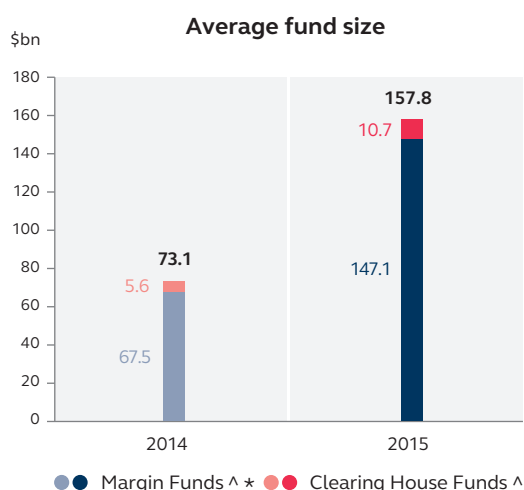
Depository, custody and nominee services fees rose by \$142 million or 20 per cent due to the introduction of portfolio fees following the launch of Stock Connect in November 2014 along with higher scrip fees, stock withdrawal fees, corporate action fees, and dividend collection fees. The increase in scrip fees was attributable to more companies having their first book close and/or declaring a dividend in 2015 than in 2014.

### Other Revenue and Sundry Income

Other revenue increased due to the one-off post-liquidation interest payment of \$38 million from the liquidators of Lehman Brothers Securities Asia Limited, and higher accommodation income received from LME Clear CPs on their collateral lodged with LME Clear following the launch of LME Clear in September 2014.



## Net Investment Income



The increase in the average fund size of the Margin Funds during the year was due to the first full year impact of significant amounts of cash collateral collected from LME Clear CPs since its launch on 22 September 2014. Additional margin deposits were also collected in Hong Kong reflecting increased open interest and higher margin requirements per contract.

The increase in the average fund size of the Clearing House Funds was also due to the first full year impact of contributions from LME Clear CPs. Additional Clearing House Funds contributions were also collected from the clearing houses in Hong Kong in response to market fluctuations and changes in risk exposure.

^ Includes funds received from LME Clear CPs from 22 September 2014

\* Includes Mainland security and settlement deposits received from CPs in respect of trading of A shares on the SSE through Stock Connect from 17 November 2014

The analysis of net investment income is as follows:

	2015			2014		
	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	570	21	591	490	22	512
Debt securities	14	-	14	20	-	20
Exchange loss	(1)	-	(1)	-	-	-
<b>Total net investment income</b>	<b>583</b>	<b>21</b>	<b>604</b>	<b>510</b>	<b>22</b>	<b>532</b>
Net investment return	0.40%	0.19%	0.38%	0.75%	0.40%	0.73%

The higher net investment income on the Margin Funds in 2015 was attributable to interest income on an increased average fund size. The overall net investment return reduced, from 0.73 per cent in 2014 to 0.38 per cent in 2015, due to a decrease in short-term interest rates and regulatory restrictions on the investment of LME Clear's Margin Funds and Clearing House Funds.

## EBITDA

Operating expenses increased by 18 per cent following the launch of LME Clear in September 2014 and higher staff costs for increased headcount, annual payroll adjustments and higher variable pay. Due to the 43 per cent increase in revenue and other income, the EBITDA margin increased from 83 per cent in 2014 to 86 per cent in 2015.

## Platform and Infrastructure Segment

### Business Update

After the launch of the HKEX Orion Central Gateway (OCG) in the Cash Market in June 2014, most EPs migrated their Open Gateway to OCG in 2015. Migration of all EPs to OCG is targeted for completion by the end of June 2016, at which time the legacy Open Gateway would be decommissioned. The OCG benefits EPs by reducing infrastructure costs, introducing certain new services, and adopting industry messaging standards.

The replacement of Multi-workstation System, First and Second Trading Terminals of the current AMS by the New Securities Trading Devices was completed in the third quarter of 2015.

Requirement definition for the implementation of Orion Trading Platform – Securities Market (OTP-C) was completed in October 2015. Preparation of detailed specifications is in progress, and system development for OTP-C is scheduled to commence right after the detailed design phase in the second quarter of 2016 and planned to complete by the end of 2016. Testing and other market readiness activities will be carried out in 2017.

In response to the significant increase in trading volume in the second quarter of 2015, where a number of new records were reached, a capacity upgrade was implemented in 2015 to increase CCASS processing capacity from a maximum daily volume of 7.5 million trades to 12.5 million trades. The maximum daily volume experienced to date was 3.6 million on 9 April 2015.

HKEX has recently initiated the requirement definition stage for the first phase of the development of a Next Generation Clearing Platform (NGCCP) encompassing Cash Central Counterparty Clearing, Collateral Management and Risk Management. During this stage, HKEX aims to define the requirements of NGCCP functions and the new business capabilities envisioned for the Hong Kong securities market, as well as the related technology and architecture roadmap.

HKEX initiated a websites revamp project in December 2015 to enhance web accessibility and user experience. New information architecture and content management technology will be introduced, a more powerful search engine implemented and web design optimised for mobile users. The project will be delivered in two phases, with the revamped Group website launched in the fourth quarter of 2016 and the redesigned HKEX corporate website rolled out in the second quarter of 2017.

## Analysis of Results

### Summary

	2015 \$m	2014 \$m	Change
Network, terminal user, dataline and software sub-license fees	389	356	9%
Hosting services fees	105	98	7%
Others	5	11	(55%)
Total revenue	499	465	7%
Operating expenses	(148)	(152)	(3%)
EBITDA	351	313	12%
EBITDA margin	70%	67%	3%

### Network, Terminal User, Dataline and Software Sub-license Fees

Network, terminal user, dataline and software sub-license fees rose by \$33 million or 9 per cent. This arose from an increase in Cash Market trading system line rental income following the launch of OCG and network usage fees relating to Stock Connect, but was partly offset by a drop in sales of throttles due to the one-off purchases made by Participants in 2014 in preparation for the launch of Stock Connect.

## Hosting Services Fees

Hosting services fees increased by \$7 million or 7 per cent, due to an increase in the number of racks taken up by customers.

## EBITDA

Operating expenses decreased by \$4 million or 3 per cent due to reduced IT costs directly consumed by Participants. Coupled with a 7 per cent increase in total revenue, the EBITDA margin increased from 67 per cent to 70 per cent.

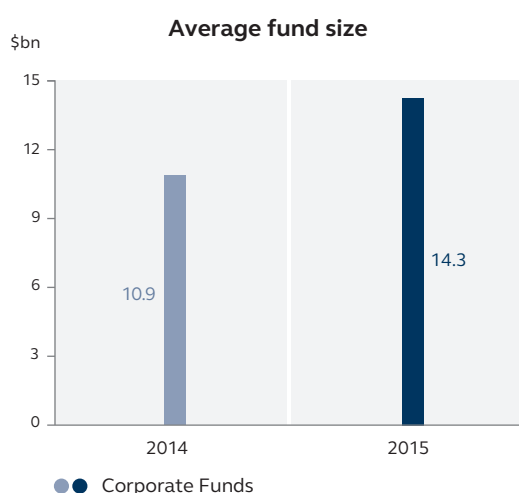
## Corporate Items

“Corporate Items” is not a business segment but comprises central income (including net investment income of the Corporate Funds) and central costs (costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments).

## Revenue and Other Income

	2015 \$m	2014 \$m	Change
Net investment income	74	175	(58%)
Gain on disposal of a leasehold property	445	–	N/A
Others	6	5	20%
<b>Total</b>	<b>525</b>	<b>180</b>	<b>192%</b>

## Net Investment Income



The average fund size increased from \$10.9 billion in 2014 to \$14.3 billion in 2015 principally due to the retention of cash generated by the business over the past year.

The analysis of net investment income is as follows:

	2015 \$m	2014 \$m
Net investment income from:		
Cash and bank deposits	71	76
Equity securities	30	53
Debt securities	30	66
Exchange loss	(57)	(20)
<b>Total net investment income</b>	<b>74</b>	<b>175</b>
Net investment return	0.52%	1.62%

Included in net investment income – equity securities was a \$31 million gain on sale of the remaining stake of the LME’s investment in shares of LCH (2014: \$23 million of fair value gain from revaluation of the investment). Excluding the LCH gains, net investment income of the Corporate Funds in 2015 decreased by \$109 million principally due to lower fair value gains on equity and debt securities caused by the depressed markets, a higher proportion of investments in short-term deposits for regulatory purposes, and higher foreign exchange losses for hedging LME Group’s operating costs (offset, in whole or in part, by lower operating costs of LME Group).

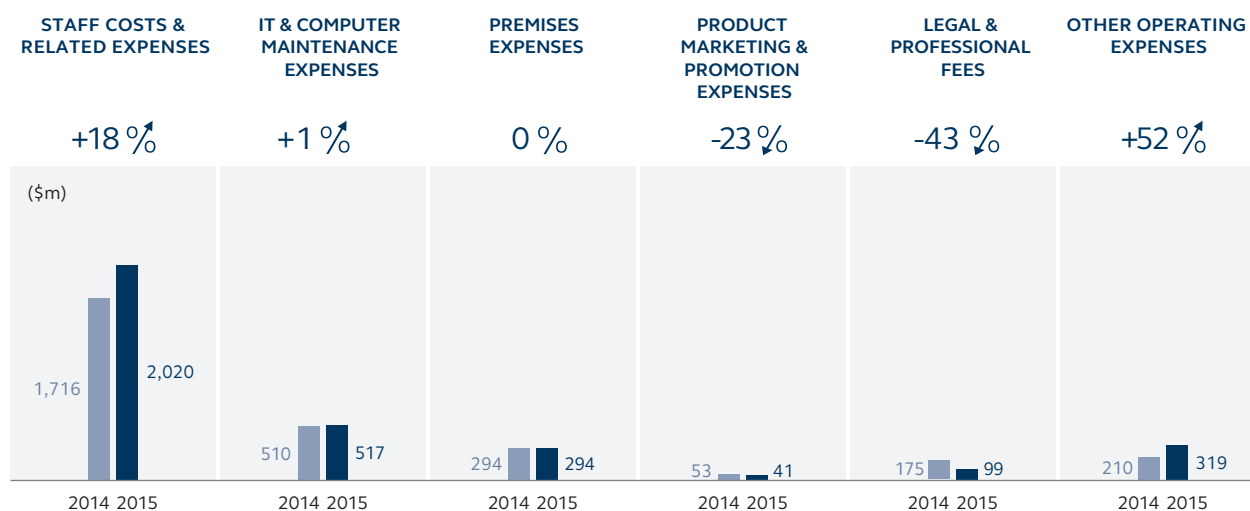
As the valuations of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

### Gain on Disposal of a Leasehold Property

In 2015, the Group disposed of a leasehold property in Hong Kong and a gain of \$445 million was recorded.

## Expenses, Other Costs and Taxation

### Operating Expenses



Staff costs and related expenses increased by \$304 million or 18 per cent mainly due to increased headcount for strategic initiatives including Stock Connect, the insourcing of a previously outsourced IT team by the LME Group, annual payroll adjustments, and an increase in variable pay due to improved results of the Group.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$72 million (2014: \$81 million), were \$445 million (2014: \$429 million). The increase was mainly attributable to higher IT maintenance expenses, and was partly offset by lower IT costs of the LME Group following the insourcing of its IT team.

Legal and professional fees decreased by \$76 million or 43 per cent as no material litigation costs were incurred in 2015 (2014: \$43 million was incurred), \$5 million was recovered from the insurers in respect of litigation in the UK and lower legal and professional fees were incurred on strategic projects.

Other operating expenses increased by \$109 million or 52 per cent due to higher fees from an increase in committed bank credit facilities, higher investment management services costs and operating expenses for LME Clear after its launch, and an increase in repairs and maintenance expenses and index license fees.

### Depreciation and Amortisation

	2015 \$m	2014 \$m	Change
Depreciation and amortisation	684	647	6%

Depreciation and amortisation increased by \$37 million or 6 per cent due to the depreciation of new IT systems, such as HKEX Orion Market Data Platform and trading and clearing systems for Stock Connect, in 2015.

### Finance Costs

	2015 \$m	2014 \$m	Change
Finance costs	114	196	(42%)

The decrease in finance costs was mainly due to the full conversion of the Convertible Bonds in the second quarter of 2015, and the refinancing of the floating rate bank loan at a lower interest rate from July 2014.

### Taxation

	2015 \$m	2014 \$m	Change
Taxation	1,347	900	50%

Taxation increased due to higher profit before taxation in 2015, but was partly offset by higher non-taxable income (including the gain on sale of a leasehold property) and a deferred tax credit of \$65 million resulting from the enactment of a reduction in UK Corporation Tax rates.

# FINANCIAL REVIEW

HKEX Group – Overview of 2015 Results and Financial Position

## Key Business Drivers – Cash Segment

	2015
ADT of equity products on the Stock Exchange	\$79.9 bn*
Number of newly listed companies on Main Board	104
Number of newly listed companies on GEM	34
Number of Main Board companies at 31 Dec 2015	1,644
Number of GEM companies at 31 Dec 2015	222
Total equity funds raised on Main Board	\$1,094 bn*
Total equity funds raised on GEM	\$22 bn*
Total equity funds raised	\$1,116 bn*

\* New record high in 2015

## Reportable Segment Profit for the Year

	2015						2015
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue and other income	3,435	2,179	1,735	5,002	499	525	13,375
Operating expenses	(531)	(446)	(546)	(692)	(148)	(927)	(3,290)
Reportable segment EBITDA	① 2,904	② 1,733	③ 1,189	④ 4,310	⑤ 351	(402)	10,085
Depreciation and amortisation	(85)	(87)	(275)	(148)	(43)	(46)	(684)
Finance costs	-	-	-	-	-	(114)	(114)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)
Reportable segment profit before taxation	2,819	1,637	914	4,162	308	(562)	9,278
Taxation							(1,347)
Profit for the year							7,931
Loss attributable to non-controlling interests							25
Profit attributable to shareholders of HKEX							7,956

## Key Business Drivers – Equity and Financial Derivatives Segment

	2015
ADT of DWs, CBBCs and warrants on the Stock Exchange	\$25.7 bn*
Average daily number of derivatives contracts traded on the Futures Exchange <sup>1</sup>	393,948*
Average daily number of stock options contracts traded on the Stock Exchange	374,346*
Number of newly listed DWs	6,336
Number of newly listed CBBCs	11,213*

<sup>1</sup> Excludes London Metal Mini Futures contracts which are included under the Commodities segment

\* New record high in 2015

## Key Business Drivers – Commodities Segment

	2015
Average daily volume of metals contracts traded on LME (lots)	670,189

## Key Business Drivers – Clearing Segment

	2015
ADT on the Stock Exchange	\$105.6 bn*
Average daily value of Settlement Instructions settled by CCASS	\$254.7 bn

\* New record high in 2015

## Consolidated Statement of Financial Position

	At 31 Dec 2014
<b>ASSETS</b>	\$m
Cash and cash equivalents of Corporate Funds	8,067
Cash and cash equivalents of Funds and prepayments for A-shares	⑥ 150,041
Financial assets – Others	128,711
Financial assets – Base metals futures and options contracts	⑦ 59,679
Goodwill and other intangible assets	⑧ 17,901
Fixed assets and lease premium for land	⑨ 1,626
Other assets	⑩ 22,613
Total assets	251,860
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs and CPs' contributions to Clearing House Funds	⑪ 138,910
Financial liabilities – base metals futures and options contracts cleared through LME Clear	⑦ 59,679
Borrowings	⑫ 7,026
Other liabilities	⑬ 24,886
Total liabilities	230,501
<b>Equity</b>	
Share capital and reserves	12,955
Shares held for Share Award Scheme	(482)
Retained earnings	8,800
Equity attributable to shareholders of HKEX	21,273
Non-controlling interests	86
Total equity	21,359
Total liabilities and equity	251,860

## Cash Flows for the Year

	2015
	\$m
<b>Operating activities</b>	
Net cash inflow from operating activities	⑭ 8,321
<b>Investing activities</b>	
Net proceeds from disposal of a leasehold property and other fixed assets	512
Payments for purchases of fixed assets and intangible assets	(710)
Net increase in financial assets of Corporate Funds	(239)
Interest received from financial assets	17
<b>Financing activities</b>	
Dividends paid	(3,017)
Payments of finance costs	(71)
Purchases of shares for Share Award Scheme	(227)
Other net inflows	91
Net increase in cash and cash equivalents	4,677
Cash and cash equivalents at 1 Jan 2015	8,067
Cash and cash equivalents of Corporate Funds at 31 Dec 2015	12,744

## Consolidated Statement of Financial Position

	At 31 Dec 2015
<b>ASSETS</b>	\$m
Cash and cash equivalents of Corporate Funds	12,744
Cash and cash equivalents of Funds and prepayments for A-shares	⑥ 138,611
Financial assets – Others	27,721
Financial assets – Base metals futures and options contracts	⑦ 64,480
Goodwill and other intangible assets	⑧ 17,872
Fixed assets and lease premium for land	⑨ 1,582
Other assets	⑩ 15,648
Total assets	238,193
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs and CPs' contributions to Clearing House Funds	⑪ 122,687
Financial liabilities – base metals futures and options contracts cleared through LME Clear	⑦ 64,480
Borrowings	⑫ 3,409
Other liabilities	⑬ 17,655
Total liabilities	208,231
<b>Equity</b>	
Share capital and reserves	19,715
Shares held for Share Award Scheme	(590)
Retained earnings	10,691
Equity attributable to shareholders of HKEX	29,816
Non-controlling interests	146
Total equity	29,962
Total liabilities and equity	238,193

## Movements in Share Capital and Reserves for the Year

	Share capital \$m	Employee share-based compensation reserve \$m	Various other reserves \$m	Total \$m
At 1 Jan 2015	12,225	142	588	12,955
Issue of shares for employee share options exercised	3	-	-	3
Issue of shares in lieu of cash dividends	3,180	-	-	3,180
Employee share-based compensation benefits	-	183	-	183
Currency translation differences of foreign subsidiaries	-	-	(7)	(7)
Transfer from retained earnings	-	-	135	135
Vesting of shares of Share Award Scheme	-	(126)	-	(126)
Conversion of Convertible Bonds	3,877	-	(409)	3,468
Put options written to non-controlling interests	-	-	(76)	(76)
At 31 Dec 2015	19,285	199	231	19,715

## Movements in Retained Earnings for the Year

	2015 \$m
Profit attributable to shareholders of HKEX	7,956
Dividends	(6,212)
Unclaimed dividends forfeited	18
Vesting of dividend shares of Share Award Scheme	(8)
Conversion of Convertible Bonds	266
Transfer to reserves	(135)
Other changes	6
Net increase in retained earnings	1,891
Retained earnings at 1 Jan 2015	8,800
Retained earnings at 31 Dec 2015	10,691

Revenue and other income experienced a significant uplift in 2015 and reached a record high of \$13.4 billion. The majority of this revenue growth was derived from:

- A substantial increase in market activity on the Cash and Derivatives Markets in Hong Kong, in particular during the second quarter, which drove significant growth in trading and clearing income;
- A considerable increase in the contribution from the Group's UK operations due to the commercialisation of LME's trading fees effective from 1 January 2015 and a full year's contribution from LME Clear, which was launched in September 2014; and
- A one-off gain of \$445 million on the disposal of a Hong Kong leasehold property in the third quarter.

Operating expenses increased by 11 per cent against 2014 primarily reflecting the cost of additional headcount to support strategic initiatives and higher operating costs following the launch of LME Clear. The overall increase was mitigated by lower litigation costs.

The EBITDA margin of 75 per cent was 5 per cent higher than 2014, as the significant growth in revenue and other income outpaced the increase in operating expenses.

Profit attributable to shareholders increased by 54 per cent to a record high of \$7,956 million, reflecting increased EBITDA, lower finance costs arising from the full conversion of the Convertible Bonds and a modest increase in depreciation and amortisation.

The EBITDA of the Group by operating segment during 2015 was as follows:

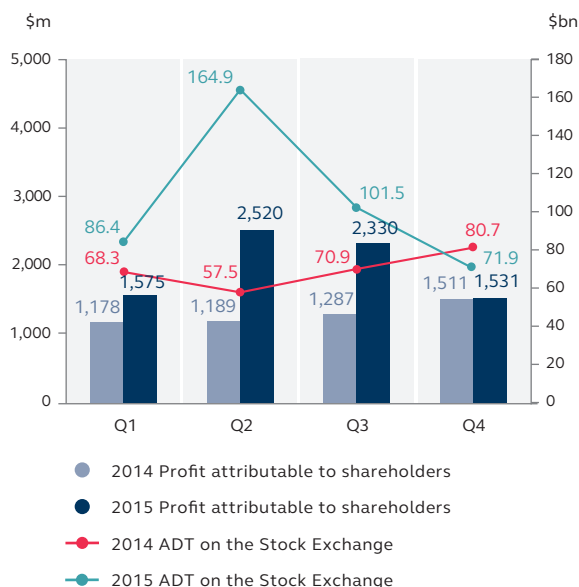
- EBITDA of the Cash segment increased by \$604 million mainly due to higher trading fees from increased ADT.
- EBITDA of the Equity and Financial Derivatives segment increased by \$467 million due to higher trading fees from increased ADT of DWs and CBBCs and increased average daily number of futures and options contracts traded.
- EBITDA of the Commodities segment increased by \$483 million as a result of commercialising the LME's trading fees effective from 1 January 2015.
- EBITDA of the Clearing segment increased by \$1,393 million. Revenue and other income increased due to higher revenue from increased ADT, higher volume of settlement instructions and a full year's contribution from LME Clear. The increase was partly offset by higher operating expenses following the launch of LME Clear.
- EBITDA of the Platform and Infrastructure segment increased by \$38 million mainly due to higher network income.
- Comprised financial assets and cash and cash equivalents of Margin Funds of \$114,416 million (2014: \$128,869 million), Corporate Funds of \$15,636 million (2014: \$10,264 million), Clearing House Funds of \$8,430 million (2014: \$10,289 million), and cash prepayments for A shares of \$129 million (2014: \$619 million).
- Base metals derivative financial assets and derivative financial liabilities of \$64,480 million (2014: \$59,679 million) represent the fair value of outstanding contracts of LME Clear that do not qualify for netting treatment under the relevant accounting standards, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.
- Goodwill and intangible assets dropped by \$29 million mainly due to amortisation of \$445 million, but partly offset by additions of \$427 million.
- Fixed assets and lease premium for land decreased by \$44 million mainly due to depreciation of \$239 million and disposal of a Hong Kong leasehold property with net book value of \$59 million, but partly offset by additions of \$255 million.
- Other assets consisted of money obligations receivable under the CNS System of \$13,529 million (2014: \$20,410 million) and other receivables.
- Represented margin deposits, Mainland security and settlement deposits and cash collateral from CPs of \$115,213 million (2014: \$129,484 million) and CPs' contributions to Clearing House Funds of \$7,474 million (2014: \$9,426 million). The decrease in margin deposits, Mainland security and settlement deposits and cash collateral from CPs was due to lower margin deposits collected by LME Clear as more non-cash collateral was posted by LME Clear CPs in lieu of cash margin. The decrease in CPs' contributions to Clearing House Funds was due to less contributions required from CPs in response to market volatility and changes in risk exposures.
- In 2015, all of the US\$500 million of Convertible Bonds with carrying value of HK\$3,701 million at 31 December 2014 were converted into HKEX shares.
- Other liabilities mainly represented money obligations payable under the CNS System of \$13,658 million (2014: \$21,029 million) and other liabilities.
- Net cash inflow from operating activities increased by \$3,648 million compared with 2014 due to higher profit for the year.

## Analysis of Results by Quarter

### Quarterly Results

	Q1 2015 \$m	Q2 2015 \$m	Q3 2015 \$m	Q4 2015 \$m	Total 2015 \$m
Revenue and other income	2,796	4,057	3,747	2,775	13,375
Operating expenses	(718)	(862)	(881)	(829)	(3,290)
EBITDA	2,078	3,195	2,866	1,946	10,085
Depreciation and amortisation	(163)	(162)	(175)	(184)	(684)
Operating profit	1,915	3,033	2,691	1,762	9,401
Finance costs	(46)	(31)	(18)	(19)	(114)
Share of loss of a joint venture	(2)	(3)	(2)	(2)	(9)
Profit before taxation	1,867	2,999	2,671	1,741	9,278
Taxation	(298)	(485)	(347)	(217)	(1,347)
Profit for period/year	1,569	2,514	2,324	1,524	7,931
Loss attributable to non-controlling interests	6	6	6	7	25
Profit attributable to shareholders	1,575	2,520	2,330	1,531	7,956
	Q1 2014 \$m	Q2 2014 \$m	Q3 2014 \$m	Q4 2014 \$m	Total 2014 \$m
Profit attributable to shareholders	1,178	1,189	1,287	1,511	5,165

### Analysis of Quarterly Results



2015 was a very volatile year during which a strong bull market in the Mainland quickly reached its peak in Q2 2015. This abruptly turned into a bear market in the second half of the year, with a 30 per cent drop in the A-share index from its peak, due to the devaluation of Renminbi, concern over the Mainland's potential economic hard landing and the likely interest rate hikes in the US.

While the Hang Seng Index and H-share Index experienced similar significant movements, the volatility boosted trading volumes in Hong Kong.

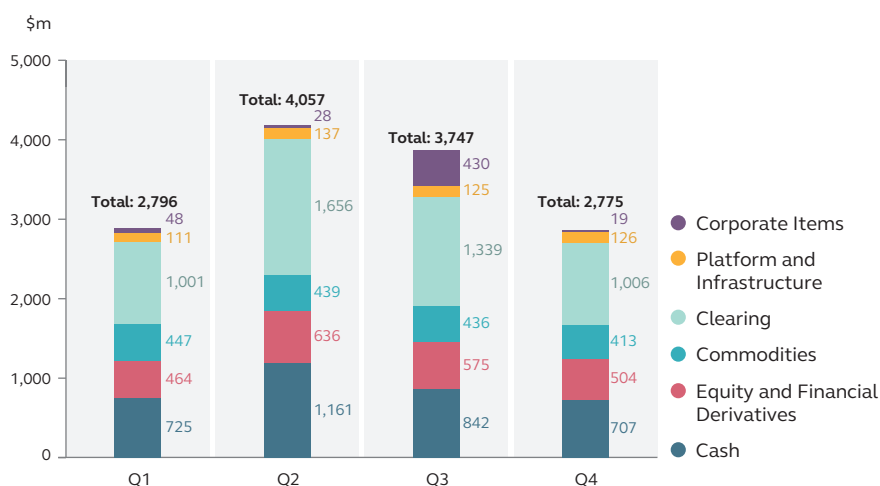
LME and LME Clear provided solid and steady contributions due to Group profit following the commercialisation of LME's trading fees and a full year's operation of LME Clear.

Consequently, profit attributable to shareholders increased significantly in the first three quarters compared with 2014, and reached a record high in the second quarter.

Profit for the third quarter was boosted by a one-off gain on disposal of a leasehold property of \$445 million.



## Analysis of 2015 Segment Revenue and Other Income by Quarter



Revenue and other income from all segments generally moved in line with the respective market indicators in the table below.

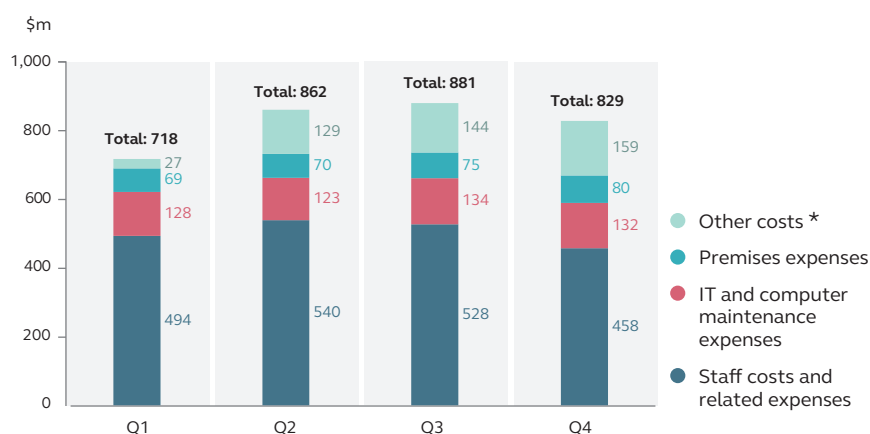
A one-off gain on disposal of a leasehold property of \$445 million was recorded under Corporate Items in the third quarter.

The key market indicators for the income of the Group by quarter are set out below:

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Total 2015
ADT of equity products traded on the Stock Exchange (\$bn)	65.5	129.0	75.9	51.3	79.9
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	20.9	35.9	25.6	20.6	25.7
ADT on the Stock Exchange (\$bn)	86.4	164.9	101.5	71.9	105.6
Average daily number of derivatives contracts traded on the Futures Exchange	309,356	422,477	443,304	400,212	394,174
Average daily number of stock options contracts traded on the Stock Exchange	363,322	523,860	375,780	241,192	374,346
Average daily volume of metals contracts traded on the LME (lots)	695,771	695,399	654,770	636,638	670,189
Number of newly listed DWs	1,498	2,124	1,552	1,162	6,336
Number of newly listed CBBCs	2,287	3,066	3,799	2,061	11,213
Number of newly listed companies on Main Board <sup>1</sup>	19	18	26	41	104
Number of newly listed companies on GEM	9	5	7	13	34

<sup>1</sup> Including 14 (Q1: 3; Q2: 2; Q3:7; Q4:2) transfers from GEM

## Analysis of 2015 Operating Expenses by Quarter



\* Other costs include product marketing and promotion expenses, legal and professional fees, and other operating expenses.

Staff costs moved in line with profit in the first three quarters as variable pay was accrued based on profit of the quarter. The drop in staff costs in the fourth quarter was due to lower variable pay accrual after the Board had fixed the total amount of variable pay for the year in December.

Other costs were lower in the first quarter due to a \$77 million recovery from the liquidators of Lehman Brothers Securities Asia Limited.

## Changes to Key Items in Consolidated Statement of Financial Position

### (A) Financial Assets and Financial Liabilities

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	Change
<b>Financial assets</b>			
Cash and cash equivalents	110,890	136,778	(19%)
Financial assets measured at fair value through profit or loss	72,705	62,686	16%
Financial assets measured at amortised cost	19,496	10,256	90%
<b>Total</b>	<b>203,091</b>	209,720	(3%)

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 31 Dec 2015 \$m	At 31 Dec 2014 \$m	Change
<b>Financial assets</b>			
Corporate Funds	15,636	10,264	52%
Margin Funds <sup>1</sup>	114,416	128,869	(11%)
Clearing House Funds	8,430	10,289	(18%)
Base metals derivatives contracts cleared through LME Clear	64,480	59,679	8%
Cash prepayments for A shares	129	619	(79%)
<b>Total</b>	<b>203,091</b>	209,720	(3%)

<sup>1</sup> Excludes margin receivable from CPs and Settlement Reserve Fund and Settlement Guarantee Fund which have been paid to ChinaClear of \$797 million (31 December 2014: \$615 million)

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	Change
<b>Financial liabilities</b>			
Base metals derivatives contracts cleared through LME Clear	64,480	59,679	8%
Other financial liabilities at fair value through profit or loss	6	1	500%
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	115,213	129,484	(11%)
Participants' contributions to Clearing House Funds	7,474	9,426	(21%)
<b>Total</b>	<b>187,173</b>	198,590	(6%)

The decrease in financial assets of Margin Funds and the drop in margin deposits, Mainland security and settlement deposits, and cash collateral from CPs at 31 December 2015 against those at 31 December 2014 was mainly due to lower margin deposits collected by LME Clear as more non-cash collateral was posted by Participants in lieu of cash margin.

The decrease in financial assets of Clearing House Funds was mainly attributable to less contributions required from Participants in response to market volatility and changes in risk exposures.

Base metals derivative financial assets and derivative financial liabilities of \$64,480 million (31 December 2014: \$59,679 million) represented the fair value of outstanding contracts cleared through LME Clear that did not qualify for netting treatment under relevant accounting standards, where LME Clear is acting in its capacity as a central counterparty to the metals contracts traded on the LME.

Corporate Funds at 31 December 2015 increased by \$5,372 million or 52 per cent as compared to those at 31 December 2014 mainly due to the retention of cash generated by the business over the past year partly offset by the cash component of the 2014 final dividend and 2015 interim dividend.

## (B) Fixed Assets, Intangible Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets dropped by \$72 million from \$19,504 million at 31 December 2014 to \$19,432 million at 31 December 2015. The drop was due to the disposal of a leasehold property with a net book value of \$59 million, and exchange losses of \$11 million arising from the effect of the depreciation of USD against HKD on the Group's investment in overseas subsidiaries. Depreciation and amortisation of \$684 million were offset by additions of \$682 million. The additions mainly related to the development and upgrade of various trading and clearing systems including the commodities trading and clearing systems, a cash clearing system, trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong, and a corporate Enterprise Resource Planning system.

The Group's capital expenditure commitments at 31 December 2015, including those authorised by the Board but not yet contracted for, amounted to \$961 million (31 December 2014: \$574 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.

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

Subsequent to 31 December 2015, the Group completed an internal reorganisation of its subsidiaries on 22 January 2016. Following the internal reorganisation, HKCC, SEOCH, The Stock Exchange Club 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 going forward.

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

## (D) Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities

The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2015 mainly comprised CNS money obligations receivable and payable and other receivables from and payables to EPs and CPs. Following the launch of Stock Connect, certain security deposits (Settlement Reserve Fund and Settlement Guarantee Fund) have been placed by HKSCC with ChinaClear to satisfy its obligations as a CP of ChinaClear. Further details are set out below.

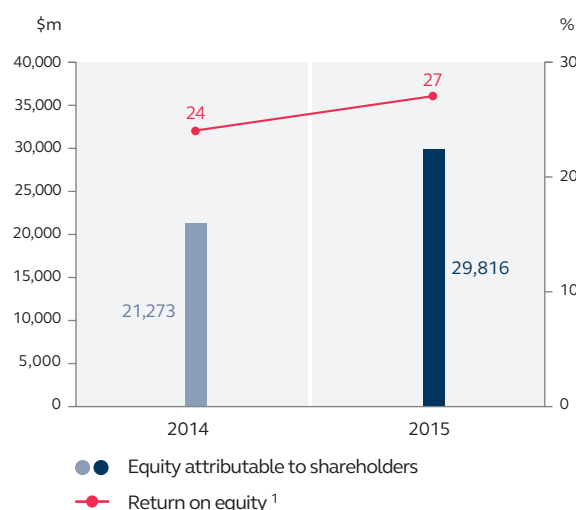
	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	Change
CNS money obligations receivable	13,529	20,410	(34%)
Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	794	611	30%
Other receivables from Participants	461	831	(45%)
Other accounts receivable, prepayments and deposits	776	753	3%
Less: provision for impairment losses of receivables	(4)	(82)	(95%)
<b>Total accounts receivable, prepayments and deposits</b>	<b>15,556</b>	<b>22,523</b>	<b>(31%)</b>
CNS money obligations payable	13,658	21,029	(35%)
Other payables to Participants	324	508	(36%)
Stamp duty payable to the Collector of Stamp Revenue	172	338	(49%)
Other accounts payable, accruals and other liabilities	1,131	974	16%
<b>Total accounts payable, accruals and other liabilities</b>	<b>15,285</b>	<b>22,849</b>	<b>(33%)</b>

The decrease in CNS money obligations receivable and payable was mainly due to lower market turnover of the Stock Exchange at the end of December 2015.

### (E) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased to \$29,816 million at 31 December 2015 from \$21,273 million at 31 December 2014. This arose from \$3,165 million of shares issued in lieu of cash dividends, \$3,734 million of shares issued for conversion of the Convertible Bonds (excluding the transfer from the convertible bond reserve to share capital and retained earnings which were all part of shareholders' equity) and an increase in retained earnings of \$1,744 million attributable to profit for the year less dividends declared, but was partly offset by the purchase of shares for Share Award Scheme of \$227 million.

#### Equity attributable to Shareholders and Return on Equity



Return on equity rose by 3 per cent due to the increase in profit attributable to shareholders in 2015.

<sup>1</sup> Based on equity attributable to shareholders at year-end

### Liquidity, Financial Resources and Gearing

Working capital rose by \$4,971 million to \$14,595 million at 31 December 2015 (31 December 2014: \$9,624 million). The increase was mainly due to profit attributable to shareholders of \$7,956 million, which was partly offset by the 2014 final dividend and 2015 interim dividend, net of scrip dividends, of \$3,047 million.

In 2015, all of the US\$500 million of Convertible Bonds with carrying value of HK\$3,701 million at 31 December 2014 were converted into HKEX shares at the adjusted conversion price of HK\$157.62 per share and cancelled upon the exercise of the conversion rights by the bondholders.

At 31 December 2015, the Group had the following outstanding borrowings:

	At 31 Dec 2015		At 31 Dec 2014	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	1,585	Jul 2020 & Jul 2021	1,585	Jul 2020 & Jul 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,516	Dec 2018 & Jan 2019	1,515	Dec 2018 & Jan 2019
Convertible Bonds	-	N/A	3,701	Oct 2017
Written put options to non-controlling interests	308	N/A	225	N/A
	<b>3,409</b>		<b>7,026</b>	

At 31 December 2015, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 12 per cent (31 December 2014: 34 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2014: 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), and adjusted capital 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 31 December 2015, the Group's total available banking facilities for its daily operations amounted to \$17,012 million (31 December 2014: \$17,012 million), which included \$10,000 million (31 December 2014: \$10,000 million) of committed banking facilities and \$7,000 million (31 December 2014: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2015, the total amount of the facilities was RMB17,000 million (31 December 2014: RMB17,000 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2014: 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 31 December 2015, 92 per cent (31 December 2014: 93 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

## Charges on Assets

Details of charges on assets are included in note 50 to the Consolidated Financial Statements of this Annual Report.

## Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 52(a)(i) – Foreign exchange risk management to the Consolidated Financial Statements of this Annual Report.

## Contingent Liabilities

Details of contingent liabilities are included in note 46 to the Consolidated Financial Statements of this Annual Report.

# 10-YEAR FINANCIAL STATISTICS

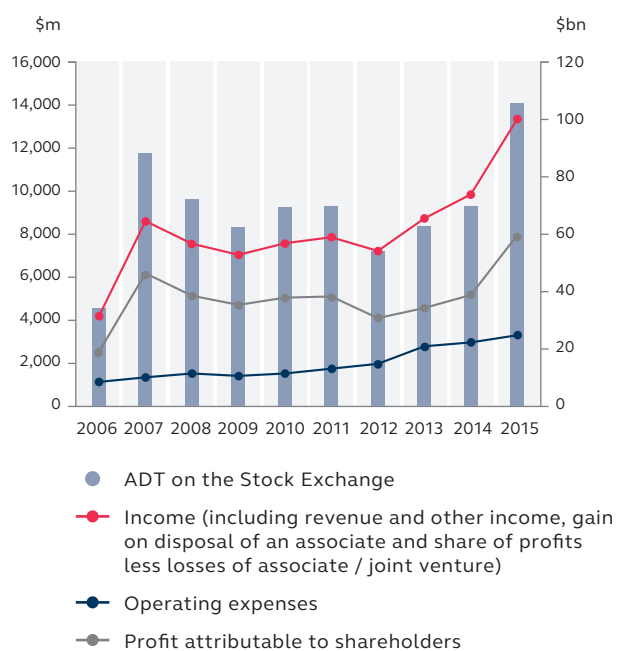
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>KEY MARKET STATISTICS</b>										
ADT on the Stock Exchange (\$bn)	105.6	69.5	62.6	53.9	69.7	69.1	62.3	72.1	88.1	33.9
Average daily number of derivatives contracts traded on the Futures Exchange ('000 contracts)	394	275	284	260	269	222	206	207	171	100
Average daily number of stock options contracts traded on the Stock Exchange ('000 contracts)	374	302	249	228	303	246	192	225	188	74
Average daily volume of metals contracts traded on LME* ('000 lots)	670	700	676	634	N/A	N/A	N/A	N/A	N/A	N/A
* HKEX completed the acquisition of the LME Group on 6 December 2012.										
<b>RESULTS</b>										
(\$m)										
Revenue and other income	13,375	9,849	8,723	7,211	7,855	7,566	7,035	7,549	8,390	4,147
Operating expenses	(3,290)	(2,958)	(2,777)	(1,957)	(1,733)	(1,505)	(1,392)	(1,511)	(1,333)	(1,111)
EBITDA	10,085	6,891	5,946	5,254	6,122	6,061	5,643	6,038	7,057	3,036
Depreciation and amortisation	(684)	(647)	(507)	(158)	(90)	(107)	(101)	(110)	(79)	(100)
Costs relating to acquisition of LME Group	-	-	-	(138)	-	-	-	-	-	-
Finance costs	(114)	(196)	(183)	(55)	-	-	-	-	-	-
Fair value loss on derivative component of Convertible Bonds	-	-	-	(55)	-	-	-	-	-	-
Gain on disposal of an associate	-	-	-	-	-	-	-	-	206	-
Share of profits less losses of associates/joint venture	(9)	(10)	(10)	(3)	-	-	-	-	6	27
Profit before taxation	9,278	6,038	5,246	4,845	6,032	5,954	5,542	5,928	7,190	2,963
Taxation	(1,347)	(900)	(700)	(761)	(939)	(917)	(838)	(799)	(1,021)	(445)
Profit for the year	7,931	5,138	4,546	4,084	5,093	5,037	4,704	5,129	6,169	2,518
Loss attributable to non-controlling interests	25	27	6	-	-	-	-	-	-	-
Profit attributable to shareholders	7,956	5,165	4,552	4,084	5,093	5,037	4,704	5,129	6,169	2,518
Dividend per share (\$)	5.95	3.98	3.54	3.31	4.25	4.20	3.93	4.29	5.19	2.13
Basic earnings per share (\$)	6.70	4.44	3.95	3.75	4.71	4.66	4.36	4.76	5.76	2.36
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>										
(\$m)										
Non-current assets	19,622	19,672	20,797	20,260	1,580	2,350	2,637	425	884	454
Current assets	218,571	232,188	65,146	60,577	52,448	45,534	42,695	62,397	87,070	40,207
Current liabilities	(203,976)	(222,564)	(57,538)	(55,337)	(44,809)	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)
Net current assets	14,595	9,624	7,608	5,240	7,639	6,374	5,710	7,177	7,797	5,073
Total assets less current liabilities	34,217	29,296	28,405	25,500	9,219	8,724	8,347	7,602	8,681	5,527
Non-current liabilities	(4,255)	(7,937)	(7,887)	(7,736)	(60)	(47)	(320)	(308)	(305)	(270)
Total equity	29,962	21,359	20,518	17,764	9,159	8,677	8,027	7,294	8,376	5,257
Non-controlling interests	(146)	(86)	(113)	-	-	-	-	-	-	-
Equity attributable to HKEX's shareholders	29,816	21,273	20,405	17,764	9,159	8,677	8,027	7,294	8,376	5,257
Equity per share <sup>1</sup> (\$)	24.74	18.26	17.59	15.48	8.50	8.06	7.46	6.79	7.83	4.94
<b>FINANCIAL RATIOS</b>										
Dividend payout ratio	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio <sup>2</sup>	25%	30%	32%	27%	22%	20%	20%	20%	15%	27%
Pre-tax profit margin <sup>2</sup>	69%	61%	60%	67%	77%	79%	79%	79%	84%	71%
Return on equity <sup>3</sup>	27%	24%	22%	23%	56%	58%	59%	70%	74%	48%
Current ratio	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1

1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December

2 For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates/joint venture.

3 Based on equity attributable to HKEX's shareholders at year end

## Income, Operating Expenses and Profit



Income of the Group has generally moved in line with market turnover but has also increased considerably since 2013 due to the income generated by the LME Group, which was acquired in December 2012.

Market sentiment was boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Mainland's Qualified Domestic Institutional Investor scheme, and the Mainland's proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals. In 2008 and 2009, the activity in the Stock Exchange dropped as market sentiment was stricken by the global economic downturn and stock prices tumbled following the financial tsunami which started in the fourth quarter of 2008. Investor sentiment began to recover in 2010 and considerable growth in market turnover was recorded in the fourth quarter due to ample liquidity and continuing economic growth on the Mainland and in other parts of Asia. Due to worries over the Eurozone sovereign debt crisis and economic uncertainty, market activities slowed down in the second half of 2011. Market sentiment remained subdued in 2012 until the fourth quarter with further quantitative easing (QE) in the US and an influx of funds into Hong Kong. In 2013, market sentiment was generally boosted by the positive investor confidence and market momentum brought by the continuing QE policy of the US and bullish sentiment on China stocks with the new leadership changes in the first quarter. In the second half of 2014, market sentiment was boosted by the launch of Stock Connect and further relaxation of policies by the Mainland to strengthen economic growth. With the commercialisation of LME's trading fees from 1 January 2015 and a full year's contribution from LME Clear (launched in September 2014), the contribution from the Group's UK operations increased considerably in 2015. In the first half of 2015, market sentiment in Hong Kong was further boosted by the Mainland's ongoing liberalisation of its economy and capital markets, and the booming Mainland stock market in particular during the second quarter. However, in the second half of 2015, the stock markets in Hong Kong and the Mainland experienced a heavy sell down and turned into bear markets due to the depreciation of RMB, fears of an economic hard landing in the Mainland and rising interest rates driven by the US Federal Reserve.

Operating expenses have increased steadily due to the implementation of various strategic initiatives but have been moderated by stringent cost controls on normal operations. They rose considerably from 2013 due to the inclusion of the expenses of the LME Group.

Profit attributable to shareholders was predominately affected by the level of income.

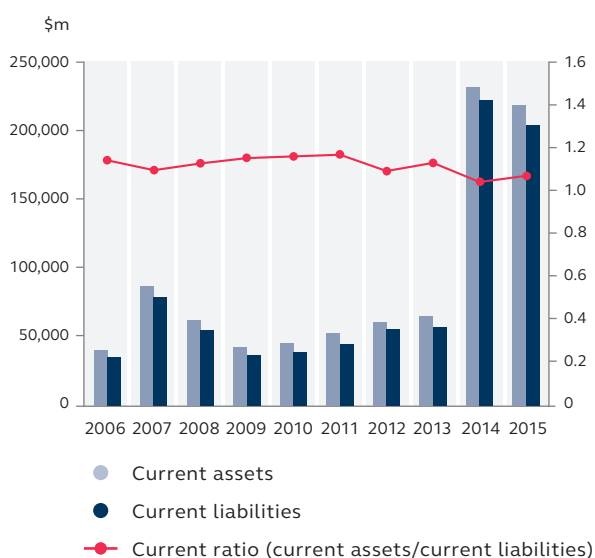
### Basic Earnings and Dividends per Share



Earnings per share followed profit attributable to shareholders.

Dividends per share moved in line with earnings per share as the Board has adopted a policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent.

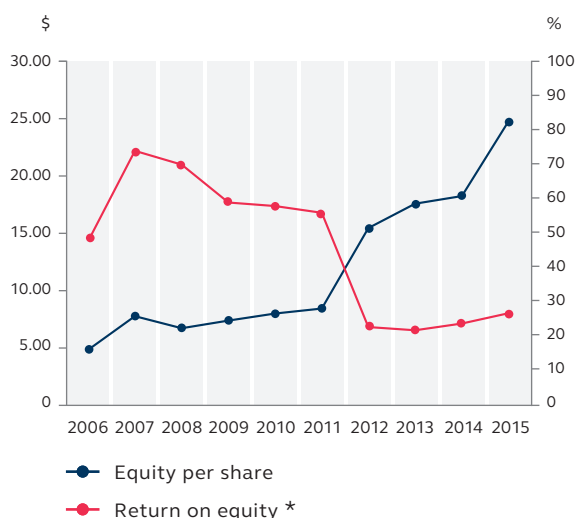
### Current Assets, Current Liabilities and Current Ratio



Prior to 2014, current assets and current liabilities were directly affected by the CNS money obligations receivable and payable under the T+2 settlement cycle and the Margin Funds. Therefore, the amounts generally followed the level of activity on the Stock Exchange and the Futures Exchange.

Since the launch of LME Clear in September 2014, significant amounts of Margin Funds and Clearing House Funds were received by LME Clear. In addition, derivative financial assets and derivative financial liabilities in respect of the fair values of outstanding base metals futures and options contracts cleared through LME Clear, that do not qualify for netting treatment under relevant accounting standards, are recorded on the consolidated statement of financial position. As a result, the Group's current assets and current liabilities have trebled since 2014.

### Equity per Share and Return on Equity



Equity per share has been increasing as a result of increasing profits from 2006 to 2007. They dropped in 2008 as total dividends paid (which were based on the higher profit in the second half of 2007 and the first half of 2008) were higher than the profit for the year. Equity per share rose during 2009 to 2011 as profits increased. The significant rise in 2012 was mainly due to a \$7,708 million share placement in December 2012. There was a further considerable increase in equity per share in 2015 due to \$7,057 million worth of shares issued on conversion of the Convertible Bonds and for scrip dividends in lieu of cash dividends.

Return on equity generally moved in line with profit attributable to shareholders. The decline in 2008 was due to a drop in profit caused by the financial tsunami. In 2010 and 2011, return on equity declined mainly attributable to the increase in equity due to profits retained. In 2012, it fell significantly mainly due to the lower profit for the year and the share placement in December 2012. Return on equity has improved since 2014 as the percentage increase in profit attributable to shareholders outpaced the percentage increase in equity.

\* Based on equity attributable to HKEX's shareholders at year end



# CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of HKEX's business.

HKEX's key corporate governance practices and activities during the year ended 31 December 2015 are set out in this report and certain committee reports, as well as the 2015 CSR Report which will be published on the HKEX website together with this Annual Report. All the Committee Reports form part of this report.

More details about HKEX's corporate governance framework, principles and practices are available on the HKEX website.

## Committee Reports

Nomination Committee Report: pages 86 and 87  
Audit Committee Report: pages 88 to 90  
Risk Committee Report: pages 91 to 94  
Remuneration Committee Report: pages 95 to 101  
ESG Committee Report: pages 102 and 103

## HKEX website – About HKEX section

Organisation [ORG](#)  
Investor Relations [IR](#)  
Corporate Governance [CG](#)  
Corporate Social Responsibility [CSR](#)

## Compliance with Corporate Governance Code

Throughout the year 2015, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the following exceptions:

### Code Provision A.4.1 (Re-election of non-executive 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.

### Code Provision A.4.2 (Retirement by rotation of directors)

HKEX's Chief Executive in his capacity as a Director is not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles.

HKEX has applied the principles of the Corporate Governance Code to its corporate governance structure and practices in the manner as described in this report and set out on the HKEX website [CG/IR/ORG](#). The Board has delegated its corporate governance functions to the ESG Committee. A summary of the work done by the ESG Committee in 2015/2016 is set out in the ESG Committee Report.

## Strategic Planning

HKEX adopts a rigorous and continuing strategic planning process to identify and assess the opportunities and challenges that the Group might face and to develop a planned course of action for the Group to generate sustainable long-term value for Shareholders.

In 2015, HKEX concluded its three-year strategic plan for 2013-2015. Details of the progress made during the year are reported in the Chief Executive's Review and Business Review sections of this Annual Report.

HKEX has formulated a new three-year strategic plan for 2016-2018, which is outlined in the HKEX Strategic Plan 2016-2018 section of this Annual Report.

### Development of Strategic Plan for 2016-2018

#### February 2015

Reviewed progress in implementing Strategic Plan 2013-2015

#### September 2015

Discussed strategic foundations in the past 3 years and strategic options in the coming years

#### December 2015

Board approved Strategic Plan 2016-2018

#### January 2016

Announced Strategic Plan 2016-2018

## The Board

### Board Composition

The Board structure is governed by HKEX's Articles and the SFO. A Board Diversity Policy has been in place since 2013 to broaden the diversity on the Board, and the policy is available on the HKEX website [CG](#).



The names of the Directors in office during 2015 and brief biographies of the current Directors are included in the Board of Directors and Senior Management section of this Annual Report.

Under HKEX's Articles, the term of office of Non-executive Directors is not more than 3 years (subject to re-appointment or re-election), although each Government Appointed Director is normally appointed for a term of approximately 2 years. The staggered terms of service enable the Board to have a core team of veteran Directors who are conversant with the Group's ongoing business as well as new members with fresh perspectives. They also help bring diverse experience to the Board. On 2 March 2016, the Board accepted the nomination by the Nomination Committee and recommended Apurv Bagri to stand for election by Shareholders at the 2016 AGM.

Information about the Board Diversity Policy, nomination of Board candidates, promoting Board diversity and independence assessment of INEDs during 2015/2016, is set out in the Nomination Committee Report.

## Chairman and Chief Executive

The roles of HKEX's Chairman and Chief Executive are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Details of their respective roles and responsibilities are available on the HKEX website [CG](#).

### Key Responsibilities of HKEX's Chairman and Chief Executive

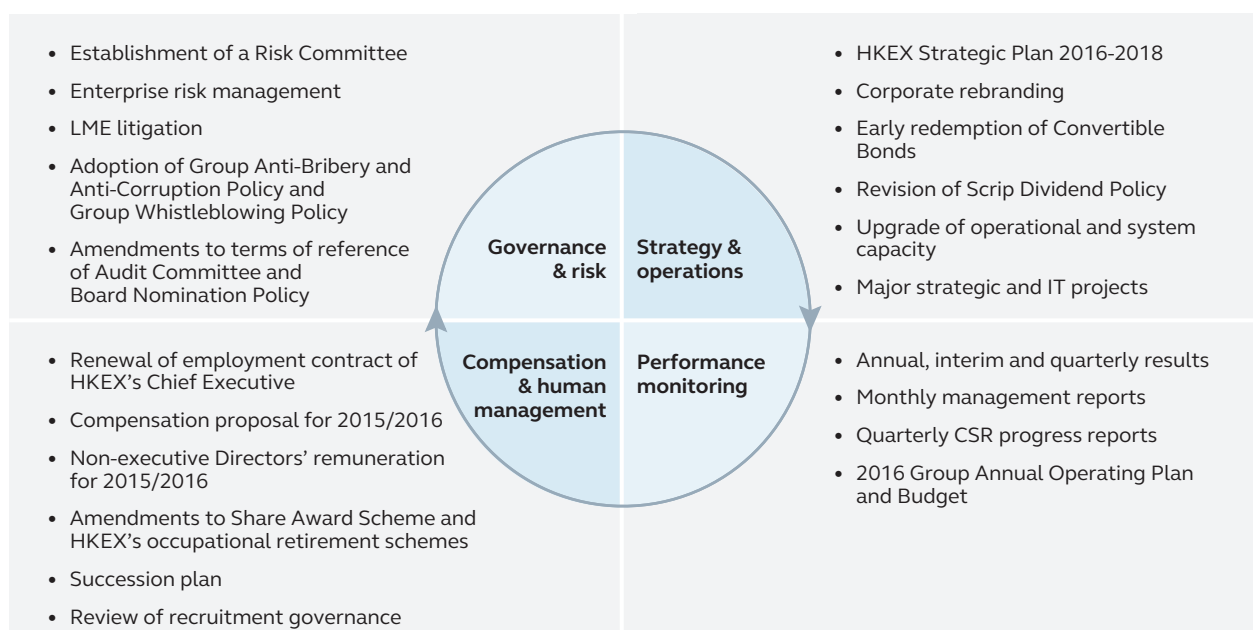


## Roles and Responsibilities

Good governance emanates from an effective and accountable board. The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation by management, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. For effective oversight and leadership, the Board regularly reviews reports from HKEX's Chief Executive and senior management on progress with respect to approved strategies, plans and budgets, and receives updates/advice from Board committees, Consultative Panels and management on the governance, business performance and development of the Group. Further details relating to Board committees, Consultative Panels and HKEX's management functions are set out in the Board Delegation section below.

The Board operates under defined terms of reference which set out matters that are specifically reserved for the Board's decision. The terms of reference are available on the HKEX website [ORG](#).

### Key Matters Addressed by the Board during 2015



## Induction and Development

A comprehensive induction programme was provided to the two newly appointed Directors, Anita Fung and Rafael Gil-Tienda, in April 2015 to ensure that they have a firm understanding of the Group's operations and governance policies as well as their role and responsibilities.

Key Areas Covered by Induction Programme	Facilitated by
<ul style="list-style-type: none"> <li>• HKEX's roles and group structure, governance structure, Board procedures, Director's responsibilities, guidelines on conduct, CSR strategy and management</li> </ul>	Company Secretary
<ul style="list-style-type: none"> <li>• Director's duties and responsibilities</li> </ul>	External legal adviser
<ul style="list-style-type: none"> <li>• HKEX's key business areas</li> <li>• Financial and risk management</li> </ul>	Respective division/department heads and senior executives

Every new Board member is also given a Director's Handbook which contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct and information on other key governance issues. The Director's Handbook was updated in October 2015, and it is available on the HKEX website [CG](#).

Ongoing development and training of Directors can help them keep abreast of current trends and issues facing the Group, while enabling them to update and refresh their skills and knowledge. All Directors are required to provide HKEX with their training records, and to confirm their respective records on a semi-annual basis. The records are maintained by the Company Secretary for annual review by the ESG Committee. In 2015, each Director (excluding those retired at the end of the 2015 AGM) received more than 17 hours of training, while the majority attended over 20 hours. The Directors received an aggregate of about 443 hours of training.

### 2015 Directors' Training by Topic

	HKEX's strategy/business	Economy/financial markets and products	Director's duties/governance practices	Risk management	Legislative/regulatory compliance	Others <sup>1</sup>
<b>INEDs</b>						
C K Chow (Chairman)	✓				✓	✓
T C Chan	✓	✓	✓	✓	✓	✓
Timothy Freshwater	✓		✓		✓	
Anita Fung <sup>2</sup>	✓	✓	✓			
Rafael Gil-Tienda <sup>2</sup>	✓		✓			
John Harrison	✓		✓		✓	✓
Fred Hu	✓	✓				
Stephen Hui <sup>3</sup>	✓		✓		✓	
Bill Kwok	✓	✓	✓		✓	
Michael Lee <sup>3</sup>	✓		✓			✓
Vincent Lee	✓	✓		✓		✓
Margaret Leung	✓	✓		✓	✓	✓
John Williamson	✓		✓			
Oscar Wong	✓		✓			
<b>Executive Director</b>						
Charles Li	✓	✓	✓			✓

<sup>1</sup> Includes topics such as IT and management

<sup>2</sup> Ms Fung and Mr Gil-Tienda were appointed as Directors effective 29 April 2015.

<sup>3</sup> Messrs Hui and Lee retired from the Board effective 29 April 2015.

## Board Process

Key Features of Board Process in 2015	
Regular meetings	<ul style="list-style-type: none"> <li>The Board held 9 regular meetings and 2 offsite meetings in 2015. In addition, HKEX's Chairman had regular gatherings with Directors, occasionally without the presence of HKEX's Chief Executive, to consider issues in an informal setting.</li> </ul>
Forward planning	<ul style="list-style-type: none"> <li>All Board meetings were scheduled well before the start of the year.</li> <li>The Board maintained a standing agenda of items to ensure that matters relating to strategy, finance, major projects, governance, risk management and compliance were covered in its meetings at appropriate intervals during the year.</li> </ul>
Guidelines and policies	<ul style="list-style-type: none"> <li>The Escalation and Incident Reporting Policy sets out the guidelines on handling critical concerns relating to the Group's operations and performance.</li> <li>The Continuous Disclosure and Communication Policy sets out the guidelines on reporting and disseminating inside information.</li> <li>The Director's Handbook sets out the procedures to deal with Directors' conduct.</li> </ul>
Conflicts of interests	<ul style="list-style-type: none"> <li>To safeguard their independence, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from meetings or voting on the proposals. In 2015, Tim Freshwater did not participate in discussions on a legal issue where there was a potential conflict of interest.</li> <li>Interests (such as directorships, offices held, and shareholding/economic interests) declared by Directors are recorded in a register which is accessible by all Directors.</li> </ul>
Professional advice	<ul style="list-style-type: none"> <li>All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense. No such advice was sought in 2015.</li> <li>Independent legal advice was sought on the issue of director independence at the request of the Nomination Committee.</li> </ul>
Timely access to information	<ul style="list-style-type: none"> <li>All Directors have access to Board/committee papers through an electronic platform which ensures timely and secure delivery of information to Directors whilst at the same time reducing the environmental impact of Board/committee meetings.</li> <li>An electronic reading room has been set up to provide Directors with easy access to information relevant to their duties.</li> </ul>

## Attendance Record of Directors and Committee Members in 2015

	2015 AGM	Board	Audit Committee	ESG Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk <sup>1</sup> Committee	Risk Management Committee (statutory)
<b>Number of Meetings</b>	1	11	4	1	6	4	2	1	5	3	6
<b>Total Duration (Approximate number of hours)</b>	1	38	8	1	3	7	1	1	8	5	6
<b>INEDs</b>											
C K Chow (Chairman)	1/1	11/11		1/1	6/6		2/2		5/5	3/3	6/6
T C Chan	1/1	11/11	4/4				2/2	1/1		3/3	6/6
Timothy Freshwater <sup>2</sup>	1/1	11/11			2/2	4/4	2/2		3/4		
Anita Fung <sup>3</sup>		8/8	2/3			3/3		-			
Rafael Gil-Tienda <sup>4</sup>		8/8		-						2/3	
John Harrison	1/1	11/11	4/4							3/3	
Fred Hu <sup>5</sup>	1/1	9/11				3/3	1/1				
Stephen Hui <sup>6</sup>	1/1	3/3		1/1		1/1					
Bill Kwok	1/1	11/11	4/4		6/6			1/1	5/5		
Michael Lee <sup>7</sup>	1/1	3/3	1/1	1/1		1/1		1/1			
Vincent Lee <sup>8</sup>	1/1	11/11	1/1	-	6/6			1/1	5/5		
Margaret Leung <sup>9</sup>	1/1	11/11			4/4				1/1	3/3	4/6
John Williamson	1/1	11/11	4/4	1/1			2/2		5/5		
Oscar Wong <sup>10</sup>	1/1	11/11				4/4	1/1	1/1			
<b>Executive Director</b>											
Charles Li	1/1	11/11		1/1	6/6						
<b>Market Professionals</b>											
Chan Ngai Hang <sup>11</sup>											4/4
Lawrence Lam <sup>12</sup>											1/2
Howard Lee											5/6
Michael Liu <sup>11</sup>											1/4
David Lui <sup>13</sup>						1/1					6/6
Keith Lui											2/2
Barbara Shiu <sup>12</sup>											6/6
May Tan											6/6
<b>Average Attendance Rate</b>	<b>100%</b>	<b>99%</b>	<b>95%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>96%</b>	<b>93%</b>	<b>85%</b>

1 The Risk Committee was established on 5 March 2015.

2 Mr Freshwater was appointed to the Remuneration Committee on 30 April 2015 and ceased to be a member of the Executive Committee on the same date.

3 Ms Fung was appointed to the Board on 29 April 2015 and to the Audit Committee, the Investment Advisory Committee, and the Panel Member Nomination Committee on 30 April 2015. No meeting of the Panel Member Nomination Committee took place between 30 April and 31 December 2015.

4 Mr Gil-Tienda was appointed to the Board on 29 April 2015 and to the ESG Committee and the Risk Committee on 30 April 2015. No meeting of the ESG Committee took place between 30 April and 31 December 2015.

5 Dr Hu was appointed to the Investment Advisory Committee and the Nomination Committee on 30 April 2015.

6 Mr Hui retired from the Board, the ESG Committee and the Investment Advisory Committee on 29 April 2015.

7 Mr Lee retired from the Board, the Audit Committee, the ESG Committee, the Investment Advisory Committee and the Panel Member Nomination Committee on 29 April 2015.

8 Mr Lee was appointed to the ESG Committee on 30 April 2015 and ceased to be a member of the Audit Committee on the same date. No meeting of the ESG Committee took place between 30 April and 31 December 2015.

9 Mrs Leung retired from the Remuneration Committee on 29 April 2015 and was appointed to the Executive Committee on 30 April 2015.

10 Mr Wong ceased to be a member of the Nomination Committee on 30 April 2015.

11 Messrs Chan and Liu ceased to be members of the Risk Management Committee (statutory) on 1 July 2015.

12 Mr Lam and Ms Shiu were appointed to the Risk Management Committee (statutory) on 1 July 2015.

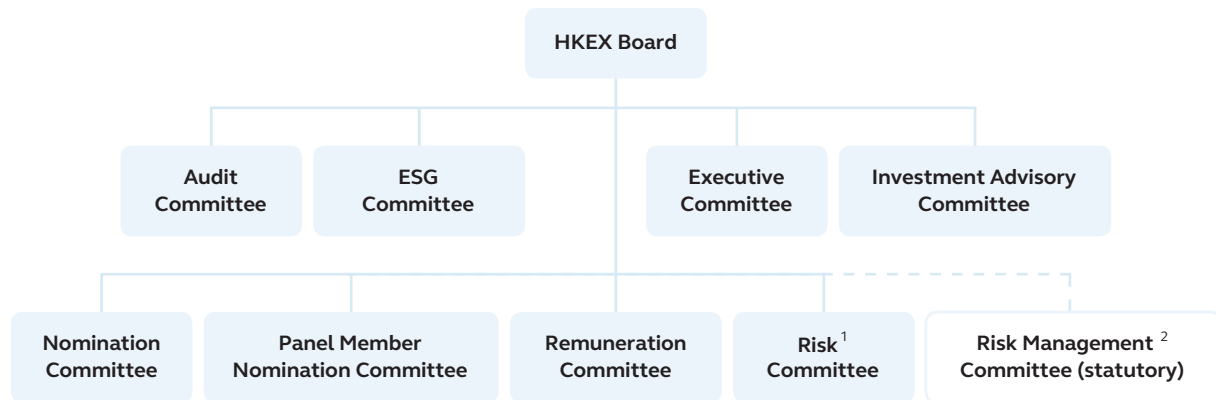
13 Mr Lui retired from the Investment Advisory Committee on 30 April 2015.

## Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to HKEX's Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management.

The Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2015, the Company Secretary had over 15 hours of professional training to update his skills and knowledge.

## Board Delegation Committees



<sup>1</sup> Established in 2015

<sup>2</sup> A statutory committee established under Section 65 of the SFO

The Board has delegated authority to various committees to deal with specific matters under defined terms of reference. The composition and terms of reference of these Board committees are reviewed and updated regularly to ensure that they remain appropriate and in line with the Group's business and changes in governance practices. Board committee information is available on the HKEX website [CG/ORG](#). The list of members of the Board committees is set out in the Board and Committees section of this Annual Report, and their attendance record is set out in the Board Process section above.

### Consultative Panels

HKEX has 3 Consultative Panels which provide market expertise and advice to the Board in relation to the trading and clearing in Hong Kong's securities and derivatives markets. The composition and terms of reference of the Consultative Panels are available on the HKEX website [ORG](#).

#### Number of Panel Meetings Held in 2015

Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	3
Clearing Consultative Panel	2

### Management

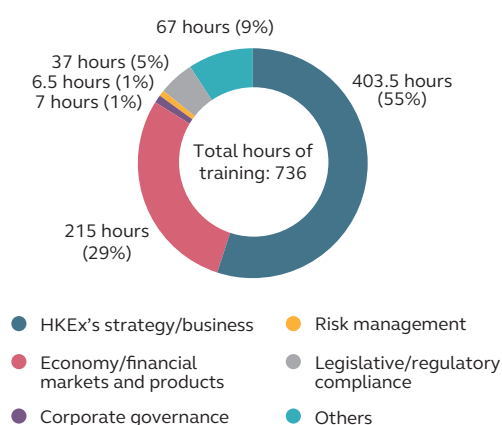
Senior management, under the leadership of HKEX's Chief Executive, is responsible for the day-to-day management of the Group's businesses and implementation of the strategies approved by the Board. The Management Committee, a decision-making body of the Group chaired by HKEX's Chief Executive, aims to meet at least twice a month. Its membership and duties are available on the HKEX website [ORG](#). The list of members of the Management Committee is set out in the Management Committee section of this Annual Report.

During 2015, Charles Li was re-appointed as HKEX's Chief Executive for a further term of 3 years up to 15 October 2018, and several senior management changes were made to support HKEX's strategic focus on Mainland connectivity and to strengthen its executive team. In January 2016, HKEX further optimised its group structure to prepare for the launch of the HKEX Strategic Plan 2016-2018. Details are set out in the News & Consultations (News Releases) section of the HKEX website. HKEX's updated organisation structure is available on the HKEX website [ORG](#). The members of the senior management team and their biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

The Board recognises the importance of ensuring continuity in senior management and identifying leaders with appropriate skills and experience to support delivery of the Group's strategic initiatives. Succession planning for senior management is considered by the Board annually.

Given the competitive business environment in which the Group operates, HKEX arranges professional development programmes for its senior management from time to time to support its long-term growth and success. Other employees of the Group also attended training throughout the year, with details set out in the 2015 CSR Report.

### 2015 Senior Management's Training by Topic



### Subsidiary Governance

HKEX is committed to fostering good governance at all levels of the organisation. To ensure there is an integrated, Group-wide approach towards upholding high governance standards, efforts have been made to strengthen the governance structures and processes of HKEX's subsidiaries.

To help ensure effective oversight of its subsidiaries, HKEX promotes governance linkages within the Group through common memberships between the Board and the subsidiaries' boards/committees and appointment of HKEX's senior management to the subsidiaries' boards. Details about the governance structures of the Group's principal subsidiaries (including composition and terms of reference of their boards and committees) are available on the HKEX website [ORG](#).

HKEX has implemented a number of Group-wide governance policies to ensure best practices across the organisation. During 2015, the Board approved implementation of the Group Anti-Bribery and Anti-Corruption Policy and the Group Whistleblowing Policy to support HKEX's commitment to adhere to high standards of business, professional and ethical conduct. Information about these policies is available on the HKEX website [CSR](#).

### Remuneration of Directors and Senior Management

HKEX has formal and transparent procedures for fixing the remuneration packages of individual Directors and senior management. Information about HKEX's remuneration policies and the Remuneration Committee, including its work in 2015/2016, is set out in the Remuneration Committee Report.

### Directors' Securities Transactions and Interests in HKEX

#### 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 2015.

#### 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 31 December 2015 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 <sup>1</sup> shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Margaret Leung	–	3,101 <sup>3</sup>	–	–	3,101	0.00
Charles Li	701,855 <sup>4</sup>	–	–	–	701,855	0.05

<sup>1</sup> Based on 1,208,536,325 HKEX shares in issue as at 31 December 2015

<sup>2</sup> Mr Chow was the beneficial owner of those shares.

<sup>3</sup> Mrs Leung's spouse was the beneficial owner of those shares.

<sup>4</sup> It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 403,419 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report.

Save as disclosed above, as at 31 December 2015, 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 Awarded Shares as disclosed in the Remuneration Committee Report, during 2015, 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

As at the date of this report, other than the Government which has been a Minority Controller since 7 September 2007, 9 entities have 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 31 December 2015, these Minority Controllers in aggregate held approximately 59 per cent of HKEX shares in issue.

#### Minority Controller

- 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.
- 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. The provisions of Section 61 of the SFO do not bind the Government.

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 31 December 2015 are set out below.

### Long Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX <sup>1</sup> shares in issue
JPMorgan Chase & Co	Beneficial owner	34,789,930	63,576,097 <sup>2</sup>	5.26
	Investment manager	4,567,164		
	Trustee (other than a bare trustee)	608		
	Custodian corporation/ approved lending agent	24,218,395		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>3</sup>	66,730,300	5.52

## Short Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX <sup>1</sup> shares in issue
JPMorgan Chase & Co	Beneficial owner	10,441,802	10,441,802 <sup>4</sup>	0.86

<sup>1</sup> Based on 1,208,536,325 HKEX shares in issue as at 31 December 2015

<sup>2</sup> It included an aggregate interest in 10,549,143 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (5,601,267 underlying shares), physically settled unlisted equity derivatives (2,399,577 underlying shares), cash settled listed equity derivatives (1,304,600 underlying shares) and cash settled unlisted equity derivatives (1,243,699 underlying shares). It also included 24,218,395 shares in a lending pool.

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

<sup>4</sup> It included an aggregate interest in 10,192,161 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (2,536,722 underlying shares), physically settled unlisted equity derivatives (1,945,432 underlying shares), cash settled listed equity derivatives (4,423,550 underlying shares) and cash settled unlisted equity derivatives (1,286,457 underlying shares).

Save as disclosed above, 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, as at 31 December 2015.

## Senior Management

Members of the senior management are obliged to follow the Company's restrictions on dealing in securities, futures contracts and other derivatives, which are on terms no less stringent than the Model Code, as set out in HKEX's Human Resources Manual. Senior Management's interests in the shares and underlying shares of HKEX as at 31 December 2015 are set out below.

Senior Management	Number of shares held	Number of shares remained unvested under the Share Award Scheme	Derivatives (number of underlying shares)
Margaret Cheng	7,472	46,003	–
Bill Chow	425,577	20,914	–
Adrian Farnham	9,332	43,935	–
David Graham	19,876	61,778	–
Garry Jones	5,844	77,261	–
Paul Kennedy	4,327	33,139	–
Romnesh Lamba	130,457	84,982	–
Roger Lee	292,458	59,382	–
Richard Leung	57,801	34,804	–
Li Gang	–	26,437	–
Mao Zhirong	3,173	27,934	–
Ketan Patel	8,976	19,480	–
Trevor Spanner	13,783	78,120	–
Calvin Tai	115,928	58,572	–

## Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEX from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The waiver has remained valid since then. During 2015 and subject to the waiver, the Group had the following continuing connected transactions:

A. Transactions between HKEX or its subsidiaries and the following connected persons arising from or in connection with the use of the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.
- Vincent Lee, an INED, was interested in the transactions entered into by Hang Tai Securities Limited, Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.

B. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the listing, or proposed listing, of securities on the Stock Exchange, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Dr Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.

C. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for: (i) carrying out "buy-in" when a CCASS Participant has failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):

- WSL is one of the brokers appointed by HKSCC under an agreement for assisting HKSCC to carry out Buy-in Transactions. Dr Kwok, an INED, is interested in any Buy-in Transactions entered into by WSL which is his associate by virtue of the Main Board Listing Rules. During 2015, no Buy-in Transactions were conducted by WSL.

The Board has delegated the Audit Committee to review the above continuing connected transactions pursuant to Main Board Listing Rule 14A.55. The results of the Audit Committee's review are set out in the Audit Committee Report.

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor issued its unqualified report containing its findings and conclusions in respect of the transactions disclosed above in accordance with Main Board Listing Rule 14A.56. The Company provided a copy of the said report to the SFC and the Stock Exchange.

## Material Related Party Transactions

During 2015, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards. Material related party transactions are disclosed in note 49 to the Consolidated Financial Statements. The transactions in connection with services incidental or related to facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, or listing of securities on the Stock Exchange as described in note 49(a) fall under the definition of continuing connected transactions under the Main Board Listing Rules. These transactions have satisfied the conditions of the waiver granted by the SFC from strict compliance with the Main Board Listing Rules. The transactions in relation to key management personnel compensation as disclosed in note 49(b) included compensation to HKEX’s Chief Executive and directors of HKEX’s subsidiaries which also fall under the definition of continuing connected transactions under the Main Board Listing Rules and are exempt from the connected transaction requirements under Main Board Listing Rule 14A.76 or 14A.95.

## Accountability and Audit

### Financial Reporting

The Board, which is responsible for overseeing the preparation of annual financial statements, receives monthly management accounts and updates on the Group’s performance, financial position and prospects. In preparing the financial statements for the year ended 31 December 2015, the Board adopted appropriate accounting policies consistently, made prudent and reasonable judgements and estimates, and ensured that the financial statements were prepared on a going concern basis and show a true and fair view of the state of affairs of HKEX and of the Group as at 31 December 2015 and of the Group’s profit and cash flows for the year.

The Board is committed to presenting a balanced, clear and comprehensible assessment of the Group’s operational performance, financial results and prospects to Shareholders and other stakeholders in a timely manner. In 2015, HKEX published its annual, interim and quarterly results within 3 months, 2 months and 45 days respectively after the relevant period end.

### Risk Management and Internal Control

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group’s strategic objectives, and maintaining sound and effective risk management and internal control systems (including reviewing their effectiveness) to safeguard Shareholders’ investment and the Group’s assets. To this end, management continues to allocate resources for an internal control and risk management system compatible with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. Details about the Group’s Risk Governance structure and Group’s Risk Management Policy Framework, and the Group’s key control procedures, are set out in the Risk Committee Report and on the HKEX website [CG](#), respectively.

The Board, through the Risk Committee and the Audit Committee, has reviewed the adequacy and effectiveness of the Group’s risk management and internal control systems. Information about the Risk Committee and the Audit Committee, including their work in 2015/2016, is set out in their respective reports contained in this Annual Report.

## Independence of External Auditor

HKEX has engaged PricewaterhouseCoopers as its external auditor. An analysis of remuneration in respect of audit and non-audit services provided by PricewaterhouseCoopers and details of the Audit Committee's work in assessing the independence of PricewaterhouseCoopers and ensuring audit effectiveness are set out in the Audit Committee Report.

Information about HKEX's policies and procedures in safeguarding and supporting the independence and objectivity of the external auditor is available on the HKEX website [CG](#).

## Shareholder Relations

The Board gives high priority to maintaining balanced, clear and transparent communications with Shareholders and other investors to facilitate their understanding of the Group's performance, prospects and the market environment in which it operates. HKEX has an ongoing dialogue with Shareholders and other investors through various communication channels to exchange views and understand any issues of concern, which would be taken into consideration whilst formulating its business strategies.

## Investor Engagement and Communications

A dedicated investor relations team is responsible for acting as HKEX's primary contact for investors and analysts. Through its well-established and comprehensive engagement programme, institutional investors are given opportunities to meet with HKEX's Chief Executive and other senior executives to gain a better understanding of the Group's operations and strategic plans. During 2015, roughly 290 meetings were held with institutional investors and analysts in Hong Kong and overseas. To facilitate more focused and effective investor relations, a shareholding analysis was conducted under Section 329 of the SFO to give management a better view of HKEX's shareholding structure.

### Key Investor Relations Activities

- Small group/one-to-one meetings
- Non-deal roadshows
- Analyst briefings
- Investor conferences

### Investor Relations Contact Details

- Email: [info@hkex.com.hk](mailto:info@hkex.com.hk)
- Fax: (852) 2868 4084
- Tel: (852) 2840 3330

Investors' views are regularly shared with the Board through the investor relations team's updates which contain analysis of HKEX share price performance, details of sell-side broker recommendations, market consensus updates, and summaries of questions and feedback from investors and analysts.

To foster institutional investors' understanding of the Group's governance performance, HKEX continues to provide information to international ESG rating agencies upon request in relation to the Group's governance policies and practices.

Further information about the Group's stakeholder engagement activities in 2015 is set out in the 2015 CSR Report.

## Shareholder Engagement and Communications

### Corporate communications

- HKEX ensures prompt dissemination of corporate communications to enable Shareholders and other stakeholders to keep abreast of the Group's business affairs and developments so that they can make informed decisions.
- The HKEX website, which provides Shareholders with access to corporate communications and other information relating to the Group, has become the primary channel of communication with the investing public. As at 31 December 2015, about 68 per cent of Shareholders opted to receive corporate communications via electronic means.

### Financial key dates

- The financial calendar highlighting important dates for Shareholders in 2016 is set out in the Shareholder Information section of this Annual Report and is also available on the HKEX website [IR](#).

### Scrip dividend scheme

- HKEX offers Shareholders the option of receiving their cash dividends in the form of scrip. To facilitate Shareholders' reinvestment of their dividends in HKEX shares, the Board in 2015 resolved a 5 per cent discount on the subscription price be offered to Shareholders who elect the scrip alternative. Further details relating to HKEX's scrip dividend scheme are set out in the Shareholder Information section of this Annual Report and are also available on the HKEX website [IR](#).

### General meetings

- Shareholder(s) representing at least 5 per cent of the total voting rights of all Shareholders having a right to vote at general meetings may request the Board to call a general meeting. The request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved, at the meeting. Such requests must be sent to the Company Secretary by depositing at HKEX's registered office or via email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).
- Under HKEX's Articles, if a Shareholder wishes to propose a person for election as a Director at a general meeting, he or she should submit a written notice of nomination to the Company Secretary at HKEX's registered office. Details of the procedures for nominating candidates to stand for election as a Director at the 2016 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report.
- Shareholders may put forward proposals at general meetings by submitting a written notice of their proposals to the Company Secretary via depositing at HKEX's registered office or via email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk). Details of the procedures for putting forward proposals by Shareholders are set out on the HKEX website [CG](#).

### Policies and guidelines

- A Shareholders Communication Policy is in place to ensure that Shareholders are provided with ready, equal and timely access to information about HKEX. The policy is regularly reviewed to ensure its effectiveness and is posted on the HKEX website [CG](#).
- A Shareholders' Guide with answers to the frequently asked questions of Shareholders with regard to their interests in HKEX shares is posted on the HKEX website [CG](#).

### Shareholding analysis

- Based on publicly available information and within the Directors' knowledge as at the date of this report, approximately 100 per cent of the HKEX shares were held by the public. Periodic analysis of HKEX's shareholding profile is conducted to help better understand Shareholders' interests and needs. HKEX's market capitalisation and shareholder analysis as at 31 December 2015 are set out in the Shareholder Information section of this Annual Report.

The Board is grateful to Shareholders and other stakeholders for their support and welcomes their views as well as any questions they may have about the management and governance of the Group. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to the Company Secretary by post to the Secretarial Services Department, HKEX, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

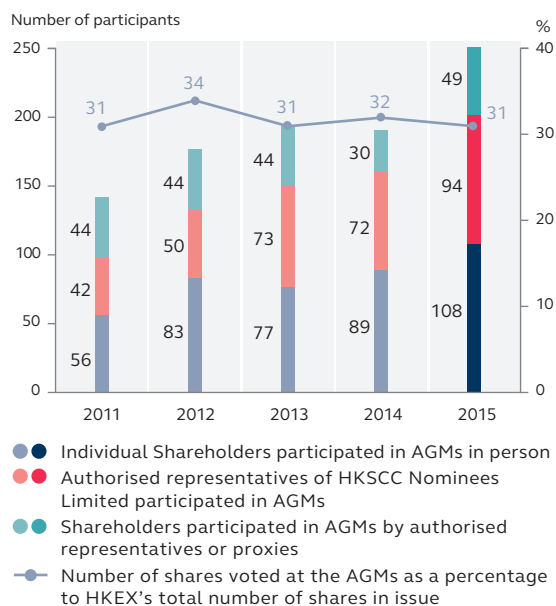
## 2015 Annual General Meeting

HKEX uses the AGM as a forum to establish constructive dialogue with Shareholders. Separate resolutions are proposed on each substantially separate issue, with all resolutions considered on a poll conducted by HKEX's registrar and verified by an independent scrutineer. Electronic voting is used at the AGMs to enhance efficiency and transparency of the vote counting process.

At the 2015 AGM, all Directors in office on the meeting date, including HKEX's Chairman and the chairmen of the Audit Committee and other Board committees, attended the meeting along with key senior executives and the external auditor.

The voting results and the minutes of the 2015 AGM are available on the HKEX website [IR](#).

## Participation in AGMs



### Summary of Key Matters Resolved at the 2015 AGM<sup>1</sup>

- Receipt of the 2014 audited financial statements
- Declaration of 2014 final dividend of \$2.15 per share
- Election of T C Chan, Fred Hu and John Williamson as Directors
- Re-appointment of PricewaterhouseCoopers as the Company's auditor
- Granting a general mandate to buy back HKEX shares (not exceeding 10 per cent of the number of shares in issue)
- Granting a general mandate to issue HKEX shares (not exceeding 10 per cent of the number of shares in issue and at a price not exceeding a discount of 10 per cent)
- Remuneration of \$2,100,000 per annum payable to the Chairman
- Remuneration of \$200,000 and \$120,000 per annum respectively payable to the chairman and each of the other members of Audit Committee<sup>2</sup>
- Remuneration of \$180,000 and \$120,000 per annum respectively payable to the chairman and each of the other members (excluding Executive Director, if any) of Executive Committee, Investment Advisory Committee, Remuneration Committee and Risk Committee<sup>2</sup>

<sup>1</sup> The full text of the resolutions is set out in the Notice of the 2015 AGM.

<sup>2</sup> Each committee member, other than Executive Director, is also entitled to an attendance fee of \$3,000 per meeting.

## 2016 Annual General Meeting

The 2016 AGM will be held on Thursday, 28 April 2016. The Notice of the 2016 AGM, which constitutes part of the circular to Shareholders, will be sent together with the 2015 Annual Report. The Notice of the 2016 AGM, the circular which sets out details of the business to be conducted at the 2016 AGM, and the proxy form will be available on the HKEX website [IR](#). The poll results of the proposed resolutions will be published on the HKEX website shortly after the 2016 AGM is held.

All Shareholders are encouraged to attend the 2016 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior management.

## Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2015 to the date of the approval of this report.

On behalf of the Board  
**MAU Kam Shing, Joseph**  
 Company Secretary

Hong Kong, 2 March 2016

# NOMINATION COMMITTEE REPORT

## The Nomination Committee

The Nomination Committee is delegated by the Board with the primary responsibility to formulate and implement the policy for nominating Board candidates for election by Shareholders, assess INED's independence and review the time required from Directors to perform their responsibilities. Its terms of reference are available on the HKEX website [ORG](#).

The Nomination Committee comprises 5 INEDs whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report.

The Nomination Committee held 2 meetings in 2015. Members' attendance records are disclosed in the Corporate Governance Report in the 2015 Annual Report.

### Summary of Work in 2015/2016

- Nominated Board candidates for election by Shareholders at the 2015 and 2016 AGMs
- Reviewed and endorsed amendments to the Board Nomination Policy
- Reviewed the independence of the 12 INEDs and the candidate who will be nominated to stand for election at the 2016 AGM
- Reviewed time commitment from Directors to perform their responsibilities
- Reviewed the succession plan for the Board

## Changes in Directors during 2015

In March 2015, the Government appointed Anita Fung and Rafael Gil-Tienda and re-appointed John Harrison and Margaret Leung to the Board, each for a term of approximately 2 years from the close of the 2015 AGM until the conclusion of the AGM to be held in 2017.

At the 2015 AGM, T C Chan, Fred Hu and John Williamson were elected by Shareholders, each for a term of approximately 3 years from 29 April 2015 until the conclusion of the AGM to be held in 2018.

Stephen Hui and Michael Lee retired from the Board after the conclusion of the 2015 AGM.

## Retiring Directors

The service terms of C K Chow and Tim Freshwater (Government Appointed Directors) and Oscar Wong (Elected Director) will expire at the conclusion of the 2016 AGM.

## Board Diversity

HKEX sees increasing diversity at the Board level as an essential element in attaining its strategic objectives and achieving sustainable and balanced development for the Group. Since 2013, HKEX has followed the Board Diversity Policy which is available on the HKEX website [CG](#).

The Nomination Committee reviews the Board structure, size and diversity annually and recommends any proposed changes to the Board to complement HKEX's corporate strategies. During 2015, the Nomination Committee endorsed, and the Board approved, a proposal to set a maximum tenure of 12 consecutive years for the Non-executive Directors to be eligible for nomination by the Board to stand for re-election by Shareholders. The proposal is aimed at further enhancing Board diversity and striking an appropriate balance between continuity of experience and refreshment of the Board.



## Nomination of Candidate

On 22 February 2016, the Nomination Committee recommended the Board nominate Apurv Bagri to stand for election by Shareholders at the 2016 AGM. The nomination has been made in accordance with the Board Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out under the Board Diversity Policy. Given Mr Bagri's background and vast experience in the non-ferrous metals futures trading business, his appointment would help broaden the Board diversity and enhance its performance. The Nomination Committee was satisfied with Mr Bagri's independence having regard to the criteria under the Listing Rules. Mr Bagri does not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). His particulars will be set out in the circular to Shareholders to be sent together with the 2015 Annual Report and posted on the HKEX website [IR](#).

## Independence of Non-executive Directors

An independent Board has the benefit of providing objective judgement and constructive challenge to the viewpoints presented by management. Non-executive Directors' independence is assessed upon appointment, annually and at any other time where the circumstances warrant reconsideration.

### Assessment upon Director's Appointment

Anita Fung and Rafael Gil-Tienda, upon their appointment, confirmed in writing to the SFC:

- their independence having regard to the criteria under Main Board Listing Rule 3.13; and
- they have no past or present financial or other interest in the Group's business and no connection with any of HKEX's core connected persons (as defined in the Main Board Listing Rules).

### Ongoing Assessment

- Each INED is required to inform HKEX as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2015.
- None of the Directors have any financial, business, family or other material/relevant relationships with each other, in particular, between HKEX's Chairman and Chief Executive.
- Details of the Directors' interests in the Group's business are set out on pages 81 and 82 of the 2015 Annual Report.

The Nomination Committee at the meeting held on 22 February 2016 also assessed the annual confirmation of independence received from each INED, having regard to the criteria under Main Board Listing Rule 3.13.

### Annual Assessment

- As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence.
- Particular attention was given to assessing the independence of the Government Appointed Directors (including C K Chow, who is an Executive Councillor) given that the Government is a Minority Controller of HKEX.
- Consideration was given to the independence of Bill Kwok, Vincent Lee and Oscar Wong, who have been serving on the Board for more than 9 years.
- The Nomination Committee affirmed that all INEDs continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.

## Members of the Nomination Committee

CHOW Chung Kong (Chairman)

CHAN Tze Ching, Ignatius

Timothy George FRESHWATER

HU Zulu, Fred

John Mackay McCulloch WILLIAMSON

Hong Kong, 22 February 2016

# AUDIT COMMITTEE REPORT

## The Audit Committee

The Audit Committee (AC) is delegated by the Board with the responsibility to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. The AC is provided with sufficient resources to perform its duties including support, as necessary, from the Internal Audit Department (IAD), the external auditor, legal counsel and management in examining all matters relating to the Group's adopted accounting principles and practices, and in reviewing all material financial, operational and compliance controls. The AC's terms of reference are available on the HKEX website [ORG](#).

The AC comprises 5 INEDs whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report. None of the AC members are employed by or otherwise affiliated with the former or current auditors of HKEX.

The AC held 4 meetings in 2015. Members' attendance records are disclosed in the Corporate Governance Report of the 2015 Annual Report.

### Summary of Work in 2015/2016

- Endorsed amendments to the AC's terms of reference in respect of its role in risk management, anti-corruption, internal audit and hiring of existing or former employees of the external auditor
- Endorsed the Group Anti-Bribery and Anti-Corruption Policy and the Group Whistleblowing Policy
- Reviewed the Group's quarterly, half-yearly and annual financial results
- Approved the annual internal audit plan
- Reviewed the external auditor's statutory audit scope for 2015
- Reviewed significant findings of the IAD, external auditor and regulators, and management's response to their recommendations
- Reviewed the adequacy and effectiveness of the Group's internal control systems and its accounting, financial reporting and internal audit functions
- Reviewed the independent quality assurance review report on the Group's internal audit function prepared by an external consultant
- Reviewed the continuing connected transactions
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Approved the 2015 external audit engagement letters and fees
- Reviewed changes in accounting principles and practices proposed by management

## Review of Financial Results

The AC reviewed the 2015 Consolidated Financial Statements in conjunction with HKEX's external auditor. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2015. The AC therefore recommended the Consolidated Financial Statements for the year ended 31 December 2015 be approved by the Board.

## Review of Internal Control Systems

The AC reviewed the effectiveness of the Group's internal control systems (including financial, operational, IT, compliance and risk management controls) by reviewing the work of the Group Risk Management Department, the IAD and the Group's external auditor, and regular reports from management including those on risk management, regulatory compliance and legal matters.

The AC reviewed and concurred with the management's confirmation that for the year ended 31 December 2015: (i) the Group's risk management and internal control systems were effective with reference to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013) principles; (ii) the Group had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control systems. The management's confirmation was endorsed by the Risk Committee and submitted to the Board.

## Review of Accounting, Financial Reporting and Internal Audit Functions

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

## Review of Continuing Connected Transactions

During 2015, the Group entered into certain continuing connected transactions as disclosed in the Corporate Governance Report of the 2015 Annual Report. The AC, under the authority delegated by the Board, reviewed these continuing connected transactions pursuant to Main Board Listing Rule 14A.55. As a good corporate governance practice, AC members who have an interest in the transactions abstained from reviewing them. The AC confirmed that the transactions were entered into by the Group in accordance with the conditions of the waiver granted by the SFC and the Main Board Listing Rule requirements that:

- (i) the transactions have been entered into in the Group's ordinary and usual course of business, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (ii) the transactions other than the Buy-in Transactions disclosed in the Corporate Governance Report have been conducted in accordance with the rules and regulations of the relevant Group company governing such transactions, and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (iii) the Buy-in Transactions have been conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions for and on behalf of HKSCC and at the mutually agreed commission rates payable by HKSCC in respect of such Buy-in Transactions generally; and
- (iv) the transactions have been entered into according to the relevant agreements governing each of the continuing connected transactions on terms that were fair and reasonable and in the interests of Shareholders as a whole.

The Company's external auditor was engaged to report on the transactions in accordance with Main Board Listing Rule 14A.56. The AC reviewed the unqualified report issued by the auditor.

## Independence of External Auditor

The AC is mandated to monitor the independence of the Group's external auditor, PricewaterhouseCoopers (PwC), to ensure objectivity in the financial statements. All services provided by PwC are required to be approved by the AC. To ensure that the policy of restricting the non-audit work done by the external auditor is followed strictly by all entities within the Group, appropriate policies and procedures have been established which set out: (i) the classification of services as pre-approved, not pre-approved and prohibited; and (ii) the approval process for services that have not been pre-approved.

Before commencement of the audit of the Group's 2015 financial statements, the AC received written confirmation from PwC of its independence and objectivity.

During the year, the AC reviewed PwC's statutory audit scope and non-audit services and approved its fees. Under the approval procedures for audit fees, all audit fees for entities within the Group were coordinated and presented by PwC Hong Kong, and all statutory audit fees for the Group companies were approved by the AC.

External Auditor's Services and Fees		
	2015 \$m	2014 \$m
<b>Audit services</b>	13	12
<b>Non-audit services</b>		
• Tax advisory and compliance	6	4
• Other services	2	1
<b>Total</b>	<b>21</b>	<b>17</b>

## Re-appointment of External Auditor

The AC was satisfied with PwC's work, its independence, and its objectivity, and therefore recommended the re-appointment of PwC (which has indicated its willingness to continue in office) as the Group's external auditor for 2016 for Shareholders' approval at the 2016 AGM.

### Members of the Audit Committee

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

Hong Kong, 29 February 2016

# RISK COMMITTEE REPORT

## The Risk Committee

The Risk Committee is delegated by the Board with responsibilities to oversee the Group's overall Risk Management Framework and to advise the Board on the Group's risk-related matters. The Risk Committee is also responsible for approving the Group's risk policies and assessing the effectiveness of the Group's risk controls/mitigation tools. The Risk Committee's terms of reference are available on the HKEX website [ORG](#).

The Risk Committee comprises 5 INEDs whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report.

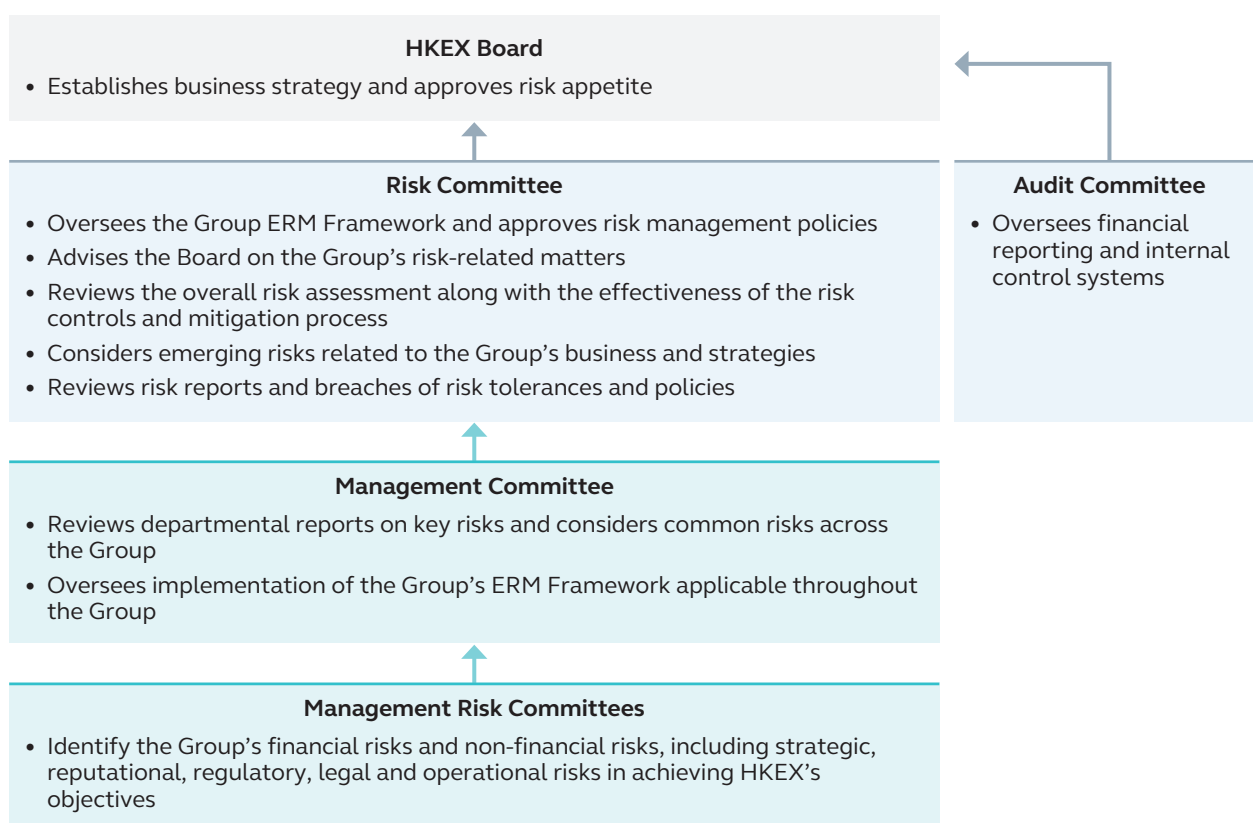
Between its establishment in March 2015 and the end of December 2015, the Risk Committee held 3 meetings. Members' attendance records are disclosed in the Corporate Governance Report of the 2015 Annual Report.

### Summary of Work in 2015/2016

- Endorsed the Group Risk Management Policy Framework
- Reviewed risk reports on liquidity, capital adequacy and solvency levels of the Group's clearing houses
- Acknowledged the risk assessment updates for the equity clearing operations, the stress testing frameworks of OTC Clear and LME Clear, and the results of the independent review of clearing risk management by an external consultant
- Reviewed the adequacy and effectiveness of the Group's risk management system
- Endorsed management confirmation on the effectiveness of the Group's risk management system
- Endorsed the 2015 Group Risk Report which contains the results of the Group's 2015 annual Enterprise Risk Management (ERM) assessment and the top risk profile of the Group
- Considered the Group's Cyber Security Programme

## Risk Governance

The Group's risk governance structure is based on a "Three Lines of Defence" model, with oversight and directions from the Board and Group level risk committees at HKEX.



The following highlights the key risk management measures under HKEX's "Three Lines of Defence" model and enhancements made by the Group during 2015.

#### **1<sup>st</sup> line of defence — Risk management (Divisions/Departments – Business owners)**

- Management conducted an annual Internal Control Self-evaluation in 2015. Division Heads confirmed that appropriate internal control policies and procedures have been established and complied with.
- Various policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties, controls and risk management, and they are subject to regular review.
- The Group Security Policy sets out the requirements for protection of the Group's information, IT systems and personnel, which aims to minimise the Group's risk exposure including unauthorised data disclosure, system outages, and personnel risks.
- The Group Anti-Bribery and Anti-Corruption Policy was adopted to set out minimum standards in recognising circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage everyone in the Group to seek appropriate guidance promptly when needed. A training programme was arranged for the Group's employees.
- The Group Whistleblowing Policy was adopted to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimisation. A training programme was arranged for the Group's employees.
- A set of Cross Border Activities guidelines was developed to facilitate compliance with rules and regulations in the Mainland, Korea, Singapore, Taiwan, the UK and the US in respect of the marketing and promotion of financial products and services in these jurisdictions.

#### **2<sup>nd</sup> line of defence — Risk oversight (Group Risk Management/Regulatory Compliance/Information Security & Business Continuity/Group Project Management)**

- The Group Risk Management Policy Framework was developed and endorsed by the Risk Committee to outline the principles, governance, roles and responsibilities, and approach within a coherent risk management framework that addresses and prioritises risks that are material and relevant to the Group's corporate goals.
- The Group's ERM Framework was refined to help management assess and manage risks arising from and associated with new business activities and environments, including emerging risks. An integrated risk assessment approach was adopted to address risks across various subsidiaries of the Group, to assess those risks on an integrated Group-wide basis and to consider any cross-business impact within HKEX.
- The Group's information security systems were further enhanced in line with industry best practices. For example, various control improvements were introduced to reduce the risk of cyber security threats within HKEX. Information Security Quick Reference: Data Classification was published for all employees' reference, and annual security awareness training for the Group's employees was introduced.
- The Group Project Portfolio Management Department (now named Group Project Management Department) provided quarterly updates to the Board on the Group's key project initiatives. The updates included risks, issues and financial information relating to the projects.

#### **3<sup>rd</sup> line of defence — Independent assurance (Internal Audit/External assurance providers)**

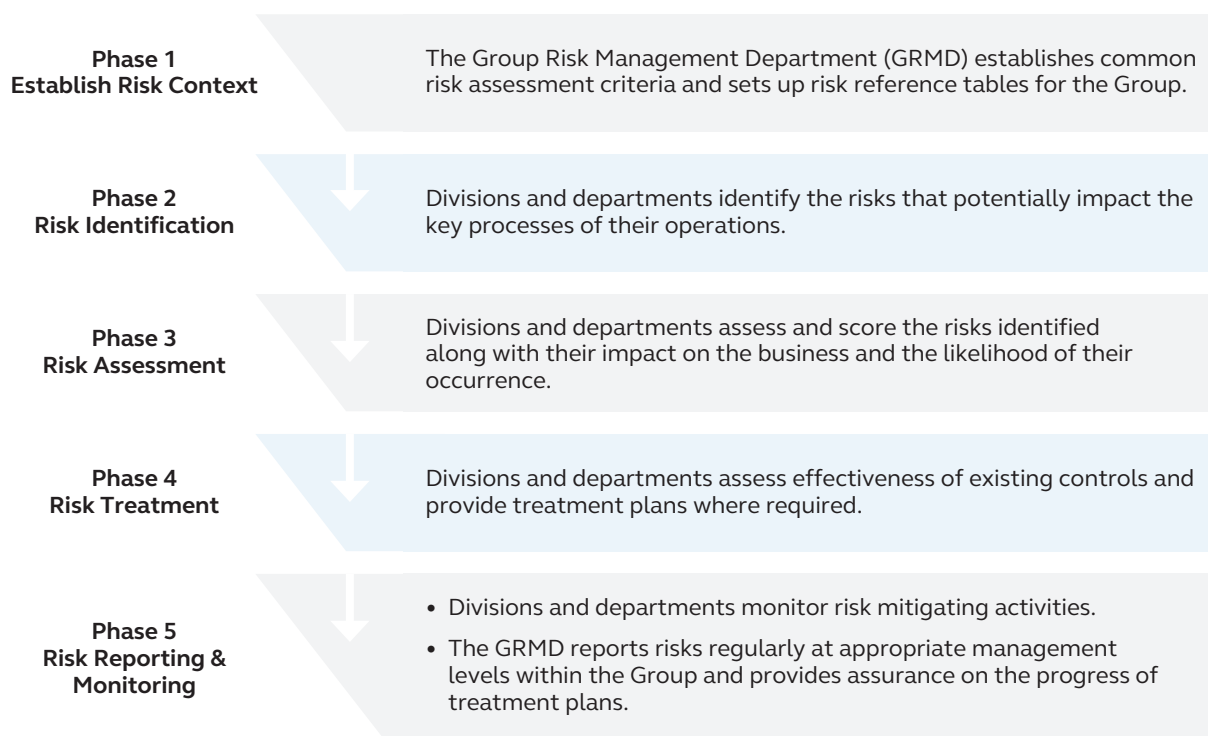
- The Internal Audit Department (IAD) is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board through the Audit Committee. Its work covers all material controls, including the financial, operational, IT, compliance and risk management controls. Further details of the IAD's role and its internal audit methodology and processes are available on the HKEX website [CG](#).

## Group Risk Management Policy Framework

During 2015, the Group Risk Management Policy Framework, which is based on the International Standard ISO (International Organization for Standardization) 31000:2009 Risk management – Principles and guidelines, was approved by the Risk Committee as an effective and adequate approach to be applied across the Group to manage the risks associated with its business and operations. This framework is designed to enhance risk management of the Group through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed to:

- (i) promote consistent risk identification, measurement, reporting and mitigation;
- (ii) set a common risk language to avoid any conflicting terminology or confusion in risk reporting;
- (iii) develop and communicate policies on risk management and controls aligned with the business strategy; and
- (iv) enhance reporting to provide transparency of risks across the Group.

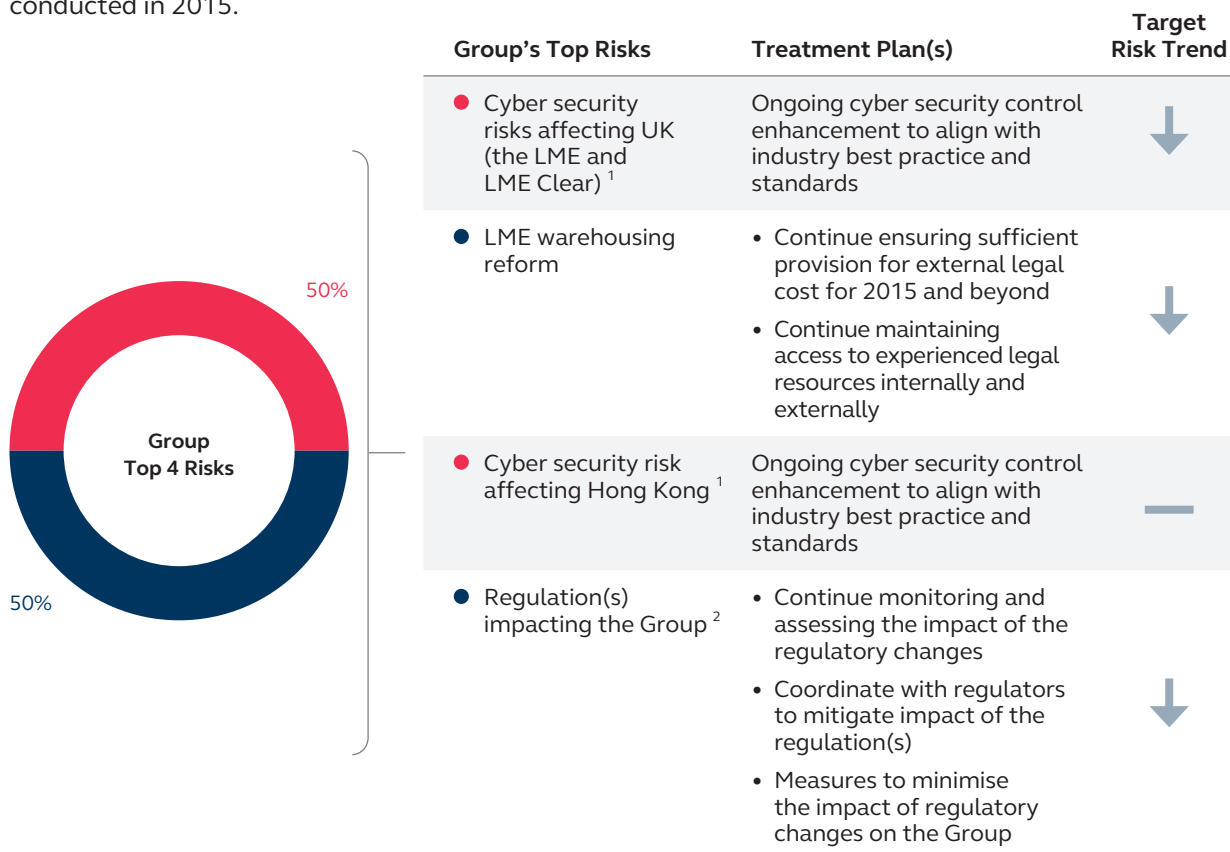
The following diagram illustrates the key processes adopted under the Group's ERM Framework.



## Group Risk Report

In 2015, HKEX conducted an annual Group-wide review based on the Group's ERM Framework to assess the risks relevant to both existing and new businesses of the Group. The Group Risk Report for 2015 was compiled to cover: (i) the top risks of HKEX, the LME and LME Clear; (ii) changes in the nature and extent of the significant risks since 2014; and (iii) associated action plans and controls designed to mitigate the top risks, where applicable, at appropriate levels. The Group Risk Report, as endorsed by the Management Committee and the Risk Committee in November 2015, was presented to the Board for review in December 2015.

The following diagram highlights the top risks to the Group based on the annual risk assessment conducted in 2015.



1 Cyber security remains a key risk trend globally in 2015. While HKEX will continue to enhance security controls towards its target maturity level addressing inherent risks of operating in today's business environment, it is expected that certain level of residual risks in the cyber security domain will continue to exist.

2 Given the ongoing diversification, increasing volumes and growing complexity of the Group's business and the cross-border nature of regulations, this risk remains high despite a decreasing trend from 2014.

**Risk Categories**

<ul style="list-style-type: none"> <li>● <b>Business, strategic and regulatory risks</b></li> <li>• Negative effect on HKEX's statutory role in the event of breaches of laws, rules or regulations</li> <li>• Failure to meet the expectations of regulators, market participants and investors regarding changes in legal and regulatory requirements for the financial markets and the metals industry</li> <li>• Loss of revenue</li> <li>• Loss of market share/business</li> </ul>	<ul style="list-style-type: none"> <li>● <b>Operational (people, process, system, external events) risks</b></li> <li>• Failure to deliver continuous, effective and reliable listing, trading, clearing and settlement platforms, market data and other key services</li> <li>• Negative effect on HKEX's reputation as a key market operator in Hong Kong</li> </ul>	<ul style="list-style-type: none"> <li>● <b>Financial (market, credit, liquidity) risks</b></li> <li>• Losses due to counterparties' failure to meet their settlement obligations</li> <li>• Insufficient cash flow to meet the Group's financial obligations</li> </ul>
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**Members of the Risk Committee**

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

Hong Kong, 24 February 2016



# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

The Remuneration Committee (RC) is delegated by the Board with the responsibility to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The RC ensures that all employees and Executive and Non-executive Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance. Its detailed terms of reference are available on the HKEX website [ORG](#).

The RC comprises 5 INEDs whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report.

The RC held 5 meetings in 2015. Members' attendance records are disclosed in the Corporate Governance Report of the 2015 Annual Report.

### Summary of Work in 2015/2016

- Engaged an external consultant to conduct a comprehensive study to identify improvement areas for the pay structures and market positioning of HKEX, the LME and LME Clear, as well as the incentive pool funding metrics and methodology
- Recommended a remuneration package, based on the results of a compensation review by an external consultant, in connection with the renewal of the employment contract of HKEX's Chief Executive
- Endorsed amendments to the Share Award Scheme
- Recommended the 2015 performance bonus and share award pools and the 2016 salary adjustment rates for the Group's employees
- Recommended the 2015 performance bonus and share award and the 2016 salary adjustment for HKEX's Chief Executive
- Reviewed the remuneration of non-executive directors of HKEX, the LME, LME Clear and OTC Clear

## Non-executive Directors' Remuneration

### Objective

To remunerate Non-executive Directors at an appropriate level for their commitment to HKEX and to attract and retain high calibre and experienced individuals to oversee HKEX's business and development

### Policy

- To conduct an annual review with reference to companies with comparable business or scale and recommend remuneration adjustments, if appropriate
- To seek the Board's endorsement and Shareholders' approval of any recommended changes

### Annual review for 2015/2016

- McLagan, a professional firm specialising in performance and rewards for the financial services industry, was appointed to conduct an independent review of the non-executive directors' remuneration for HKEX and certain subsidiaries to ensure the competitiveness and appropriateness of their remuneration. The study included benchmarking against other listed exchanges as well as banks and constituent companies of the FTSE 100 Index and the HSI.
- Based on the findings and the consultant's recommendation, the RC (none of the RC members participated in the decision on his or her remuneration) recommended increasing the remuneration of Non-executive Directors. The proposal received endorsement from the Board and was approved by Shareholders at the 2015 AGM.

### Annual review for 2016/2017

- McLagan was appointed again to conduct a review of the non-executive directors' remuneration for HKEX and certain subsidiaries. The methodology and the benchmark used in the study largely followed those used in the 2015/2016 review.
- In consideration of the benchmark information, macroeconomic factors and the competitive environment, the RC recommended that the remuneration level for the Non-executive Directors should remain unchanged for 2016/2017.

**Current Non-executive Directors' fee**

	\$
Board <sup>1</sup>	
– Chairman	2,100,000
– Other member	700,000
Audit Committee	
– Chairman	200,000
– Other member	120,000
– Attendance fee per meeting	3,000
Executive Committee <sup>1</sup> , Investment Advisory Committee, Risk Committee and RC	
– Chairman	180,000
– Other member	120,000
– Attendance fee per meeting	3,000

<sup>1</sup> Excludes the Executive Director

Non-executive Directors are not entitled to participate in the Share Award Scheme, or to receive other fringe benefits.

The fees paid to the Non-executive Directors in 2014 and 2015 for their service on the Board and, where applicable, on its committees and the board and committees of HKEX's subsidiaries are set out below.

	2015 \$	2014 \$
T C Chan	926,000	784,500
C K Chow	3,136,536	2,367,367
Timothy Freshwater	957,000	871,500
Anita Fung <sup>1</sup>	720,000	–
Rafael Gil-Tienda <sup>1</sup>	621,000	–
John Harrison	2,600,961	2,508,079
Fred Hu <sup>2</sup>	799,000	99,167
Stephen Hui <sup>3</sup>	203,000	784,500
Bill Kwok	1,417,334	1,006,500
Michael Lee <sup>3</sup>	383,247	1,317,000
Vincent Lee	991,000	1,006,500
Margaret Leung	929,000	781,500
John Williamson	957,000	894,000
Oscar Wong	884,500	792,277
<b>Total</b>	<b>15,525,578</b>	<b>13,895,439<sup>4</sup></b>

<sup>1</sup> Ms Fung and Mr Gil-Tienda were appointed on 29 April 2015.

<sup>2</sup> Dr Hu was appointed on 10 November 2014.

<sup>3</sup> Messrs Hui and Lee retired on 29 April 2015.

<sup>4</sup> Includes the remuneration of \$682,549 paid to John Strickland who resigned on 31 October 2014

## Employees' Remuneration

### Objective

To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals as well as the key business objectives at corporate level

### Policy

- To recommend, based on up-to-date market information, the appropriate salary adjustments, if any, for the Board's approval
- To evaluate the corporate performance based on a set of pre-determined indicators and to recommend the appropriate level of performance bonus and share award pools, if any, for the year to the Board
- To consult HKEX's Chief Executive about the performance of the members of the Senior Management and to ensure that they are remunerated equitably and in accordance with the established guidelines
- To review and recommend the remuneration of HKEX's Chief Executive to the Board. As a good corporate governance practice, HKEX's Chief Executive is not involved in the Board's discussion and decision.

### Review for 2015/2016

- The RC recommended and the Board approved in November and December 2015:
  - (i) a base salary adjustment and promotion increase effective January 2016. The salary adjustment took into consideration the cost of living and the projected pay increase in the financial services industry;
  - (ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2015;
  - (iii) a sum of \$255.3 million for the purchase of HKEX shares pursuant to the Share Award Scheme for 246 selected employees, including HKEX's Chief Executive (\$12 million), and for selected employees to be recruited in 2016; and
  - (iv) an additional sum of \$11.25 million for the purchase of HKEX shares for a performance-based Senior Executive Award pursuant to the Share Award Scheme for HKEX's Chief Executive for the performance period between 2016 and 2018.
- The performance cash bonus and share award pools for the Group's employees were determined based on the overall achievements with respect to the following on the corporate performance scorecard:
  - (i) financial performance measures, including the growth of primary market activities relative to selected peers among global exchanges, absolute revenue and EBITDA performance, profit margin, cost to income ratio and absolute expenses (excluding incentives) relative to the budget;
  - (ii) strategic initiatives and achievements of various business lines, eg, cash equity, equity derivatives, commodities and FIC;
  - (iii) market and regulatory measures, eg, system stability and reliability, primary market and listing regulations; and
  - (iv) organisation development measures, including talent recruitment and retention, and CSR achievements.
- Performance cash bonus and share awards were allocated to individual employees after consideration of year-on-year changes in their performance ratings (on a 5-point scale) and job grades, and with reference to a distribution guide. Management was allowed to make further adjustments to account for other factors, eg, performance of other employees and external comparison with market benchmarks.

Further details of HKEX's remuneration policy and structure are available on the HKEX website [CG](#).

As at 31 December 2015, the Group had 1,502 permanent employees and 66 temporary employees.

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked and training and development opportunities are identified for them. Employee training details are set out in the 2015 CSR Report.

## Emoluments for 2015

### Executive Director

	2015						2014	2015	
	Salary \$	Cash bonus \$	Insurance premium \$	Club membership \$	Retirement benefits cost \$	Director's fee \$	Total <sup>2</sup> \$	Total <sup>2</sup> \$	Share award benefits <sup>3</sup> \$
<b>HKEX's Chief Executive</b>									
Charles Li	9,000,000	15,000,000	108,264	69,660	1,125,000	-	25,302,924	19,993,054	19,916,945 <sup>4</sup>

### Senior Management

	2015						2014	2015	
	Salary \$	Cash bonus \$	Insurance premium \$	Club membership \$	Retirement <sup>1</sup> benefits cost \$	Compensation for loss of office \$	Total <sup>2</sup> \$	Total <sup>2</sup> \$	Share award benefits <sup>3</sup> \$
Margaret Cheng	2,677,560	3,174,970	22,841	-	334,695	-	6,210,066	5,191,199	2,591,711
Bill Chow	3,084,480	6,986,370	43,215	12,740	385,560	-	10,512,365	9,113,304	1,483,158
Adrian Farnham <sup>5</sup>	2,666,360	3,412,941	27,298	-	453,281	-	6,559,880	6,439,864	2,483,579
David Graham	4,691,040	5,881,350	71,463	-	586,380	-	11,230,233	9,910,620	3,367,011
Garry Jones <sup>5</sup>	5,332,721	6,785,591	22,073	-	906,562	-	13,046,947	12,492,422	3,775,832
Paul Kennedy	3,708,000	5,803,820	73,959	-	463,500	-	10,049,279	8,323,938	1,669,007
Romnesh Lamba	4,691,040	6,631,350	73,143	20,150	586,380	-	12,002,063	10,569,299	5,551,153
Roger Lee	2,913,840	3,981,590	71,828	-	364,230	-	7,331,488	5,938,625	2,922,075
Richard Leung	3,213,600	2,889,980	35,563	-	401,700	-	6,540,843	5,445,544	2,197,999
Li Gang	2,829,000	6,250,000	42,587	-	282,900	-	9,404,487	3,052,896	137,850
Mao Zhirong	2,958,084	3,082,830	57,396	-	369,761	-	6,468,071	5,902,737	1,372,001
Ketan Patel	3,000,000	2,634,000	42,956	-	375,000	-	6,051,956	5,126,480	1,352,539
Trevor Spanner <sup>5</sup>	3,546,852	6,837,733	27,298	-	602,965	-	11,014,848	8,794,868	4,876,869
Calvin Tai	3,528,000	4,898,780	72,916	-	441,000	-	8,940,696	7,184,841	3,376,808

- 1 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases by 18 per cent annually thereafter and reaches 100 per cent after completion of 7 years of service.
- 2 Excludes the amounts approved by the Board for the purchase of HKEX shares pursuant to the Share Award Scheme, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEX Securities under Long-term Incentive Schemes section below
- 3 The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEX's Chief Executive and the members of the Senior Management that was charged to the Consolidated Income Statement for the year ended 31 December 2015.
- 4 Includes the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2015, the vesting of which is not affected if Mr Li ceases employment with the Group before the end of the performance assessment period. In accordance with prevailing accounting standards, such award is considered to be vested immediately upon grant. The actual number of shares to be transferred to Mr Li under the Senior Executive Awards is conditional on the satisfaction of performance criteria approved by the Board as set out in note 4 under the Chief Executive's and Senior Management's Interests in HKEX Securities under Long-term Incentive Schemes section below.
- 5 Messrs Farnham, Jones and Spanner were members of the LME pension scheme operating in the UK during 2015. The vesting scale of HKEX's provident fund scheme as specified in note 1 above is not applicable to them.

Further details of Directors' emoluments and the 5 top-paid employees are set out in notes 16 and 17 respectively to the Consolidated Financial Statements.

### Long-term Incentive Schemes

HKEX has had 2 Share Option Schemes (the Pre-Listing Scheme and the Post-Listing Scheme) and the Share Award Scheme at different times to recognise the contributions of certain employees and help retain them for the Group's operations and further development.

#### Share Option Schemes

Both of the Pre-Listing Scheme and the Post-Listing Scheme ended on 30 May 2010. All options granted under the Pre-Listing Scheme and Post-Listing Scheme were exercised, cancelled or lapsed on or before 30 May 2010 and 25 January 2015, respectively. HKEX has issued 22,654,000 HKEX shares under the Pre-Listing Scheme and 16,228,000 HKEX shares under the Post-Listing Scheme.

Movement in the share options under the Post-Listing Scheme during the year ended 31 December 2015 is set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise <sup>2</sup> period
		As at 1 Jan 2015	Issued upon subscription during the year <sup>1</sup>	Cancelled/lapsed during the year	As at 31 Dec 2015	
26 Jan 2005	19.25	144,000	144,000	–	–	26 Jan 2007– 25 Jan 2015

<sup>1</sup> The weighted average closing price immediately before the dates on which the options were exercised was \$177.04.

<sup>2</sup> Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the second anniversary and became fully vested on the fifth anniversary of the grant.

Further details of the Share Option Schemes are set out in note 41(a) to the Consolidated Financial Statements.

### Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of 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).

During 2015, the Board approved amendments to the rules and the trust deed of the Scheme. These amendments include (i) extending the expiry date of the Scheme and the trust deed from 13 September 2020 to 31 December 2025 to enable HKEX to continue granting awards under the Scheme as an incentive to attract and retain employees for the Group's development; (ii) adding provisions to permit vesting of shares in the employees who suffer from permanent disability or who qualify as "good leavers"; and (iii) granting discretion for the Board, RC or HKEX's Chief Executive to determine the vesting schedules as appropriate. The amended rules and trust deed of the Scheme are available on the HKEX website [ORG](#).

On 9 December 2015, the Board approved a total sum of \$266.55 million for the purchase of HKEX shares pursuant to the Scheme, details of which are set out in the Employees' Remuneration section above. Based on the Board's recommendation, the Scheme's trustee applied 160,685 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy such awards.

Further details of the Scheme are set out in note 41(b) to the Consolidated Financial Statements.

Since the Adoption Date and up to the date of this report, a total of 8,346,023 shares had been awarded under the Scheme, representing about 0.8 per cent of the number of HKEX shares in issue as at the Adoption Date.

As at 31 December 2015, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,261,783 shares held in trust under the Scheme.

### Chief Executive's and Senior Management's Interests in HKEX Securities under Long-term Incentive Schemes

No share options under the Share Option Schemes were granted to HKEX's Chief Executive. No share options granted under the Share Option Schemes to the Senior Management were outstanding during the year ended 31 December 2015.

Details of the interests of HKEX's Chief Executive and the Senior Management in the Awarded Shares (save for those which had been fully vested as of 31 December 2014) are set out below.

	Date of award <sup>2</sup>	Number of Awarded Shares	Number of shares <sup>1</sup>				As at 31 Dec 2015	Vesting period <sup>3</sup>
			As at 1 Jan 2015	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
<b>HKEX's Chief Executive</b>								
Charles Li	31 Dec 2012	70,556	37,030	955	37,985	-	-	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	23,733 <sup>4</sup>	23,733	611	-	-	24,344 <sup>5</sup>	End of a performance period of 2013 – 2015
	3 Dec 2014	48,681	48,681	1,254	24,967	-	24,968	9 Dec 2015 – 9 Dec 2016
	3 Dec 2014	47,467 <sup>4</sup>	47,467	1,224	-	-	48,691	End of a performance period of 2014 – 2016
	2 Jan 2015	88,345	-	2,284	-	-	90,629	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015	95,100 <sup>4</sup>	-	2,458	-	-	97,558	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	-	-	-	-	60,429	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 <sup>4</sup>	-	-	-	-	56,800	End of a performance period of 2016 – 2018
<b>Senior Management</b>								
Margaret Cheng	3 Dec 2014	6,245	6,245	103	3,145	-	3,203	1 Aug 2015 – 1 Aug 2016
	3 Dec 2014	8,439	8,439	216	4,327	-	4,328	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	21,794	-	564	-	-	22,358	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	16,114	-	-	-	-	16,114	9 Dec 2017 – 9 Dec 2018
Bill Chow	31 Dec 2012	16,051	8,429	216	8,645	-	-	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	5,626	5,626	142	2,884	-	2,884	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	10,210	-	267	-	-	10,477	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	7,553	-	-	-	-	7,553	9 Dec 2017 – 9 Dec 2018
Adrian Farnham	3 Dec 2014	10,190	10,190	169	5,133	-	5,226	1 May 2015 – 1 May 2016
	3 Dec 2014	8,191	8,191	208	4,199	-	4,200	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	19,157	-	498	-	-	19,655	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,854	-	-	-	-	14,854	9 Dec 2017 – 9 Dec 2018
David Graham	27 Mar 2013	10,700	11,227	144	5,610	-	5,761	9 Jan 2015 – 9 Jan 2016
	3 Dec 2014	16,878	16,878	434	8,656	-	8,656	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	25,059	-	649	-	-	25,708	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	21,653	-	-	-	-	21,653	9 Dec 2017 – 9 Dec 2018
Garry Jones	3 Dec 2014	11,396	11,396	292	5,844	-	5,844	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	39,163	-	1,013	-	-	40,176	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	31,241	-	-	-	-	31,241	9 Dec 2017 – 9 Dec 2018
Paul Kennedy	3 Dec 2014	8,439	8,439	216	4,327	-	4,328	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	13,849	-	359	-	-	14,208	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,603	-	-	-	-	14,603	9 Dec 2017 – 9 Dec 2018
Romnesh Lamba	31 Dec 2012	29,461	15,467	398	15,865	-	-	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	28,131	28,131	724	14,427	-	14,428	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	39,323	-	1,017	-	-	40,340	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	30,214	-	-	-	-	30,214	9 Dec 2017 – 9 Dec 2018

	Date of award <sup>2</sup>	Number of Awarded Shares	Number of shares <sup>1</sup>				As at 31 Dec 2015	Vesting period <sup>3</sup>
			As at 1 Jan 2015	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
Roger Lee	31 Dec 2012	14,851	7,799	200	7,999	-	3 Dec 2014 – 3 Dec 2015	
	3 Dec 2014	8,298	8,298	212	4,255	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	11,468	-	298	-	-	15 Dec 2016 – 15 Dec 2017	
	18 Nov 2015	14,658	-	-	-	-	1 Mar 2017 – 1 Mar 2018	
	31 Dec 2015	28,703	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Richard Leung	31 Dec 2012	14,402	7,563	194	7,757	-	3 Dec 2014 – 3 Dec 2015	
	3 Dec 2014	11,252	11,252	290	5,771	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	14,556	-	377	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	14,100	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Li Gang	31 Dec 2015	26,437	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Mao Zhirong	3 Dec 2014	6,188	6,188	158	3,173	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	12,110	-	314	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	12,337	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Ketan Patel	31 Dec 2012	9,638	5,061	129	5,190	-	3 Dec 2014 – 3 Dec 2015	
	3 Dec 2014	6,892	6,892	176	3,534	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	8,915	-	233	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	6,798	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Trevor Spanner	3 Dec 2014	16,019	16,019	266	8,069	-	25 Apr 2015 – 25 Apr 2016	
	3 Dec 2014	21,582	21,582	554	11,068	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	35,229	-	913	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	22,694	-	-	-	-	9 Dec 2017 – 9 Dec 2018	
Calvin Tai	31 Dec 2012	16,425	8,627	222	8,849	-	3 Dec 2014 – 3 Dec 2015	
	3 Dec 2014	14,065	14,065	360	7,212	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	26,991	-	700	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	23,668	-	-	-	-	9 Dec 2017 – 9 Dec 2018	

- Includes shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme
- The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- Save for those Senior Executive Awards as referred to in note 4 below, the Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant.
- The awards were granted under the Share Award 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 RC and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.
- The RC recommended a vesting of 23,614 shares to Mr Li based on the actual performance for the period 2013-2015. (Such recommendation was approved by the Board on 2 March 2016.)

### Members of the Remuneration Committee

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

Hong Kong, 17 February 2016

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

## The ESG Committee

The ESG Committee is delegated by the Board with the responsibilities to review and monitor the Group's ESG policies and practices to ensure compliance with the relevant legal and regulatory requirements, monitor and respond to emerging ESG issues and make recommendations to the Board where appropriate to improve the Group's ESG performance. Its terms of reference are available on the HKEX website [ORG](#).

The ESG Committee comprises 4 INEDs and HKEX's Chief Executive, whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report.

The ESG Committee held 1 meeting in 2015. Members' attendance records are disclosed in the Corporate Governance Report of the 2015 Annual Report.

### Summary of Work in 2015/2016

- Reviewed the training and continued professional development of the Directors and Senior Management
- Endorsed the annual Corporate Governance Report and the annual CSR Report

## ESG Policies and Performance

HKEX is committed to the highest standards of corporate governance, and aims to integrate CSR into its business strategy and management approach. HKEX's Corporate Governance Statement and CSR Policy are available on the HKEX website [CG/CSR](#).

Throughout 2015, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the Group. The Group continues to do more than it is required by adopting measures to reduce energy and other resource use, minimise waste and increase recycling, encourage its employees to adopt environmentally responsible behaviour and promote environmental protection in its supply chain and marketplace. In 2015, HKEX achieved the Wastewi\$e Label – Class of Excellence under the Hong Kong Awards for Environmental Excellence. An energy management system which is certified to the internationally recognised ISO (International Organization for Standardization) 50001:2011 standard has been implemented at the data centre at Tseung Kwan O, Hong Kong.

HKEX promotes the development of socially responsible practices in its marketplace and community in accordance with its Community Investment Policy. In 2015, the Group donated a total of \$2.4 million to different causes in communities where it operates and helped to raise \$78 million for The Community Chest of Hong Kong via the Stock Code Balloting for Charity Scheme. Throughout the year, the Group continued encouraging its employees to participate in different events organised by charities in their communities. The Group's employees and their guests contributed over 3,600 hours of volunteer services in total. The Charity Advisory Group, chaired by HKEX's Chief Executive, reviewed the donations made during 2015 and considered that they were effective, and approved the community investment plan for 2016.

Information about HKEX's corporate governance practices and performance in 2015 is set out in the Corporate Governance Report of the 2015 Annual Report. HKEX supports efforts by its Directors and Senior Management to develop and refresh their knowledge and skills to ensure that their contributions to the Board and the Group remain informed and relevant. The ESG Committee reviewed the training records of Directors and Senior Management and concluded the training they received was appropriate and adequate.



## Relationships with Major Stakeholders

HKEX continues to engage with its employees, market participants, investors, suppliers and other stakeholders through different channels to develop mutually beneficial relationships and promote sustainability.

Employees are remunerated equitably and competitively. Continuing training and development opportunities are provided to equip them to deliver their best performance and achieve corporate goals. In 2015, HKEX initiated an employee engagement survey to assess its employees' satisfaction and motivation and collect their comments. The results will be announced after a thorough analysis of employees' responses.

The market is usually consulted (formally or informally) on major initiatives and the views of the respondents are carefully and thoroughly considered to ensure that decisions are made in an informed manner and any changes are acceptable to the market. In 2015, HKEX received strong support from the market for the introduction of a Volatility Control Mechanism and a Closing Auction Session in Hong Kong. The results of its Environmental, Social and Governance Reporting Guide review also received overwhelming support. The relevant consultation conclusions were published.

HKEX uses suppliers that reflect its values and commitment. CSR-related seminars for suppliers and business partners are arranged under an ongoing stakeholder engagement programme. In 2015, over 30 representatives from HKEX's suppliers and business partners supported and attended seminars related to anti-discrimination, prevention of bribery and protection of personal data organised by HKEX.

## CSR Reporting

During 2015, HKEX's Chief Executive provided to the Board quarterly CSR progress reports summarising the CSR initiatives undertaken by HKEX. Details of the Group's CSR performance in 2015 are disclosed in the 2015 CSR Report.

### Members of the ESG Committee

CHOW Chung Kong (Chairman)  
 Rafael GIL-TIENDA  
 LEE Kwan Ho, Vincent Marshall  
 LI Xiaojia, Charles  
 John Mackay McCulloch WILLIAMSON

Hong Kong, 18 February 2016

# DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited consolidated financial statements for the year ended 31 December 2015.

## Principal Activities

HKEX is a recognised exchange controller under the SFO. HKEX operates the only recognised stock and futures markets in Hong Kong through its wholly-owned subsidiaries, SEHK and HKFE. HKEX also operates HKSCC, HKCC, SEOCH and OTC Clear, which are the only recognised clearing houses in Hong Kong. HKSCC, HKCC and SEOCH provide integrated clearing and settlement services to their Participants, while OTC Clear provides OTC interest rate derivatives and non-deliverable forwards clearing and settlement services to its Members. HKSCC also provides depository and nominee services to its Participants. HKEX provides market data through its data dissemination entity, HKEX Information Services Limited.

HKEX also owns the LME and LME Clear in the UK. The LME is a recognised investment exchange under the Financial Services and Markets Act 2000 (FSMA), and LME Clear is a European Market Infrastructure Regulation (EMIR) authorised CCP, which provides clearing services for the exchange contracts of the LME.

A list of HKEX's subsidiaries as of 31 December 2015 and their particulars are set out in note 27 to the Consolidated Financial Statements.

## Business Review

The Group's revenue is derived primarily from business activities conducted in Hong Kong and the UK. An analysis of the Group's performance for the year by operating segment is set out in note 4 to the Consolidated Financial Statements.

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2015 and the likely future developments, is set out in the Chief Executive's Review, Business Review and Financial Review sections of this Annual Report. Principal risks and uncertainties facing the Group were reviewed by the Board as delineated in the Risk Committee Report. Details about the Group's financial risk management are set out in note 52 to the Consolidated Financial Statements.

Throughout 2015, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business as outlined in the following table.

Primary legislation/ <sup>1</sup> regulations	Key scope	Compliance measures
<b>Exchange and clearing business in Hong Kong</b>		
SFO	HKEX is a recognised exchange controller and has duties under section 63(1) to ensure that the statutory duties placed on the recognised exchange companies (under section 21) and recognised clearing houses (under section 38) it controls are complied with.	<p>A corporate governance structure<sup>2</sup>, which is intended to enable HKEX to balance its public functions and its commercial profit making objectives, has been implemented.</p> <p>A Regulatory Compliance Department, which is charged with ensuring compliance with rules and regulations, has been established.</p>
	SEHK and HKFE are recognised exchange companies; and HKSCC, HKCC, SEOCH and OTC Clear are recognised clearing houses (RCHs).	<p>Rule amendments by SEHK, HKFE and each of RCHs are approved by the SFC under section 24 (for recognised exchange companies) and section 41 (for RCHs).</p> <p>Fees imposed by SEHK, HKFE and each of RCHs are approved by the SFC under section 76.</p>
PFMI	HKSCC, HKCC, SEOCH and OTC Clear as RCHs are required to observe the applicable PFMI on an ongoing basis pursuant to the guidelines issued by the SFC.	The approach of each of the RCHs to observing each applicable PFMI is summarised in its disclosure document which is available on the HKEX website.
<b>Exchange business in UK</b>		
Part I and Part II of the FSMA (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001	The LME is a recognised investment exchange under section 290 of the FSMA and is required to ensure that its rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly market.	<p>The LME follows the rules and guidance on recognition and notification requirements as set out in the FCA's Handbook.</p> <p>The Audit and Risk Committee of the LME, as required by the FCA and on behalf of the LME's board, has to satisfy itself formally on an annual basis that the LME continues to meet the recognition requirements.</p> <p>The LME conducts a bottom-up approach in-depth analysis, listing all of the recognition requirements, systems, procedures and policies in place to demonstrate how each requirement has been met.</p>
<b>Clearing business in UK</b>		
Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as EMIR)	LME Clear is an authorised CCP and is required to comply with the applicable EMIR requirements.	<p>To ensure compliance with EMIR, LME Clear has implemented robust governance arrangements and a comprehensive risk management framework.</p> <p>LME Clear's Rules and Procedures have been developed to reflect the legal framework which applies to LME Clear, including primarily the requirements of EMIR.</p> <p>All documentation in relation to LME Clear's compliance with EMIR is publicly disclosed on the LME website.</p>

Primary legislation/ <sup>1</sup> regulations	Key scope	Compliance measures
FSMA	LME Clear is a recognised clearing house under section 290 of the FSMA and is required to ensure that its rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly operation.	LME Clear provides a high degree of legal certainty for each material aspect of its activities by setting out the rights and obligations of LME Clear and those of its Members in its Rules and Procedures (the Rules). The Rules support and allow LME Clear to conduct such material aspects appropriately and effectively, ensure Members understand the full extent of their obligations when using LMEmercury and clarify the protection provided to investors. Any changes to the Rules are notified to the Bank of England who, when appropriate, will approve the change. The Rules are publicly disclosed on the LME website.
Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (SFR)	LME Clear's secure payment system is a designated system and is required to meet the SFR requirements.	LME Clear has adopted, as part of its rules and procedures, a Settlement Finality Rule (Rule 11) and related Settlement Finality Procedures which define the system and the point of irrevocability and finality of instructions as well as the participants in the system. The procedures explaining how the system meets the SFR requirements are available on the LME website.
PFMI	LME Clear, as financial market infrastructure, is required to observe the applicable PFMI on an ongoing basis.	LME Clear's approach to observing each applicable PFMI is summarised in its disclosure document, which is available on the LME website.  LME Clear performs a self-assessment on an annual basis against the PFMI. This assessment is shared with LME Clear's primary regulator, the Bank of England.
<b>Operations in Hong Kong and UK</b>		
Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)	HKEX, SEHK, HKFE, HKSCC, HKCC and SEOCH are public bodies and are subject to prohibitions on bribery (under sections 4 to 8) and corrupt transactions with agents (under section 9).	Prior to the adoption of the Group Anti-Bribery and Anti-Corruption Policy in August 2015, HKEX had an Anti-Bribery and Anti-Corruption Policy to ensure their employees' compliance with the Prevention of Bribery Ordinance, while the LME and LME Clear had an Anti-Corruption Policy and a Fraud Management and Bribery Prevent Policy respectively to ensure their employees' compliance with the BA.
Bribery Act 2010 (BA)	The Group's subsidiaries in the UK and persons who are British citizens are subject to the BA provisions.	

1 On the corporate level, all of the Group companies comply with the laws of the place in which the companies are incorporated and the Main Board Listing Rules and the SFO where they are applicable.  
 2 HKEX's corporate governance structure is available on the HKEX website, and its principal corporate governance practices are set out in the Corporate Governance Report, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Remuneration Committee Report and ESG Committee Report in this Annual Report.

Disclosures relating to the Group's environmental policies and performance, and relationships with major stakeholders are included in the ESG Committee Report on pages 102 and 103.

## Major Customers and Suppliers

During the year ended 31 December 2015, the combined value of the Group's contracts with its 5 largest suppliers, which were not of a capital nature, was less than 30 per cent of the total value of supplies purchased. The Group's 5 largest customers combined contributed less than 30 per cent of its total revenue and other income during the year ended 31 December 2015.

## Results and Appropriations

The Group's results for the year ended 31 December 2015 are set out in the Consolidated Income Statement.

An interim dividend of \$3.08 per share (2014: \$1.83 per share) was declared by the Board. On 24 September 2015, dividends in the total sum of \$3.7 billion (2014: \$2.1 billion) were paid to Shareholders. This included the scrip dividends and dividends of \$9 million (2014: \$3 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$2.87 per share (2014: \$2.15 per share) to Shareholders whose names appear on HKEX's Register of Members on 6 May 2016, and the retention of the remaining profit for the year. Including the interim dividend, total dividend for 2015 amounts to a total of \$5.95 per share (2014: \$3.98 per share), which represents a payout ratio of 90 per cent (2014: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2015. Dividend paid to shares held in trust under the Share Award Scheme amounts to \$18 million (2014: \$9 million). The Board also proposes to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares in lieu of cash.

## Donations

The Group's charitable and other donations during the year amounted to \$2,406,000 (2014: \$2,042,000). There have never been any political donations.

HKEX continues to raise funds for The Community Chest of Hong Kong via the Stock Code Balloting for Charity Scheme. During 2015, a total sum of \$78 million (2014: \$83 million) was raised via the Scheme for The Community Chest of Hong Kong.

## Share Capital

Details of the movements in share capital of the Company during the year are set out in note 40 to the Consolidated Financial Statements. HKEX shares were issued during the year on (i) exercise of share options under the Post-Listing Scheme; (ii) election of scrip in lieu of cash dividends for the 2014 final dividend and 2015 interim dividend pursuant to HKEX's scrip dividend scheme; and (iii) exercise of the conversion rights by holders of the Convertible Bonds. Details are set out in notes 37(b), 40(a), 40(c) and 41(a) to the Consolidated Financial Statements and in the Remuneration Committee Report.

## Equity-linked Agreements

Other than the Share Option Schemes as disclosed in the Remuneration Committee Report and notes 40(a) and 41(a) to the Consolidated Financial Statements and the Convertible Bonds as disclosed in note 37(b) to the Consolidated Financial Statements, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

## Distributable Reserves

As at 31 December 2015, HKEX's distributable reserves, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to \$6.6 billion (31 December 2014: \$7.0 billion).

Details of the movements in the respective reserves of the Group and HKEX during the year are set out in the Consolidated Statement of Changes in Equity and notes 41 to 43 and note 53(a) to the Consolidated Financial Statements.

## Purchase, Sale or Redemption of HKEX's Listed Securities

During 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the HKEX shares, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,137,400 HKEX shares at a total consideration of \$227 million.

## Directors

The following is the list of Directors during the year and up to the date of this report (unless otherwise stated). The interests of existing Directors in the HKEX shares are set out in the Corporate Governance Report. Information about Directors' appointments, retirements and remuneration is set out in the Nomination Committee Report and the Remuneration Committee Report.

### INEDs

CHOW Chung Kong (Chairman)  
 CHAN Tze Ching, Ignatius  
 Timothy George FRESHWATER  
 FUNG Yuen Mei, Anita (Appointed on 29 April 2015)  
 Rafael GIL-TIENDA (Appointed on 29 April 2015)  
 John Barrie HARRISON  
 HU Zulu, Fred  
 HUI Chiu Chung, Stephen (Retired on 29 April 2015)  
 KWOK Chi Piu, Bill  
 LEE Kwan Ho, Vincent Marshall  
 LEE Tze Hau, Michael (Retired on 29 April 2015)  
 LEUNG KO May Yee, Margaret  
 John Mackay McCulloch WILLIAMSON  
 WONG Sai Hung, Oscar

### Executive Director

LI Xiaojia, Charles (Chief Executive)

The following is the list of directors of HKEX's subsidiaries during the year and up to the date of this report (unless otherwise stated).

Brian Geoffrey BENDER	HUI Ching Yu	LI Xiaojia, Charles <sup>2</sup>
Oliver Jens BETTIN <sup>1</sup>	Marye Louise HUMPHERY	LO Wai Keung, David <sup>1</sup>
Matthew James CHAMBERLAIN	James Henry Carre INGROUILLE <sup>1</sup>	MAO Zhirong <sup>3</sup>
CHAN Wing Kwong	Garry Peter JONES <sup>3</sup>	Ketan B PATEL <sup>3</sup>
CHENG Mo Chi, Moses	Paul Michael KENNEDY <sup>3</sup>	POON Hon Cheung
CHOW Chung Kong <sup>2</sup>	KIM Gene Kyum	POON Tim Fung
Adrian John Winston FARNHAM <sup>3</sup>	KWAN Wai Hung	Trevor William SPANNER <sup>3</sup>
FUNG Ping Yin <sup>1</sup>	KWOK Chi Piu, Bill <sup>2</sup>	Marco Andrea STRIMER
David GRAHAM <sup>3</sup>	LAM Kin	SUN Yu <sup>1</sup>
Hugh Edward GRAHAM	Romnesh LAMBA <sup>3</sup>	TAI Chi Kin <sup>3</sup>
Gerald Dale GREINER <sup>1</sup>	Nathaniel Bernard LE ROUX	Richard John THORNHILL
John Barrie HARRISON <sup>2</sup>	LEE Kwok Keung <sup>3</sup>	WANG Tong <sup>1</sup>
Elizabeth Noel HARWERTH	LEE Tze Hau, Michael <sup>1</sup>	Hossein ZAIMI
Roger Anthony HEPPEL <sup>1</sup>	LEUNG Chung Kwong, Richard <sup>3</sup>	

<sup>1</sup> No longer a director of any subsidiaries of HKEX as at the date of this report

<sup>2</sup> Member of the Board

<sup>3</sup> Member of Senior Management

## Directors' Interests in Transactions, Arrangements and Contracts

Details of the continuing connected transactions and material related party transactions are set out in the Corporate Governance Report and note 49 to the Consolidated Financial Statements.

Save for the above, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in 2015 was a Director or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the year or at the end of 2015.

## Directors' Rights to Acquire Shares or Debentures

Li Xiaojia, Charles, Executive Director, was awarded HKEX shares pursuant to the Share Award Scheme. Details are set out in the Remuneration Committee Report and note 41(b) to the Consolidated Financial Statements.

Save for the above, neither HKEX nor any of its subsidiary undertakings was a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEX or any other body corporate at any time during the year or at the end of 2015.

## Management Contracts

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2015.

## Permitted Indemnity Provision

Subject to the applicable laws, every director of the Group's companies shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective Articles of Associations. Such provisions were in force during the course of the financial year ended 31 December 2015 and remained in force as of the date of this report.

## Auditor

The financial statements for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers, which retires and, being eligible, offers itself for re-appointment at the 2016 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2016 AGM.

All references above to other sections, reports or notes in this Annual Report form part of this report.

Approved by the Board on 2 March 2016

**CHOW Chung Kong**  
Chairman

# AUDITOR'S REPORT

## Independent Auditor's Report to the Members of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries set out on pages 111 to 204, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 2 March 2016



# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Note	2015 \$m	2014 \$m
Trading fees and trading tariff	5	5,469	3,760
Stock Exchange listing fees	6	1,114	1,102
Clearing and settlement fees		3,118	1,998
Depository, custody and nominee services fees		867	725
Market data fees		803	769
Other revenue	7	862	773
<b>REVENUE</b>		<b>12,233</b>	<b>9,127</b>
Investment income		702	713
Interest rebates to Participants		(24)	(6)
Net investment income	8	678	707
Gain on disposal of a leasehold property	9	445	-
Sundry income	10	19	15
<b>REVENUE AND OTHER INCOME</b>	4	<b>13,375</b>	<b>9,849</b>
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses	11	(2,020)	(1,716)
Information technology and computer maintenance expenses	12	(517)	(510)
Premises expenses		(294)	(294)
Product marketing and promotion expenses		(41)	(53)
Legal and professional fees		(99)	(175)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	13(a)	77	77
Others	13(b)	(396)	(287)
		<b>(3,290)</b>	<b>(2,958)</b>
<b>EBITDA</b>	2(g)	<b>10,085</b>	<b>6,891</b>
Depreciation and amortisation		(684)	(647)
<b>OPERATING PROFIT</b>	14	<b>9,401</b>	<b>6,244</b>
Finance costs	15	(114)	(196)
Share of loss of a joint venture		(9)	(10)
<b>PROFIT BEFORE TAXATION</b>	4	<b>9,278</b>	<b>6,038</b>
<b>TAXATION</b>	18(a)	<b>(1,347)</b>	<b>(900)</b>
<b>PROFIT FOR THE YEAR</b>		<b>7,931</b>	<b>5,138</b>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
Shareholders of HKEX	43	7,956	5,165
Non-controlling interests	27(a)(i)	(25)	(27)
<b>PROFIT FOR THE YEAR</b>		<b>7,931</b>	<b>5,138</b>
<b>Basic earnings per share</b>	19(a)	<b>\$6.70</b>	<b>\$4.44</b>
<b>Diluted earnings per share</b>	19(b)	<b>\$6.67</b>	<b>\$4.43</b>

The notes on pages 116 to 204 are an integral part of these consolidated financial statements.

Details of dividends are set out in note 20 to the consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 \$m	2014 \$m
<b>PROFIT FOR THE YEAR</b>		<b>7,931</b>	5,138
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Currency translation differences of foreign subsidiaries recorded in exchange reserve	2(ad)(iii)	(7)	(815)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>(7)</b>	(815)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>7,924</b>	4,323
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Shareholders of HKEX		7,949	4,350
Non-controlling interests	27(a)(i)	(25)	(27)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>7,924</b>	4,323

The notes on pages 116 to 204 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	At 31 Dec 2015			At 31 Dec 2014		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	21, 22	110,890	-	110,890	136,778	-	136,778
Financial assets measured at fair value through profit or loss	21, 23	72,705	-	72,705	62,686	-	62,686
Financial assets measured at amortised cost	21, 24	19,439	57	19,496	10,199	57	10,256
Accounts receivable, prepayments and deposits	26	15,535	21	15,556	22,517	6	22,523
Taxation recoverable		2	-	2	8	-	8
Interest in a joint venture	28	-	68	68	-	77	77
Goodwill and other intangible assets	29	-	17,872	17,872	-	17,901	17,901
Fixed assets	30	-	1,560	1,560	-	1,603	1,603
Lease premium for land	31	-	22	22	-	23	23
Deferred tax assets	39(d)	-	22	22	-	5	5
<b>Total assets</b>		<b>218,571</b>	<b>19,622</b>	<b>238,193</b>	<b>232,188</b>	<b>19,672</b>	<b>251,860</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	32	64,486	-	64,486	59,680	-	59,680
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	21, 33	115,213	-	115,213	129,484	-	129,484
Accounts payable, accruals and other liabilities	34	15,270	15	15,285	22,835	14	22,849
Deferred revenue		773	-	773	646	-	646
Taxation payable		653	-	653	348	-	348
Other financial liabilities	35	42	-	42	84	-	84
Participants' contributions to Clearing House Funds	21, 36	7,474	-	7,474	9,426	-	9,426
Borrowings	37	-	3,409	3,409	-	7,026	7,026
Provisions	38	65	70	135	61	58	119
Deferred tax liabilities	39(d)	-	761	761	-	839	839
<b>Total liabilities</b>		<b>203,976</b>	<b>4,255</b>	<b>208,231</b>	<b>222,564</b>	<b>7,937</b>	<b>230,501</b>
<b>Equity</b>							
Share capital	40			19,285			12,225
Shares held for Share Award Scheme	40			(590)			(482)
Employee share-based compensation reserve	41			199			142
Exchange reserve	2(ad)(iii)			(254)			(247)
Convertible bond reserve	37(b)			-			409
Designated reserves	36, 42			778			643
Reserve relating to written put options to non-controlling interests	2(z)			(293)			(217)
Retained earnings	43			10,691			8,800
<b>Equity attributable to shareholders of HKEX</b>				<b>29,816</b>			<b>21,273</b>
Non-controlling interests				146			86
<b>Total equity</b>				<b>29,962</b>			<b>21,359</b>
<b>Total liabilities and equity</b>				<b>238,193</b>			<b>251,860</b>
<b>Net current assets</b>				<b>14,595</b>			<b>9,624</b>

The notes on pages 116 to 204 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 2 March 2016

**CHOW Chung Kong**  
Director

**LI Xiaojia, Charles**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to shareholders of HKEX									
	Share capital, share premium and shares held for Share Award Scheme (note 40) \$m	Employee share-based compensation reserve (note 41) \$m	Exchange reserve \$m	Convertible bond reserve (note 37(b)) \$m	Designated reserves (note 42) \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings (note 43) \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
At 1 Jan 2014	11,154	105	568	409	586	(217)	7,800	20,405	113	20,518
Profit for the year	-	-	-	-	-	-	5,165	5,165	(27)	5,138
Other comprehensive income	-	-	(815)	-	-	-	-	(815)	-	(815)
Total comprehensive income	-	-	(815)	-	-	-	5,165	4,350	(27)	4,323
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:										
- 2013 final dividend at \$1.72 per share	-	-	-	-	-	-	(1,996)	(1,996)	-	(1,996)
- 2014 interim dividend at \$1.83 per share	-	-	-	-	-	-	(2,133)	(2,133)	-	(2,133)
- Unclaimed HKEX dividends forfeited (note 34(b))	-	-	-	-	-	-	29	29	-	29
- Shares issued upon exercise of employee share options	12	-	-	-	-	-	-	12	-	12
- Shares issued in lieu of cash dividends	874	-	-	-	-	-	-	874	-	874
- Shares purchased for Share Award Scheme	(405)	-	-	-	-	-	-	(405)	-	(405)
- Vesting of shares of Share Award Scheme	105	(97)	-	-	-	-	(8)	-	-	-
- Employee share-based compensation benefits	-	137	-	-	-	-	-	137	-	137
- Transfer of reserves	3	(3)	-	-	57	-	(57)	-	-	-
Total transactions with shareholders recognised directly in equity	589	37	-	-	57	-	(4,165)	(3,482)	-	(3,482)
At 31 Dec 2014	11,743	142	(247)	409	643	(217)	8,800	21,273	86	21,359
At 1 Jan 2015	11,743	142	(247)	409	643	(217)	8,800	21,273	86	21,359
Profit for the year	-	-	-	-	-	-	7,956	7,956	(25)	7,931
Other comprehensive income	-	-	(7)	-	-	-	-	(7)	-	(7)
Total comprehensive income	-	-	(7)	-	-	-	7,956	7,949	(25)	7,924
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)
- 2015 interim dividend at \$3.08 per share	-	-	-	-	-	-	(3,679)	(3,679)	-	(3,679)
- Unclaimed HKEX dividends forfeited (note 34(b))	-	-	-	-	-	-	18	18	-	18
- Shares issued upon exercise of employee share options	3	-	-	-	-	-	-	3	-	3
- Shares issued in lieu of cash dividends	3,165	-	-	-	-	-	-	3,165	-	3,165
- Shares purchased for Share Award Scheme	(227)	-	-	-	-	-	-	(227)	-	(227)
- Vesting of shares of Share Award Scheme	134	(126)	-	-	-	-	(8)	-	-	-
- Employee share-based compensation benefits	-	183	-	-	-	-	-	183	-	183
- Tax credit relating to Share Award Scheme (note 18(b))	-	-	-	-	-	-	3	3	-	3
- Conversion of convertible bonds (note 37(b))	3,877	-	-	(409)	-	-	266	3,734	-	3,734
- Transfer of reserves	-	-	-	-	135	-	(135)	-	-	-
- Put options written to non-controlling interests (note 37(d))	-	-	-	-	-	(76)	-	(76)	-	(76)
Total changes in ownership interests in subsidiaries that do not result in a loss of control:										
- Changes in ownership interests in a subsidiary (note 48)	-	-	-	-	-	-	3	3	85	88
Total transactions with shareholders recognised directly in equity	6,952	57	-	(409)	135	(76)	(6,065)	594	85	679
At 31 Dec 2015	18,695	199	(254)	-	778	(293)	10,691	29,816	146	29,962

The notes on pages 116 to 204 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 \$m	2014 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	44	8,321	4,673
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets and intangible assets		(710)	(665)
Net proceeds from disposal of a leasehold property and other fixed assets		512	-
Net (increase)/decrease in financial assets of Corporate Funds:			
(Increase)/decrease in time deposits with original maturities more than three months		(426)	1,353
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		-	70
Net proceeds from sales of financial assets measured at fair value through profit or loss		187	-
Interest received from financial assets measured at amortised cost (excluding time deposits)		-	1
Interest received from financial assets measured at fair value through profit or loss		17	23
Net cash (outflow)/inflow from investing activities		(420)	782
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares upon exercise of employee share options		3	12
Purchases of shares for Share Award Scheme		(227)	(405)
Proceeds from issuance of notes		-	737
Payments of transaction costs on issuance of notes		-	(2)
Proceeds from new bank borrowings		-	1,589
Payments of transaction costs on new bank borrowings		-	(6)
Repayments of bank borrowings		-	(2,326)
Payments of finance costs		(71)	(83)
Dividends paid to shareholders of HKEX		(3,017)	(3,234)
Proceeds from disposal of interest in a subsidiary without loss of control		88	-
Net cash outflow from financing activities		(3,224)	(3,718)
<b>Net increase in cash and cash equivalents</b>		<b>4,677</b>	<b>1,737</b>
Cash and cash equivalents at 1 Jan		8,067	6,375
Exchange differences on cash and cash equivalents		-	(45)
<b>Cash and cash equivalents at 31 Dec</b>		<b>12,744</b>	<b>8,067</b>
<b>Analysis of cash and cash equivalents</b>			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	22	12,744	8,067

The notes on pages 116 to 204 are an integral part of these consolidated financial statements.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

Hong Kong Exchanges and Clearing Limited (HKEX) and its subsidiaries (collectively, the Group) own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses. The Group also operates a clearing house for clearing over-the-counter derivatives contracts in Hong Kong, and an exchange and a clearing house for the trading and clearing of base metals futures and options contracts operating in the United Kingdom (UK).

HKEX is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12<sup>th</sup> Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated financial statements were approved for issue by the Board of Directors (Board) on 2 March 2016.

## 2. Principal Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules) and the applicable requirements of the Hong Kong Companies Ordinance (Chapter 622).

### (b) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

#### Adoption of new/revised HKFRSs

In 2015, the Group has adopted the following new/revised HKFRSs which were effective for accounting periods beginning on or after 1 January 2015:

Amendments to HKAS 27                      Equity Method in Separate Financial Statements

Annual Improvements to HKFRSs 2010 – 2012 Cycle

## 2. Principal Accounting Policies (continued)

### (b) Basis of preparation (continued)

#### Adoption of new/revised HKFRSs (continued)

Amendments to HKAS 27 provide an accounting policy choice to allow entities to apply the equity method to account for the investments in subsidiaries, joint ventures and associates in their separate financial statements. The adoption of the amendments to HKAS 27 does not have any financial impact to HKEX as HKEX elects to continue accounting for its investments in subsidiaries and the joint venture at cost in its separate financial statements.

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs. Of these, the following two amendments are pertinent to the Group's operations:

Amendments to HKFRS 8	Operating Segments – Aggregation of Operating Segments, and Reconciliation of the Total Reportable Segment Assets to the Entity's Assets
Amendments to HKAS 24	Related Party Disclosures – Key Management Personnel

The amendments to HKFRS 8 require disclosure of the judgement made by management in aggregating operating segments. The amendments also clarify that a reconciliation of the total of the reportable segment assets to the entity's assets is required only if this information is regularly reported to the chief operating decision-maker. The adoption of the amendments to HKFRS 8 does not have any financial impact to the Group as no operating segments are aggregated and segment assets are not regularly reported to the chief operating decision-maker.

The amendments to HKAS 24 expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. The adoption of the amendments to HKAS 24 does not have any impact on the Group's related party disclosures as there is no such management entity providing services to the Group.

Apart from those disclosed above, other new/revised HKFRSs that are effective for accounting periods beginning on 1 January 2015 do not have any impact on the Group.

#### New Hong Kong Companies Ordinance (Chapter 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Chapter 622) (new CO) came into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

## 2. Principal Accounting Policies (continued)

### (b) Basis of preparation (continued)

#### New/revised HKFRSs issued before 31 December 2015 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2015 and are pertinent to its operations but not yet effective:

HKFRS 9 (2014)	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKAS 1	Presentation of Financial Statements – Disclosure Initiative <sup>2</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2018

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2016

The adoption of the amendments to HKAS 1 is not expected to have any impact on the Group's consolidated financial statements. The Group is in the process of making an assessment on the impact of HKFRS 9 (2014) and HKFRS 15.

There are no other new/revised HKFRSs that are not yet effective that would be expected to have an impact on the Group.

### (c) Subsidiaries

#### (i) Consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

Accounting policies of subsidiaries have been aligned on consolidation to ensure consistency with the policies adopted by the Group.

#### Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions (ie, as transactions with the owners in their capacity as owners). The difference between the fair value of any consideration paid/received and the relevant share acquired/disposed of the carrying value of net assets of the subsidiary is recorded in retained earnings. Gains or losses on disposals to non-controlling interests are also recorded in retained earnings.

#### (ii) Separate financial statements

In HKEX's statement of financial position, investments in subsidiaries are stated at cost less provision for impairment, if necessary. The results of subsidiaries are accounted for by HKEX on the basis of dividends received and receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in HKEX's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.



## 2. Principal Accounting Policies (continued)

### (d) Structured entity

HKEX controls a structured entity, The HKEx Employees' Share Award Scheme (HKEX Employee Share Trust), which is set up solely for the purpose of purchasing, administering and holding HKEX shares for an employees' share award scheme. As HKEX has the power to direct the relevant activities of the HKEX Employee Share Trust and it has the ability to use its power over the HKEX Employee Share Trust to affect its exposure to returns, the assets and liabilities of HKEX Employee Share Trust are included in HKEX's statement of financial position and the HKEX shares held by the HKEX Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

### (e) Joint arrangements

A joint arrangement is an arrangement which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and other parties have joint control of the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An interest in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee and any impairment loss relating to the investment. The consolidated income statement includes the Group's share of post-acquisition profit or loss and any impairment loss of the investment, and the Group's share of post-acquisition movements of other comprehensive income of the investee is recognised in the consolidated statement of comprehensive income.

Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The accounting policies of the joint ventures are the same as the policies adopted by the Group.

In HKEX's statement of financial position, interests in joint ventures are stated at cost less provision for impairment losses, if necessary. The results of the joint ventures are accounted for in the HKEX's separate financial statements on the basis of dividends received and receivable.

### (f) Revenue and other income recognition

Revenue and other income exclude value added tax or other sales tax, and are recognised in the consolidated income statement on the following basis:

- (i) Trading fees and trading tariff are recognised on a trade date basis.
- (ii) Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts (CBBCs) and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

## 2. Principal Accounting Policies (continued)

### (f) Revenue and other income recognition (continued)

- (iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on The Stock Exchange of Hong Kong Limited (Stock Exchange) are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for clearing and settlement of trades in eligible securities transacted on the Shanghai Stock Exchange (A shares) through the Shanghai-Hong Kong Stock Connect (Stock Connect) are recognised in full on the trade day upon acceptance of the trades. Fees for clearing and settlement of trades in respect of base metals futures and options contracts transacted on The London Metal Exchange (LME) are recognised on the trade day (or trade match day, if later). Fees for other settlement transactions are recognised upon completion of the settlement.
- (iv) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Portfolio fees for A shares held or recorded in the CCASS depository and for Hong Kong listed securities held by China Securities Depository and Clearing Corporation Limited (ChinaClear) are calculated and accrued on a daily basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (v) Market data fees and other fees are recognised when the related services are rendered.
- (vi) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.  
  
Interest income on impaired loans is recognised using the original effective interest rate.
- (vii) Cash dividends held by HKSCC Nominees Limited which have remained unclaimed for a period of more than seven years are forfeited and recognised as sundry income.

### (g) EBITDA

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. EBITDA is a non-HKFRS measure used by management for monitoring business performance.

### (h) Net investment income

Net investment income comprises interest income (net of interest rebates to Participants), net fair value gains/losses on financial assets and financial liabilities and dividend income.

### (i) Interest expenses and interest rebates to Participants

Interest expenses and interest rebates to Participants are charged to the consolidated income statement and recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method.

## 2. Principal Accounting Policies (continued)

### (j) Employee benefit costs

#### (i) Equity compensation benefits

The Group operates the HKEX Share Award Scheme (Share Award Scheme), which is an equity-settled share-based compensation plan under which share awards are granted under the Share Award Scheme (Awarded Shares) to employees as part of their remuneration package.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants on grant date. The total expense is recognised over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to an employee share-based compensation reserve under equity (note 41(b)).

For those Awarded Shares which are amortised over the vesting periods, the Group revises its estimates of the number of Awarded Shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to the employee share-based compensation reserve.

In HKEX's financial statements, for Awarded Shares granted to the employees of HKEX Investment (UK) Limited, LME Holdings Limited (LMEH), LME and LME Clear Limited (LME Clear) (collectively, LME Group), the fair value of employees services received, measured by reference to the grant date fair value, is recognised over the vesting periods as an increase to investment in subsidiaries, with a corresponding credit to employee share-based compensation reserve. Any reimbursement receivable from the LME Group is offset against the investment in subsidiaries.

#### (ii) Retirement benefit costs

Contributions to the defined contribution plans are expensed as incurred.

### (k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under such operating leases net of any incentives received from the lessor are charged to the income statement on a straight-line basis over the lease term.

### (l) Finance leases

Leases where substantially all the rewards and risks of ownership are transferred to the Group are accounted for as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (ie, transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

## 2. Principal Accounting Policies (continued)

### (m) Fixed assets

Tangible fixed assets (including leasehold land classified as finance lease) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

Leasehold land classified as finance lease	Over the remaining lives of the leases
Leasehold buildings	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 10 years
Computer trading and clearing systems – hardware and software	Up to 5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	Up to 5 years
Data centre facilities and equipment	Up to 20 years

Expenditure incurred in the construction of leasehold buildings and other directly attributable costs are capitalised when it is probable that future economic benefits associated with the expenditure will flow to the Group and the costs can be measured reliably. Other costs such as relocation costs and administration and other overhead costs are charged to the income statement during the year in which they are incurred.

Qualifying software system development expenditure and related directly attributable costs are capitalised and recognised as a fixed asset if the software forms an integral part of the hardware on which it operates.

Subsequent costs and qualifying development expenditure incurred after the completion of a system are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with that item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs and other subsequent expenditure are charged to the income statement during the year in which they are incurred.

### (n) Lease premium for land

Leasehold land premiums are up-front payments to acquire medium-term interests in non-Hong Kong Government leasehold land classified as operating leases. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis. The amortisation is capitalised as part of leasehold buildings under fixed assets during the construction period of the building, and charged to the income statement thereafter.

## 2. Principal Accounting Policies (continued)

### (o) Intangible assets

#### (i) Goodwill

Goodwill arising on the acquisition of subsidiaries is carried at cost as established at the date of acquisition less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGU(s)), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity (ie, operating segment level) at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised but impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

#### (ii) Tradenames

Tradenames acquired in a business combination are recognised at fair value at the acquisition date. The fair value is based on the discounted estimated royalty payments that are expected to be avoided as a result of the tradenames being owned. Tradenames arising from the acquisition of the LME Group have indefinite useful lives and are carried at cost less accumulated impairment losses, if any. Tradenames are reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment.

#### (iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The fair value is determined using the multi-period excess earnings method, whereby the asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 20 to 25 years.

#### (iv) Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates and when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;

## 2. Principal Accounting Policies (continued)

### (o) Intangible assets (continued)

#### (iv) Computer software systems (continued)

- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised in the income statement as incurred. Development costs previously recognised in the income statement are not recognised as an asset in a subsequent period.

Qualifying software system development expenditure and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives on a straight-line basis, which do not exceed five years. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Costs associated with maintaining computer systems and software programmes are recognised in the income statement as incurred.

### (p) Impairment of non-financial assets

Assets that have an indefinite useful life, which include goodwill and tradenames (note 2(o)), are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value-in-use). Such impairment losses are recognised in the income statement. An impairment loss other than goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

### (q) Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants

The Group receives margin deposits from the Clearing Participants of The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear for covering their open positions in derivatives contracts. Margin deposits and cash collateral are also received from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC) for covering their open positions in respect of Stock Exchange trades. Mainland security and settlement deposits are received from HKSCC Clearing Participants for covering their open positions in respect of the Shanghai Stock Exchange trades through Stock Connect.

## 2. Principal Accounting Policies (continued)

- (q) Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants (continued)

The obligation to refund the margin deposits, Mainland security and settlement deposits, and cash collateral is disclosed as Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

- (r) Participants' contributions to Clearing House Funds

The Group receives contributions to Clearing House Funds from Clearing Participants of HKSCC, SEOCH, HKCC, OTC Clear and LME Clear.

Participants' contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

- (s) Derivative financial instruments

Derivative financial instruments include forward foreign exchange, futures and options contracts, as well as the outstanding derivatives contracts of LME Clear, which acts as a central counterparty to the base metals futures and options contracts traded on the LME. Derivatives are initially recognised at fair value on trade date and subsequently remeasured at their fair values. Except where outstanding derivatives contracts are held in the capacity as a central counterparty, derivatives are categorised as held for trading with changes in fair value recognised in the income statement. All derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

- (t) Financial assets

- (i) Classification

Financial assets of the Group include Corporate Funds, base metals derivatives contracts, cash prepayments for A shares, Clearing House Funds and Margin Funds received from the Participants.

Investments and other financial assets of the Group are classified under the following categories:

### Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and

## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (i) Classification (continued)

##### Financial assets measured at amortised cost (continued)

- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

The nature of any derivatives embedded in the financial assets is considered in determining whether the cash flows are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

##### Financial assets measured at fair value through profit or loss

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives whose cash flows are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk are classified in their entirety as measured at fair value through profit or loss.

The Group will reclassify all affected investments when and only when its business model for managing these assets changes.

Financial assets of Clearing House Funds and Margin Funds are classified as current assets as they will be liquidated whenever liquid funds are required.

Other financial assets, which include those held for trading purpose, are classified as current assets unless they are non-trading assets that are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case, they are included in non-current assets. For equities and mutual funds, which have no maturity date, they are included in current assets if they are held for trading or are expected to be disposed of within twelve months at the end of the reporting period.

#### (ii) Recognition and initial measurement

Purchases and sales of financial assets are recognised on the trade date. Assets classified as financial assets measured at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the income statement. Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs.



## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

#### (iv) Gains or losses on subsequent measurement, interest income and dividend income

##### Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.
- Interest income is recognised in the income statement using the effective interest method and included in net fair value gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and included under “others” in net investment income.

##### Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised in the income statement using the effective interest method and disclosed as interest income.

#### (v) Fair value measurement principles

Fair values of quoted investments are based on the most representative prices within the bid-ask spreads which are currently considered as the bid-prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm’s length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (vi) Impairment of financial assets measured at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the financial assets and have an impact on their estimated future cash flows that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be shown to relate objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in the income statement.

## 2. Principal Accounting Policies (continued)

### (u) Financial liabilities

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise base metals derivatives contracts held by LME Clear in its capacity as a central counterparty and financial liabilities held for trading.

Liabilities under this category are initially recognised at fair value on trade date and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in the income statement.

#### (ii) Financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the best estimate of the amount required to settle the guarantee and the amount initially recognised less, where appropriate, cumulative amortisation over the life of the guarantee on a straight-line basis.

Financial guarantee contracts issued by HKEX to guarantee borrowings of subsidiaries are eliminated on consolidation.

#### (iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

### (v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

For base metals derivatives contracts cleared through LME Clear, the asset and liability positions of LME Clear arising through its activities as a central counterparty are matched. Therefore, the same amounts are recorded for both assets and liabilities with the fair value gains and losses recognised, but offset, in the consolidated income statement.

## 2. Principal Accounting Policies (continued)

(w) Recognition of receivables and payables under the Continuous Net Settlement (CNS) basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For a trade in A shares transacted for Stock Exchange Participants, the rights and obligations of the parties to the trade will be transferred to ChinaClear, which becomes the sole settlement counterparty of the buyer and seller of such trade. At the same time as such transfer of rights and obligations to ChinaClear, a market contract between HKSCC and the relevant HKSCC Participant is created through novation. The CNS money obligations due by/to HKSCC Clearing Participants and ChinaClear are recognised as receivables and payables when they are confirmed on the trade day.

(x) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement as interest expense over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. When the facility is cancelled, the unamortised fees paid are charged to the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

## 2. Principal Accounting Policies (continued)

### (y) Convertible bonds

Convertible bonds with conversion options which are settled by exchanging a fixed amount of cash for a fixed number of HKEX shares comprise an equity component and a liability component.

The liability component is measured at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The liability component is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

The equity component (the convertible bond reserve) is not remeasured subsequent to initial recognition until the convertible bonds are converted.

Upon conversion of the convertible bonds, the carrying amount of the liability component at the time of conversion and part of the convertible bond reserve are transferred to share capital as consideration for shares issued (which is equal to the principal amount of the convertible bonds). The convertible bond reserve transferred to share capital represents the difference between the consideration of shares issued and the carrying amount of the liability component of the convertible bond at the time of conversion. The remaining convertible bond reserve is transferred to retained earnings.

### (z) Put options arrangement on non-controlling interests

The potential cash payments related to put options issued by HKEX for the non-voting ordinary shares of a subsidiary held by non-controlling interests are accounted for as financial liabilities, which are initially recognised at fair value as “written put options to non-controlling interests” within borrowings with a corresponding charge directly to equity under “reserve relating to written put options to non-controlling interests”.

The written put option financial liabilities are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liabilities up to the amount payable under the options at the date at which they first become exercisable. The charge arising is recorded under finance costs in the consolidated income statement.

In HKEX’s statement of financial position, the initial fair value of the written put options is accounted for as an investment in subsidiaries with a corresponding credit to financial liabilities at fair value through profit or loss under other financial liabilities. Subsequent changes in fair value of the financial liabilities are recognised in HKEX’s income statement.

## 2. Principal Accounting Policies (continued)

### (aa) Current and deferred tax

Tax charge for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case, the tax is also recognised directly in equity.

#### (i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where HKEX's subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except that deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### (ab) Deferred revenue

Deferred revenue mainly comprises listing fees received in advance and payments received in advance for services in relation to the sales of market data. They are recognised as revenue over the period to which the services relate.

### (ac) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

## 2. Principal Accounting Policies (continued)

### (ac) Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable or when the amount of obligation becomes reliably measurable, it will then be recognised as a provision.

### (ad) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong Dollar (HKD), which is the Group's presentation currency and HKEX's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

#### (iii) Group companies

The results and financial position of all the Group entities that have a non-HKD functional currency are translated into HKD as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries) for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions; and
- all resulting currency translation differences are recognised in other comprehensive income and accumulated separately in the exchange reserve under equity.

## 2. Principal Accounting Policies (continued)

### (ae) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly reverse repurchase investments, government bonds and time deposits), with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude cash and cash equivalents held for specific purposes such as those held for the purpose of the Margin Funds, Clearing House Funds and cash prepayments for A shares.

### (af) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### (ag) Shares held for Share Award Scheme

Where HKEX shares are acquired by the Share Award Scheme from the market or by electing for scrip in lieu of cash dividends, the total consideration of shares acquired from the market (including any directly attributable incremental costs) or under the scrip dividend scheme is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired under the scrip dividend scheme (dividend shares) are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share capital if the fair value is higher than the costs, or debited against retained earnings if the fair value is less than the cost.

### (ah) Operating segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker (note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as HKEX's Chief Executive. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.



## 2. Principal Accounting Policies (continued)

### (ai) Dividends

Dividends disclosed in note 20 to the consolidated financial statements represent interim dividend paid and final dividend proposed for the year (based on the issued share capital less the number of shares held for the Share Award Scheme at the end of the reporting period).

Dividends declared are recognised as liabilities in the financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

## 3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future when the consolidated financial statements are prepared. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (a) Goodwill and tradenames

The Group tests in the year of acquisition and annually whether goodwill and tradenames have suffered any impairment in accordance with the accounting policy stated in note 2(p).

The recoverable amounts of relevant CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates and significant judgement by management (note 29).

Changes in facts and circumstances may result in revisions to estimates of recoverable amounts and to the conclusion as to whether an indication of impairment exists, which could affect the income statement in future years.

### (b) Valuation of investments

The Group has a significant amount of investments that are not classified as Level 1 investments under HKFRS 13. Except for an investment in an unlisted company held by a subsidiary at 31 December 2014, the valuations have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs.

At 31 December 2015, the financial assets that were not classified as Level 1 investments (excluding the base metals futures and options contracts cleared through by LME Clear that did not qualify for netting under the current accounting standards) under HKFRS 13 amounted to \$3,087 million (31 December 2014: \$2,764 million).

As the valuation of investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature. The potential impact of the fair value change of such investments on the Group's consolidated income statement is disclosed in note 52(a)(iv).

## 4. Operating Segments

The Group determines 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 Stock Connect, sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff, listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on Hong Kong Futures Exchange Limited (Futures Exchange) and the 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), CBBCs 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 LME, which operates an exchange in the UK for the trading of base metals futures and options contracts. 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.

The **Clearing** segment refers to the operations of the five clearing houses, namely HKSCC, SEOCH, HKCC, OTC Clear and 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 the Margin Funds and Clearing House Funds.

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

#### 4. Operating Segments (continued)

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis by operating segment of the Group's EBITDA, profit before taxation and other selected financial information for the year is as follows:

	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	3,433	2,178	1,735	4,383	499	5	12,233
Net investment income	-	-	-	604	-	74	678
Gain on disposal of a leasehold property	-	-	-	-	-	445	445
Sundry income	2	1	-	15	-	1	19
Revenue and other income	3,435	2,179	1,735	5,002	499	525	13,375
Operating expenses	(531)	(446)	(546)	(692)	(148)	(927)	(3,290)
Reportable segment EBITDA	2,904	1,733	1,189	4,310	351	(402)	10,085
Depreciation and amortisation	(85)	(87)	(275)	(148)	(43)	(46)	(684)
Finance costs	-	-	-	-	-	(114)	(114)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)
Reportable segment profit before taxation	2,819	1,637	914	4,162	308	(562)	9,278
<b>Other segment information:</b>							
Interest income	-	-	-	615	-	71	686
Interest rebates to Participants	-	-	-	(24)	-	-	(24)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	-	-	-	11	-	-	11
Employee share-based compensation expenses	(27)	(21)	(25)	(38)	(2)	(70)	(183)
Gain on disposal of other fixed assets	2	1	-	4	-	1	8
(Provision for)/reversal of provision for impairment losses	(1)	-	-	77	-	-	76

#### 4. Operating Segments (continued)

	2014						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	2,761	1,666	1,274	2,956	465	5	9,127
Net investment income	-	-	-	532	-	175	707
Sundry income	-	-	-	15	-	-	15
Revenue and other income	2,761	1,666	1,274	3,503	465	180	9,849
Operating expenses	(461)	(400)	(568)	(586)	(152)	(791)	(2,958)
Reportable segment EBITDA	2,300	1,266	706	2,917	313	(611)	6,891
Depreciation and amortisation	(89)	(64)	(322)	(98)	(46)	(28)	(647)
Finance costs	-	-	-	-	-	(196)	(196)
Share of loss of a joint venture	-	(10)	-	-	-	-	(10)
Reportable segment profit before taxation	2,211	1,192	384	2,819	267	(835)	6,038
<b>Other segment information:</b>							
Interest income	-	-	-	517	-	77	594
Interest rebates to Participants	-	-	-	(6)	-	-	(6)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	-	-	-	15	-	-	15
Employee share-based compensation expenses	(21)	(16)	(14)	(29)	(2)	(55)	(137)
Reversal of provision for/(provision for) impairment losses	1	-	(2)	77	-	-	76

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Taxation charge/credit is not allocated to reportable segments.

(b) Geographical information

(i) Revenue

The Group's revenue from external customers is derived from its operations in the following geographical location:

	2015 \$m	2014 \$m
Hong Kong (place of domicile)	9,757	7,644
United Kingdom	2,476	1,483
	12,233	9,127

## 4. Operating Segments (continued)

### (b) Geographical information (continued)

#### (ii) Non-current assets

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Hong Kong (place of domicile)	2,059	2,140
United Kingdom	17,481	17,465
Mainland China	3	5
	<b>19,543</b>	<b>19,610</b>

### (c) Information about major customers

In 2015 and 2014, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

## 5. Trading Fees and Trading Tariff

	2015 \$m	2014 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Stock Exchange (excluding stock options contracts) and the Shanghai Stock Exchange through Stock Connect	3,013	2,033
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	1,052	799
Base metals futures and options contracts traded on the LME	1,404	928
	<b>5,469</b>	<b>3,760</b>

## 6. Stock Exchange Listing Fees

	2015				2014			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	557	31	3	591	502	27	3	532
Initial and subsequent issue listing fees	82	15	418	515	89	11	462	562
Other listing fees	6	2	-	8	6	2	-	8
Total	<b>645</b>	<b>48</b>	<b>421</b>	<b>1,114</b>	<b>597</b>	<b>40</b>	<b>465</b>	<b>1,102</b>

Listing fees are primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

## 7. Other Revenue

	2015 \$m	2014 \$m
Network, terminal user, dataline and software sub-license fees	389	356
Commodities stock levies and warehouse listing fees	102	117
Hosting services fees	105	98
Participants' subscription and application fees	73	69
Brokerage on direct IPO allotments	6	34
Trading booth user fees	5	11
Accommodation income (note (a))	72	28
Sales of Trading Rights	11	6
Post-liquidation interest arising from a Participant's default on market contracts (note (b))	38	-
Miscellaneous revenue	61	54
	<b>862</b>	<b>773</b>

- (a) Accommodation income mainly comprises income from Participants on securities deposited as alternatives to cash deposits of Margin Funds and interest shortfall collected from LME Clear Participants on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.
- (b) In 2015, the liquidators of Lehman Brothers Securities Asia Limited (LBSA) paid a post-liquidation interest of \$38 million on LBSA's debts arising from its default on market contracts. An equal amount was appropriated to the HKSCC Guarantee Fund reserve from retained earnings during the year (note 42).

## 8. Net Investment Income

	2015 \$m	2014 \$m
Gross interest income from financial assets measured at amortised cost	686	594
Interest rebates to Participants	(24)	(6)
Net interest income	662	588
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	49	109
Others	(33)	10
Net investment income	<b>678</b>	<b>707</b>

## 9. Gain on Disposal of a Leasehold Property

In 2015, the Group sold a leasehold property to a third party at a consideration of \$509 million. The gain on disposal of the leasehold property, after deducting related selling expenses, amounted to \$445 million and was recognised in the consolidated income statement.

## 10. Sundry Income

	2015 \$m	2014 \$m
Gain on disposal of other fixed assets	8	-
Forfeiture of unclaimed dividends (note (a))	11	15
	<b>19</b>	15

- (a) In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of \$11 million (2014: \$15 million) held by HKSCC Nominees Limited, which had remained unclaimed for a period of more than seven years and recognised these as sundry income. The Group has, however, undertaken to honour all forfeited claims amounting to \$157 million at 31 December 2015 (31 December 2014: \$146 million) if adequate proof of entitlement is provided by the beneficial owner claiming any dividends forfeited.

## 11. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2015 \$m	2014 \$m
Salaries and other short-term employee benefits	1,686	1,446
Employee share-based compensation benefits of Share Award Scheme (note 41)	183	137
Termination benefits	14	12
Retirement benefit costs (note (a)):		
– ORSO Plan	103	92
– MPF Scheme	2	1
– LME Pension Scheme	32	28
	<b>2,020</b>	1,716

- (a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under the Occupational Retirement Schemes Ordinance (ORSO) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum contribution, which has been adjusted from \$1,250 to \$1,500 per month with effect from 1 June 2014). Forfeited contributions of the provident fund for employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund, and are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the MPF Scheme are held separately from those of the Group, are independently administered and are not included in the consolidated statement of financial position.

The Group has also sponsored a defined contribution pension scheme for all employees of the LME Group (LME Pension Scheme). For all employees who joined the LME Group before 1 May 2014, the Group contributes 15 per cent to 17 per cent of the employee's basic salary to the LME Pension Scheme.

In line with Auto enrolment legislation in the UK, for all employees who joined the LME Group on or after 1 May 2014, they are auto enrolled into the LME Pension Scheme on a matched contribution basis and may choose a personal contribution level ranging from 3 per cent to 5 per cent of their basic salaries, which is matched by the Group's contribution ranging from 6 per cent to 10 per cent of their basic salaries. Staff may opt-out of the scheme if they wish.

There are no forfeited contributions for the LME Pension Scheme as the contributions are fully vested to the employees upon payment to the scheme. Assets of the LME Pension Scheme are held separately from those of the Group and are independently administered.

## 12. Information Technology and Computer Maintenance Expenses

	2015 \$m	2014 \$m
Costs of services and goods:		
– consumed by the Group	445	429
– directly consumed by Participants	72	81
	517	510

## 13. Other Operating Expenses

- (a) In prior years, the Group lodged claims with the liquidators of Lehman Brothers Securities Asia Limited in respect of the losses of approximately \$160 million previously recognised in the Group's results. During the year ended 31 December 2015, the liquidators declared dividends of \$77 million (2014: \$77 million), and these were recognised in the Group's consolidated income statement, as a reversal of a provision for impairment losses recognised in prior years. Following the receipt of the dividends in 2015, the full amount of the claim lodged has now been recovered.

The amount recovered of \$77 million, together with an interim dividend declared in December 2014 but received in January 2015 of \$23 million, were appropriated to the HKSCC Guarantee Fund reserve from retained earnings during the year ended 31 December 2015 (2014: \$54 million) (note 42).

- (b) Others

	2015 \$m	2014 \$m
Insurance	14	9
Financial data subscription fees	26	21
Custodian and fund management fees	31	13
Bank charges	50	36
Repairs and maintenance expenses	66	45
License fees	27	20
Communication expenses	15	16
Travel expenses	41	34
Security expenses	17	14
Premises cleaning expenses	9	7
Contribution to Financial Reporting Council	7	5
Other miscellaneous expenses	93	67
	396	287



## 14. Operating Profit

	2015 \$m	2014 \$m
Operating profit is stated after (charging)/crediting:		
Amortisation of intangible assets (note 29)	(445)	(405)
Auditor's remuneration		
– audit fees	(13)	(12)
– other non-audit fees	(8)	(5)
Depreciation of fixed assets (note 30)	(239)	(242)
Operating lease rentals		
– land and buildings	(203)	(209)
– computer systems and equipment	(28)	(23)
Net foreign exchange (losses)/gains on financial assets and liabilities (excluding financial assets and financial liabilities measured at fair value through profit or loss)	(37)	2

## 15. Finance Costs

	2015 \$m	2014 \$m
Interest expenses:		
– Bank borrowings (note 37(a))	23	33
– Convertible bonds (note 37(b))	42	113
– Notes (note 37(c))	44	42
– Written put options to non-controlling interests (note 37(d))	7	7
Net foreign exchange (gains)/losses on financing activities	(2)	1
	114	196

## 16. Directors' Emoluments and Interests of Directors

All Directors, including one Executive Director (HKEX's Chief Executive), received emoluments during the years ended 31 December 2015 and 31 December 2014. The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2015 \$'000	2014 \$'000
Executive Director:		
Salaries and other short-term employee benefits	9,178	8,817
Performance bonus	15,000	10,095
Retirement benefit costs	1,125	1,081
	25,303	19,993
Employee share-based compensation benefits (note (a))	19,917	20,915
	45,220	40,908
Non-executive Directors:		
Fees	15,526	13,896
	60,746	54,804

**16. Directors' Emoluments and Interests of Directors** (continued)

- (a) Employee share-based compensation benefits represent the fair value of Awarded Shares issued under the Share Award Scheme (note 41(b)) amortised to the consolidated income statement during the year.
- (b) The emoluments of all Directors, including HKEX's Chief Executive who is an ex-officio member, for the years ended 31 December 2015 and 31 December 2014 are set out below. The amounts represent emoluments paid or receivable in respect of a person's services as a director.

Name of Director	2015							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
C K Chow	3,137	-	-	-	-	3,137	-	3,137
Charles X Li	-	9,000	178	15,000	1,125	25,303	19,917	45,220
T C Chan	926	-	-	-	-	926	-	926
Timothy G Freshwater	957	-	-	-	-	957	-	957
Anita Y M Fung (note (iii))	720	-	-	-	-	720	-	720
Rafael Gil-Tienda (note (iii))	621	-	-	-	-	621	-	621
John B Harrison	2,601	-	-	-	-	2,601	-	2,601
Fred Z Hu (note (iv))	799	-	-	-	-	799	-	799
Stephen C C Hui (note (v))	203	-	-	-	-	203	-	203
Bill C P Kwok	1,417	-	-	-	-	1,417	-	1,417
Vincent K H Lee	991	-	-	-	-	991	-	991
Michael T H Lee (note (v))	383	-	-	-	-	383	-	383
Margaret M Y Leung Ko	929	-	-	-	-	929	-	929
John M M Williamson	957	-	-	-	-	957	-	957
Oscar S H Wong	885	-	-	-	-	885	-	885
<b>Total</b>	<b>15,526</b>	<b>9,000</b>	<b>178</b>	<b>15,000</b>	<b>1,125</b>	<b>40,829</b>	<b>19,917</b>	<b>60,746</b>

Name of Director	2014							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
C K Chow	2,367	-	-	-	-	2,367	-	2,367
Charles X Li	-	8,653	164	10,095	1,081	19,993	20,915	40,908
T C Chan	784	-	-	-	-	784	-	784
Timothy G Freshwater	872	-	-	-	-	872	-	872
John B Harrison	2,508	-	-	-	-	2,508	-	2,508
Fred Z Hu (note (iv))	99	-	-	-	-	99	-	99
Stephen C C Hui (note (v))	785	-	-	-	-	785	-	785
Bill C P Kwok	1,007	-	-	-	-	1,007	-	1,007
Vincent K H Lee	1,007	-	-	-	-	1,007	-	1,007
Michael T H Lee (note (v))	1,317	-	-	-	-	1,317	-	1,317
Margaret M Y Leung Ko	781	-	-	-	-	781	-	781
John E Strickland (note (vi))	683	-	-	-	-	683	-	683
John M M Williamson	894	-	-	-	-	894	-	894
Oscar S H Wong	792	-	-	-	-	792	-	792
<b>Total</b>	<b>13,896</b>	<b>8,653</b>	<b>164</b>	<b>10,095</b>	<b>1,081</b>	<b>33,889</b>	<b>20,915</b>	<b>54,804</b>

## 16. Directors' Emoluments and Interests of Directors (continued)

- (b) (continued)
- (i) Other benefits represented estimated money value of leave pay, insurance premium and club membership.
  - (ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
  - (iii) Appointment effective 29 April 2015
  - (iv) Appointment effective 10 November 2014
  - (v) Retired on 29 April 2015
  - (vi) Resigned on 31 October 2014
- (c) Directors' material interests in transactions, arrangement or contracts

No significant transactions, arrangements and contracts in relation to HKEX's business to which HKEX was a party and in which a director of HKEX had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 17. Five Top-paid Employees

One (2014: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 16. Details of the emoluments of the other four (2014: four) top-paid employees were as follows:

	2015 \$'000	2014 \$'000
Salaries and other short-term employee benefits	18,476	18,581
Performance bonus	26,136	20,473
Retirement benefit costs	2,682	2,714
	<b>47,294</b>	41,768
Employee share-based compensation benefits (note (a))	17,571	10,358
	<b>64,865</b>	52,126

- (a) Employee share-based compensation benefits represent the fair value of Awarded Shares issued under the Share Award Scheme (note 41(b)) amortised to the consolidated income statement during the year.

## 17. Five Top-paid Employees (continued)

- (b) The emoluments of these four (2014: four) employees, including share-based compensation benefits, were within the following bands:

	2015 Number of employees	2014 Number of employees
\$11,500,001 – \$12,000,000	–	2
\$13,500,001 – \$14,000,000	–	1
\$14,500,001 – \$15,000,000	1	1
\$15,500,001 – \$16,000,000	1	–
\$16,500,001 – \$17,000,000	1	–
\$17,500,001 – \$18,000,000	1	–
	<b>4</b>	<b>4</b>

The above employees included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

## 18. Taxation

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2014: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rates applicable to the subsidiaries in the UK being 20.25 per cent (2014: 21.5 per cent).

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

	2015 \$m	2014 \$m
Current tax – Hong Kong Profits Tax		
– Provision for the year	1,159	885
– Overprovision in respect of prior years	(2)	–
	1,157	885
Current tax – Overseas Tax		
– Provision for the year	280	3
– Under/(overprovision) in respect of prior years	3	(11)
	283	(8)
Total current tax	1,440	877
Deferred tax		
– (Reversal)/origination of temporary differences	(28)	23
– Impact of changes in UK Corporation Tax rates (note (i))	(65)	–
Total deferred tax (note 39(a))	(93)	23
Taxation charge	1,347	900

- (i) Through the enactment of the 2015 Finance Act in November 2015, the UK Corporation Tax rate will drop to 19 per cent effective from 1 April 2017 and 18 per cent effective from 1 April 2020. As a result of the reduction in UK Corporation Tax rates, the Group's net deferred tax liabilities decreased by approximately \$65 million.

**18. Taxation** (continued)

- (b) Taxation credited directly to retained earnings represented:

	2015 \$m	2014 \$m
Current tax – Overseas Tax	(2)	-
Deferred tax (note 39(a))	(1)	-
	<b>(3)</b>	-

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 above relate 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.

- (c) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2015 \$m	2014 \$m
Profit before taxation	<b>9,278</b>	6,038
Tax calculated at domestic tax rates applicable to profits in the respective countries (note (i))	<b>1,554</b>	970
Income not subject to taxation	<b>(190)</b>	(102)
Expenses not deductible for taxation purposes	<b>33</b>	41
Remeasurement of deferred tax assets and liabilities arising from changes in UK Corporation Tax rates	<b>(65)</b>	-
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	<b>14</b>	2
Underprovision/(overprovision) in respect of prior years	<b>1</b>	(11)
Taxation charge	<b>1,347</b>	900

- (i) The weighted average applicable tax rate was 16.7 per cent (2014: 16.1 per cent).

**19. Earnings Per Share**

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

- (a) Basic earnings per share

	2015	2014
Profit attributable to shareholders (\$m)	<b>7,956</b>	5,165
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	<b>1,186,802</b>	1,163,712
Basic earnings per share (\$)	<b>6.70</b>	4.44

**19. Earnings Per Share** (continued)

## (b) Diluted earnings per share

	2015	2014
Profit attributable to shareholders (\$m)	7,956	5,165
Interest expense on convertible bonds (net of tax) (\$m)	41	–
Adjusted profit attributable to shareholders (\$m)	7,997	5,165
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,186,802	1,163,712
Effect of employee share options (in '000)	6	350
Effect of Awarded Shares (in '000)	2,721	1,286
Effect of convertible bonds (in '000)	8,841	–
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,198,370	1,165,348
Diluted earnings per share (\$)	6.67	4.43

- (i) The effect of the outstanding convertible bonds was not included in the computation of diluted earnings per share for 2014 as it was anti-dilutive.

**20. Dividends**

	2015 \$m	2014 \$m
Interim dividend paid:		
\$3.08 (2014: \$1.83) per share	3,688	2,136
Less: Dividend for shares held by Share Award Scheme (note (a))	(9)	(3)
	3,679	2,133
Final dividend proposed (note (b)):		
\$2.87 (2014: \$2.15) per share based on issued share capital at 31 Dec	3,468	2,511
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(9)	(6)
	3,459	2,505
	7,138	4,638

- (a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEX's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.
- (b) The final dividend proposed after 31 December is not recognised as a liability at 31 December. The 2014 final dividend paid was \$2,533 million, as \$28 million was paid for shares issued for conversion of convertible bonds and exercise of employee share options after 31 December 2014 and before the ex-dividend date.
- (c) The 2015 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the Securities and Futures Commission (SFC) of the listing of and permission to deal in the new shares to be issued.

## 21. Financial Assets

As part of its day to day operations, the Group receives cash prepayments for A shares (note 22), margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants (note 33), and Participants' contributions to Clearing House Funds (note 36). LME Clear, which acts as a central counterparty to the metals contracts traded on the LME, records the fair value of certain outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32 as financial assets. The Group classifies the corresponding assets into the following categories:

**Margin Funds** – the Margin Funds are established by cash received or receivable from the Clearing Participants in respect of margin deposits, Mainland security and settlement deposits, and cash collateral of the five clearing houses (ie, HKSCC, HKCC, SEOCH, OTC Clear and LME Clear) to cover their open positions. Part of the Mainland security and settlement deposits is used by HKSCC to satisfy its obligations as a clearing participant of ChinaClear in respect of trades transacted through Stock Connect. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

**Clearing House Funds** – the Clearing House Funds are established under the Clearing House Rules. Assets contributed by the Clearing Participants and the Group are held by the respective clearing houses (ie, HKSCC, HKCC, SEOCH, OTC Clear and LME Clear) (together with the accumulated income less related expenses for the clearing houses in Hong Kong) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge its liabilities and obligations if defaulting Clearing Participants deposit defective securities into CCASS. The amounts earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear and its accumulated investment income was also included in Clearing House Funds for presentation purpose. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Base metals derivatives contracts (note 23) include the fair value of the outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

Cash prepayments for A shares (note 22) represent cash received by HKSCC from its Clearing Participants for releasing their allocated A shares for same day settlement. Such prepayments will be used to settle HKSCC's Continuous Net Settlement obligations payable on the next business day.

Financial assets belonging to the Group, which are funded by share capital and funds generated from operations (other than base metals derivatives contracts, amounts received for the Margin Funds, Clearing House Funds and cash prepayments for A shares), are classified as Corporate Funds (note 25).

The financial assets of Margin Funds, Clearing House Funds, base metals derivatives contracts, cash prepayments for A shares and Corporate Funds are invested in cash and cash equivalents (note 22), financial assets measured at fair value through profit or loss (note 23) and financial assets measured at amortised cost (note 24).

## 22. Cash and Cash Equivalents

	At 31 Dec 2015				
	Clearing House Funds (notes (a) and 36) \$m	Margin Funds (notes (a) and 33) \$m	Cash prepayments for A shares (note (a)) \$m	Corporate Funds (note 25) \$m	Total \$m
Cash on hand and balances and deposits with banks	5,067	35,812	129	11,308	52,316
Reverse repurchase investments	3,143	53,995	-	1,436	58,574
	<b>8,210</b>	<b>89,807</b>	<b>129</b>	<b>12,744</b>	<b>110,890</b>

	At 31 Dec 2014				
	Clearing House Funds (notes (a) and 36) \$m	Margin Funds (notes (a) and 33) \$m	Cash prepayments for A shares (note (a)) \$m	Corporate Funds (note 25) \$m	Total \$m
Cash on hand and balances and deposits with banks	5,763	47,350	619	7,209	60,941
Reverse repurchase investments	4,426	65,978	-	858	71,262
Government bonds	-	4,575	-	-	4,575
	<b>10,189</b>	<b>117,903</b>	<b>619</b>	<b>8,067</b>	<b>136,778</b>

- (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 consolidated statement of cash flows.

## 23. Financial Assets Measured at Fair Value through Profit or Loss

	At 31 Dec 2015			
	Margin Funds (note 33) \$m	Corporate Funds (note 25) \$m	Base metals derivatives contracts \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
- listed in Hong Kong	-	79	-	79
- listed outside Hong Kong	-	106	-	106
	-	185	-	185
Debt securities:				
- listed in Hong Kong	-	712	-	712
- listed outside Hong Kong	-	1,000	-	1,000
- unlisted	5,844	478	-	6,322
	5,844	2,190	-	8,034
Derivative financial instruments:				
- forward foreign exchange contracts (note 52(b))	-	6	-	6
- base metals futures and options contracts cleared through LME Clear	-	-	64,480	64,480
	-	6	64,480	64,486
	5,844	2,381	64,480	72,705
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	5,844	2,381	64,480	72,705



## 23. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	At 31 Dec 2014			
	Margin Funds (note 33) \$m	Corporate Funds (note 25) \$m	Base metals derivatives contracts \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	117	–	117
– listed outside Hong Kong	–	126	–	126
– unlisted	–	156	–	156
	–	399	–	399
Debt securities:				
– listed in Hong Kong	–	487	–	487
– listed outside Hong Kong	–	828	–	828
– unlisted	895	384	–	1,279
	895	1,699	–	2,594
Derivative financial instruments:				
– forward foreign exchange contracts (note 52(b))	–	14	–	14
– base metals futures and options contracts cleared through LME Clear	–	–	59,679	59,679
	–	14	59,679	59,693
	895	2,112	59,679	62,686
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	895	2,112	59,679	62,686

- (a) Includes financial assets maturing after twelve months of \$300 million (31 December 2014: \$895 million) attributable to the Margin Funds that could readily be liquidated to meet liquidity requirements of the Funds (note 52(b)).

## 24. Financial Assets Measured at Amortised Cost

	At 31 Dec 2015			
	Clearing House Funds (note 36) \$m	Margin Funds (note 33) \$m	Corporate Funds (note 25) \$m	Total \$m
Time deposits with original maturities over three months	220	18,765	454	19,439
Other financial assets	-	-	57	57
	<b>220</b>	<b>18,765</b>	<b>511</b>	<b>19,496</b>
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	220	18,765	454	19,439
More than twelve months	-	-	57	57
	<b>220</b>	<b>18,765</b>	<b>511</b>	<b>19,496</b>
	At 31 Dec 2014			
	Clearing House Funds (note 36) \$m	Margin Funds (note 33) \$m	Corporate Funds (note 25) \$m	Total \$m
Time deposits with original maturities over three months	100	10,071	28	10,199
Other financial assets	-	-	57	57
	<b>100</b>	<b>10,071</b>	<b>85</b>	<b>10,256</b>
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	100	10,071	28	10,199
More than twelve months	-	-	57	57
	<b>100</b>	<b>10,071</b>	<b>85</b>	<b>10,256</b>

- (a) The carrying amounts of short-term time deposits approximated their fair value. The fair values of other financial assets maturing after twelve months are disclosed in note 52(d)(ii).

## 25. Corporate Funds

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Corporate Funds comprised the following instruments:		
Cash and cash equivalents (note 22)	12,744	8,067
Financial assets measured at fair value through profit or loss (note 23)	2,381	2,112
Financial assets measured at amortised cost (note 24)	511	85
	<b>15,636</b>	<b>10,264</b>

## 26. Accounts Receivable, Prepayments and Deposits

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Receivable from ChinaClear, Exchange and Clearing Participants:		
– Continuous Net Settlement money obligations	13,529	20,410
– transaction levy, stamp duty and fees receivable	455	716
– Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	794	611
– others	6	115
Other receivables, prepayments and deposits	776	753
Less: Provision for impairment losses of receivables (note (b))	(4)	(82)
	<b>15,556</b>	<b>22,523</b>

(a) The carrying amounts of short-term accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of receivables were as follows:

	2015 \$m	2014 \$m
At 1 Jan	82	158
Reversal of provision for impairment losses of receivables under other operating expenses	(76)	(76)
Receivables written off during the year as uncollectible	(2)	–
At 31 Dec	<b>4</b>	<b>82</b>

(c) 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.

## 27. Subsidiaries and Controlled Structured Entity

### (a) Subsidiaries

HKEX had direct or indirect interests in the following subsidiaries at 31 December 2015:

Company	Place of incorporation and operation	Issued and fully paid up share/registered capital	Principal activities	Interest held by the Group
<b>Direct subsidiaries:</b>				
The Stock Exchange of Hong Kong Limited	Hong Kong	929 ordinary shares (\$929)	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Hong Kong	230 ordinary shares (\$28,750,000)	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Hong Kong	2 ordinary shares (\$2)	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong and Shanghai Stock Exchange in Mainland China through Stock Connect and the central securities depository, and provides custody and nominee services for eligible securities listed in Hong Kong and Mainland China	100%
OTC Clearing Hong Kong Limited (note (i))	Hong Kong	4,860 ordinary shares (\$614,600,001) 1,620 non-voting ordinary shares (\$340,200,000)	Operates a clearing house for over-the-counter derivatives	75%
HKEx Hosting Services Limited (note (vi))	Hong Kong	2 shares (\$2)	Provision of hosting services	100%
HKEx Property Limited (note (vi))	Hong Kong	2 ordinary shares (\$2)	Property holding	100%
HKEx International Limited (note (vii))	Hong Kong	1 share (\$1)	Investment holding	100%
HKEx (China) Limited (note (vi))	Hong Kong	2 shares (\$2)	Promotes HKEX products and services	100%
<b>Indirect subsidiaries:</b>				
The SEHK Options Clearing House Limited (note (iii))	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for stock options contracts traded on the Stock Exchange in Hong Kong	100%
HKEx Information Services Limited (notes (iii) and (vi))	Hong Kong	100 shares (\$100)	Acts as agent for sales of market data for the Stock Exchange and the Futures Exchange	100%
The Stock Exchange Club Limited (notes (iii) and (viii))	Hong Kong	8 shares (\$8)	Dormant	100%
HKFE Clearing Corporation Limited (note (iii))	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKSCC Nominees Limited	Hong Kong	2 shares (\$20)	Acts as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited (note (iii))	Hong Kong	2 shares (\$2)	Conversion agency services	100%
HKEX Investment (UK) Limited	United Kingdom	1 ordinary share of £1 each	Investment holding	100%
LME Holdings Limited	United Kingdom	12,900,000 ordinary shares of 10 pence each	Investment holding	100%
The London Metal Exchange	United Kingdom	100 ordinary shares of £1 each	Operates an exchange for the trading of base metals futures and options contracts	100%
LME Clear Limited	United Kingdom	107,500,001 ordinary share of £1 each	Operates a clearing house for base metals futures and options contracts	100%

## 27. Subsidiaries and Controlled Structured Entity (continued)

### (a) Subsidiaries (continued)

Company	Place of incorporation and operation	Issued and fully paid up share/registered capital	Principal activities	Interest held by the Group
<b>Indirect subsidiaries (continued):</b>				
Ganghui Financial Information Services (Shanghai) Limited (note (iv))	Mainland China	US\$770,000	Operates a market data hub in Mainland China	100%
Gangsheng Information Services (Shanghai) Limited (note (iv))	Mainland China	US\$820,000	Provision of routing services of securities orders under Stock Connect	100%
Gangyu Information Services (Shenzhen) Limited (notes (iv) and (v))	Mainland China	RMB Nil	Dormant	100%

#### (i) Subsidiary with non-controlling interests

At 31 December 2015, the Group held 75 per cent interest of OTC Clear, while the remaining 25 per cent interest was held by non-controlling interests. The non-controlling interests do not have voting rights at general meetings of OTC Clear. The loss attributable to non-controlling interests during the year amounted to \$25 million (2014: \$27 million) and the accumulated non-controlling interests of OTC Clear at 31 December 2015 was \$146 million (31 December 2014: \$86 million). No summarised financial information of OTC Clear is presented as the non-controlling interests are not material to the Group.

#### (ii) Significant restrictions

Cash and saving deposits are held by subsidiaries in Mainland China and are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2015 was \$11 million (31 December 2014: \$9 million).

#### (iii) Internal reorganisation of subsidiaries

Subsequent to 31 December 2015, the Group completed an internal reorganisation of its subsidiaries on 22 January 2016. Following the internal reorganisation, HKFE Clearing Corporation Limited, The SEHK Options Clearing House Limited, The Stock Exchange Club Limited, HKEx Information Services Limited and HK Conversion Agency Services Limited, which were previously held by Hong Kong Futures Exchange Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited, became direct wholly-owned subsidiaries of HKEX.

#### (iv) These companies were established in Mainland China as wholly foreign owned enterprises.

#### (v) At 31 December 2015, the registered capital of RMB 5 million had not yet been paid to the subsidiary.

#### (vi) HKEx Hosting Services Limited, HKEx Property Limited, HKEx (China) Limited and HKEx Information Services Limited were renamed as HKEX Hosting Services Limited, HKEX Property Limited, HKEX (China) Limited and HKEX Information Services Limited respectively, effective on 18 February 2016.

#### (vii) HKEx International Limited was renamed as HKEX International Limited effective on 23 February 2016.

#### (viii) The Stock Exchange Club Limited was renamed as HKEX Investment (China) Limited effective on 29 February 2016.

## 27. Subsidiaries and Controlled Structured Entity (continued)

### (b) Controlled structured entity

HKEX controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEX Employee Share Trust)	Purchases, administers and holds HKEX shares for the Share Award Scheme for the benefit of eligible HKEX employees (note 41(b))

As the HKEX Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEX shares for the Share Award Scheme (note 41(b)), HKEX has the power to direct the relevant activities of the HKEX Employee Share Trust and it has the ability to use its power over the HKEX Employee Share Trust to affect its exposure to returns. Therefore, the assets and liabilities of HKEX Employee Share Trust are included in HKEX's statement of financial position and the HKEX shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

## 28. Interest in a Joint Venture

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Share of net assets of a joint venture	68	77

### (a) Details of the joint venture at 31 December 2015 were as follows:

Name	Place of business and country of incorporation	Principal activities	Issued and fully paid up share capital held	% of ownership interest	Measurement method
China Exchanges Services Company Limited (CESC)	Hong Kong	Development of index-linked and equity derivatives products	100,000,000 ordinary shares (\$100,000,000)	33.33%	Equity

In 2012, HKEX, the Shanghai Stock Exchange and the Shenzhen Stock Exchange (the three JV investors) established a joint venture, CESC, with an aim of developing financial products and related services. CESC is a strategic investment for the Group and it is expected to enhance the competitiveness of Hong Kong, help promote the development of Mainland China's capital markets and the internationalisation of the Group.

The three JV investors have an equal shareholding interest in CESC and have joint control over CESC as unanimous consent is required from all investors for all activities that significantly affect the returns of the arrangement. The joint arrangement also provides the three JV investors with rights to the net assets of CESC. Therefore, CESC is classified as a joint venture of the Group.

CESC is a private company and there is no quoted market price available for its shares.

No summarised financial information of CESC is presented as the joint venture is not material to the Group.

## 29. Goodwill and Other Intangible Assets

	Other Intangible Assets				Total \$m
	Goodwill \$m	Tradenames \$m	Customer Relationships \$m	Software Systems \$m	
<b>Cost:</b>					
At 1 Jan 2014	13,750	930	3,288	1,059	19,027
Exchange differences	(580)	(39)	(176)	(25)	(820)
Additions	-	-	-	416	416
At 31 Dec 2014	13,170	891	3,112	1,450	18,623
At 1 Jan 2015	13,170	891	3,112	1,450	18,623
Exchange differences	(8)	(1)	(3)	(1)	(13)
Additions	-	-	-	427	427
At 31 Dec 2015	13,162	890	3,109	1,876	19,037
<b>Accumulated amortisation:</b>					
At 1 Jan 2014	-	-	147	200	347
Exchange differences	-	-	(14)	(16)	(30)
Amortisation	-	-	136	269	405
At 31 Dec 2014	-	-	269	453	722
At 1 Jan 2015	-	-	269	453	722
Exchange differences	-	-	(1)	(1)	(2)
Amortisation	-	-	129	316	445
At 31 Dec 2015	-	-	397	768	1,165
<b>Net book value:</b>					
At 31 Dec 2015	13,162	890	2,712	1,108	17,872
At 31 Dec 2014	13,170	891	2,843	997	17,901
At 1 Jan 2014	13,750	930	3,141	859	18,680
<b>Cost of software systems under development:</b>					
At 31 Dec 2015	-	-	-	336	336
At 31 Dec 2014	-	-	-	373	373

Amortisation of \$445 million (2014: \$405 million) is included in “depreciation and amortisation” in the consolidated income statement.

Tradenames are regarded as having indefinite useful lives and there is no foreseeable limit to the period over which they are expected to generate cash flows for the Group as it is expected that their values will not be reduced through usage and there are no legal or similar limits on the period for their use.

## 29. Goodwill and Other Intangible Assets (continued)

### Impairment tests for cash generating units containing intangible assets with indefinite useful lives

Goodwill and tradenames arose on the acquisition of the LME Group in 2012 are monitored by management at the operating segment level. They were allocated to the CGUs that are expected to benefit from synergies of combination with the acquired businesses, which were determined to be the Group's commodities and clearing segments (note 4).

A summary of the allocation of goodwill and tradenames to these operating segments is as follows:

	At 31 Dec 2015		At 31 Dec 2014	
	Goodwill \$m	Tradenames \$m	Goodwill \$m	Tradenames \$m
Commodities segment	10,306	697	10,312	698
Clearing segment	2,856	193	2,858	193
	<b>13,162</b>	<b>890</b>	13,170	891

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The key assumptions, EBITDA margin, growth rate and discount rate used for value-in-use calculations are as follows:

	At 31 Dec 2015		At 31 Dec 2014	
	Commodities segment	Clearing segment	Commodities segment	Clearing segment
EBITDA margin (average of next five years)	62%	66%	68%	71%
Growth rate	3%	3%	3%	3%
Discount rate	9%	9%	10%	10%

Management determined the EBITDA margin based on past performance and its expectations regarding market development and fee increments relating to the products. The growth rate does not exceed the long-term average growth rate for the business in the countries in which each of the CGUs currently operates. The discount rate used is pre-tax and reflects specific risks relating to each CGU.

The recoverable amounts of the operating segments (including goodwill and tradenames) based on the estimated value-in-use calculations were higher than their carrying amounts at 31 December 2015 and 31 December 2014. Accordingly, no provision for impairment loss for goodwill or tradenames is considered necessary.

If the discount rate rose to 11 per cent (31 December 2014: 13 per cent), the recoverable amount of the commodities segment would be approximately equal to its carrying amount. Except for this, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment at 31 December 2015 and 31 December 2014.



## 30. Fixed Assets

	Leasehold land under finance lease \$m	Leasehold buildings \$m	Computer trading and clearing systems \$m	Other computer hardware and software \$m	Data centre facilities and equipment \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
<b>Cost:</b>							
At 1 Jan 2014	70	727	1,361	444	405	631	3,638
Exchange differences	-	-	-	(3)	-	(1)	(4)
Additions	-	-	3	17	-	81	101
Disposals	-	-	(2)	(2)	-	(14)	(18)
Adjustments	-	(3)	-	-	(2)	-	(5)
At 31 Dec 2014	70	724	1,362	456	403	697	3,712
At 1 Jan 2015	70	724	1,362	456	403	697	3,712
Additions	-	-	60	76	3	116	255
Disposals	(70)	(16)	(11)	(20)	-	(19)	(136)
At 31 Dec 2015	-	708	1,411	512	406	794	3,831
<b>Accumulated depreciation:</b>							
At 1 Jan 2014	12	51	1,192	256	34	340	1,885
Depreciation	-	29	42	72	26	73	242
Disposals	-	-	(2)	(2)	-	(14)	(18)
At 31 Dec 2014	12	80	1,232	326	60	399	2,109
At 1 Jan 2015	12	80	1,232	326	60	399	2,109
Depreciation	-	28	35	83	26	67	239
Disposals	(12)	(15)	(11)	(20)	-	(19)	(77)
At 31 Dec 2015	-	93	1,256	389	86	447	2,271
<b>Net book value:</b>							
At 31 Dec 2015	-	615	155	123	320	347	1,560
At 31 Dec 2014	58	644	130	130	343	298	1,603
At 1 Jan 2014	58	676	169	188	371	291	1,753
<b>Cost of fixed assets in the course of construction:</b>							
At 31 Dec 2015	-	-	83	8	-	41	132
At 31 Dec 2014	-	-	4	23	-	59	86

### 31. Lease Premium for Land

	2015 \$m	2014 \$m
Net book value at 1 Jan	23	23
Amortisation	(1)	–
Net book value at 31 Dec	22	23

### 32. Financial Liabilities at Fair Value through Profit or Loss

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$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 (a))	64,480	59,679
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts (note 52(b))	6	1
	64,486	59,680

- (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, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

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

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised (notes (a) and 21):		
SEOCH Clearing Participants' margin deposits	6,773	8,964
HKCC Clearing Participants' margin deposits	45,123	42,356
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	4,103	7,478
OTC Clear Clearing Participants' margin deposits	54	40
LME Clear Clearing Participants' margin deposits	59,160	70,646
	115,213	129,484
The margin deposits, Mainland security and settlement deposits, and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 22)	89,807	117,903
Financial assets measured at fair value through profit or loss (note 23)	5,844	895
Financial assets measured at amortised cost (note 24)	18,765	10,071
Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	794	611
Margin receivable from Clearing Participants	3	4
	115,213	129,484

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

### 34. Accounts Payable, Accruals and Other Liabilities

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Payable to ChinaClear, Exchange and Clearing Participants:		
– Continuous Net Settlement money obligations	13,658	21,029
– others	324	508
Transaction levy payable to the SFC	85	120
Unclaimed dividends (note (b))	230	216
Stamp duty payable to the Collector of Stamp Revenue	172	338
Other payables, accruals and deposits received	816	638
	<b>15,285</b>	<b>22,849</b>

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair values.
- (b) Unclaimed dividends represent dividends declared by listed companies which were held by HKSCC Nominees Limited (HKSN) but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEX but not yet claimed by its shareholders. During the year, cash dividends held by HKSN which had remained unclaimed for a period of more than seven years amounting to \$11 million (2014: \$15 million) were forfeited and recognised as sundry income (note 10) and dividends declared by HKEX which were unclaimed over a period of six years from the date of payment amounting to \$18 million (2014: \$29 million) were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association (note 43).
- (c) 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.

### 35. Other Financial Liabilities

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Financial liabilities of Clearing House Funds (note 36)	22	64
Financial liabilities of Corporate Funds:		
Financial guarantee contract (note (a))	20	20
	<b>42</b>	<b>84</b>

- (a) The amount represents the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 46(b).

### 36. Clearing House Funds

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
The Clearing House Funds comprised (note 21):		
Clearing Participants' cash contributions (note (a))	7,474	9,426
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (notes (b) and 42)	778	643
	<b>8,408</b>	10,225
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 22)	8,210	10,189
Financial assets measured at amortised cost (note 24)	220	100
	<b>8,430</b>	10,289
Less: Other financial liabilities of Clearing House Funds (note 35)	(22)	(64)
	<b>8,408</b>	10,225
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,926	2,234
SEOCH Reserve Fund	542	1,326
HKCC Reserve Fund	1,134	1,879
OTC Clear Rates and FX Guarantee Fund	505	203
OTC Clear Rates and FX Guarantee Resources	158	157
LME Clear Default Fund	3,143	4,426
	<b>8,408</b>	10,225

- (a) Amounts exclude non-cash collateral received and utilised as alternatives to cash contributions.
- (b) Designated reserves comprise contributions from the clearing houses and accumulated income net of expenses of the Clearing House Funds appropriated from retained earnings.

### 37. Borrowings

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Bank borrowings (note (a))	1,585	1,585
Convertible bonds (note (b))	-	3,701
Notes (note (c))	1,516	1,515
Written put options to non-controlling interests (note (d))	308	225
Total borrowings	<b>3,409</b>	7,026

### 37. Borrowings (continued)

The borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
After 2 years but within 5 years	793	-	1,824	5,441
After 5 years	792	1,585	-	-
	<b>1,585</b>	1,585	<b>1,824</b>	5,441

(a) Bank borrowings

At 31 December 2015, bank borrowings mature within 6 years (31 December 2014: 7 years). During the year, the bank borrowings bore average coupons of 1.4 per cent (2014: 1.8 per cent) per annum, and the average effective interest rate was 1.5 per cent (2014: 2.0 per cent) per annum.

(b) Convertible bonds

On 23 October 2012, HKEX issued convertible bonds (the Bonds) in the principal amount of US\$500 million (HK\$3,875 million). The Bonds paid interest at the rate of 0.50 per cent per annum and would mature on 23 October 2017. At any time between 3 December 2012 and 13 October 2017, the Bonds could be converted into ordinary shares of HKEX at an initial conversion price of HK\$160 per share (which was adjusted to HK\$157.62 per share from 26 April 2014) at the option of the holders of the Bonds. HKEX used the proceeds of the Bonds to fund part of the acquisition of the LME Group. During the year ended 31 December 2015, all of the Bonds were converted into HKEX's shares at the prevailing adjusted conversion price of HK\$157.62 per share and cancelled upon the exercise of the conversion rights by the bondholders. As a result, a total number of 24,594,225 shares in HKEX were issued and credited as fully paid.

With effect from 17 December 2012, HKEX has substituted in its place HKEx International Limited, a wholly-owned subsidiary of HKEX whose functional currency is United States Dollar (USD), as the issuer and the principal obligor under the Bonds (the Substitution); all payments due under the Bonds are unconditionally and irrevocably guaranteed by HKEX and HKEX remains obliged to issue and deliver HKEX shares on conversion of the Bonds.

After the Substitution, the Bonds comprised two elements and were accounted for as follows:

- The debt element was treated as a financial liability and measured at amortised cost and interest expense was recognised in profit or loss using the effective interest method.
- The share conversion option element was accounted for as convertible bond reserve under equity in the consolidated financial statements of the Group and will not be remeasured until the Bonds are converted.

**37. Borrowings** (continued)

## (b) Convertible bonds (continued)

As the Bonds were fully converted during the year ended 31 December 2015, the convertible bond reserve was partly transferred to share capital (\$143 million, being the difference between the consideration of shares issued and the carrying amount of liability component of the Bonds at the time of conversion) (note 40) and partly transferred to retained earnings (\$266 million) (note 43).

The movements of the liability component of the Bonds are as follows:

	2015 \$m	2014 \$m
At 1 Jan	3,701	3,607
Interest expenses (notes (i) and 15)	42	113
Interest paid	(7)	(19)
Exchange difference	(2)	-
Conversion of the Bonds	(3,734)	-
At 31 Dec	-	3,701

(i) The effective interest rate of the liability component up to the time of conversion was 3.1 per cent (2014: 3.1 per cent) per annum.

## (c) Notes

In December 2013 and January 2014, HKEX issued US\$100 million (HK\$775 million) and US\$95 million (HK\$737 million) of fixed rate senior notes which will be due in December 2018 and January 2019 respectively.

The average effective interest rate of the senior notes was 2.9 per cent (2014: 2.9 per cent) per annum.

## (d) Written put options to non-controlling interests

	2015 \$m	2014 \$m
At 1 Jan	225	218
Issuance of written put options to non-controlling interests debited against related reserve under equity attributable to shareholders of HKEX (note (i))	76	-
Interest expenses (notes (ii) and 15)	7	7
At 31 Dec	308	225

(i) In October 2013 and August 2015, OTC Clear issued 1,200 and 420 non-voting ordinary shares to certain third party shareholders at a consideration of \$252 million and \$88 million respectively. As part of the arrangement, put options were written by HKEX to the non-controlling interests of OTC Clear to sell part or all of their non-voting ordinary shares in OTC Clear to HKEX at the initial subscription price of \$210,000 per share less accumulated dividends received by the non-controlling interests. The put options are exercisable by the non-controlling interests at any time following the date falling five years after the shares were issued if the non-controlling interests can demonstrate to HKEX that they have used reasonable endeavours for at least three months to find a suitable purchaser for their shares at a price equal to or more than their fair market values. The carrying amount of written put options represents the present value of the amount payable by HKEX to acquire the non-controlling interests at the date at which the written put options first become exercisable.

(ii) The effective interest rate of the liabilities was 3.0 per cent (2014: 3.0 per cent) per annum.

### 38. Provisions

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2015	61	58	119
Provision for the year	13	80	93
Amount used during the year	-	(68)	(68)
Amount paid during the year	(3)	(6)	(9)
At 31 Dec 2015	71	64	135

- (a) The provision for reinstatement costs represents the estimated costs of restoring the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within fifteen years.
- (b) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

### 39. Deferred Taxation

Deferred taxation is calculated on temporary differences under the liability method.

- (a) The movements on the net deferred tax liabilities account were as follows:

	2015 \$m	2014 \$m
At 1 Jan	834	853
Exchange differences	(1)	(42)
(Credited)/charged to the income statement (note 18(a))	(93)	23
Credited directly to retained earnings (note 18(b))	(1)	-
At 31 Dec (note (d))	739	834

- (b) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of \$666 million at 31 December 2015 (31 December 2014: \$596 million) that may be carried forward for offsetting against future taxable income indefinitely.
- (c) The movements on the net deferred tax liabilities/(assets) were as follows:

	Accelerated tax depreciation		Intangible assets		Financial assets		Tax losses		Employee benefits		Total	
	2015 \$m	2014 \$m	2015 \$m	2014 \$m	2015 \$m	2014 \$m	2015 \$m	2014 \$m	2015 \$m	2014 \$m	2015 \$m	2014 \$m
At 1 Jan	141	139	747	816	31	22	(70)	(117)	(15)	(7)	834	853
Exchange differences	-	-	(1)	(40)	-	(2)	-	-	-	-	(1)	(42)
Charged/(credited) to the income statement	27	2	(91)	(29)	(31)	11	6	47	(4)	(8)	(93)	23
Credited directly to retained earnings	-	-	-	-	-	-	-	-	(1)	-	(1)	-
At 31 Dec	168	141	655	747	-	31	(64)	(70)	(20)	(15)	739	834

**39. Deferred Taxation** (continued)

- (d) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same taxation authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Deferred tax assets	(22)	(5)
Deferred tax liabilities	761	839
	<b>739</b>	<b>834</b>

- (e) The analysis of deferred tax (assets)/liabilities is as follows:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
<b>Deferred tax assets</b>		
Amounts to be recovered after more than 12 months	(14)	(4)
Amounts to be recovered within 12 months	(8)	(1)
	<b>(22)</b>	<b>(5)</b>
<b>Deferred tax liabilities</b>		
Amounts to be recovered or settled after more than 12 months	745	790
Amounts to be recovered or settled within 12 months	16	49
	<b>761</b>	<b>839</b>
Net deferred tax liabilities	<b>739</b>	<b>834</b>



## 40. Share Capital, Share Premium and Shares Held for Share Award Scheme

Issued and fully paid:

	Number of shares '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2014	1,160,119	1,161	10,167	(174)	11,154
Shares issued upon exercise of employee share options prior to 3 March 2014 (note (a))	121	-	2	-	2
Transfer on 3 March 2014 upon adoption of the new CO (note (b))	-	10,169	(10,169)	-	-
Shares issued upon exercise of employee share options on or after 3 March 2014 (note (a))	539	10	-	-	10
Shares issued in lieu of cash dividends (note (c))	5,959	879	-	(5)	874
Transfer from employee share-based compensation reserve upon exercise of employee share options on or after 3 March 2014 (note 41)	-	3	-	-	3
Shares purchased for Share Award Scheme (note (d))	(2,299)	-	-	(405)	(405)
Vesting of shares of Share Award Scheme (note (e))	825	3	-	102	105
At 31 Dec 2014	1,165,264	12,225	-	(482)	11,743
At 1 Jan 2015	1,165,264	12,225	-	(482)	11,743
Shares issued upon exercise of employee share options (note (a))	144	3	-	-	3
Shares issued in lieu of cash dividends (note (c))	15,559	3,180	-	(15)	3,165
Shares purchased for Share Award Scheme (note (d))	(1,137)	-	-	(227)	(227)
Vesting of shares of Share Award Scheme (note (e))	853	-	-	134	134
Conversion of the Bonds (note 37(b))	24,594	3,877	-	-	3,877
At 31 Dec 2015	1,205,277	19,285	-	(590)	18,695

- (a) During the year, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 144,000 shares (2014: 660,500 shares) in HKEX at a consideration of \$3 million (2014: \$12 million).
- (b) Pursuant to the adoption of the new CO on 3 March 2014, the balance of share premium was transferred to share capital.

#### 40. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

- (c) During the year, the following shares were issued to shareholders who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	2015				
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2014 final scrip dividends:					
– total	4,532,307	286.64	1,299	–	1,299
– to Share Award Scheme	(21,660)	286.64	–	(6)	(6)
Issued as 2015 interim scrip dividends:					
– total	11,100,157	169.40	1,881	–	1,881
– to Share Award Scheme	(51,576)	169.40	–	(9)	(9)
	<b>15,559,228</b>		<b>3,180</b>	<b>(15)</b>	<b>3,165</b>
	2014				
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2013 final scrip dividends:					
– total	5,098,366	140.22	715	–	715
– to Share Award Scheme	(17,017)	140.22	–	(2)	(2)
Issued as 2014 interim scrip dividends:					
– total	891,617	183.60	164	–	164
– to Share Award Scheme	(13,913)	183.60	–	(3)	(3)
	<b>5,959,053</b>		<b>879</b>	<b>(5)</b>	<b>874</b>

- (d) During the year, the Share Award Scheme (note 41(b)) acquired 1,137,400 HKEX shares (2014: 2,298,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$227 million (2014: \$405 million).
- (e) During the year, a total of 852,317 HKEX shares (comprising Awarded Shares and dividend shares) (2014: 825,261 shares) were vested. The total cost of the vested shares was \$134 million (2014: \$102 million). In 2014, \$3 million was credited to share capital in respect of vesting of certain shares whose fair values were higher than the costs.

## 41. Employee Share-based Arrangements

The movements of employee share-based compensation reserve were as follows:

	2015 \$m	2014 \$m
At 1 Jan	142	105
Employee share-based compensation benefits (note 11)	183	137
Transfer to share capital upon exercise of employee share options (note 40)	-	(3)
Vesting of shares of Share Award Scheme	(126)	(97)
At 31 Dec	199	142

The Group operates a share option scheme (HKEX Share Option Scheme) and a share award scheme (HKEX Share Award Scheme) as part of the benefits to its employees.

### (a) HKEX Share Option Scheme

- (i) Under the terms of the HKEX Post-Listing Share Option Scheme (HKEX Post-Listing Scheme), share options were granted to employees during the period from May 2003 to January 2005 respectively. The share options vested progressively from the second to the fifth year after the grant provided that the relevant employee remained employed by the Group. Forfeited share options would be cancelled. Share options for the HKEX Post-Listing Scheme are exercisable up to 10 years after the grant date and expired in January 2015.

The estimated fair value of share options granted was determined at the date of the grant and is charged as an expense over the projected vesting period being the period for which the services from the employees were rendered with a corresponding credit to employee share-based compensation reserve.

Prior to the adoption of the new CO (note 40(b)), on exercising the share options, the consideration received was credited to share capital in respect of the nominal value of the shares issued with the balance credited to share premium; the original estimated fair value of the relevant share options was then transferred from employee share-based compensation reserve to share premium. Pursuant to the adoption of the new CO, on exercising the share options, the consideration received is credited to share capital, and the original estimated fair value of the relevant share options is then transferred from employee share-based compensation reserve to share capital.

- (ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2015		2014	
	Average exercise price per share \$	Number of shares issuable under options granted '000	Average exercise price per share \$	Number of shares issuable under options granted '000
<b>HKEX Post-Listing Scheme</b>				
Outstanding at 1 Jan	19.25	144	18.32	804
Exercised <sup>1</sup>	19.25	(144)	18.12	(660)
Outstanding at 31 Dec	-	-	19.25	144

1 The weighted average closing share price on the dates on which the options were exercised was \$177.01 (2014: \$137.34) per share.

At 31 December 2014, all outstanding options were vested and exercisable at an exercise price of \$19.25 per share, and their remaining contractual lives were 0.07 year.

## 41. Employee Share-based Arrangements (continued)

### (b) HKEX Share Award Scheme

From September 2005, The HKEx Employees' Share Award Scheme (the Scheme) has been in effect. The terms of the Scheme provide for shares in HKEX to be awarded to employees of the Group (including the Executive Director) as part of their compensation package.

In 2013, the Board approved amendments to the rules and the related trust deed of the Scheme, effective 17 December 2013 to, among other things, (i) facilitate the participation of employees of the LME Group in the Scheme and (ii) allow the Board 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 Scheme.

In 2015, the Board further approved amendments to the rules and related trust deed of the Scheme, effective 17 June 2015, which include (i) extending the term of the Scheme and the trust deed to 31 December 2025, (ii) provisions to permit vesting of shares in the employees who suffer from permanent disability or are made redundant or are deemed to be "good leavers", and (iii) provisions to permit the Board, the Remuneration Committee or the Chief Executive to amend any vesting terms and conditions of Employee Share Awards.

Following the Board's decision to award an award sum (Awarded Sum) for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by regranteeing the forfeited or unallocated shares held by the Scheme. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares), and the amount is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

### (i) Employee Share Awards

Employee Share Awards vest progressively over the vesting period after the awards are granted, provided that the relevant awardee (i) remains employed by the Group (ii) is made redundant or (iii) is deemed to be a "good leaver", and Employee Share Awards vest immediately if the relevant awardee retires on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the Board, the Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted on or after 13 May 2010 was 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the Board.

The fair value of the Awarded Shares at the date of the grant is charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based compensation reserve.

## 41. Employee Share-based Arrangements (continued)

### (b) HKEX Share Award Scheme (continued)

#### (i) Employee Share Awards (continued)

Upon vesting and transfer to the awardees, the related costs of the shares are credited to Shares held for Share Award Scheme, and the related fair value of the shares are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share capital if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost. The related cost of dividend shares are credited to Shares held for Share Award Scheme with a corresponding decrease in retained earnings.

#### Details of Awarded Shares awarded during 2014 and 2015

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
3 Dec 2014	4,530	178.54	15 Apr 2015 – 15 Apr 2016
3 Dec 2014	60,734	178.54	25 Apr 2015 – 25 Apr 2016
3 Dec 2014	66,972	178.54	1 May 2015 – 1 May 2016
3 Dec 2014	7,629	178.54	10 Jun 2015 – 10 Jun 2016
3 Dec 2014	6,245	178.54	1 Aug 2015 – 1 Aug 2016
3 Dec 2014	1,480	178.54	14 Oct 2015 – 14 Oct 2016
3 Dec 2014	782,610 <sup>1,2</sup>	178.54	9 Dec 2015 – 9 Dec 2016
3 Dec 2014	1,790	178.54	6 Jan 2016 – 6 Jan 2017
3 Dec 2014	4,782	178.54	20 Jan 2016 – 20 Jan 2017
2 Jan 2015	1,386,492 <sup>1,2</sup>	171.89	15 Dec 2016 – 15 Dec 2017
18 Nov 2015	17,364	209.67	23 Nov 2015 – 1 May 2016
18 Nov 2015	8,941	209.67	9 Dec 2015 – 9 Dec 2016
18 Nov 2015	10,749	209.67	19 Jan 2017 – 19 Jan 2018
18 Nov 2015	14,658	209.67	1 Mar 2017 – 1 Mar 2018
18 Nov 2015	3,908	209.67	13 Apr 2017 – 13 Apr 2018
18 Nov 2015	4,177	209.67	7 Oct 2017 – 7 Oct 2018
26 Nov 2015	1,900	211.14	23 Nov 2017 – 23 Nov 2018
31 Dec 2015	1,179,457 <sup>1,2</sup>	199.07	9 Dec 2017 – 9 Dec 2018

1 48,681, 88,345 and 60,429 shares were awarded to HKEX's Chief Executive on 3 December 2014, 2 January 2015 and 31 December 2015 respectively.

2 92,469, 98,608 and 160,685 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 3 December 2014, 2 January 2015 and 31 December 2015 respectively.

#### Details of Awarded Shares vested during 2014 and 2015

During the year, 813,851 HKEX shares (2014: 773,155 shares) were vested at an aggregate fair value of \$126 million (2014: \$97 million), of which 59,618 shares (2014: 70,526 shares) were for HKEX's Chief Executive.

## 41. Employee Share-based Arrangements (continued)

### (b) HKEX Share Award Scheme (continued)

#### (i) Employee Share Awards (continued)

##### Dividend shares

During the year, 73,236 HKEX shares (2014: 30,930 shares) were issued to the Scheme in lieu of cash dividends at a total consideration of \$15 million (2014: \$5 million), of which 69,945 shares (2014: 27,849 shares) were subsequently allocated to awardees.

During the year, 38,466 dividend shares (2014: 52,106 shares), including 3,334 shares (2014: 4,761 shares) for HKEX's Chief Executive, at a cost of \$8 million (2014: \$8 million) were vested.

##### Movements in number of Awarded Shares awarded and dividend shares

	2015	2014
	Number of Awarded Shares and dividend shares	Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	1,348,090	1,304,160
Awarded <sup>3</sup>	2,627,646	936,772
Forfeited	(166,034)	(91,204)
Vested	(813,851)	(773,155)
Dividend shares:		
– allocated to awardees	69,945	27,849
– allocated to awardees but subsequently forfeited	(2,146)	(4,226)
– vested	(38,466)	(52,106)
Outstanding at 31 Dec	<b>3,025,184</b>	1,348,090

3 Average fair value per share was \$184.98 (2014: \$178.54)

##### Remaining vesting periods of Awarded Shares awarded and dividend shares outstanding at 31 December

	At 31 Dec 2015		At 31 Dec 2014	
	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2012	N/A	–	0.01 year to 0.92 year	384,027
2013	0.00 year to 0.02 year	9,650	0.00 year to 1.02 years	19,300
2014	0.02 year to 1.05 years	430,578	0.29 year to 2.05 years	924,085
2015	0.33 year to 2.94 years	2,534,945	N/A	–
Dividend shares	0.00 year to 1.96 years	50,011	0.00 year to 1.02 years	20,678
		<b>3,025,184</b>		1,348,090

## 41. Employee Share-based Arrangements (continued)

### (b) HKEX Share Award Scheme (continued)

#### (i) Employee Share Awards (continued)

##### Forfeited or unallocated shares held by the Scheme

At 31 December 2015, 11,033 forfeited or unallocated shares (31 December 2014: 116 shares) were held by the Scheme and would be regranted to eligible employees in future.

##### Vested shares held by the Scheme

At 31 December 2015, 2,466 shares (31 December 2014: Nil) were vested but had not yet been transferred to the awardees.

#### (ii) Senior Executive Awards

The actual number of shares to be transferred to the awardees under the Senior Executive Awards is conditional on the satisfaction of performance conditions set by the Board. These may relate to the performance of the senior executive concerned and/or the Group, the achievement or contribution by the senior executives to certain business or strategic development objectives or other initiatives, and contributions relative to the performance of other comparator group companies. The Board has full discretion to determine the actual amount of award to be paid at the end of a performance assessment period (which shall normally be a period of at least three financial years) in accordance with these criteria.

The vesting of Senior Executive Awards is not affected by the awardees ceasing employment with the Group before the end of the performance assessment period. In accordance with prevailing accounting standards, the Senior Executive Awards are considered to be vested immediately upon grant and the performance conditions are considered as non-vesting conditions.

The fair value of the Awarded Shares at the date of grant, after taking into account all non-vesting conditions, is charged to staff costs and related expenses immediately on the grant date with a corresponding credit to employee share-based compensation reserve.

Upon transfer to the awardees, the related costs of the Awarded Shares transferred are credited to Shares held for Share Award Scheme, and the amount that has been previously credited to employee share-based compensation reserve is reversed. The difference between these two amounts is credited to share capital or debited against retained earnings. The related costs of the dividend shares are credited to Shares held for Share Award Scheme with a corresponding decrease in retained earnings.

## 41. Employee Share-based Arrangements (continued)

### (b) HKEX Share Award Scheme (continued)

#### (ii) Senior Executive Awards (continued)

#### Details of Senior Executive Awards awarded during 2014 and 2015

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Total fair value \$m	Performance period
3 Dec 2014	23,733	133.91	3	2013 – 2015
3 Dec 2014	47,467	133.91	7	2014 – 2016
2 Jan 2015	95,100	128.92	12	2015 – 2017
31 Dec 2015	56,800	149.30	8	2016 – 2018

All of the Senior Executive Awards were awarded to the HKEX's Chief Executive. The fair value per share is determined by taking into account various factors including the probability of the performance conditions being satisfied.

## 42. Designated Reserves

### Clearing House Funds reserves (note 36(b))

	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	OTC Clear Rates and FX Guarantee Resources reserve \$m	Total \$m
At 1 Jan 2014	127	107	352	-	-	586
Surplus/(deficit) of net investment income net of expenses of Clearing House Funds transferred from/(to) retained earnings	3	(4)	1	2	1	3
Surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant (note 13(a))	54	-	-	-	-	54
Transfer from/(to) retained earnings (note 43)	57	(4)	1	2	1	57
At 31 Dec 2014	184	103	353	2	1	643
At 1 Jan 2015	184	103	353	2	1	643
(Deficit)/surplus of net investment income net of expenses of Clearing House Funds transferred (to)/from retained earnings	(4)	1	(2)	1	1	(3)
Post-liquidation interest arising from a Participant's default on market contracts (note 7(b)) transferred from retained earnings	38	-	-	-	-	38
Surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant (note 13(a))	100	-	-	-	-	100
Transfer from/(to) retained earnings (note 43)	134	1	(2)	1	1	135
At 31 Dec 2015	318	104	351	3	2	778



### 43. Retained Earnings

	2015 \$m	2014 \$m
At 1 Jan	8,800	7,800
Profit attributable to shareholders	7,956	5,165
Transfer to Clearing House Funds reserves (note 42)	(135)	(57)
Dividends:		
2014/2013 final dividend	(2,533)	(1,996)
2015/2014 interim dividend	(3,679)	(2,133)
Unclaimed HKEX dividends forfeited (note 34(b))	18	29
Vesting of dividend shares of Share Award Scheme	(8)	(8)
Tax credit relating to Share Award Scheme (note 18(b))	3	-
Transfer from convertible bond reserve upon conversion of convertible bonds (note 37(b))	266	-
Changes in ownership interests in a subsidiary (note 48)	3	-
At 31 Dec	10,691	8,800

### 44. Notes to the Consolidated Statement of Cash Flows

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

	2015 \$m	2014 \$m
Profit before taxation	9,278	6,038
Adjustments for:		
Net interest income	(662)	(588)
Dividend income	(5)	(8)
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	(49)	(109)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(11)	(15)
Finance costs	114	196
Amortisation of lease premium for land under premises expenses	1	-
Depreciation and amortisation	684	647
Employee share-based compensation benefits	183	137
Gain on disposal of a leasehold property and other fixed assets	(453)	-
Reversal of provision for impairment losses of receivables	(76)	(76)
Share of loss of a joint venture	9	10
Changes in provisions	6	13
Net decrease/(increase) in financial assets of Margin Funds	14,268	(89,695)
Net (decrease)/increase in financial liabilities of Margin Funds	(14,271)	89,691
Net decrease/(increase) in Clearing House Fund financial assets	1,859	(5,662)
Net (decrease)/increase in Clearing House Fund financial liabilities	(1,994)	5,605
Decrease/(increase) in cash prepayments for A shares	490	(619)
Net (increase)/decrease in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(467)	8
Decrease/(increase) in accounts receivable, prepayments and deposits	7,226	(10,910)
(Decrease)/increase in other current liabilities	(7,404)	10,259
Net cash inflow from operations	8,726	4,922
Dividends received	5	8
Interest received from bank deposits	686	593
Interest received from financial assets measured at fair value through profit or loss	55	59
Interest paid to Participants	(24)	(6)
Income tax paid	(1,127)	(903)
Net cash inflow from operating activities	8,321	4,673

## 45. Commitments

(a) Commitments in respect of capital expenditures:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Contracted but not provided for:		
– fixed assets	4	17
– intangible assets	43	60
Authorised but not contracted for:		
– fixed assets	264	175
– intangible assets	650	322
	<b>961</b>	<b>574</b>

The Group's capital expenditure commitments were mainly related to the development and upgrade of various trading and clearing 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.

(b) Commitments for total future minimum lease payments under non-cancellable operating leases:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Land and buildings		
– within one year	186	203
– in the second to fifth years	438	547
– after the fifth year	213	–
	<b>837</b>	<b>750</b>
Computer systems, software and equipment		
– within one year	16	16
– in the second to fifth years	23	35
	<b>39</b>	<b>51</b>
	<b>876</b>	<b>801</b>

At 31 December 2015 and 31 December 2014, the Group did not have any purchase options in respect of computer systems, software and equipment.

(c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (FRC) is an independent statutory body established to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies. Since the establishment of the FRC in 2006, the Group has been contributing to the funding of the FRC's operations.

Under a memorandum of understanding signed in November 2014, the Group has agreed to make recurrent contributions to the FRC from 2015 to 2019. The first contribution for 2015 was \$7 million and the contribution for 2016 will also be \$7 million, while the contributions during 2017 to 2019 will be \$8 million per annum.

## 46. Contingent Liabilities

At 31 December 2015, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2014: \$71 million). Up to 31 December 2015, 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 (note 35(a)). In the unlikely event that all of its 515 trading Participants covered by the indemnity at 31 December 2015 (31 December 2014: 500) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$103 million (31 December 2014: \$100 million).
- (c) HKEX has 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.
- (d) US litigation

In 2013, the LME, 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.

## 47. Future Operating Lease Receipts

At 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Trading booths, media booths and related facilities		
– within one year	6	6
– in the second to fifth years	5	10
<b>Total</b>	<b>11</b>	<b>16</b>

## 48. Transactions with Non-Controlling Interests

### (a) Acquisition of additional interest in a subsidiary

On 23 February 2015, OTC Clear issued 1,260 ordinary shares to HKEX at a consideration of \$265 million. After the issue, the Group's interest in OTC Clear increased to 80.2 per cent while the interest held by non-controlling interests dropped to 19.8 per cent. The effect of changes in ownership interest of OTC Clear on the equity attributable to HKEX's shareholders is summarised as follows:

	\$m
Carrying amount of non-controlling interests acquired	230
Consideration paid	(265)
Excess of consideration paid debited against retained earnings	(35)

### (b) Disposal of interest in a subsidiary without loss of control

On 24 August 2015, OTC Clear issued 420 non-voting ordinary shares to the non-controlling interests at a consideration of \$88 million. After the issue, the Group's interest in OTC Clear dropped to 75 per cent while the interest held by non-controlling interests increased to 25 per cent. The effect of changes in ownership interest of OTC Clear on the equity attributable to HKEX's shareholders is summarised as follows:

	\$m
Consideration received from non-controlling interests	88
Less: carrying amount of non-controlling interests disposed of	(50)
Gain on disposal credited to retaining earnings	38

### (c) Effects of transactions with non-controlling interests on retained earnings

	\$m
Changes in retained earnings arising from:	
– Acquisition of additional interests in subsidiary (note (a))	(35)
– Disposal of interests in subsidiary without loss of control (note (b))	38
Net amount credited to retained earnings (note 43)	3

### (d) Written put options to non-controlling interests

Put options were written by HKEX to the non-controlling interests of OTC Clear to sell some or all of their non-voting ordinary shares in OTC Clear to HKEX, details of which are disclosed in note 37(d).

## 49. Connected Transactions and Material Related Party Transactions

### (a) Connected transactions and material related party transactions

Certain Directors of HKEX may be directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants of HKSCC, HKCC and SEOCH (Clearing Participants); (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

### (b) Material related party transactions

In addition to the above and those disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions:

#### (i) Key management personnel compensation

	2015 \$m	2014 \$m
Salaries and other short-term employee benefits	184	152
Employee share-based compensation benefits	68	47
Retirement benefit costs	9	9
	<b>261</b>	<b>208</b>

#### (ii) Post-retirement benefit plans

The Group has sponsored an ORSO Plan, a MPF Scheme and the LME Pension Scheme as its post-retirement benefit plans (note 11(a)).

The retirement benefit costs charged to the 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. At 31 December 2015, the contributions payable to the LME Pension Scheme and MPF Scheme by the Group were \$3 million (31 December 2014: \$3 million) and below \$1 million (31 December 2014: \$Nil), and there was no contribution payable to the ORSO Plan.

#### (iii) Transactions and balance with a joint venture

	2015 \$m	2014 \$m
Management fee charged to CESC	3	3
	<b>At 31 Dec 2015 \$m</b>	<b>At 31 Dec 2014 \$m</b>
Amount due from CESC	5	3

The amount due from CESC is unsecured, interest-free and repayable on demand.

#### (iv) 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.

## 50. Pledge of Assets

LME Clear receives securities as collateral for margins posted by its Clearing Participants. It also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$9,926 million (HK\$76,928 million) at 31 December 2015 (31 December 2014: US\$10,251 million (HK\$79,495 million)).

This non-cash collateral, which was not recorded on the consolidated statement of financial position of the Group at 31 December 2015, together with certain financial assets amounting to US\$639 million (HK\$4,953 million) at 31 December 2015 (31 December 2014: US\$590 million (HK\$4,575 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.

## 51. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To provide capital for the purpose of strengthening the Group's risk management capability; and
- To ensure that the Group's regulated entities comply with their respective regulatory capital requirements.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and shareholder returns. The Group takes into consideration the expected capital requirements and capital efficiency, regulatory capital requirements of its regulated entities, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

## 51. Capital Management (continued)

The Group has a number of regulated entities that are subject to capital requirements set by the respective regulators. The regulatory capital requirements of the Group's subsidiaries at 31 December 2015 are summarised as follows:

Subsidiaries	Regulatory authority	Regulatory capital requirements
Stock Exchange, Futures Exchange	SFC, Hong Kong	Maintain at all times net current assets funded by equity sufficient to cover its projected total operating expenses for at least the following six months (approximately \$1,082 million), and net current assets funded by equity or long-term loans from HKEX sufficient to cover its projected total operating expenses for at least the following twelve months (approximately \$2,168 million).
HKSCC, HKCC, SEOCH, OTC Clear	SFC, Hong Kong	Maintain at all times net current assets funded by equity sufficient to cover its projected total operating expenses for at least the following six months (approximately \$507 million), and net current assets funded by equity or long-term loans from HKEX sufficient to cover its projected total operating expenses for at least the following twelve months (approximately \$1,022 million). Compliance with these requirements will also meet the related regulatory requirements for a Recognised Clearing House under the Principles for Financial Market Infrastructures published by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions.
LME	Financial Conduct Authority, UK	Maintain at all times liquid financial assets amounting to at least six months' operating costs plus a risk based capital charge (approximately US\$55 million (HK\$426 million)), and net capital of at least this amount.
LME Clear	Bank of England, UK	Maintain cash or highly liquid financial instruments with minimal market and credit risk, amounting to US\$73.7 million (HK\$571 million), plus 10 per cent minimum reporting threshold of US\$7.4 million (HK\$57 million) and US\$18.4 million (HK\$143 million) financial resources available to set off losses in the event of default. Capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

At 31 December 2015, the Group had set aside \$4,000 million (31 December 2014: \$4,000 million) of shareholders' funds for the purpose of supporting the risk management regime of the clearing houses in their roles as central counterparties.

All regulated entities of the Group had adequate capital to meet their regulatory requirements at 31 December 2015 and 31 December 2014.

The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year. The Group also offered a scrip dividend alternative to shareholders. The consideration of share capital issued under the scrip dividend scheme, together with the 10 per cent of the profit not declared as dividends, are retained as capital of the Group for future use.

The Group monitors capital on the basis of its gross gearing ratio (ie, gross debt divided by adjusted capital) and net gearing ratio (ie, net debt divided by adjusted capital). For this purpose, the Group defines gross debt as total borrowings, net debt as total borrowings less cash and cash equivalents of Corporate Funds, and adjusted capital as all components of equity attributable to shareholders of HKEX other than designated reserves. The Group's strategy is to maintain the ratios at less than 50 per cent.

## 51. Capital Management (continued)

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Total borrowings	3,409	7,026
Less: cash and cash equivalents of Corporate Funds (note 22)	(12,744)	(8,067)
Net debt (note (a))	-	-
Equity attributable to shareholders of HKEX	29,816	21,273
Less: designated reserves	(778)	(643)
Adjusted capital	29,038	20,630
Gross gearing ratio	12%	34%
Net gearing ratio	0%	0%

- (a) Net debt is zero when the amount of cash and cash equivalents of Corporate Funds is higher than total borrowings.

## 52. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

- (a) Market risk management

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its financial assets and financial liabilities (including borrowings).

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares received from Participants.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management by HKEX and the Group's subsidiaries is governed by the HKEX Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly and at least once every three years. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit requirement, counterparty concentration, maturity, foreign exchange exposures and interest rate risks) of the investments.

An Investment Advisory Committee, comprised of Non-executive Directors of HKEX, advises the Board on portfolio management and monitors the risk and performance of HKEX's investments. A Treasury team in the Finance Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US\$10 billion under management.



## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the entity to which the transactions relate) will fluctuate because of changes in foreign exchange rates. 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 and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD securities and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the HKEX Investment Policy, Restrictions and Guidelines, the investment in non-HKD instruments is subject to the following restrictions:

- up to 20 per cent of the externally-managed Corporate Funds may be invested in non-HKD and non-USD investments without economic hedging;
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares, unhedged investments in currencies other than HKD or USD must fully match the respective liabilities or forecast payments for the funds. Unhedged investments in USD may not exceed 20 per cent of the respective funds. Holdings in Renminbi (RMB) are permitted if the currencies have been received in connection with the trading, clearing, settlement or services in respect of the Group's RMB products (including products traded through Stock Connect).

The Group's non-HKD borrowings by the Hong Kong entities are denominated in USD, which is pegged against HKD, and are not therefore subject to significant foreign currency risks.

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 Pound Sterling (GBP)) and bank deposits denominated in foreign currencies (mainly GBP). Its 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.

For LME Clear, investments of the Margin Fund and Default Fund will generally take place in the currency in which cash was received.

The following table details the Group's financial assets and financial liabilities denominated in a currency other than the functional currency of the entity to which they relate and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (economic hedges)), at 31 December presented in HKD equivalents.

**52. Financial Risk Management** (continued)

## (a) Market risk management (continued)

## (i) Foreign exchange risk management (continued)

	Foreign currency	At 31 Dec 2015		Net open position \$m
		Gross open position \$m	Economic hedges \$m	
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1,2</sup>	EUR	4,527	(4,525)	2
	GBP	597	(263)	334
	JPY	2,333	(2,328)	5
	RMB	1,590	(1,558)	32
	USD	592	(150)	442
Financial assets measured at fair value through profit or loss <sup>1,3,4</sup>	AUD	126	(100)	26
	CAD	36	(18)	18
	CHF	10	-	10
	EUR	476	(456)	20
	GBP	114	(97)	17
	JPY	457	(446)	11
	NZD	63	(33)	30
	RMB	70	(50)	20
	SEK	1	-	1
	SGD	19	(10)	9
	USD	2,043	(253)	1,790
Financial assets measured at amortised cost	USD	1,720	-	1,720
Accounts receivable and deposits <sup>2</sup>	EUR	1	-	1
	GBP	92	-	92
	RMB	1,560	(1,560)	-
	USD	6	-	6
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants <sup>1</sup>	EUR	(4,525)	4,525	-
	GBP	(263)	263	-
	JPY	(2,328)	2,328	-
	RMB	(2,223)	2,223	-
	USD	(150)	150	-
Financial liabilities at fair value through profit or loss <sup>4</sup>	EUR	(442)	442	-
	GBP	(53)	53	-
	JPY	(446)	446	-
Accounts payable, accruals and other liabilities <sup>2</sup>	GBP	(443)	-	(443)
	RMB	(901)	895	(6)
	USD	(66)	-	(66)
Borrowings	USD	(3,101)	-	(3,101)
<b>Total net open positions for the Group</b>	AUD			26
	CAD			18
	CHF			10
	EUR			23
	GBP			-
	JPY			16
	NZD			30
	RMB			46
	SEK			1
	SGD			9
	USD			791
				<b>970</b>

1 Foreign currency margin deposits and Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

2 RMB exposure of Continuous Net Settlement receivable and cash prepayments for A shares fully offset the Continuous Net Settlement payable.

3 Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

4 Foreign currency exposures of base metals futures and options contracts under financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss fully offset each other.

## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (i) Foreign exchange risk management (continued)

	Foreign currency	At 31 Dec 2014		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1,2</sup>	EUR	710	(708)	2
	GBP	1,994	(1,385)	609
	JPY	2,927	(2,926)	1
	NZD	3	-	3
	RMB	3,247	(3,245)	2
	USD	1,404	(46)	1,358
Financial assets measured at fair value through profit or loss <sup>1,3,4</sup>	AUD	123	(94)	29
	CAD	28	(27)	1
	CHF	9	-	9
	EUR	742	(555)	187
	GBP	108	(105)	3
	JPY	560	(557)	3
	NZD	61	(54)	7
	RMB	156	(78)	78
	SGD	21	(13)	8
	USD	1,435	(205)	1,230
Financial assets measured at amortised cost	RMB	26	-	26
Accounts receivable and deposits <sup>2</sup>	GBP	45	-	45
	RMB	1,350	(1,350)	-
	USD	4	-	4
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants <sup>1</sup>	EUR	(708)	708	-
	GBP	(1,385)	1,385	-
	JPY	(2,926)	2,926	-
	RMB	(3,241)	3,241	-
	USD	(46)	46	-
Financial liabilities at fair value through profit or loss <sup>4</sup>	EUR	(479)	479	-
	GBP	(35)	35	-
	JPY	(547)	547	-
Accounts payable, accruals and other liabilities <sup>2</sup>	EUR	(1)	-	(1)
	GBP	(236)	-	(236)
	RMB	(1,366)	1,354	(12)
	USD	(169)	-	(169)
Borrowings	USD	(3,100)	-	(3,100)
<b>Total net open positions for the Group</b>	AUD			29
	CAD			1
	CHF			9
	EUR			188
	GBP			421
	JPY			4
	NZD			10
	RMB			94
	SGD			8
	USD			677
				<u>1,441</u>

1 Foreign currency margin deposits and Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

2 RMB exposure of Continuous Net Settlement receivable and cash prepayments for A shares fully offset the Continuous Net Settlement payable.

3 Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

4 Foreign currency exposures of base metals futures and options contracts under financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss fully offset each other.

## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity index futures and options contracts may be held as part of the externally-managed Corporate Funds' investments in Hong Kong. Equity price risk is capped by an asset allocation limit. The Group sets prudent investment limits and restrictions to control investment in equity securities. The Group was also exposed to equity price risk on the LME's investment in an unlisted company prior to its disposal in March 2015.

The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy. The movements of fair value of base metals futures and options contracts held by LME Clear would not have any financial impact on the Group's results as the assets and liabilities will move by the same amount and fully offset each other.

#### (iii) Interest rate risk management

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities (including borrowings) which are interest-bearing. The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

The contractual interest rates of the borrowings are disclosed in note 37 to the consolidated financial statements.

The following tables present the highest and lowest contractual interest rates of the financial assets held by the Group (excluding bank deposits held at savings and current accounts and zero coupon bonds purchased at discounts) at 31 December:

#### Fixed rate financial assets

	At 31 Dec 2015	At 31 Dec 2014
Highest contractual interest rates	6.88%	7.00%
Lowest contractual interest rates	0.00%	0.01%

#### Floating rate financial assets

	At 31 Dec 2015	At 31 Dec 2014
Highest contractual interest rates	3.75%	3.94%
Lowest contractual interest rates <sup>1</sup>	-3.00%	0.43%

1 The contractual interest rates for certain reverse repurchase investments held by LME Clear are below 0 per cent.

## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (iv) Risk management techniques

Value-at-Risk (VaR) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group, as well as individual limit for each fund under management (Clearing House Funds, Margin Funds and Corporate Funds).

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments and related economic hedges of the Group at 31 December were as follows:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Foreign exchange risk	13	3
Equity price risk	7	8
Interest rate risk	6	8
Total VaR	16	11

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

## 52. Financial Risk Management (continued)

### (b) Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Group in Hong Kong is invested by the Treasury team, and the investments of the Group are kept sufficiently liquid to meet the operating needs, regulatory requirements of the regulated entities in Hong Kong, and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day for the Clearing House Funds and Margin Funds.

The LME Group also employs prudent liquidity risk management which involves maintaining sufficient cash to meet ongoing operational commitments and its adherence to the regulatory requirements of the two regulated entities. As a recognised clearing house, LME Clear has to comply with stringent liquidity requirements set by the European Market Infrastructure Regulation. Surplus cash is invested in high quality short-term investments that are classified as financial assets measured at fair value through profit or loss or cash and cash equivalents and such investments are kept sufficiently liquid to meet operating needs and possible liquidity requirements of the LME Clear's Margin Fund and Default Fund.

The tables below analyse the financial assets into the relevant maturity buckets based on the following criteria:

- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments, bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket; and
- other financial assets are allocated based on their contractual maturity dates or the expected dates of disposal.

	At 31 Dec 2015				Total \$m
	Up to 1 month <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	
Cash and cash equivalents	110,890	-	-	-	110,890
Financial assets measured at fair value through profit or loss <sup>2</sup>	8,225	-	-	-	8,225
Financial assets measured at amortised cost	19,439	-	1	56	19,496
Accounts receivable and deposits <sup>3</sup>	15,402	33	3	-	15,438
	153,956	33	4	56	154,049

## 52. Financial Risk Management (continued)

### (b) Liquidity risk management (continued)

	At 31 Dec 2014				Total \$m
	Up to 1 month <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	
Cash and cash equivalents	136,778	-	-	-	136,778
Financial assets measured at fair value through profit or loss <sup>2</sup>	2,851	-	156	-	3,007
Financial assets measured at amortised cost	10,199	-	-	57	10,256
Accounts receivable and deposits <sup>3</sup>	22,369	50	4	-	22,423
	<u>172,197</u>	<u>50</u>	<u>160</u>	<u>57</u>	<u>172,464</u>

1 Amounts included \$300 million (31 December 2014: \$895 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

2 Amounts excluded fair value of base metals futures and options contracts of \$64,480 million (31 December 2014: \$59,679 million), which cannot be realised to meet cash outflows.

3 Amounts excluded prepayments of \$118 million (31 December 2014: \$100 million).

Apart from the borrowings used to fund the acquisition of the LME Group (note 37), banking facilities have been put in place for contingency purposes. At 31 December 2015, the Group's total available banking facilities for its daily operations amounted to \$17,012 million (31 December 2014: \$17,012 million), which included \$10,000 million (31 December 2014: \$10,000 million) of committed banking facilities and \$7,000 million (31 December 2014: \$7,000 million) of repurchase facilities.

The Group also put in place foreign exchange facilities for the RMB Equity Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2015, the amount of such facilities was RMB17,000 million (HK\$20,057 million) (31 December 2014: RMB17,000 million (HK\$21,202 million)).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (HK\$15,338 million) (31 December 2014: RMB13,000 million (HK\$16,213 million)) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements, eg, natural disasters or extreme weather conditions in Hong Kong.

The table below analyses the Group's financial liabilities (excluding forward foreign exchange contracts and outstanding base metals futures and options contracts cleared through LME Clear) at 31 December into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

**52. Financial Risk Management** (continued)

## (b) Liquidity risk management (continued)

	At 31 Dec 2015					Total \$m
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	115,213	-	-	-	-	115,213
Accounts payable, accruals and other liabilities <sup>4</sup>	15,153	12	104	-	-	15,269
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	22	-	-	-	-	22
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(b))	103	-	-	-	-	103
Participants' contributions to Clearing House Funds	6,648	780	46	-	-	7,474
Borrowings:						
Bank borrowings	2	4	16	877	800	1,699
Notes	11	-	31	1,606	-	1,648
Written put options to non-controlling interests	-	-	-	340	-	340
<b>Total</b>	<b>137,152</b>	<b>796</b>	<b>197</b>	<b>2,823</b>	<b>800</b>	<b>141,768</b>
	At 31 Dec 2014					
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	129,484	-	-	-	-	129,484
Accounts payable, accruals and other liabilities <sup>4</sup>	22,722	7	104	-	-	22,833
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	4	-	60	-	-	64
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(b))	100	-	-	-	-	100
Participants' contributions to Clearing House Funds	8,597	783	46	-	-	9,426
Borrowings:						
Bank borrowings	2	4	16	87	1,612	1,721
Convertible bonds	-	-	19	4,015	-	4,034
Notes	11	-	31	1,648	-	1,690
Written put options to non-controlling interests	-	-	-	252	-	252
<b>Total</b>	<b>160,920</b>	<b>794</b>	<b>276</b>	<b>6,002</b>	<b>1,612</b>	<b>169,604</b>

4 Amounts excluded non-financial liabilities of \$16 million (31 December 2014: \$16 million).



## 52. Financial Risk Management (continued)

### (b) Liquidity risk management (continued)

At 31 December 2015, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$2,261 million (31 December 2014: \$1,042 million). The table below analyses the Group's outstanding forward foreign exchange contracts at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.

	At 31 Dec 2015			At 31 Dec 2014		
	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m
Forward foreign exchange contracts						
- outflows	1,382	879	2,261	870	159	1,029
- inflows	1,384	877	2,261	878	164	1,042

The Group is not exposed to liquidity risk on the outstanding base metals futures and options contracts cleared through LME Clear.

### (c) Credit risk management

#### (i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. At 31 December 2015, the investment in debt securities for Margin Funds and Corporate Funds held by the Hong Kong entities were of investment grade and had a weighted average credit rating of A1 (Moody) (31 December 2014: A1 (Moody)). Deposits in Hong Kong are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty (except certain Hong Kong note-issuing banks). The investment in debt securities for Margin Funds held by the LME Group were issued by the US Treasury, and the cash, deposit and cash equivalents balances of the LME Group are held only with investment grade licensed banks. The LME Group's only significant concentration risk is with the banks. Certain cash equivalents are invested in reverse repurchase investments where collateral is held against the default of such investments. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

## 52. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (i) Investment and accounts receivable-related risk (continued)

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH, HKCC, OTC Clear and LME Clear, act as the counterparties to eligible trades concluded on the Stock Exchange, the Futures Exchange, the over-the-counter market and the LME through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the over-the-counter market, the Cash Market, the Derivatives Market and the Commodities Market. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these consolidated financial statements.

#### (ii) Clearing and settlement-related risk management

The Group mitigates its exposure to clearing and settlement-related risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as imposing position limits and requiring Clearing Participants to deposit margins, Mainland security and settlement deposits, and cash collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH, HKCC, OTC Clear and LME Clear. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital.

Under the HKSCC Margining and Guarantee Fund arrangements, each HKSCC Clearing Participant is allowed by HKSCC a Margin Credit of \$5 million and a Dynamic Contribution Credit of \$1 million. If a Clearing Participant defaults and any loss arises, HKSCC will absorb the default loss up to the Margin Credit and Dynamic Contribution Credit utilised by the defaulting Clearing Participant, after deducting its collateral and Guarantee Fund contribution kept by HKSCC. After the initial losses, HKSCC is required to absorb further losses after the HKSCC Guarantee Fund reserve and the Guarantee Fund contribution (excluding the Dynamic Contribution portion) of non-defaulting Clearing Participants are depleted. The amount of losses borne by HKSCC will be calculated on a pro rata basis with reference to the non-defaulting Clearing Participants' Dynamic Contributions and Dynamic Contribution Credits granted by HKSCC. At 31 December 2015, HKSCC has 502 Clearing Participants (31 December 2014: 491) and the total amounts of Margin Credit and Dynamic Contribution Credit granted to Clearing Participants amounted to \$722 million (31 December 2014: \$872 million).

## 52. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (ii) Clearing and settlement-related risk management (continued)

Under the HKCC Contingent Advance Capital arrangement, HKCC shares 50 per cent of the daily Participants' Additional Deposits collectible from Clearing Participants. In case of default, the HKCC Contingent Advance Capital would be utilised only after utilisation of the defaulting Clearing Participants' margin and all available resources of the HKCC Reserve Fund (including but not limited to the defaulting Clearing Participants' Reserve Fund contributions, HKCC Reserve Fund reserve and the non-defaulting Clearing Participants' Reserve Fund contribution) as temporary funding. The non-defaulting Clearing Participants will be responsible for sharing the loss of the defaulting participant and replenishing the HKCC Contingent Advance Capital after utilisation.

The HKSCC Margin Credit, Dynamic Contribution Credit and the HKCC Contingent Advance Capital arrangement are supported by the \$4 billion of shareholders' funds set aside by the HKEX Group for risk management purpose.

#### (iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Group was equal to their carrying amounts. The maximum exposure to credit risk of the financial guarantee contract issued by the Group was as follows:

	At 31 Dec 2015		At 31 Dec 2014	
	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m
<b>Financial guarantee contract</b>				
Undertaking to indemnify the Collector of Stamp Revenue (note 46(b))	(20)	103	(20)	100

**52. Financial Risk Management** (continued)

## (c) Credit risk management (continued)

## (iv) Collateral held for mitigating credit risk

Certain securities, cash deposits and non-cash collateral are being held by the Group to mitigate the Group's exposure to credit risk. The financial effect of the collateral, which is capped by the amount receivable from each counterparty, was as follows:

	At 31 Dec 2015		At 31 Dec 2014	
	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m
Accounts receivable and deposits	15,438	5,023	22,423	7,142
Fair value of base metals futures and options contracts cleared through LME Clear	64,480	64,480	59,679	59,679
Reverse repurchase investments	58,574	58,574	71,262	71,262

## (v) Financial assets that were not impaired

At 31 December 2015, accounts receivable and deposits of \$15,082 million (31 December 2014: \$22,005 million) were neither past due nor impaired. They relate to a wide range of customers for whom there was no recent history of default.

At 31 December 2015, the age analysis of the financial assets (which mainly relate to receivables from Participants and listed companies) of the Group that were determined to be not impaired according to the period past due was as follows:

	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Up to six months	356	395
Over 3 years	-	23
	<b>356</b>	<b>418</b>

## (vi) Financial assets that were impaired at the end of the reporting period

At 31 December 2015, receivables of the Group amounting to \$4 million (31 December 2014: \$82 million) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(t)(vi).

## 52. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (vii) Outstanding balances from debtors which were not recognised as income

As soon as a receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in its markets but no further accounts receivable will be recognised in the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. At 31 December 2015, the amount of doubtful deferred revenue in relation to the debtors concerned amounted to \$28 million (31 December 2014: \$120 million).

### (d) Fair values of financial assets and financial liabilities

#### (i) Financial assets and financial liabilities carried at fair value

At 31 December 2015 and 31 December 2014, no non-financial assets or liabilities were carried at fair values.

The following tables present the carrying value of financial assets and financial liabilities measured at fair value at 31 December 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.

**52. Financial Risk Management** (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

	At 31 Dec 2015		
Recurring fair value measurements:	Level 1 \$m	Level 2 \$m	Total \$m
<b>Financial assets</b>			
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
	<b>5,138</b>	<b>67,567</b>	<b>72,705</b>
<b>Financial liabilities</b>			
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
	<b>–</b>	<b>64,486</b>	<b>64,486</b>

	At 31 Dec 2014			
Recurring fair value measurements:	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss:				
– equity securities	243	–	156	399
– debt securities	–	2,594	–	2,594
– forward foreign exchange contracts	–	14	–	14
– base metals futures and options contracts cleared through LME Clear	–	59,679	–	59,679
	<b>243</b>	<b>62,287</b>	<b>156</b>	<b>62,686</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss:				
– forward foreign exchange contracts	–	1	–	1
– base metals futures and options contracts cleared through LME Clear	–	59,679	–	59,679
	<b>–</b>	<b>59,680</b>	<b>–</b>	<b>59,680</b>

## 52. Financial Risk Management (continued)

### (d) Fair values of financial assets and financial liabilities (continued)

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

During 2015 and 2014, 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.

#### Fair value measurements using significant unobservable inputs (Level 3)

	Investment in an unlisted company	
	2015 \$m	2014 \$m
At 1 Jan	156	141
Gains recognised in profit or loss, under net investment income	31	23
Disposals	(187)	-
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	-	(8)
At 31 Dec	-	156
Change in unrealised gains for the year included in profit or loss for assets held at 31 Dec, under net investment income	-	23

At 31 December 2014, the Group classified an unlisted investment held by a subsidiary as a Level 3 investment, and its value was determined using discounted cash flow valuation techniques. No sensitivity of the fair value measurement of the investment to changes in unobservable inputs is presented as the investment was sold during 2015.

**52. Financial Risk Management** (continued)

## (d) Fair values of financial assets and financial liabilities (continued)

## (ii) 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 consolidated statement of financial position at their fair values. These assets and liabilities were classified under Level 2 in the fair value hierarchy. The carrying amounts of bank borrowings with floating interest rates, short-term receivables (eg, accounts receivable, deposits 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.

	At 31 Dec 2015		At 31 Dec 2014	
	Carrying amount in consolidated statement of financial position \$m	Fair value \$m	Carrying amount in consolidated statement of financial position \$m	Fair value \$m
<b>Assets</b>				
Financial assets measured at amortised cost:				
– other financial assets maturing over one year <sup>1</sup>	57	53	57	51
<b>Liabilities</b>				
Borrowings:				
– liability component of convertible bonds <sup>2</sup>	–	–	3,701	3,812
– notes <sup>2</sup>	1,516	1,544	1,515	1,521
– written put options to non-controlling interests <sup>2</sup>	308	316	225	227
Financial guarantee to the Collector of Stamp Revenue <sup>3</sup>	20	85	20	67

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 0.80 per cent to 2.32 per cent at 31 December 2015 (31 December 2014: 0.83 per cent to 2.78 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 2.20 per cent to 2.40 per cent at 31 December 2015 (31 December 2014: 2.05 per cent to 2.83 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 1.52 per cent at 31 December 2015 (31 December 2014: 1.85 per cent).



## 52. Financial Risk Management (continued)

### (e) Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

HKSCC currently has a legally enforceable right to set off certain Continuous Net Settlement (CNS) money obligations receivable and payable relating to the same Clearing Participant and it intends to settle on a net basis.

LME Clear has a legally enforceable right to set off open positions of certain contracts within an individual member's account for those securities settling on the same date and it intends to settle on a net basis.

For the net amounts of CNS money obligations receivable or payable and net fair value of base metals futures and options contracts (ie, after set-off) and other accounts receivables due from customers (including Participants, ChinaClear, information vendors and hosting services customers), they do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default of the customers. In addition, the Group does not intend to settle the balances on a net basis.

### (i) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial assets	At 31 Dec 2015					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
				Financial liabilities other than cash collateral \$m	Cash collateral received \$m	
CNS money obligations receivable	128,003	(114,474)	13,529	(3,057)	(3,511)	6,961
Base metals futures and options contracts cleared through LME Clear	1,342,331	(1,277,851)	64,480	(30,624)	(33,856)	-
Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,068	-	1,068	-	(91)	977
<b>Total</b>	<b>1,471,402</b>	<b>(1,392,325)</b>	<b>79,077</b>	<b>(33,681)</b>	<b>(37,458)</b>	<b>7,938</b>

**52. Financial Risk Management** (continued)

## (e) Offsetting financial assets and financial liabilities (continued)

## (i) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

Type of financial assets	At 31 Dec 2014					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
				Financial liabilities other than cash collateral \$m	Cash collateral received \$m	
CNS money obligations receivable	203,283	(182,873)	20,410	(6,906)	(4,462)	9,042
Base metals futures and options contracts cleared through LME Clear	1,219,663	(1,159,984)	59,679	(42,782)	(16,897)	-
Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,004	-	1,004	-	(98)	906
<b>Total</b>	<b>1,423,950</b>	<b>(1,342,857)</b>	<b>81,093</b>	<b>(49,688)</b>	<b>(21,457)</b>	<b>9,948</b>

## (ii) Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial liabilities	At 31 Dec 2015					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the consolidated statement of financial position \$m	Net amount of financial liabilities presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
				Financial assets other than cash collateral \$m	Cash collateral pledged \$m	
CNS money obligations payable	128,132	(114,474)	13,658	(3,057)	-	10,601
Base metals futures and options contracts cleared through LME Clear	1,342,331	(1,277,851)	64,480	(30,624)	-	33,856
<b>Total</b>	<b>1,470,463</b>	<b>(1,392,325)</b>	<b>78,138</b>	<b>(33,681)</b>	<b>-</b>	<b>44,457</b>

## 52. Financial Risk Management (continued)

### (e) Offsetting financial assets and financial liabilities (continued)

#### (ii) Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

Type of financial liabilities	At 31 Dec 2014					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the consolidated statement of financial position \$m	Net amount of financial liabilities presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
				Financial assets other than cash collateral \$m	Cash collateral pledged \$m	
CNS money obligations payable	203,902	(182,873)	21,029	(6,906)	-	14,123
Base metals futures and options contracts cleared through LME Clear	1,219,663	(1,159,984)	59,679	(42,782)	-	16,897
<b>Total</b>	<b>1,423,565</b>	<b>(1,342,857)</b>	<b>80,708</b>	<b>(49,688)</b>	<b>-</b>	<b>31,020</b>

#### (iii) The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the “accounts receivables, prepayments and deposits”, “accounts payable, accruals and other liabilities”, “financial assets measured at fair value through profit or loss” and “financial liabilities at fair value through profit or loss” presented in the consolidated statement of financial position.

	Accounts receivables, prepayments and deposits		Financial assets measured at fair value through profit or loss	
	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Net amount of financial assets after offsetting as stated above:				
– CNS money obligations receivable	13,529	20,410	-	-
– Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,068	1,004	-	-
– Base metals futures and options contracts cleared through LME Clear	-	-	64,480	59,679
Financial assets not in scope of offsetting disclosures	841	1,009	8,225	3,007
Prepayments	118	100	-	-
<b>Amounts presented in the consolidated statement of financial position</b>	<b>15,556</b>	<b>22,523</b>	<b>72,705</b>	<b>62,686</b>

**52. Financial Risk Management** (continued)

(e) Offsetting financial assets and financial liabilities (continued)

(iii) (continued)

	Accounts payable, accruals and other liabilities		Financial liabilities at fair value through profit or loss	
	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m	At 31 Dec 2015 \$m	At 31 Dec 2014 \$m
Net amount of financial liabilities after offsetting as stated above:				
– CNS money obligations payable	13,658	21,029	–	–
– Base metals futures and options contracts cleared through LME Clear	–	–	64,480	59,679
Financial liabilities not in scope of offsetting disclosures	1,611	1,804	6	1
Non-financial liabilities	16	16	–	–
Amounts presented in the consolidated statement of financial position	15,285	22,849	64,486	59,680

Except for financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss which are measured at fair value, the remaining gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured at amortised cost. The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

## 53. Statement of Financial Position and Reserve Movement of HKEX

### Statement of Financial Position of HKEX

	At 31 Dec 2015			At 31 Dec 2014		
	Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>						
Cash and cash equivalents	5,245	-	5,245	4,446	-	4,446
Financial assets measured at fair value through profit or loss	2,375	-	2,375	-	-	-
Financial assets measured at amortised cost	-	1	1	-	1	1
Accounts receivable, prepayments and deposits	42	21	63	29	5	34
Amounts due from subsidiaries	2,119	16,584	18,703	2,516	16,036	18,552
Interest in a joint venture	-	100	100	-	100	100
Intangible assets	-	95	95	-	84	84
Fixed assets	-	216	216	-	235	235
Investments in subsidiaries	-	5,648	5,648	-	5,326	5,326
<b>Total assets</b>	<b>9,781</b>	<b>22,665</b>	<b>32,446</b>	<b>6,991</b>	<b>21,787</b>	<b>28,778</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	223	-	223	150	-	150
Accounts payable, accruals and other liabilities	359	-	359	277	-	277
Amounts due to subsidiaries	275	-	275	183	3,385	3,568
Taxation payable	27	-	27	43	-	43
Other financial liabilities	11	-	11	123	-	123
Borrowings	-	3,101	3,101	-	3,100	3,100
Provisions	59	2	61	53	2	55
Deferred tax liabilities	-	18	18	-	22	22
<b>Total liabilities</b>	<b>954</b>	<b>3,121</b>	<b>4,075</b>	<b>829</b>	<b>6,509</b>	<b>7,338</b>
<b>Equity</b>						
Share capital		19,285			12,225	
Shares held for Share Award Scheme		(590)			(482)	
Employee share-based compensation reserve		199			142	
Convertible bond reserve		-			409	
Merger reserve		694			694	
Retained earnings		8,783			8,452	
<b>Equity attributable to shareholders of HKEX</b>		<b>28,371</b>			<b>21,440</b>	
<b>Total liabilities and equity</b>		<b>32,446</b>			<b>28,778</b>	
<b>Net current assets</b>		<b>8,827</b>			<b>6,162</b>	

Approved by the Board of Directors on 2 March 2016

**CHOW Chung Kong**  
Director

**LI Xiaojia, Charles**  
Director

**53. Statement of Financial Position and Reserve Movement of HKEX** (continued)

## (a) Reserve movement of HKEX

	Employee share-based compensation reserve \$m	Convertible bond reserve \$m	Merger reserve \$m	Retained earnings \$m
At 1 Jan 2014	105	409	694	8,905
Profit attributable to shareholders	-	-	-	3,655
2013 final dividend at \$1.72 per share	-	-	-	(1,996)
2014 interim dividend at \$1.83 per share	-	-	-	(2,133)
Unclaimed HKEX dividends forfeited	-	-	-	29
Vesting of dividend shares of Share Award Scheme	(97)	-	-	(8)
Employee share-based compensation benefits	137	-	-	-
Transfer to share capital upon exercise of employee share options	(3)	-	-	-
At 31 Dec 2014	142	409	694	8,452
At 1 Jan 2015	142	409	694	8,452
Profit attributable to shareholders	-	-	-	10,001
2014 final dividend at \$2.15 per share	-	-	-	(2,533)
2015 interim dividend at \$3.08 per share	-	-	-	(3,679)
Unclaimed HKEX dividends forfeited	-	-	-	18
Vesting of dividend shares of Share Award Scheme	(126)	-	-	(8)
Employee share-based compensation benefits	183	-	-	-
Conversion of convertible bonds	-	(409)	-	(3,468)
At 31 Dec 2015	199	-	694	8,783

# SHAREHOLDER INFORMATION

## Financial Calendar 2016

Announce 2015 final results	2 March
2016 AGM	28 April
Ex-dividend date for final dividend	3 May
Despatch scrip dividend circular and election form	On or about 11 May
Announce scrip share subscription price	On or about 17 May
Despatch dividend warrants/definitive share certificates	2 June
Announce 2016 first quarter results	May
Announce 2016 interim results	August
Announce 2016 third quarter results	November

### For Shareholders to attend and vote at 2016 AGM

Latest time to lodge transfer documents for registration with HKEX's registrar	At 4:30 pm on 25 April 2016
Closure of HKEX's Register of Members	26 to 28 April 2016 (both dates inclusive)
Record date	28 April 2016

## 2015 Dividends

Interim dividend	\$3.08 per share
Proposed final dividend	\$2.87 per share

### For Shareholders to be entitled to 2015 final dividend

Latest time to lodge transfer documents for registration with HKEX's registrar	At 4:30 pm on 4 May 2016
Closure of HKEX's Register of Members	5 to 6 May 2016 (both dates inclusive)
Record date	6 May 2016

Subject to Shareholders' approval at the 2016 AGM of the proposed final dividend and a general mandate to issue shares, the final dividend will be payable in cash with a scrip 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 also 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.

Further information about HKEX's scrip dividend scheme and dividend history is available on the HKEX website [IR](#).

## Share Information

HKEX shares are listed on the Stock Exchange. HKEX is currently a constituent stock of the HSI and a number of sustainability indices as disclosed in the 2015 CSR Report.

Listing	
As at 31 December 2015	
– Number of issued shares	1,208,536,325 shares
– Market capitalisation	\$239.9 billion
Board lot size	100 shares

American Depositary Receipts	
Ticker Symbol	HKXCY
CUSIP	43858F109

Stock Codes	
Stock Exchange	388
Reuters	0388.HK
Bloomberg	388 HK Equity
WPK Number	AONJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478

**HKEX share performance vs HSI in 2015**



**Shareholding Distribution as at 31 December 2015 (based on HKEX’s Register of Members)**

Size of shareholding	Number of Shareholders	% of Shareholders	Number of shares held ('000)	% of HKEX* shares in issue
1 – 1,000	2,436	46.3	1,167	0.1
1,001 – 5,000	1,736	33.0	4,363	0.4
5,001 – 10,000	430	8.2	3,301	0.3
10,001 – 100,000	528	10.0	15,497	1.3
100,001 and above	133	2.5	1,184,208	98.0
<b>Total</b>	<b>5,263</b>	<b>100.0</b>	<b>1,208,536</b>	<b>100.0</b>

\* Percentage is for reference only, and may not add up to the total due to rounding.

Details about HKEX’s major Shareholders are disclosed in the Corporate Governance Report contained in this Annual Report.

**Electronic Communication**

This Annual Report is printed in English and Chinese, and is available under 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 7 days’ notice in writing to HKEX’s registrar.

**HKEX’s Registrar – Hong Kong Registrars Limited**

**For corporate communications:**

By post: 17M Floor, Hopewell Centre,  
183 Queen’s Road East,  
Wanchai, Hong Kong

By email: [hkex.ecom@computershare.com.hk](mailto:hkex.ecom@computershare.com.hk)

**For registration of share transfers:**

Address: Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre,  
183 Queen’s Road East, Wanchai, Hong Kong

Tel: +852 2862 8555

Fax: +852 2865 0990 / +852 2529 6087

**Registration for News Alerts**

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. Further information about Shareholder communications can be found in the Corporate Governance Report contained in this Annual Report.

**Feedback on Annual Report**

HKEX values feedback on this Annual Report as well as its reporting of the Group’s financial and governance performance. Shareholders may give their comments via the online form at [www.hkex.com.hk/eng/exchange/invest/ir.htm](http://www.hkex.com.hk/eng/exchange/invest/ir.htm) or email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).



# GLOSSARY

2015 AGM	AGM held on 29 April 2015 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall, One and Two Exchange Square, Central, Hong Kong
2016 AGM	AGM to be held on 28 April 2016
ADT	Average daily turnover value
AGM(s)	HKEX's annual general meeting(s)
AHFT	After-Hours Futures Trading
AMS	Automatic Order Matching and Execution System
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
CCASS	Central Clearing and Settlement System
CCP(s)	Central counterparty(ies)
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
CNS	Continuous Net Settlement
Convertible Bonds	The US\$500 million 0.50 per cent convertible bonds due 2017 constituted under the trust deed dated 23 October 2012, as amended and restated effective 17 December 2012
Corporate Governance Code and Corporate Governance Report	Refer to Appendix 14 to the Main Board Listing Rules
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EPs or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
EU	European Union
EUR	The official currency of the Eurozone
FCA	Financial Conduct Authority
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government	HKSAR Government
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
HKEX's Articles	HKEX's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
HSCEI/H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s) of HKEX
IPO(s)	Initial Public Offering(s)
IT	Information Technology
JP	Justice of the Peace
LCH	LCH.Clearnet Group Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and GEM Listing Rules

## GLOSSARY

LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LMEH, the LME and LME Clear
LMEH	LME Holdings Limited
LMEmercury	LME Clear's clearing system which enables its Members to view their risk positions in real time
LMEselect	The electronic platform for the trading of all LME contracts
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Main Board Listing Rule(s)	Rule(s) 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
MOI	Market open interest
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the SSE through the Stock Connect
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
PFMI	"Principles for financial market infrastructures" published by the Committee on Payment and Settlement Systems (now known as the Committee on Payments and Market Infrastructures) and the International Organization of Securities Commissions
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
PRC	People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
QDII2	Qualified Domestic Individual Investor
RMB	Renminbi
SBS	Silver Bauhinia Star
Senior Management	The Group's senior executives, and the list of Senior Management as at the date of this Annual Report is set out in the Board of Directors and Senior Management section of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
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
Shareholder(s)	HKEX's shareholder(s)
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
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through the Stock Connect
SSE	Shanghai Stock Exchange
SSE Securities	Shares eligible for trading under Northbound Trading of the Stock Connect
Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million
£/GBP	Pound sterling





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