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香港交易及結算所有限公司
HONG KONG EXCHANGES AND CLEARING LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

(Financial figures in this announcement are expressed in Hong Kong dollar (HKD) unless otherwise stated)

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2020

HIGHLIGHTS

Charles Li, Chief Executive said:

“Our focus in these extraordinary times has been on maintaining resilient and fully functioning fair and orderly financial markets. Despite one of the most volatile and uncertain periods in recent times, HKEX core businesses in Cash, Derivatives and Commodities have had a good quarter, reflecting record Stock Connect and Bond Connect quarterly volumes and 39 new company listings, ranking HKEX first in the world for number of IPOs in Q1 2020. We have not been unaffected by the macroeconomic conditions however, with the significant fall in global portfolio valuations impacting our investment income, though we have, and continue to take steps to de-risk our collective investment schemes. We are on track with our Strategic Plan 2019-2021, well-placed to capture future growth opportunities, and fully focused on managing our costs and risks. I am confident that HKEX is well-prepared for the challenges ahead of us.”

Strategic Highlights

- Hong Kong’s initial public offering (IPO) market ranked first globally by number of IPOs in Q1¹ 2020 (39 new company listings) and fourth globally by IPO funds raised (\$14.4 billion)
- Southbound Trading Investor Identification Regime was successfully rolled out on 13 January 2020, facilitating enhanced orderly operation and regulation of Stock Connect
- Bond Connect ADT reached a record quarterly high of RMB19.3 billion, more than triple that of Q1 2019
- Cash Market Volatility Control Mechanism (VCM) Phase 1 enhancement, covering expanded VCM stock coverage and tiered triggering thresholds, will be launched on 11 May 2020
- HKEX welcomed its first Iron Ore Futures Exchange Traded Fund (ETF) in March, another important step in building a diverse ETF ecosystem in Hong Kong
- HKEX is working closely with the HKSAR Government to introduce stamp duty waiver on stock transfers paid by ETF Market Makers when creating and redeeming ETF units, as proposed in the 2020-21 Budget delivered by the Hong Kong Financial Secretary in February
- A number of further initiatives and innovations during the quarter were implemented including the introduction of a virtual IPO ceremony option for newly listed issuers; and HKEX’s elevation to World Economic Forum Strategic Partner

Business Continuity and Operational Resilience

HKEX as both a listed company, and operator of regulated exchanges and central clearing counterparties, recognises the important role it plays as corporate and in global financial markets. In response to the COVID-19 outbreak, the following measures have been adopted:

- Focused programmes to minimise contagion risk to staff and customers; and full function and continuation of operations. All critical services have remained operational with no material impact to service levels
- Adoption of an established and comprehensive business continuity planning (BCP) and operational framework to ensure service resiliency, availability and stability across HKEX platforms
- The LME successfully transitioned trading on the Ring to electronic pricing platform, temporarily
- Operational processes have remained resilient and robust, responding to increased market volatility, demands on counterparty risk and the smooth execution of settlement activity

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

Financial Highlights

- Q1 2020 revenue and other income was 7 per cent lower than Q1 2019 (7 per cent higher than Q4 2019)
 - Core business revenue was up 19 per cent against Q1 2019, driven by a 20 per cent increase in headline ADT, resulting in an increase in trading and clearing fees
 - Q1 2020 Stock Connect revenue and other income reached a record quarterly high of \$404 million, up 74 per cent on Q1 2019. Northbound and Southbound ADT reached quarterly highs of RMB78.0 billion and \$21.6 billion respectively
 - Net investment loss was \$47 million (Q1 2019: income of \$882 million) due, predominantly to the macro-driven impact on the fair value of collective investment schemes
- Operating expenses were 6 per cent higher than Q1 2019 (11 per cent lower than Q4 2019), attributable to annual payroll adjustments and increased headcount arising from the acquisition of BayConnect Technology Company Limited (BayConnect) in June 2019, and higher professional fees incurred for strategic projects and other business initiatives
- EBITDA² margin was 74 per cent, 3 per cent lower than Q1 2019 (5 per cent higher than Q4 2019)
- Profit attributable to shareholders was \$2,262 million, 13 per cent lower than Q1 2019 (14 per cent higher than Q4 2019)

Key Financials

	Q1 2020 \$m	Q1 2019 \$m	Change
Revenue and other income			
Core business revenue	4,056	3,406	19%
Net Investment (loss)/income	(47)	882	N/A
	4,009	4,288	(7%)
Operating expenses	1,025	970	6%
EBITDA	2,984	3,318	(10%)
Profit attributable to shareholders	2,262	2,608	(13%)
Basic earnings per share	\$1.80	\$2.09	(14%)

Key Market Statistics

	Q1 2020	Q1 2019	Change
ADT of equity products traded on the Stock Exchange (\$bn)	103.4	74.3	39%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	17.5	26.8	(35%)
ADT traded on the Stock Exchange (Headline ADT) (\$bn)	120.9	101.1	20%
ADT of Northbound Trading of Stock Connect (RMBbn)	78.0*	38.5	103%
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	761*	659	15%
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	537	528	2%
Chargeable ADV ³ of metals contracts traded on the LME ('000 lots)	682	611	12%
ADT of Bond Connect (RMBbn)	19.3*	5.9	227%

* New record quarterly high in Q1 2020

² For the purposes of this announcement, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint ventures.

³ Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades. Admin Trades were introduced in 2017 to meet requirements resulting from Markets in Financial Instruments Directive (MiFID) II.

BUSINESS REVIEW

Overview

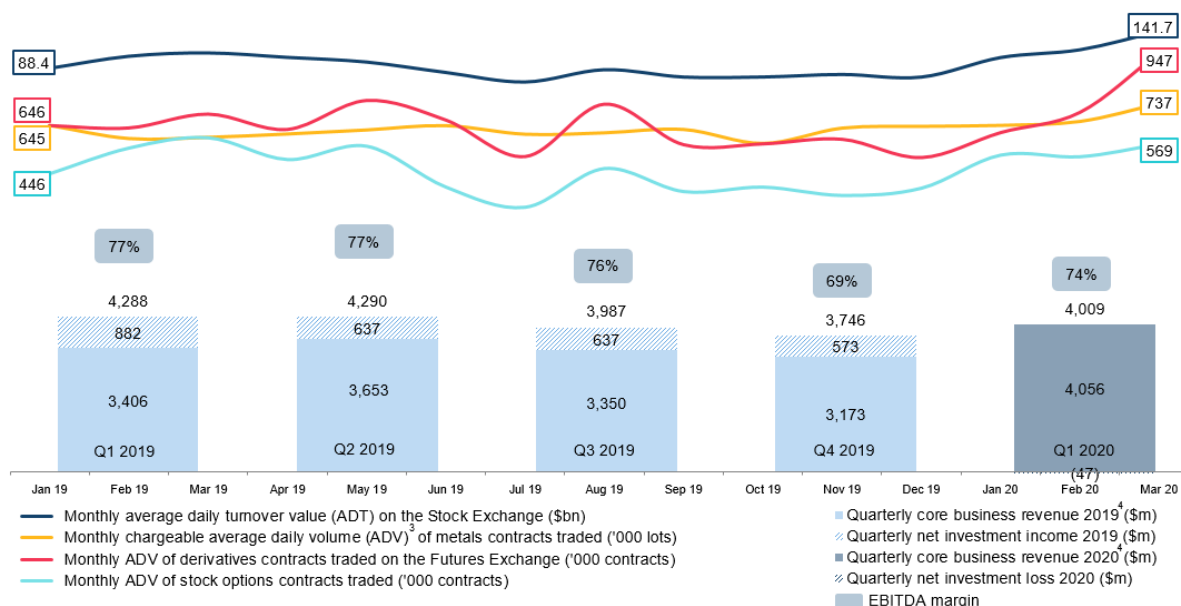


Figure 1 – Market activity and Group's⁵ revenue and other income/(loss)

HKEX's Cash, Derivatives and Commodities businesses demonstrated their robustness and resiliency, performing well in Q1 2020, despite the volatile economic and market conditions, and the global COVID-19 outbreak. Headline ADT⁶ rose to \$120.9 billion, 57 per cent and 20 per cent above Q4 2019 and Q1 2019 respectively. Stock Connect saw record quarterly revenue and other income in Q1 2020, with Northbound and Southbound Trading volumes reaching record quarterly highs. With the increased volatility in global markets, trading volumes in the Derivatives and Commodities Markets also registered moderate growth in Q1 2020 compared with Q1 2019. Despite the market uncertainties, HKEX welcomed 39 new company listings in Q1 2020, leading the global exchanges by number of IPOs.

Notwithstanding the higher trading volumes, revenue and other income for Q1 2020 was 7 per cent lower than Q1 2019, as the increase in trading and clearing fees was more than offset by the fair value losses on collective investment schemes of \$521 million (which saw record gains of \$390 million in Q1 2019) due to the sharp sell-off in both global equities and fixed income markets, especially in the month of March. That said, compared with Q4 2019, revenue and other income in Q1 2020 was strongly up 7 per cent, driven by the stronger trading volumes.

Operating expenses increased by 6 per cent against Q1 2019, but were 11 per cent lower than Q4 2019. Compared with Q1 2019, the increase was attributable to annual payroll adjustments and increased headcount arising from the acquisition of BayConnect in June 2019, and higher professional fees incurred for strategic projects and other business initiatives.

In response to continued uncertainties in market and economic conditions caused by the global COVID-19 outbreak, while the Group is maintaining its focus on pursuing initiatives under the Strategic Plan 2019-2021, a more prudent approach to expenditure control and risk management is being adopted. In addition, de-risking actions have been taken on the collective investment schemes in line with changes in market conditions. These measures will be kept under review and revised as market and economic conditions evolve over the coming months.

4 Includes revenue and sundry income

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

6 ADT of equity products, Derivative Warrants (DWs), Callable Bull/Bear Contracts (CBCBs) and warrants traded on the Stock Exchange

Business Update and Analysis of Results by Operating Segment

	Q1 2020		Q1 2019	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m
Results by segment:				
Cash	1,162	1,027	915	767
Equity and Financial Derivatives	898	741	862	710
Commodities	403	238	349	189
Post Trade	1,752	1,535	1,475	1,267
Technology	212	143	171	121
Corporate Items	(418)	(700)	516	264
	4,009	2,984	4,288	3,318

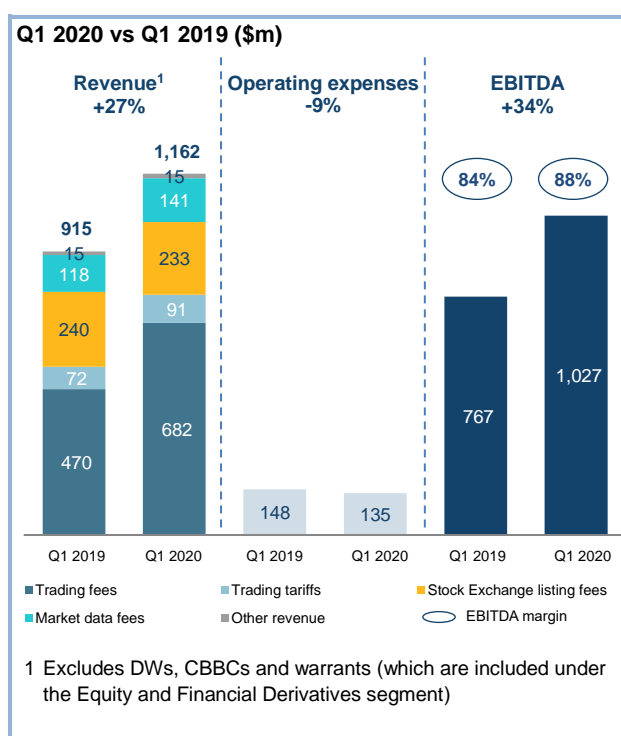
Cash Segment

Analysis of Results

Trading fees increased by \$212 million (45 per cent), more than the 39 per cent rise in equity products ADT. This was primarily due to more trading days and record fees from Stock Connect Northbound Trading. Trading tariffs rose by 26 per cent, in line with the increase in the number of trades of equity products.

Stock Exchange listing fees dropped by \$7 million, attributable to an \$11 million decrease in initial listing fees from fewer forfeitures, partly offset by an increase in annual listing fees of \$4 million from a higher number of listed companies.

Operating expenses decreased by 9 per cent due to lower allocated costs of the Listing Division to this segment. This reflects the decrease in listing fees from equities, compared with the increase in listing fees from DWs and CBBCs, which are under the Equity and Financial Derivatives segment.



Business Update

Financial markets have been significantly impacted by the global COVID-19 outbreak. Nevertheless, amid heightened volatility in the global markets, the Hong Kong Cash Market performed resiliently, with headline ADT reaching \$120.9 billion in Q1 2020, an increase of 57 per cent against Q4 2019 and 20 per cent against Q1 2019.

Stock Connect experienced strong two-way flow in Q1 2020 with record quarterly turnover in both Northbound and Southbound Trading. ADT of Northbound Trading of RMB78.0 billion was 57 per cent higher than the previous record achieved in Q2 2019, and ADT of Southbound Trading of \$21.6 billion was 10 per cent higher than the previous record achieved in Q1 2018. In addition, Northbound Trading turnover reached the second highest daily record at RMB113.4 billion on 28 February 2020, and Southbound Trading turnover reached a daily record high of \$46.3 billion on 19 March 2020. As a result, Stock Connect generated record quarterly revenue and other income of \$404 million (Q1 2019: \$232 million), of which \$319 million (Q1 2019: \$168 million) arose from trading and clearing activities.

On 13 January 2020, the investor identification regime for Southbound Trading was successfully launched, facilitating enhanced market surveillance and orderly operation of Stock Connect.

On 6 March 2020, HKEX announced the proposed implementation details of the enhancements to the Pre-opening Session (POS) and Volatility Control Mechanism (VCM) in the Hong Kong Cash Market. The target launch date of the enhanced POS is Q4 2020. VCM enhancement will adopt a two-phase implementation approach. Phase 1 enhancement, which includes further securities coverage expansion and tiered triggering thresholds, will be launched on 11 May 2020. Phase 2 enhancement, which allows multiple triggers, is subject to market operations' review, to be conducted six months after the launch of Phase 1. To facilitate market participants' understanding of the implementation details of the two initiatives and to prepare for the launch, a designated POS and VCM information centre has been set up in the HKEX website.

ADT of Exchange Traded Products (ETPs), which includes ETFs and Leveraged and Inverse Products (L&I Products), rose to \$7.8 billion in Q1 2020 (Q1 2019: \$4.6 billion), signifying growing market interest in ETPs. In particular, ADT of L&I Products more than quintupled from \$297 million in Q1 2019 to \$1.6 billion in Q1 2020, a quarterly record high since the launch of L&I Products in 2016. On 19 March 2020, L&I Products reached a daily record high turnover of \$4.0 billion. In addition, the first Iron Ore Futures ETF was listed on the Stock Exchange on 27 March 2020.

Key Market Indicators	Q1	
	2020	2019
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	103.4	74.3
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect ² (RMBbn)	33.9⁴	20.7
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect ² (RMBbn)	44.1⁴	17.8
ADT of Bond Connect (RMBbn)	19.3⁴	5.9
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2} ('000)	1,553	1,254
Number of newly listed companies on the Main Board ³	37	38
Number of newly listed companies on GEM	2	5
Total equity funds raised		
- IPOs (\$bn)	14.4	21.2
- Post-IPO (\$bn)	80.7	22.2
Number of companies listed on the Main Board at 31 Mar	2,096	1,959
Number of companies listed on GEM at 31 Mar	377	387
Number of trading days	62	60
<p>1 Excludes \$17.5 billion (Q1 2019: \$26.8 billion) of ADT of DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes \$12.9 billion (Q1 2019: \$7.5 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$8.7 billion⁴ (Q1 2019: \$4.3 billion) under Shenzhen-Hong Kong Stock Connect</p> <p>2 Includes buy and sell trades under Stock Connect</p> <p>3 Includes 2 transfers from GEM (Q1 2019: 6)</p> <p>4 New record quarterly high in Q1 2020</p>		

Hong Kong continues to thrive as a popular destination for issuers. In Q1 2020, HKEX welcomed 39 listed companies (including one new biotech company listed under Chapter 18A), raising a total of \$14.4 billion. Despite the global COVID-19 outbreak, Hong Kong ranked first globally⁷ by number of IPOs and fourth globally⁷ by IPO funds raised.

During Q1 2020, HKEX expanded its outreach and engagement with issuers and market participants through various digital channels, conducting its first “virtual listing ceremony” on 23 March 2020. This innovation received positive market feedback and is now available for new issuers listing on our markets.

In Q1 2020, Bond Connect saw a substantial increase in both trading volumes and the number of investors, partly attributable to the recent inclusion of Chinese government bonds into the JPMorgan Government Bond Index-Emerging Markets indices from 28 February 2020. ADT rose to RMB19.3 billion in Q1 2020, more than triple that of Q1 2019 (RMB5.9 billion), with a new daily record turnover of RMB36.9 billion on 19 March 2020. As of the end of March 2020, Bond Connect had expanded its coverage globally, with a total of 1,818 approved institutional investors, up 14 per cent from 1,601 as of 31 December 2019.

In March 2020, Bond Connect started to support special settlement cycles and recycling settlement. Special settlement cycles allow investors across different regions in the world with different local holiday arrangements to settle trades on T+4 and beyond, mitigating operational risks. Recycling settlement service allows investors to opt for recycling settlement within the next three business days following the original contracted settlement date should a trade fails to settle on schedule.

As part of our commitment to further develop and enhance the fixed income markets, HKEX published a paper in February 2020 on retail bond offerings in Hong Kong, covering details on issuing channels, listing requirements and the post trade settlement process.

On 31 January 2020, the Stock Exchange published a Consultation Paper on Corporate WVR Beneficiaries seeking public feedback on a proposal to allow corporate entities to benefit from weighted voting rights (WVR), subject to additional conditions and investor safeguards. The proposal builds on reforms to the Hong Kong listing regime that were implemented in April 2018, and aims to enhance global competitiveness and encourage the development of innovative businesses.

In light of the global COVID-19 outbreak, on 4 February 2020, the Securities and Futures Commission (SFC) and the Stock Exchange issued a joint statement in relation to listed issuers’ results announcements. This was followed by the issuance of a set of Frequently Asked Questions (FAQs) on 28 February 2020 to provide guidance on the publication of preliminary results announcements due on 31 March 2020. The joint statement encouraged listed issuers to consult with the Stock Exchange on the financial information that an issuer may publish if it is unable to obtain agreement from its auditors on its preliminary results, with a view to minimising disruptions to trading while ensuring that the investing public continues to receive sufficient information to make informed investment decisions. On 16 March 2020, the SFC and the Stock Exchange released further guidance for listed issuers with 31 December financial year-end on the publication of their preliminary results and annual reports.

On 1 April 2020, after consulting with the HKSAR Government, the SFC and the Stock Exchange published a joint statement in relation to general meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation. The statement gave guidance that, as well as annual general meetings, certain extraordinary general meetings and special general meetings of listed issuers were also exempted from the Government’s gathering ban. Despite the exemption, the SFC and the Exchange have determined that it is appropriate for listed issuers to consider the guidelines developed on “adjournment or delay”, “management of physical meetings” and “shareholders communication” when deciding on the timing of their general meetings and the manner in which such meetings are held. The SFC and the Exchange will continue to monitor the situation as it evolves and will issue further guidance if appropriate.

⁷ Source: Dealogic

In addition, the Stock Exchange published the following guidance materials during Q1 2020:

- On Environmental, Social and Governance (ESG) matters: an e-training course “Exchange’s New ESG Requirements”; a new guide for board and directors titled “Leadership role and accountability in ESG”; the step-by-step ESG reporting guidance entitled “How to prepare an ESG report”; and FAQs Series 18. These aim to facilitate listed issuers’ understanding of the new ESG requirements becoming effective in July 2020, and assist directors in carrying out their roles in ESG reporting under the new requirements.
- A new country guide for overseas companies incorporated in Ireland.
- A bi-annual Enforcement Newsletter for the twelve months ended 31 December 2019 outlining 2019 enforcement statistics and providing a regular update of enforcement cases and outcomes.
- A “Review of Issuers’ Annual Report Disclosure – Report 2019” covering findings and recommendations from a review of issuers’ annual reports for the financial year that ended between January and December 2018.
- Three revised guidance letters and eight sets of updated FAQs as part of the Stock Exchange’s continuous effort to streamline its guidance and related materials.

Equity and Financial Derivatives Segment

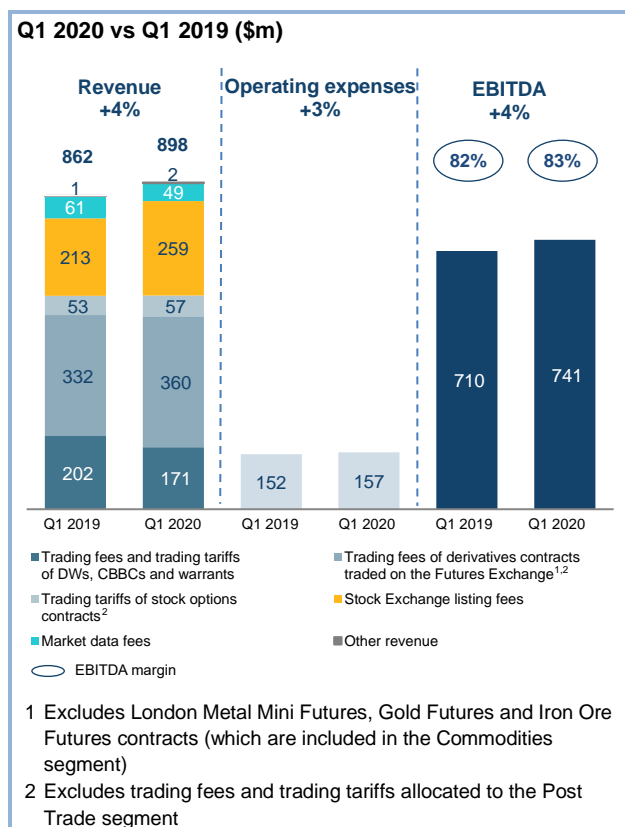
Analysis of Results

ADV of derivatives contracts traded on the Futures Exchange⁸ reached record quarterly high (15 per cent and 37 per cent higher than Q1 2019 and Q4 2019 respectively), driven by increased volatility. Derivatives trading fees of the Futures Exchange increased by 8 per cent, less than the ADV increase, due to a lower proportion of higher fee contracts traded in Q1 2020, including Hang Seng Index (HSI) products.

Trading fees and trading tariffs of DWs, CBBCs and warrants dropped by 15 per cent, less than the 35 per cent decrease in ADT, as higher trading fees were received from new issues of CBBCs.

Stock Exchange listing fees increased by 22 per cent, as the number of newly listed CBBCs increased from 6,467 in Q1 2019 to 10,246 in Q1 2020.

Operating expenses increased by 3 per cent due to higher allocated costs of the Listing Division, reflecting the increase in listing fees from DWs and CBBCs compared to the decrease in listing fees from equities.



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

Business Update

Derivatives contracts traded in the After-Hours Trading (T+1) Session continued to grow, with ADV reaching a record quarterly high of 141,939⁸ contracts in Q1 2020, 71 per cent higher than Q1 2019. In addition, the number of equity index futures and options traded in the T+1 Session reached a daily record high of 303,482 contracts on 18 March 2020.

Weekly Index Options also set daily record highs in Q1 2020, with 17,027 contracts of Weekly Hang Seng Index Options traded on 6 February 2020 and 7,166 contracts of Weekly Hang Seng China Enterprises Index Options traded on 30 January 2020. Five new stock options classes (in respect of ANTA Sports, Sino BioPharm, Shenzhou International, Techtronic Industries and WH Group) were introduced to the market on 23 March 2020.

The RMB⁹ currency derivatives market continued to expand in Q1 2020. ADV of USD⁹/CNH⁹ Futures traded were 8,381 contracts, up 41 per cent against Q4 2019. Open interest of USD/CNH Futures contracts at 31 March 2020 also saw a growth of 6 per cent from 31 December 2019, as the contracts were increasingly utilised as capital efficient risk management tools by investors.

The INR⁹/USD Futures contracts established new daily records multiple times in Q1 2020, including the latest daily record high of 5,035 contracts on 2 March 2020. By the end of Q1 2020, a total of 69,047 contracts have been traded since their launch on 4 November 2019.

The structured products market experienced strong momentum from Q4 2019. ADT of DWs, CBBCs and Inline Warrants was \$17.5 billion in Q1 2020, up 39 per cent from Q4 2019. The number of newly listed structured products increased from 8,152 in Q4 2019 to 13,543 in Q1 2020.

HKEX launched an enhancement on Cancel-on-Disconnect service in January 2020, which enables Exchange Participants (EPs) to define their own preferred triggering thresholds for HKEX to cancel their outstanding orders due to a loss of connectivity. The enhancement helps EPs facilitate their order management in the event of a connectivity contingency and has been positively received by the market.

Key Market Indicators	Q1	
	2020	2019
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	17.5	26.8
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000)	312	391
ADV of derivatives contracts traded on the Futures Exchange ¹ ('000 contracts)	759 ²	658
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	537	528
Number of newly listed DWs	3,044	2,965
Number of newly listed CBBCs	10,246 ²	6,467
Number of newly listed Inline Warrants	253	-
ADV of contracts traded during After-Hours Trading (AHT) ¹ ('000 contracts)	142 ²	83
Number of trading days	62	60
	At 31 Mar 2020	At 31 Mar 2019
Open interest of futures and options contracts ¹ ('000 contracts)	12,099	12,187

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

² New record quarterly high in Q1 2020

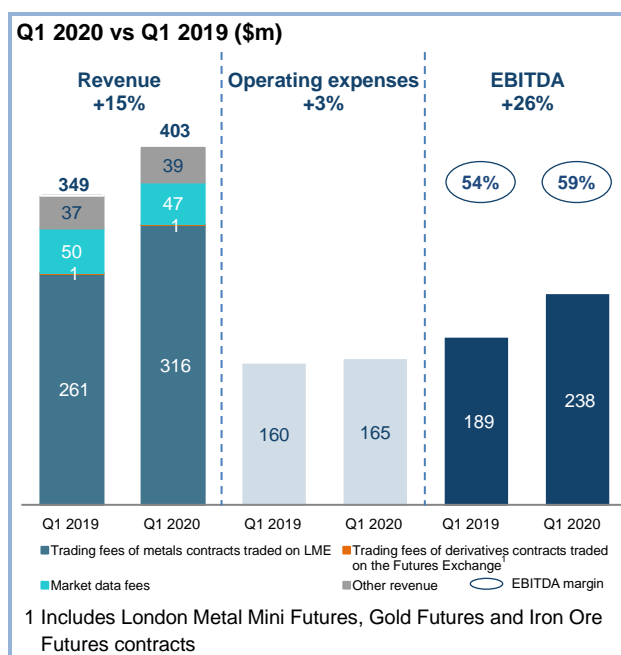
⁹ RMB = Renminbi, USD = United States Dollar, CNH = Offshore RMB traded outside Mainland China, INR = Indian Rupee

Commodities Segment

Analysis of Results

Chargeable ADV of metals contracts traded on the LME in Q1 2020 was 12 per cent higher than Q1 2019. Coupled with the fee increment effective from 1 January 2020, LME trading fees increased by \$55 million (21 per cent).

Operating expenses increased by 3 per cent due to higher staff costs from annual payroll adjustments.



Business Update

Due to the spread of global COVID-19 and guidance from the British Government, the LME suspended trading activity on the Ring and temporarily shifted to electronic pricing, with effect from 23 March 2020. Since then, the LME's metals prices are being generated on the basis of activity on the LME's electronic trading platform, supported by implied pricing functionality. The LME has taken further steps to protect its market (including contingency plans for its warehouse network and depository) to ensure that the LME and LME Clear can continue to operate an orderly market.

Several of the cash-settled futures contracts launched in 2019 have seen active trading volumes. In Q1 2020, 30,326 lots of LME Steel Hot-Rolled Coil (HRC) Free On Board (FOB) China and 2,166 lots of LME Steel HRC North America were traded. The LME intends to introduce additional cash-settled futures contracts later this year.

In March 2020, the LME introduced a speed bump on the LMEprecious market.

This speed bump introduced a fixed minimum delay in processing incoming orders, helping to create a more level playing field that protects liquidity providers from latency arbitrage activity. Bid/offer spreads in the LME's precious metals spot market initially tightened significantly following the introduction of the speed bump before being impacted by stressed conditions observed across the global precious metals market.

Key Market Indicators	Q1	
	2020	2019
ADV of metals contracts traded on the LME ('000 lots)		
Aluminium	276	244
Copper	147	135
Zinc	116	108
Nickel	87	76
Lead	49	38
Others	7	10
Total chargeable ADV excluding Admin Trades ¹	682	611
Chargeable Admin Trades ¹	51	-
Non-chargeable Admin Trades ¹ and other non-chargeable trades	1	101
Total ADV	734	712
Number of trading days	64	63
	At	At
	31 Mar 2020	31 Mar 2019
Total futures Market Open Interest ('000 lots)	2,074	2,091

¹ Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II. These trades were not chargeable prior to 1 May 2019, but became chargeable at US\$0.04 per contract thereafter.

The LME launched the Proprietary Liquidity Programme on 2 March 2020. This programme, designed exclusively for proprietary trading firms, simplifies previous incentive arrangements and offers fee rebates for trades with liquidity additive characteristics.

New rules aimed at optimising the LME’s warehousing network, including off-warrant stock reporting requirements, came into effect on 1 February 2020. These new rules require reporting of metals stored under an agreement stipulating the use of LME-registered sheds and of metals stored under an agreement where the owner has a right to warrant such metals on the LME in the future. The LME received the first reporting from the warehouses on 10 March 2020.

In Hong Kong, a total of 6,773 contracts of CNH Gold Futures and 58,052 contracts of USD Gold Futures were traded in Q1 2020, with 332 contracts settled against futures contracts. For the USD-denominated London Aluminium / Copper / Zinc / Lead / Tin / Nickel Mini Futures, a total of 37,697 contracts were traded.

In March 2020, USD and CNH Silver Futures contracts were approved by the SFC for launch in June 2020. Further research and market consultations are in progress for the enhancement of the existing commodities futures contracts and for the development of other metals derivatives products and metals indices.

The first two months of Q1 2020 witnessed weaker sentiment in physical commodity trading in China largely due to the global COVID-19 outbreak. However, significant rebound in QME’s trading volume was observed in March 2020, reaching a monthly record high of RMB460 million as the situation stabilises in the Mainland. QME continued to make progress in enhancing financing solutions for participants, including expanding banking partnership network and preparing to introduce Reliable Warehouse Warrant using blockchain technology. In addition to offering base metals, QME is planning to tap into the energy sector at a later stage, subject to regulatory approval.

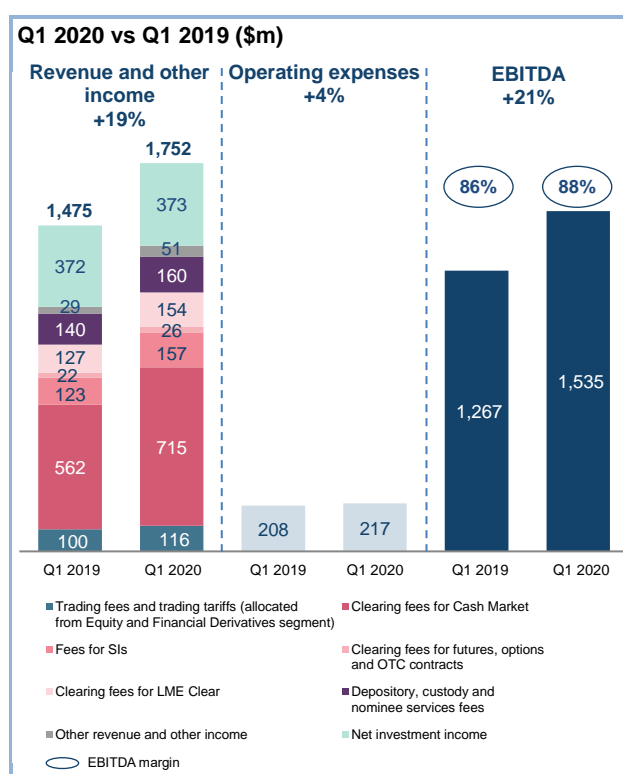
Post Trade Segment

Analysis of Results

Clearing and settlement fees for the Cash Market and for Settlement Instructions (SIs) increased by 27 per cent and 28 per cent respectively. The increases were primarily driven by a higher number of transactions, and a 9 per cent and 11 per cent higher average fee for Cash Market trade and per SI transaction respectively.

Clearing fees for LME Clear rose by 21 per cent, due to the increase in chargeable ADV of metals contracts cleared and the fee increment effective from 1 January 2020.

Net investment income increased by \$1 million mainly due to the increase in average fund sizes of Margin Funds and Clearing House Funds, partly offset by increased interest rebate payable to HKCC and SEOCH Participants for HKD margins collateral effective from 2 September 2019.



The analysis of net investment income is as follows:

	Q1 2020			Q1 2019		
	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	323	33	356	323	19	342
- Debt securities	22	-	22	27	-	27
- Exchange (losses)/gains	(5)	-	(5)	3	-	3
Total net investment income	340	33	373	353	19	372
Average fund size (\$bn)	146.8	15.7	162.5	125.5	11.7	137.2
Annualised net investment return	0.93%	0.84%	0.92%	1.12%	0.65%	1.08%

Operating expenses increased by 4 per cent reflecting increases in staff costs due to annual payroll adjustments.

Business Update

Q1 2020 witnessed increased China A shares weighting in FTSE Russell Indexes and rebalancing of China A shares in MSCI Indexes. As a result, the usage of Stock Connect clearing facilities continued to grow, with a 52 per cent increase in average daily value of Northbound SIs in Q1 2020 compared with Q4 2019. However, Northbound portfolio value of A shares at 31 March 2020 decreased by 9 per cent to RMB1,298 billion compared with 31 December 2019 as a result of market volatility.

On 20 April 2020, HKSCC further enhanced its Third Party Clearing arrangement to allow a CCASS Clearing Participant (either a Direct Clearing Participant or General Clearing Participant (GCP)) to continue to self-clear its Exchange Trades, while appointing a GCP for clearing its China Connect Securities Trades.

HKEX announced the successful conclusion of the 2019 Annual Attestation and Inspection Programme, which aims to enhance the surveillance and monitoring of participants' compliance with the relevant exchange and clearing house rules and regulations. In 2020, HKEX will continue the Annual Attestation and Inspection Programme, with focus on three areas: (1) client margin requirements; (2) risk management; and (3) China Connect rules. Briefing sessions to introduce this year's Programme were conducted in April 2020.

With heightened global market volatility in Q1 2020, although there was a 12 per cent down on total notional amount (total amount cleared US\$44.9 billion) cleared by OTC Clear as compared with Q1 2019, the clearing volumes of USD/CNH cross currency swaps continued to grow and reached record quarterly high, with US\$12.9 billion cleared, up 69 per cent as compared with Q1 2019. In addition, Barclays Bank PLC was admitted as a new clearing member in January 2020 which further broadens OTC Clear member base.

Key Market Indicators	Q1	
	2020	2019
ADT on the Stock Exchange (\$bn)	120.9	101.1
Average daily number of Stock Exchange trades ('000)	1,865	1,645
Average daily value of SIs (\$bn)	373.2	235.5
Average daily number of SIs ('000)	113	101
Chargeable ADV ¹ of metals contracts traded on the LME ('000 lots)	682	611

1 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US\$0.02 per contract) and other non-chargeable trades.

Technology Segment

Analysis of Results

Network fees rose by 18 per cent due to increased usage of the Orion Central Gateway and China Connect Central Gateway by EPs, and additional fees arising from throttle usage.

Hosting services fees increased by 25 per cent due to organic growth from both new customer subscriptions and increased usage by existing customers.

Operating expenses increased due to inclusion of operating expenses of BayConnect, a 51 per cent subsidiary acquired in June 2019.

Business Update

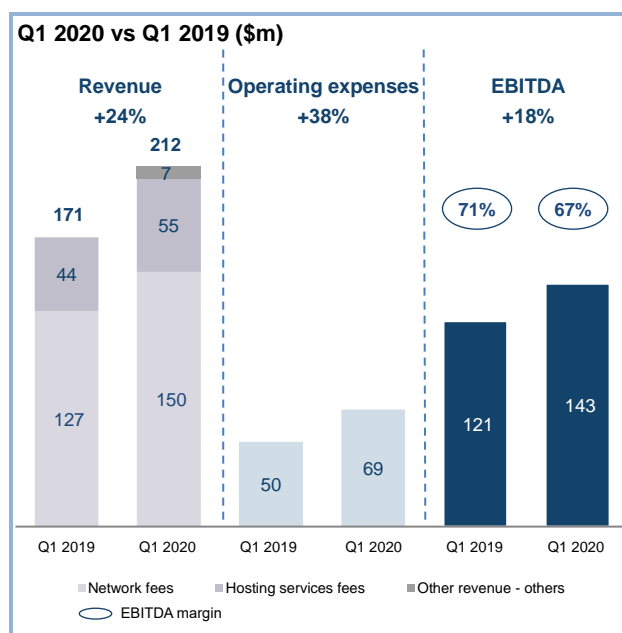
During Q1 2020, all major trading, clearing, settlement and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably.

As a result of the temporary suspension of the Derivatives Market on 5 September 2019, HKEX engaged an external consultant to conduct a review on the Hong Kong Futures Automated Trading System, and has completed most of the critical recommendations in the review report for the prevention, detection, response and recovery of future potential market incidents. HKEX is committed to continuous improvement in operating reliable and efficient markets.

Due to the forthcoming hardware obsolescence for various trading and clearing systems as well as the aging of the Chinachem Exchange Square Secondary Data Centre (CES DC), a data centre relocation and technology obsolescence replacement project was kicked off in early 2020. By Q3 2021, the old CES DC will be relocated to a Tier 3 data centre with higher reliability and lower operating costs.

Aiden, HKEX's first virtual assistant to provide innovative and interactive enquiry service, was launched on the HKEX website (<https://aiden.hkex.com.hk/>) in March 2020. Aiden is a chatbot powered by Artificial Intelligence (AI) to understand natural language enquiries and provide human-like responses to market surveillance and rule enforcement questions on select topics.

In Q1 2020, the HKEX Innovation Lab continued to deploy solutions across the Group. With Q1 being the peak period for financial reporting by listed companies, the Group's AI tool for detecting and handling corporate actions performed reliably and accurately, easing the smooth and timely dissemination of verified data to market participants, and improving scalability in HKEX's operations. The Group is also running its first AI-assisted review of issuers' compliance with certain listing rules, with early trials showing encouraging results. On the business efficiency front, the Group's robotic process automation programme has so far accumulated over 4,400 hours of runtime, helping reduce or eliminate manual intervention across 28 business processes.



Corporate Items

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

Analysis of Results

	Q1 2020 \$m	Q1 2019 \$m
Revenue and other income		
Net investment (loss)/income	(420)	510
Others	2	6
Total	(418)	516
Operating expenses	282	252

The analysis of net investment (loss)/income of Corporate Funds is as follows:

	Q1 2020 \$m	Q1 2019 \$m
Net investment (loss)/income from:		
- Collective investment schemes	(521)	390
- Cash and bank deposits	122	108
- Debt securities	-	2
- Exchange (losses)/gains	(21)	10
Total net investment (loss)/income	(420)	510
Average fund size (\$bn)	29.4	26.0
Annualised net investment return	(5.71%)	7.86%

Net investment loss of the Corporate Funds in Q1 2020 was principally due to fair value losses on collective investment schemes held under the external portfolio, partly offset by investment income from cash and bank deposits. The fair value losses on collective investment schemes in Q1 2020 mainly came from funds invested in public equities asset class and multi-sector fixed income asset class, as opposed to the gains in these two asset classes in Q1 2019 (Public equities - Q1 2020: losses of \$453 million; Q1 2019: gains of \$245 million; Multi-sector fixed income - Q1 2020: losses of \$146 million; Q1 2019: gains of \$56 million).

At 31 March 2020, the fair value of the Group’s collective investment schemes by asset class was as follows, reflecting a redemption of \$1.4 billion made during Q1 2020, as well as fair value losses of \$521 million:

Asset class	At 31 Mar 2020 \$m	At 31 Dec 2019 \$m	Change
Public Equities	1,553	2,440	(36%)
Absolute Return	1,581	1,604	(1%)
Multi-Sector Fixed Income	2,437	2,583	(6%)
US Government Bonds and Mortgage-backed Securities	1,889	2,716	(30%)
Total	7,460	9,343	(20%)

During Q1 2020, as part of the external portfolio de-risking actions to improve downside protection, \$1.4 billion was redeemed from the collective investment schemes. In April 2020, a further \$1.9 billion was redeemed. The redemption proceeds have been maintained in a combination of internally managed cash deposits and investment in money market fund. As the valuation of external portfolio reflects movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold.

Operating expenses increased by 12 per cent against Q1 2019 due to higher professional fees incurred for strategic projects and other business initiatives, and increased staff costs from annual payroll adjustments.

FINANCIAL REVIEW

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

Margin Fund deposits of \$176.5 billion at 31 March 2020 were \$33.9 billion higher than at 31 December 2019 due to increased contributions required from HKCC Clearing Participants (CPs) and LME Clear CPs in response to higher margin requirements per contract from heightened volatility, and the increase in Mainland security and settlement deposits from HKSCC CPs attributable to the increase in Northbound Stock Connect Trading. Clearing House Fund contributions increased from \$14.4 billion at 31 December 2019 to \$16.4 billion at 31 March 2020 due to higher contributions required from HKSCC CPs in response to changes in risk exposures. Funds received were invested in cash and cash equivalents and financial assets.

Capital Expenditure and Commitments

During Q1 2020, the Group incurred capital expenditure¹⁰ of \$216 million (Q1 2019: \$145 million) related to the development and upgrade of various trading and clearing systems. The Group's capital expenditure commitments at 31 March 2020, including those authorised by the Board but not yet contracted for, amounted to \$1,201 million (31 December 2019: \$1,217 million). They were mainly related to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems, and the set up of the new secondary data centre.

Contingent Liabilities

At 31 March 2020, there were no significant changes in the Group's contingent liabilities compared with 31 December 2019.

Pledges on Assets

Securities, gold bullion and warrants were held by LME Clear as non-cash collateral for margins posted by its CPs and collateral in respect of its interest in overnight triparty reverse repurchase agreements, which together amounted to \$89,500 million at 31 March 2020 (31 December 2019: \$83,964 million). This non-cash collateral, which was not recorded on the consolidated statement of financial position of the Group, together with certain financial assets amounting to \$3,781 million at 31 March 2020 (31 December 2019: \$3,692 million) have been pledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The first floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

Changes since 31 December 2019

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report of HKEX for the year ended 31 December 2019.

It is the Group's practice to declare a dividend only at the half-year and year-end and no dividend will be proposed for Q1 2020 (Q1 2019: \$Nil).

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for Q1 2020.

¹⁰ Capital expenditure excludes right-of-use assets recognised under HKFRS 16: Leases.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Three months ended 31 Mar 2020 \$m	Three months ended 31 Mar 2019 \$m
Trading fees and trading tariffs		1,794	1,491
Stock Exchange listing fees		492	453
Clearing and settlement fees		1,052	834
Depository, custody and nominee services fees		160	140
Market data fees		237	229
Other revenue		320	259
REVENUE		4,055	3,406
Net investment (loss)/income		(47)	882
Sundry income		1	-
REVENUE AND OTHER INCOME		4,009	4,288
OPERATING EXPENSES			
Staff costs and related expenses		(703)	(669)
IT and computer maintenance expenses		(152)	(143)
Premises expenses		(29)	(31)
Product marketing and promotion expenses		(10)	(11)
Professional fees		(34)	(12)
Other operating expenses		(97)	(104)
		(1,025)	(970)
EBITDA		2,984	3,318
Depreciation and amortisation		(274)	(248)
OPERATING PROFIT		2,710	3,070
Finance costs		(49)	(44)
Share of profits less losses of joint ventures		19	3
PROFIT BEFORE TAXATION		2,680	3,029
TAXATION	(a)	(422)	(422)
PROFIT FOR THE PERIOD		2,258	2,607
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEX		2,262	2,608
- Non-controlling interests		(4)	(1)
PROFIT FOR THE PERIOD		2,258	2,607
Basic earnings per share		\$1.80	\$2.09
Diluted earnings per share		\$1.79	\$2.09

(a) In Q1 2020, there was a one-off deferred tax charge of \$61 million arising from the change of statutory UK tax rate from 17 per cent to 19 per cent.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended 31 Mar 2020 \$m	Three months ended 31 Mar 2019 \$m
PROFIT FOR THE PERIOD	2,258	2,607
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries	(92)	54
Cash flow hedges	(7)	-
Changes in fair value of financial assets measured at fair value through other comprehensive income	(5)	6
OTHER COMPREHENSIVE INCOME	(104)	60
TOTAL COMPREHENSIVE INCOME	2,154	2,667
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEX	2,161	2,668
- Non-controlling interests	(7)	(1)
TOTAL COMPREHENSIVE INCOME	2,154	2,667

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	At 31 Mar 2020			At 31 Dec 2019		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS						
Cash and cash equivalents	161,379	-	161,379	128,152	-	128,152
Financial assets measured at fair value through profit or loss	77,827	650	78,477	56,729	672	57,401
Financial assets measured at fair value through other comprehensive income	4,540	-	4,540	4,569	-	4,569
Financial assets measured at amortised cost	44,632	833	45,465	39,954	718	40,672
Accounts receivable, prepayments and deposits	23,811	21	23,832	25,791	21	25,812
Interests in joint ventures	-	114	114	-	95	95
Goodwill and other intangible assets	-	18,341	18,341	-	18,378	18,378
Fixed assets	-	1,550	1,550	-	1,589	1,589
Right-of-use assets	-	2,403	2,403	-	2,366	2,366
Deferred tax assets	-	19	19	-	17	17
Total assets	312,189	23,931	336,120	255,195	23,856	279,051
LIABILITIES AND EQUITY						
Liabilities						
Financial liabilities at fair value through profit or loss	70,946	-	70,946	48,008	-	48,008
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	176,461	-	176,461	142,536	-	142,536
Accounts payable, accruals and other liabilities	19,851	-	19,851	22,447	-	22,447
Dividend payable	3,761	-	3,761	-	-	-
Deferred revenue	884	390	1,274	1,033	403	1,436
Taxation payable	450	-	450	1,760	-	1,760
Other financial liabilities	52	-	52	59	-	59
CPs' contributions to Clearing House Funds	16,350	-	16,350	14,394	-	14,394
Lease liabilities	291	2,246	2,537	272	2,234	2,506
Borrowings	339	81	420	338	80	418
Provisions	105	106	211	90	104	194
Deferred tax liabilities	-	846	846	-	792	792
Total liabilities	289,490	3,669	293,159	230,937	3,613	234,550
Equity						
Share capital			30,449			30,449
Shares held for Share Award Scheme			(755)			(770)
Employee share-based compensation reserve			304			250
Hedging and revaluation reserves			(9)			3
Exchange reserve			(270)			(181)
Designated reserves			609			587
Reserve relating to written put options to non-controlling interests			(369)			(369)
Retained earnings			12,681			14,204
Equity attributable to shareholders of HKEX			42,640			44,173
Non-controlling interests			321			328
Total equity			42,961			44,501
Total liabilities and equity			336,120			279,051
Net current assets			22,699			24,258

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

Except as described below, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

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

In 2020, the Group has adopted the following amendments to HKFRSs which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2020:

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

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

The financial information relating to the year ended 31 December 2019 that is included in this Quarterly Results Announcement as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company will deliver the consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies in due course as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

By Order of the Board
Hong Kong Exchanges and Clearing Limited
David Fu
Group Company Secretary

Hong Kong, 7 May 2020

As at the date of this announcement, HKEX's Board of Directors comprises 11 Independent Non-executive Directors, namely Mrs Laura May-Lung CHA (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr CHEAH Cheng Hye, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mr HUNG Pi Cheng, Benjamin, Mr LEUNG Pak Hon, Hugo, Mr John Mackay McCulloch WILLIAMSON and Mr YIU Kin Wah, Stephen, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive. In addition, the appointment of Mrs CHOW WOO Mo Fong, Susan as an Independent Non-executive Director of HKEX will take effect from the conclusion of HKEX's 2020 annual general meeting.