

INTERIM REPORT
2017



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

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FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016	Change
	\$m	\$m	
Revenue and other income	6,203	5,630	10%
Operating expenses	1,711	1,688	1%
EBITDA*	4,492	3,942	14%
Profit attributable to shareholders	3,493	2,985	17%
Basic earnings per share	\$2.86	\$2.47	16%
Interim dividend per share	\$2.55	\$2.21	15%

- Revenue and other income for the six months ended 30 June 2017 (1H 2017) was 10 per cent higher than the same period in 2016 (1H 2016). Key highlights for the period include:
 - An increase in Stock Exchange listing fees from more listed companies and an increase in newly listed DWs and CBBCs;
 - A significant increase in net investment income from Corporate Funds and Margin Funds;
 - A one-off receipt of \$55 million post-liquidation interest from the Lehman liquidators; and
 - A marginal reduction in Trading and Clearing fees, where a healthy increase in Cash Market turnover was offset by declines in derivatives volumes, including commodities.
- Operating expenses increased by 1 per cent against 1H 2016. Excluding a one-off insurance recovery of \$23 million relating to legal expenses in respect of the warehouse litigation in the US, operating expenses increased by 3 per cent compared to the prior period.
- The EBITDA margin of 72 per cent for 1H 2017 was 2 per cent higher than 1H 2016 reflecting both revenue growth and prudent cost management.
- Profit attributable to shareholders rose by 17 per cent to \$3,493 million.

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	61.4	48.3	27%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	14.6	19.2	(24%)
ADT traded on the Stock Exchange (\$bn)	76.0	67.5	13%
Average daily number of derivatives contracts traded on the Futures Exchange	424,546	488,566	(13%)
Average daily number of stock options contracts traded on the Stock Exchange	354,969	292,861	21%
Average daily volume of metals contracts traded on the LME (lots)	597,542	635,111	(6%)

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

CHAIRMAN'S STATEMENT

The global financial markets started the year strong, driven by positive sentiment on improved global economic growth and stronger-than-expected economic performance in Mainland China. Nonetheless, uncertainty over the pace of the US Federal Reserve's interest rate increases and balance sheet normalisation, Brexit talks and geopolitical tensions across the world have continued to cloud global economic prospects and increase market vulnerability.

Against this mixed backdrop, the Hong Kong securities market saw active trading in the first half of 2017, with an increase in average daily turnover of 13 per cent from the same period last year. Our IPO market also recorded growth in the number of new listings and funds raised by 80 per cent and 26 per cent respectively. Although the average daily number of derivatives contracts traded on the Futures Exchange decreased by 13 per cent, trading of our RMB Currency Futures stayed strong, with average daily volume up 37 per cent. Stock Options trading was strong as well, rising 21 per cent. In London, the average daily volume of metals contracts traded on the LME fell by 6 per cent amid continued weakness in the global metals market. For the six months ended 30 June 2017, the Group recorded consolidated revenue and other income of \$6,203 million and a profit attributable to shareholders of \$3,493 million, up 10 per cent and 17 per cent respectively from the corresponding period of 2016. The Board declared an interim dividend of \$2.55 per share, which is 90 per cent of the profit attributable to shareholders.

We are pleased to see that our mutual market access programme continues to contribute to China's capital market development and consolidate Hong Kong's gateway position connecting China and the rest of the world. With the successful launch of Bond Connect on 3 July 2017, another milestone was reached by providing international investors with access to the Mainland bond market via Hong Kong. MSCI's recent decision to add Mainland A shares to its benchmark emerging markets index was an acknowledgement of the important role of Stock Connects in the opening up of the Mainland stock markets.

In order to diversify our business and support Hong Kong becoming China's offshore risk management centre, we continue to expand our capabilities in fixed income, currency and commodities. We introduced our first RMB Currency Options on 20 March 2017 and physically settled CNH and USD Gold Futures contracts on 10 July 2017 to provide investors with more options for trading and risk management. The LME also rolled out its own USD-traded Gold Futures contract on 10 July 2017 alongside a USD-traded Silver Futures contract through LMEprecious to capture the increasing demand for precious metals trading. Preparations are underway for the Qianhai Mercantile Exchange, which has a long term target to support Mainland China's real economy and its pricing power in the global commodities market.

As an exchange operator, we are committed to continuing improvement of our market quality as well as competitiveness in response to the evolving market environment. In Hong Kong, we launched a market consultation in June to seek views on the proposed New Board to attract listings of new economy companies and on our GEM reform. We also published a consultation paper in June on proposed after-hours trading (T+1 session) enhancements. To further enhance our securities market, we implemented Phase 2 of the Closing Auction Session on 24 July 2017. In London, we issued a discussion paper in April on the LME's market structure with a view towards improving the accessibility and efficiency of its trading, and we are now analysing the market feedback.

Details of our progress in various initiatives are set out in the Business Review section of this Interim Report.

In tackling the challenges and opportunities ahead, we will continue to work closely with our regulators and other stakeholders. We are committed to providing a quality and diversified market which can help transform Hong Kong into China's global wealth management centre.

CHOW Chung Kong
Chairman

Hong Kong, 9 August 2017

BUSINESS REVIEW

Overview

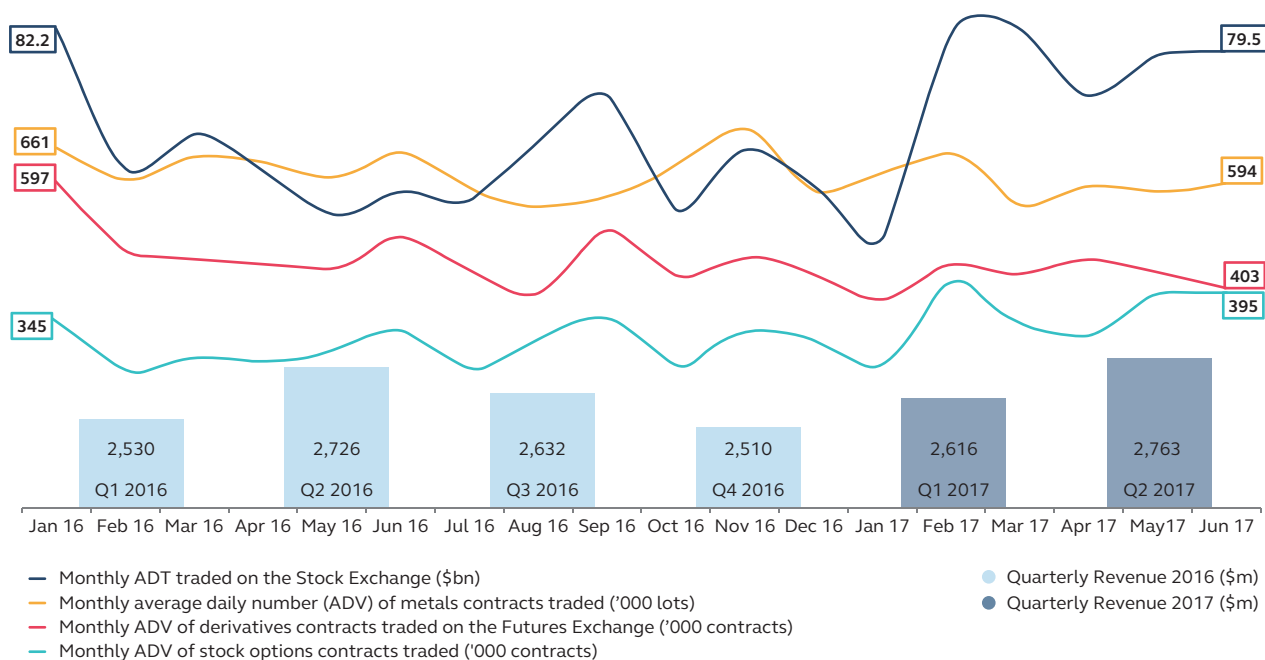


Fig. 1 – Market activity and Group Revenue

Market sentiment continued to improve in Q2¹ 2017 with Cash Market headline ADT rising to \$77.8 billion, 5 per cent above Q1 2017. The positive momentum on Stock Connects also continued, with Northbound and Southbound ADT being 47 per cent and 15 per cent higher than Q1 2017. However, market volatility continued to decline reaching lows last seen in 2014², which adversely impacted derivatives volumes. While the average daily number of HKFE contracts traded in Q2 2017 was slightly up against Q1 2017, it was 16 per cent below Q1 2016 when market volatility was approximately twice as high as Q2 2017².

Revenue and other income overall was 4 per cent higher than Q1 2017. This arose from seasonal increases in depository, custody and nominee services fees, partially offset by a one-off receipt of \$55 million post-liquidation interest from Lehman's liquidators in Q1 2017, and net investment income in Q2 2017 being \$41 million lower.

For 1H 2017, revenue and other income rose by 10 per cent against 1H 2016, mainly due to a significant increase in net investment income of \$466 million and a one-off receipt of \$55 million post-liquidation interest from Lehman's liquidators. Excluding these items, revenue increased by 1 per cent with higher volumes in the Cash Market being offset by lower volumes in HKFE and the LME.

Operating expenses for 1H 2017 increased by 1 per cent against 1H 2016. After adjusting for a one-off insurance recovery of \$23 million of legal costs, relating to the warehouse litigation in the US (which for the LME and HKEX defendants has now been concluded), operating expenses increased by 3 per cent compared to 1H 2016. This increase primarily reflected increases in staff costs and premises expenses, which were partly offset by savings in IT costs. Having regard to persistent global economic uncertainties, the Group continues to maintain a prudent approach to cost management.

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

2 Reference based on VHSI (the HSI volatility Index)

Business Update and Analysis of Results by Operating Segment

	Six months ended 30 Jun 2017		Six months ended 30 Jun 2016		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
Results by segment:						
Cash	1,512	1,221	1,282	1,012	18%	21%
Equity and Financial Derivatives	952	730	1,065	836	(11%)	(13%)
Commodities	721	440	804	513	(10%)	(14%)
Clearing	2,308	1,930	2,122	1,770	9%	9%
Platform and Infrastructure	279	204	264	190	6%	7%
Corporate Items	431	(33)	93	(379)	363%	(91%)
	6,203	4,492	5,630	3,942	10%	14%

Cash Segment

Analysis of Results

Trading fees and trading tariff increased by 22 per cent compared to 1H 2016, below the 27 per cent growth in ADT. This was primarily because of an increase in average transaction size, which dampened the increase in trading tariff income, and the significant growth in Southbound Trading, where we share half of the trading fee with the Mainland exchanges, exceeding the growth of Northbound Trading.

Stock Exchange listing fees rose by \$27 million, reflecting a \$21 million increase in annual listing fees from a higher number of listed companies and a \$6 million increase in initial listing fees due to more newly listed companies than in 1H 2016.

Market data fees increased by 19 per cent as a result of higher allocated revenue following an increase in the volume of cash equities traded, alongside decreases in the volumes of DWs, CBBCs and warrants traded.

Operating expenses rose by 8 per cent due to additional headcount for strategic projects.



Business Update

The Hong Kong Cash Market continued to benefit from improved sentiment, with a 27 per cent increase in ADT of equity products traded on the Stock Exchange in 1H 2017 as compared to 1H 2016.

Stock Connects continued to gather momentum in 1H 2017, partly attributable to the increasing trading volume on the Shenzhen-Hong Kong Stock Connect which was launched in late 2016. Stock Connects generated total revenue and other income of \$162 million in 1H 2017 (1H 2016: \$71 million), of which \$87 million (1H 2016: \$31 million) arose from trading and clearing activities. There were increases in both directions on Stock Connects – in particular, Southbound ADT almost trebled year-on-year, accounting for 5 per cent of headline ADT (1H 2016: 2 per cent).

Northbound Trading volumes over the longer term could potentially benefit from MSCI's announcement in June 2017 of its plan to include China A shares in the Emerging Markets Index and All Country World Index (ACWI) in 2018. MSCI's decision to include only Stock Connects-eligible A shares and the usage of CNH exchange rates in their index compilations complements the Stock Exchange's strategy of focusing on mutual market access as a means to facilitate foreign investors' access to the Mainland securities markets.

As Stock Connects gain wider market acceptance, HKEX will continue to work with regulators and its Mainland counterparts on further enhancements to the operating model such as holiday trading and real-time delivery versus payment settlement arrangements.

36 new EPs were admitted in 1H 2017, compared to 46 admitted in the full year of 2016, indicating continued optimism in the Hong Kong Cash Market. As of 30 June 2017, the number of EPs reached 623.

Phase 2 of the Closing Auction Session (CAS) was launched successfully on 24 July 2017 to further facilitate trade execution at closing prices. The list of CAS Securities was also expanded to include constituents of the Hang Seng Composite SmallCap Index and input of regulated short selling orders during the CAS was also allowed. The SMARTS surveillance system was also enhanced to support the launch of CAS Phase 2.

Following the successful listing of 17 Leveraged and Inverse Products (L&I Products) that track the HSI or HSCEI in March 2017, ADT of L&I Products reached a daily record high of \$1.4 billion on 22 June 2017 (2 per cent of headline ADT on that day). L&I Products achieved ADT of \$685 million in Q2, which takes Exchange Traded Products ADT, which comprises ETF ADT and L&I Products ADT, to \$5.6 billion in Q2 2017, up 22 per cent against Q1 2017.

Key Market Indicators		
	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	61.4	48.3
ADT of Northbound Trading ² – Shanghai-Hong Kong Stock Connect (RMB bn)	4.3	3.0
ADT of Northbound Trading ² – Shenzhen-Hong Kong Stock Connect (RMB bn)	2.8	–
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	969,619	913,114
Number of newly listed companies on the Main Board ³	37	25
Number of newly listed companies on GEM	35	15
Total equity funds raised		
– IPOs (\$bn)	54.8	43.6
– Post-IPOs (\$bn)	119.5	101.4
Number of companies listed on the Main Board at 30 Jun	1,746	1,666
Number of companies listed on GEM at 30 Jun	288	236
Number of trading days	121	121
<small>1 Excludes DWs, CBBCs and warrants under the Equity and Financial Derivatives segment and includes \$6.3 billion (1H 2016: \$2.6 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$1.3 billion (1H 2016: \$Nil) under Shenzhen-Hong Kong Stock Connect which was launched on 5 December 2016</small>		
<small>2 Includes buy and sell trades under Stock Connects</small>		
<small>3 Includes 4 transfers from GEM (1H 2016: 1)</small>		

In Q2 2017, HKEX launched the Asia ETF Forum, a series of roadshows in Hong Kong, South Korea and Taiwan targeting institutional and intermediary investors with a goal of promoting HKEX's exchange traded products. In Q3 2017, the Asia ETF Forum will be conducted in Singapore and China.

HKEX continues its efforts to increase the visibility and penetration of Hong Kong securities market data in the Mainland. In July 2017, a market data feed which includes Stock Connects turnover statistics and the Northbound Trading daily quota balance was launched as a complimentary service to information vendors.

As part of HKEX's continuing efforts to enhance its surveillance and monitoring work, SEHK introduced an Annual Attestation and Inspection Programme for EPs. The programme comprises: (i) attestation of compliance by EPs; and (ii) on-site inspection of selected EPs. The programme aims to further enhance HKEX's monitoring and surveillance efforts to ensure EPs maintain strict adherence to our rules.

HKEX remains committed to bringing quality issuers to list in Hong Kong, with an increased focus on high quality "new economy" companies. Kicking off the series of HKEX initiatives to promote Hong Kong as a global technology investment hub, HKEX and the Hong Kong Science and Technology Parks Corporation jointly organised the "Road to IPO" Conference for "new economy" companies on 2 June 2017. Over 300 attendees from "new economy" potential issuers and over 100 intermediaries participated, with positive feedback received. On 18 July 2017, HKEX expanded its efforts to the Mainland, jointly hosting a similar event in Beijing with Zhongguancun, the Mainland's first national science and technology park. Over 100 representatives from key financial intermediaries in Hong Kong joined the seminar for in-depth discussions with over 300 representatives from Zhongguancun enterprises.

With respect to promoting HKEX as the preferred listing venue for Mainland China and international enterprises, HKEX organised 11 large-scale IPO events and conducted over 40 major seminars across Mainland China and globally in 1H 2017.

Following the success of the first Corporate Access Day held in Shenzhen in January 2017, HKEX organised a second event in Shanghai in June 2017. Over 150 analysts from 30 Mainland research houses, 140 Mainland buy-side institutional investors and 80 representatives from Hong Kong listed companies attended the event.

In the interest of maintaining the reputation and efficiency of the Cash Market, the Stock Exchange continues to provide guidance and interpretations to the market on a wide variety of topics. These have included "Reasons for rejection and return of new listing applications", "Whether certain proposed acquisitions would constitute a reverse takeover", "New country guide on "Israel" for listing of overseas companies", publishing the first Enforcement Newsletter and launching a new series of "director training webcasts".

In June 2017, the Stock Exchange launched a consultation to seek public feedback on a package of proposals to broaden capital market access in Hong Kong and strengthen Hong Kong's listing regime through two separate papers: (i) the New Board Concept Paper; and (ii) the Consultation Paper on the Review of GEM and Changes to the GEM and Main Board Listing Rules. The New Board concept paper is intended to complement and supplement HKEX's existing framework and attract "new economy" companies to Hong Kong, thereby offering investors a more diverse range of exposures. The Stock Exchange invites market feedback on the proposals contained in the two papers. The public comment period for both papers will end in August 2017.

Equity and Financial Derivatives Segment

Analysis of Results

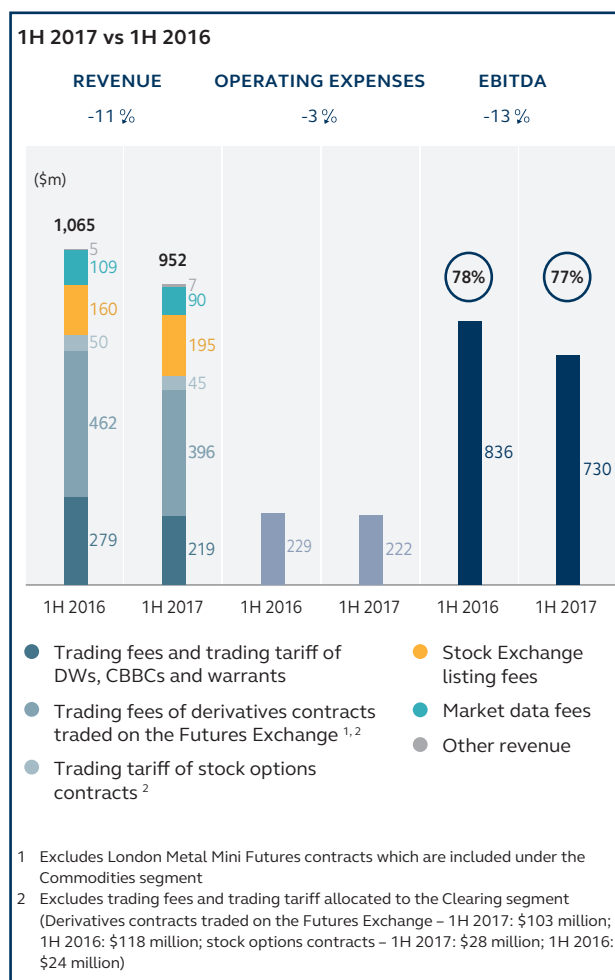
The trading of derivatives fell compared to 1H 2016 as a result of significant declines in market volatility, which in Q2 fell to levels not seen since 2014.

Trading fees and trading tariff of DWs, CBBCs and warrants declined by 22 per cent, compared to 1H 2016, reflecting the 24 per cent decrease in ADT.

Trading fees of derivatives contracts traded on the Futures Exchange declined by 14 per cent compared to 1H 2016 due to a 13 per cent decrease in ADV of derivatives contracts traded.

Stock Exchange listing fees rose by 22 per cent primarily reflecting an increase in the number of newly listed DWs and CBBCs.

Operating expenses decreased by 3 per cent as a result of internal cost allocations that reflect the relative volumes of cash equities and equity derivatives.



Business Update

ADV of derivatives contracts traded on the Futures Exchange in 1H 2017 dropped by 13 per cent against 1H 2016 due to reduced market volatility. Nevertheless, the ADV grew 2 per cent in Q2 2017 against Q1 2017. ADV of stock options contracts traded in 1H 2017 increased 21 per cent year-on-year, driven by increased trading in stock options of large blue-chip stocks, reflecting the increased volumes seen on the equity Cash Market.

Open interest in futures and options set a new record of 14,768,896 contracts on 28 June 2017. In addition, the following record single day volumes and open interests were achieved during 1H 2017:

Key Market Indicators	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	14.6	19.2
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	168,934	198,809
ADV of derivatives contracts traded on the Futures Exchange ¹	424,535	488,438
ADV of stock options contracts traded on the Stock Exchange	354,969	292,861
Number of newly listed DWs	3,034	2,321
Number of newly listed CBBCs	4,732	4,406
ADV of contracts traded during AHFT ¹	26,280	40,729
Number of trading days	121	121
	At 30 Jun 2017	At 30 Jun 2016
Open interest of futures and options contracts ¹	11,315,220	8,571,036

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

Single day trading volume	Record High Date	Number of Contracts
HSCEI Dividend Point Index Futures	14 Feb	27,501
USD/CNH Futures	5 Jan	20,338

Open interest	Record High Date	Number of Contracts
Hang Seng Index Futures	27 Jun	206,082
HSI Dividend Point Index Futures	30 Jun	9,621
USD/CNH Futures	4 Jan	46,711

In April 2017, three new stock options on HSI constituents (including the first option on a Real Estate Investment Trust) were introduced, expanding the stock options universe to 87 classes.

In June 2017, HKEX issued a consultation paper on proposed enhancements to after-hours trading, including (i) the phased extension of the T+1 Session equity index futures trading hours from 23:45 to 03:00 of the following day; and (ii) inclusion of equity index options in the T+1 Session. The proposed enhancements will offer opportunities for position adjustment during day time trading of markets in the US and Europe.

The revised stock option position limit (SOPL) model was introduced on 1 June 2017. The new framework enhanced the de facto single position limit of 50,000 contracts to a three-tier system, comprising limits of 50,000, 100,000 and 150,000 contracts. The scope of activities eligible for applying for excess position limits has also expanded, and the position limits for all stock option classes may be adjusted as market develops to ensure their continuing relevance. The revised SOPL model is designed to align Hong Kong's SOPL regime more closely with international practices.

On 3 July 2017, Bond Connect was successfully launched as a mutual bond market access programme between Hong Kong and Mainland China, starting with the Northbound trading link and with plans for the Southbound trading link at a future date. Bond Connect Company Limited (BCCL), a joint venture established by China Foreign Exchange Trade System (CFETS) and HKEX, supports the admission and registration of Northbound investors, liaises closely with the Recognised Access Platforms through which international investors are able to trade the China interbank bond market (CIBM) instruments, and conducts investor education activities in relation to Bond Connect. Market participants can find information and resources relating to Bond Connect on BCCL's website <http://www.chinabondconnect.com>.

Bond Connect is a significant breakthrough in the opening of the Mainland bond market, enhancing HKEX's position in the fixed income market while expanding the Mutual Market programme that began in 2014 from equity into a new asset class. Bond Connect is a key strategic initiative that extends HKEX beyond its traditional equities business and lays the foundation for HKEX's further developments in FIC, particularly in the derivatives business.

On 8 June 2017, HKEX hosted its fourth annual RMB FIC Conference, exploring key regulatory and business issues related to RMB FIC markets with a special focus on Bond Connect. On 3 July 2017, BCCL co-hosted an investor forum with the Hong Kong Monetary Authority (HKMA) to enhance investor awareness of Bond Connect and highlight potential opportunities in the bond market. Approximately 500 participants attended the forum.

To prepare for the expected increase in demand for FIC derivatives for risk management, HKEX introduced product enhancements for RMB currency futures in July 2017. These include the extension of trading hours to cover nearly 16 hours of trading per day, and enhancements to market maker and incentives schemes to support the development of liquidity in the FIC derivatives products. These enhancements aim to provide investors with additional RMB risk management solutions to hedge interest rate and foreign exchange exposure.

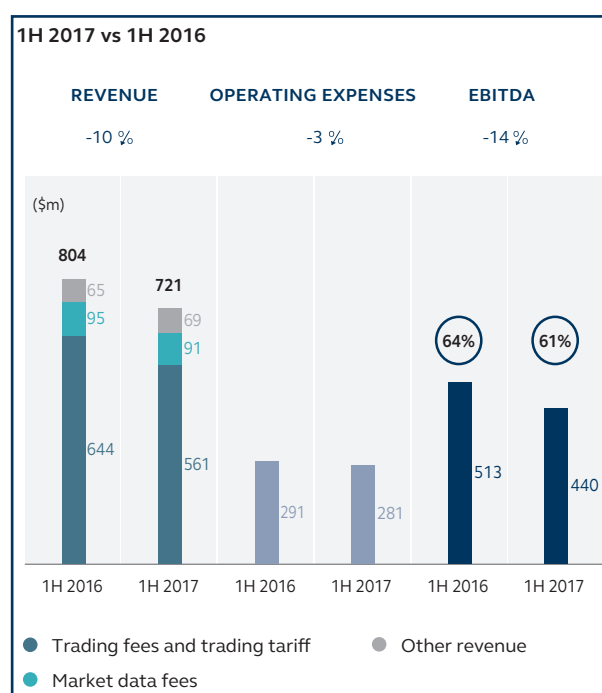
The five-year China Ministry of Finance Treasury Bond (MOF T-Bond) Future contracts were introduced on 10 April 2017 under a pilot scheme as the offshore markets' first futures on domestic Chinese government bonds. In light of the official launch of Bond Connect on 3 July 2017, HKEX is preparing comprehensive risk management tools that are complementary to Bond Connect. Given that clearer regulatory requirements and cooperation between Hong Kong and the Mainland are needed to support the further development of offshore derivatives on the Mainland underlying in Hong Kong, HKEX has decided to suspend the pilot MOF T-Bond scheme after the expiry of the December 2017 contract. Subject to regulatory development, HKEX will consider launching new RMB interest rate products at an appropriate time in 2018. Therefore, there will be no new series listed under the current scheme after the expiry of the December 2017 contract. For the avoidance of doubt, the existing contract months (ie, September 2017 and December 2017 contracts) of MOF T-Bond Futures are not affected.

Commodities Segment

Analysis of Results

Trading fees fell by 13 per cent compared to 1H 2016 due to a 6 per cent drop in ADV of metals contracts traded but also reflecting fee reductions for short-dated carry trades and a position transfer fee cap (effective from September 2016).

Operating expenses dropped by 3 per cent. Excluding the one-off insurance recovery of \$23 million relating to the warehouse litigation in the United States in 2017, operating expenses rose by 4 per cent, largely driven by increased costs for strategic initiatives (including the establishment of a commodities trading platform in the Mainland). The overall increase was partly offset by IT cost savings and lower LME operating costs arising from a weaker GBP.



Business Update

ADV of metals contracts traded on the LME declined by 6 per cent compared to 1H 2016, reflecting continued weakness in global metals markets. The total futures Market Open Interest (MOI) at 30 June 2017 was 3 per cent lower than its level at 30 June 2016.

The LME commenced its systems delivery programme in 1H 2017, completing the upgrade of the LME's electronic trading platform, LMEselect, on 27 March 2017. The upgrade improves functionality and helps to ensure the LME's compliance with certain elements of the Markets in Financial Instruments Directive II (MiFID II) regulations. This was followed by the upgrade to the LMEsmart matching system on 15 May 2017. MiFID II has extensive implications for the industry and work is ongoing to ensure that the LME is compliant with all MiFID II regulations by 3 January 2018.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2017	30 Jun 2016
ADV of metals contracts traded on the LME (lots)		
Aluminium	217,724	231,148
Copper	138,257	162,932
Zinc	112,543	106,151
Nickel	81,135	81,930
Lead	40,179	44,992
Others	7,704	7,958
Total	597,542	635,111
Number of trading days	125	125
	At	At
	30 Jun 2017	30 Jun 2016
Total futures MOI (lots)	2,200,807	2,257,622

On 24 April 2017, the LME launched a Discussion Paper on a range of topics relating to its market structure including the LME ecosystem, trading and booking structures, the physical market network, membership, volumes and fees. The LME conducted a comprehensive market engagement process on this Paper to elicit in-depth feedback from a range of market stakeholders. 162 responses were received, and the LME is currently undertaking thorough analysis of this feedback before publishing the results to the market.

On 1 August 2017, the LME introduced new second business day prompt dates in the LME base metals suite, designed to provide additional flexibility in conducting averaging trades on the LME. For ease of administration and to incentivise Monthly Average Futures (MAF) trading, the LME has introduced a clearing and trading fee holiday for all MAF contracts traded and cleared between 1 August 2017 and 29 December 2017.

The LME successfully launched LMEprecious on 10 July 2017, providing exchange-traded and centrally-cleared loco London gold and silver futures in collaboration with a consortium of partners. 55.5 million ounces (1,728 tonnes or 11,100 lots) of silver and 9.2 million ounces (285 tonnes or 91,500 lots) of gold were traded in July 2017. The combined ADV increased from 5,600 lots in the first week to 7,400 lots in the last week of July. On the same day, HKEX launched the new USD and CNH Gold Futures products. This physically-delivered, dual-currency product aims to provide risk management tools and facilitate price discovery to both gold and FIC market participants.

HKEX continues work on establishing a Mainland commodity trading platform (Qianhai Mercantile Exchange Company Limited (QME)) in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. HKEX aims to leverage the successful LME model to develop a credible, transparent and reliable commodities trading venue backed by physical delivery and a warehouse system to support the Mainland's real economy. On 22 March 2017, the Group entered into an agreement to sell a 9.99 per cent stake in QME to Shenzhen Qianhai Financial Holdings Company Limited at a consideration of RMB25 million.

The annual LME Asia Week 2017 event was held on 10 May 2017 in Hong Kong, attracting over 800 attendees to the Metals Seminar and over 1,830 participants to the Gala Dinner. As part of the programme, HKEX hosted an industry forum at QME on 11 May 2017, attracting more than 300 guests.

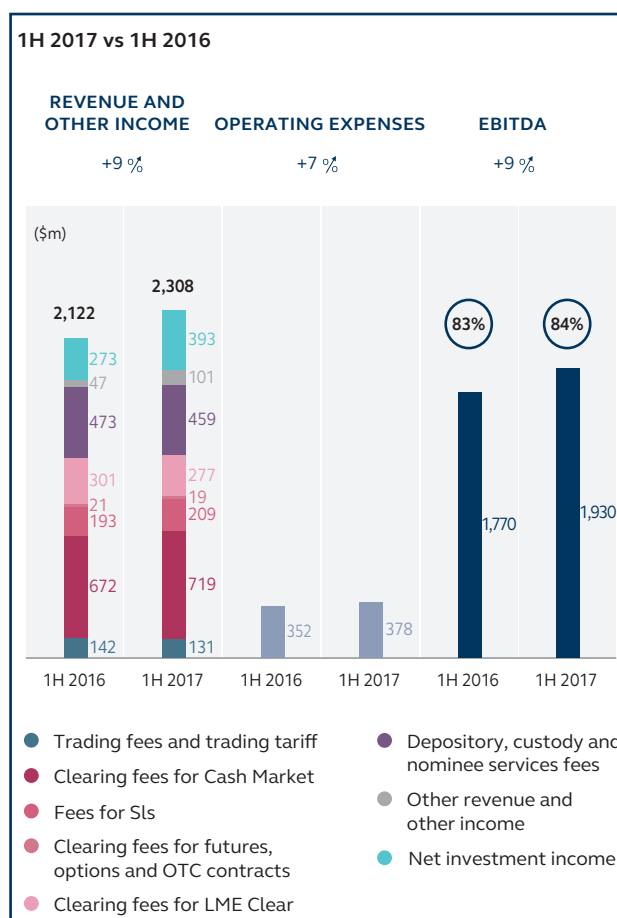
Clearing Segment

Analysis of Results

The improved Cash Market sentiment (ADT up by 13 per cent) resulted in higher clearing and settlement fees in Hong Kong, and a 26 per cent increase in the portfolio value of Hong Kong stocks held under HKSCC's custody. The positive impact on revenue was partially offset by an increase in average transaction size, resulting in a lower proportion of Cash Market trades being subject to the minimum clearing fee and a higher proportion of Settlement Instruction (SI) transactions being subject to the maximum fee.

Clearing fees of LME Clear decreased by 8 per cent, reflecting both the 6 per cent drop in ADV of metals contracts traded and the position transfer fee cap (effective from September 2016).

The 9 per cent increase in revenue and other income was attributable to a one-off post-liquidation interest payment of \$55 million from the liquidators of Lehman, and a \$120 million increase in net investment income from Margin Funds and Clearing House Funds (see the analysis below):



	Six months ended 30 Jun 2017			Six months ended 30 Jun 2016		
	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	363	11	374	253	10	263
– Debt securities	19	–	19	8	–	8
– Exchange gains	–	–	–	2	–	2
Total net investment income	382	11	393	263	10	273
Average fund size (\$bn)	129.7	10.2	139.9	117.2	7.6	124.8
Annualised net investment return	0.59%	0.21%	0.56%	0.45%	0.28%	0.44%

The increase in net investment income of Margin Funds in 1H 2017 arose from higher interest income on cash and bank deposits, attributable to both higher interest rates and higher average Margin Fund size for HKCC. The increase in funds arose from a combination of higher open interests and increased margin requirements per contract.

Operating expenses increased by 7 per cent, mainly as a result of increased staff costs, premises costs and bank charges.

Business Update

The portfolio value held under Southbound and Northbound Trading of Stock Connects continued to increase and reached \$594 billion at 30 June 2017 (30 June 2016: \$211 billion) and RMB347 billion (30 June 2016: RMB138 billion) respectively. As a result, Stock Connect related depository, custody and nominee services fee income rose by 160 per cent to \$26 million in 1H 2017 (1H 2016: \$10 million).

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2017	30 Jun 2016
ADT traded on the Stock Exchange (\$bn)	76.0	67.5
Average daily number of Stock Exchange trades	1,138,553	1,111,923
Average daily value of SIs (\$bn)	204.1	177.6
Average daily number of SIs	87,781	83,391

The newly launched USD and CNH Gold Futures contracts are the first physically delivered commodities contracts cleared by HKCC. HKCC has appointed Brink's Hong Kong Limited as the Approved Depository to conduct the physical delivery of gold. At the date of launch, eight HKCC Clearing Participants (CPs) became eligible "Physical Delivery Participants" to conduct physical delivery of gold.

HKCC introduced further margining efficiencies for CPs in derivatives products by offering margin offset between HSI and HSCEI futures and options from Q1 2017. This follows the introduction of margin offset between USD/CNH currency futures and CNH/USD currency futures in 2016, further reducing costs for CPs.

OTC Clear launched client clearing services and accepted non-cash collateral in Q1 2017. In Q2 2017, clearing was extended to HKD Basis Swaps and non-deliverable interest rate swaps denominated in five Asian currencies. In 1H 2017, OTC Clear cleared US\$8.5 billion notional value, focusing on USD/CNH Cross Currency Swaps (CCS), CNY non-deliverable interest rate swaps and HKD interest rate swaps. The total cumulative outstanding notional value at 30 June 2017 exceeded US\$13 billion (30 June 2016: US\$3.4 billion).

In Q2 2017, LME Clear delivered an upgrade to its clearing system, LMEmercury, which included the ability to provide clearing services for LMEprecious. LME Clear has also invested in its systems in order to deliver a MiFID II compliant clearing model and to meet the requirements of the Bank of England's new reporting regime. MiFID II has extensive implications for the industry and work is ongoing to ensure that LME Clear is compliant with all MiFID II regulations by 3 January 2018.

Platform and Infrastructure Segment

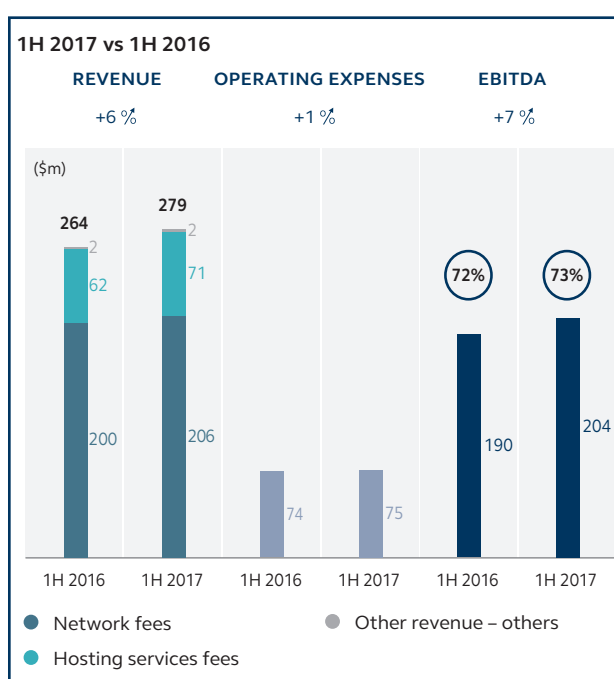
Analysis of Results

Network fees rose by 3 per cent as more EPs migrated from the obsolete Open Gateway to the HKEX Orion Central Gateway.

Hosting services fees increased by 15 per cent due to organic growth from subscription from new customers and increased usage of existing customers.

Business Update

During 1H 2017, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably. On 27 March 2017 and 18 April 2017, the LME experienced software incidents, the second of which temporarily delayed the clearing processes for a number of trades. These matters have been fully resolved.



Implementation of the Orion Trading Platform – Securities Market platform, which replaces the current Third Generation Automatic Order Matching and Execution System (AMS/3.8), remains on track. A market communication programme commenced in Q1 2017 with the publication of an Information Paper and briefing sessions for EPs. Functional and technical user acceptance tests are in progress and are targeted to finish in Q3 2017. The new system is planned to be introduced in Q4 2017, and will allow HKEX to support new functionalities and increased trading capacity for the next decade.

China Connect Central Gateway was successfully introduced on 17 July 2017 to facilitate Northbound Trading for China Connect Exchange Participants (CCEPs). The new gateway benefits CCEPs by reducing their infrastructure costs and also aligning trading processes with standard protocols.

At the end of June 2017, 104 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 50 per cent of the Cash Market turnover and 57 per cent of the trading volume of the Derivatives Market.

Corporate Items

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

1H 2017 operating expenses decreased by 2 per cent over 1H 2016 mainly due to cost savings in certain support functions.

1H 2017 vs 1H2016		
	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Revenue and other income		
Net investment income	428	82
Others	3	11
Total	431	93
Operating expenses	464	472

Net investment income of Corporate Funds increased by \$346 million compared to 1H 2016 principally due to fair value gains on collective investment schemes (see Financial Review section for further details), of which \$226 million came from funds invested in equities portfolios and \$101 million came from funds invested in fixed income and multi-asset class portfolios. 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.

The increase in average fund size of 18 per cent arose from retention of cash generated by the Group over the past 12 months.

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

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Net investment income from:		
– Collective investment schemes ¹	327	–
– Cash and bank deposits	69	41
– Equity securities	–	(16)
– Debt securities	–	80
– Exchange gains/(losses)	32	(23)
Total net investment income	428	82
Average fund size (\$bn)	19.9	16.8
Annualised net investment return	4.31%	0.97%

¹ See Financial Review section for further details

Expenses, Other Costs and Taxation

Operating Expenses

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m	Change
Staff costs and related expenses	1,073	1,016	6%
IT and computer maintenance expenses	210	251	(16%)
Premises expenses	176	162	9%
Product marketing and promotion expenses	20	21	(5%)
Legal and professional fees	18	46	(61%)
Other operating expenses	214	192	11%
Total	1,711	1,688	1%

Staff costs and related expenses increased by \$57 million or 6 per cent mainly due to annual payroll adjustments and increased headcount for strategic initiatives.

IT and computer maintenance expenses dropped by \$41 million or 16 per cent, attributable to lower IT costs of the LME Group as a result of cost savings from renewal of IT maintenance contracts and depreciation of GBP.

Premises expenses increased by \$14 million or 9 per cent due to the new offices taken up in Hong Kong and the Mainland.

Legal and professional fees decreased by \$28 million or 61 per cent, attributable to a one-off insurance recovery of \$23 million relating to the warehouse litigation in the United States.

Other operating expenses increased by \$22 million or 11 per cent due to higher travelling expenses for strategic initiatives (in particular the development of the commodities trading platform in the Mainland), and higher bank charges for the clearing houses.

Depreciation and Amortisation

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m	Change
Depreciation and amortisation	362	382	(5%)

Depreciation and amortisation dropped by \$20 million or 5 per cent as certain assets became fully amortised.

Finance Costs

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m	Change
Finance costs	65	43	51%

The increase in finance costs was due to higher interest rates and higher exchange losses resulting from the stronger USD during 1H 2017.

Taxation

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m	Change
Taxation	582	540	8%

Taxation increased due to higher profit before taxation, but was partly offset by higher non-taxable investment income in 1H 2017.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities by Funds

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m	Change
Financial assets			
Cash and cash equivalents	117,761	115,723	2%
Financial assets measured at fair value through profit or loss	54,604	70,066	(22%)
Financial assets measured at amortised cost	30,035	29,167	3%
Total	202,400	214,956	(6%)

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 Connects, as follows:

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m	Change
Financial assets			
Corporate Funds ¹	20,801	17,670	18%
Margin Funds ²	124,978	125,803	(1%)
Clearing House Funds	10,886	9,602	13%
Base metals derivatives contracts cleared through LME Clear	45,210	61,618	(27%)
Cash prepayments for A shares	525	263	100%
Total	202,400	214,956	(6%)

1 The amounts at 31 December 2016 exclude a prepayment of \$600 million for collective investment schemes but include \$300 million of investments purchased for collective investment schemes not yet settled.

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$1,221 million (31 December 2016: \$1,043 million), which are included in accounts receivable, prepayments and other deposits

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m	Change
Financial liabilities			
Base metals derivatives contracts cleared through LME Clear	45,210	61,618	(27%)
Other financial liabilities at fair value through profit or loss	-	9	(100%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	126,199	126,846	(1%)
CPs' contributions to Clearing House Funds	9,872	8,656	14%
Total	181,281	197,129	(8%)

The increase in financial assets and financial liabilities of Clearing House Funds at 30 June 2017 compared to 31 December 2016 was mainly attributable to higher contributions required from CPs in response to changes in risk exposures.

After adjusting for prepayments and unsettled investments in collective investment schemes (footnote 1 above), Corporate Funds increased by \$2,831 million during 1H 2017 due to the retention of cash generated by the business over the past 6 months partly offset by the cash element of the 2016 final dividend payment.

A portion of the Corporate Funds is invested in a portfolio of 15 (31 December 2016: 11) collective investment schemes which is designed to enhance returns and mitigate portfolio volatility and asset class concentration risk.

At 30 June 2017, the fair value of the Group's collective investment schemes by strategy employed was as follows:

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m	Change
Low Volatility Equities	2,024	1,798	13%
Credit	627	602	4%
Absolute Return	1,205	904	33%
Multi-Asset Fixed Income	1,241	601	106%
US Government Bonds and Mortgage-backed Securities	1,242	1,206	3%
Total	6,339	5,111	24%

The increase in investment in collective investment schemes was due to additional investment in 2017 and the fair value gain generated by the schemes during 1H 2017.

Working Capital, Financial Resources and Gearing

Working capital rose by \$2,258 million or 13 per cent to \$19,380 million at 30 June 2017 (31 December 2016: \$17,122 million). The increase was primarily due to the profit of \$3,493 million generated during 1H 2017, partly offset by the 2016 final dividend, net of scrip dividend, of \$1,144 million in June 2017.

At 30 June 2017, the Group had the following outstanding borrowings:

	At 30 Jun 2017		At 31 Dec 2016	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	1,597	Jul 2020 & Jul 2021	1,586	Jul 2020 & Jul 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,530	Dec 2018 & Jan 2019	1,519	Dec 2018 & Jan 2019
Written put options to non-controlling interests	323	N/A	317	N/A
	3,450		3,422	

At 30 June 2017, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 10 per cent (31 December 2016: 11 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2016: 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 30 June 2017, the Group's total available banking facilities for its daily operations amounted to \$18,960 million (31 December 2016: \$18,947 million), which included \$11,951 million (31 December 2016: \$11,938 million) of committed banking facilities and \$7,000 million (31 December 2016: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 30 June 2017, the total amount of the facilities was RMB21,500 million (31 December 2016: RMB21,500 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2016: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connects, eg, natural disasters or extreme weather conditions in Hong Kong.

At 30 June 2017, 83 per cent (31 December 2016: 85 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Capital Expenditure and Commitments

During 1H 2017, the Group incurred capital expenditure of \$306 million (1H 2016: \$266 million) related to the establishment of a commodities trading platform in Mainland China, the renovation of new offices, and the development and upgrade of various trading and clearing systems including enhancement of Stock Connect technology infrastructure.

The Group's capital expenditure commitments at 30 June 2017, including those authorised by the Board but not yet contracted for, amounted to \$821 million (31 December 2016: \$981 million) and were mainly related to the development and enhancement of IT systems including cash and commodities trading and clearing systems, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

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

On 22 March 2017, the Group entered into an agreement to sell a 9.99 per cent stake in Qianhai Mercantile Exchange Company Limited (QME) (formerly known as Gangrong Trading Services (Shenzhen) Limited) to Shenzhen Qianhai Financial Holdings Company Limited (QFH) at a consideration of RMB25 million. After the transfer, the Group's interest in QME dropped to 90.01 per cent. On 26 May 2017 and 1 June 2017, RMB135 million and RMB15 million were further injected by the Group and QFH respectively to QME as its registered capital.

Bond Connect Company Limited (BCCL), a joint venture established by China Foreign Exchange Trade System (CFETS) and HKEX, was incorporated on 6 June 2017. The HKEX Board has approved the injection of up to \$20 million, for a 40 per cent share in BCCL.

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

Pledge of Assets

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

The functional currency of the Hong Kong entities is HKD and the functional currency of the LME entities is USD. Foreign currency risks arise mainly from the Group's investment and bank deposits in currencies other than HKD and USD and its GBP expenditure for the LME entities.

Forward foreign exchange contracts and foreign currency bank deposits may be used to hedge the currency exposure of the Group's non-HKD and non-USD assets and liabilities to mitigate risks arising from fluctuations in exchange rates.

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

The aggregate net open foreign currency positions at 30 June 2017 amounted to HK\$3,336 million, of which HK\$209 million were non-USD exposures (31 December 2016: HK\$2,425 million, of which HK\$276 million were non-USD exposures). At 30 June 2017, there were no outstanding forward foreign exchange contracts (31 December 2016: the maximum gross nominal value of outstanding forward foreign exchange contracts was HK\$1,529 million).

Contingent Liabilities

Details of contingent liabilities are included in note 22 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Changes since 31 December 2016

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2016.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2017 in conjunction with HKEX's external auditor. Based on this review and discussions with the management, the Audit Committee was satisfied that the Unaudited Condensed Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Board and Committees

Board

Independent Non-executive Directors

CHOW Chung Kong * GBS, JP (Chairman)
Apurv BAGRI
CHAN Tze Ching, Ignatius BBS, JP
CHEAH Cheng Hye¹
Timothy George FRESHWATER *
FUNG Yuen Mei, Anita *² BBS, JP
Rafael GIL-TIENDA *²
John Barrie HARRISON *³
HU Zulu, Fred
KWOK Chi Piu, Bill³ JP
LEE Kwan Ho, Vincent Marshall³ BBS
LEUNG KO May Yee, Margaret *² SBS, JP
LEUNG Pak Hon, Hugo¹
John Mackay McCulloch WILLIAMSON
YIU Kin Wah, Stephen *⁴

Executive Director

LI Xiaojia, Charles (Chief Executive)

Committees

Audit Committee

YIU Kin Wah, Stephen⁵ (Chairman)
John Barrie HARRISON³ (ex-Chairman)
CHAN Tze Ching, Ignatius
FUNG Yuen Mei, Anita⁶
KWOK Chi Piu, Bill³
LEUNG Pak Hon, Hugo⁵
John Mackay McCulloch WILLIAMSON

Environmental, Social and Governance Committee

CHOW Chung Kong (Chairman)
Apurv BAGRI⁷
Rafael GIL-TIENDA⁵
LEE Kwan Ho, Vincent Marshall³
LEUNG Pak Hon, Hugo⁵
LI Xiaojia, Charles
John Mackay McCulloch WILLIAMSON

Executive Committee

CHOW Chung Kong (Chairman)
CHEAH Cheng Hye⁵
KWOK Chi Piu, Bill³
LEE Kwan Ho, Vincent Marshall³
LEUNG KO May Yee, Margaret⁶
LEUNG Pak Hon, Hugo⁵
LI Xiaojia, Charles

Investment Advisory Committee

Timothy George FRESHWATER (Chairman)
CHEAH Cheng Hye⁵
FUNG Yuen Mei, Anita⁶
HU Zulu, Fred
LEE Kwan Ho, Vincent Marshall³

* Government Appointed Director

** Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

1 Elected as Director from 26 April 2017 until the conclusion of the AGM to be held in 2020

2 Re-appointed as Director from 26 April 2017 until the conclusion of the AGM to be held in 2019

3 Retired on 26 April 2017

4 Appointed as Director from 26 April 2017 until the conclusion of the AGM to be held in 2019

Committees (continued)

Nomination Committee

CHOW Chung Kong (Chairman)
Apurv BAGRI⁵
CHAN Tze Ching, Ignatius
CHEAH Cheng Hye⁵
Timothy George FRESHWATER
HU Zulu, Fred⁷
John Mackay McCulloch WILLIAMSON⁷

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)
CHEAH Cheng Hye⁵
FUNG Yuen Mei, Anita⁶
Rafael GIL-TIENDA⁶
KWOK Chi Piu, Bill³
LEE Kwan Ho, Vincent Marshall³
LEUNG Pak Hon, Hugo⁵

Project Oversight Committee

FUNG Yuen Mei, Anita⁶ (Chairman)
Apurv BAGRI
Rafael GIL-TIENDA⁶
HU Zulu, Fred
KWOK Chi Piu, Bill³
John Mackay McCulloch WILLIAMSON⁵

Remuneration Committee

CHOW Chung Kong (Chairman)
CHEAH Cheng Hye⁵
Timothy George FRESHWATER
HU Zulu, Fred⁵
KWOK Chi Piu, Bill³
LEE Kwan Ho, Vincent Marshall³
John Mackay McCulloch WILLIAMSON

Risk Committee

CHOW Chung Kong (Chairman)
CHAN Tze Ching, Ignatius
Rafael GIL-TIENDA⁶
John Barrie HARRISON³
LEUNG KO May Yee, Margaret⁶
YIU Kin Wah, Stephen⁵

Risk Management Committee (statutory) Δ

CHOW Chung Kong⁸ (Chairman)
CHAN Tze Ching, Ignatius
CHENG Fat, Henry **⁹
CHENG Siu Hong, Raymond **¹⁰
LAM Yuk Kun, Lawrence **¹¹
LEUNG KO May Yee, Margaret⁶
LUI Kei Kwong, Keith **¹²
Barbara SHIU **¹¹

5 Appointment effective 27 April 2017

6 Re-appointment effective 27 April 2017

7 Appointment ceased to be effective on 27 April 2017

8 Member by virtue of being HKEX's Chairman

9 Member by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority

10 Member by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

11 Re-appointment effective 1 July 2017

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

Changes in Information

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

	Appointment (effective)	Cessation (effective)
T C Chan		
• HKCC – chairman of Participant Admission Appeals Committee	31 March 2017	–
• HKSCC – chairman of Participant Admission Appeals Committee	31 March 2017	–
• SEOCH – chairman of Participant Admission Appeals Committee	31 March 2017	–
Cheah Cheng Hye		
• SEHK – chairman of Disciplinary Appeals Committee and Exchange Participant Admission Appeals Committee	27 April 2017	–
C K Chow		
• Commission on Strategic Development – non-official member	–	1 July 2017
Anita Fung		
• HKFE – chairman of Disciplinary Appeals Committee and Exchange Participant Admission Appeals Committee	27 April 2017	–
• Hong Kong Monetary Authority – member of Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee	–	1 July 2017
• Judicial Officers Recommendation Commission – member	1 July 2017	–
Rafael Gil-Tienda		
• OTC Clear – chairman, independent non-executive director and chairman of Risk Management Committee	27 April 2017	–
• Oliver Wyman – chairman of Asia Pacific region	–	1 July 2017
Fred Hu		
• Lloyd's – council member	–	7 May 2017
Margaret Leung		
• QBE Insurance Group Limited (listed on the Australian Securities Exchange) – independent non-executive director	–	30 March 2017
• Chong Hing Bank Limited * – chief executive	–	19 April 2017
Hugo Leung		
• HKFE – member of Disciplinary Appeals Committee	27 April 2017	–
Stephen Yiu		
• LME Clear – independent non-executive director and chairman of Audit Committee	12 June 2017	–
• LME – independent non-executive director, and chairman of Audit and Risk Committee	15 June 2017	–
• LME Clear – member of Nomination Committee and Remuneration Committee	3 August 2017	–

* Currently listed on the Stock Exchange

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

Consultative Panels

Taking into account the changes in the Board composition, the Board approved changes in the composition of the Cash Market Consultative Panel and the Derivatives Market Consultative Panel in April 2017. The member lists of the Consultative Panels are available in the About HKEX (Organisation) section of the HKEX Group website.

Non-executive Directors' Remuneration

At the 2017 AGM, Shareholders approved the Board's recommendation that the remuneration of \$180,000 per annum and \$120,000 per annum respectively be payable to the chairman and each of the other members (excluding Executive Director, if any) of the Project Oversight Committee (POC), in addition to the attendance fee of \$3,000 per meeting to each POC member.

The current remuneration of the Non-executive Directors for their service on the Board and, where applicable, on certain Board Committees is set out below.

	\$
The Board	
- 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, Investment Advisory Committee, Project Oversight Committee, Remuneration Committee and Risk Committee	
- Chairman	180,000
- Other member	120,000
- Attendance fee per meeting	3,000

The above remuneration is payable to the Non-executive Directors for services rendered by each of them for the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders otherwise determine, provided that such remuneration be payable in proportion to the period of service in the case of a Non-executive Director who has not served the entire period.

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

Compliance with Corporate Governance Code

Throughout the six months ended 30 June 2017, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

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

Compliance with Model Code

HKEX has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code at all applicable times during the six months ended 30 June 2017.

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 at 30 June 2017 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, are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name of Director	Number of shares/underlying shares held				Total	% of HKEX ¹ shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 ²	–	–	–	15,000	0.00
Margaret Leung	–	3,101 ³	–	–	3,101	0.00
Charles Li	842,032 ⁴	–	–	–	842,032	0.06
Stephen Yiu	–	2,000 ⁵	–	–	2,000	0.00

¹ Based on 1,231,597,826 HKEX shares in issue as at 30 June 2017

² Mr Chow was the beneficial owner of those shares.

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

⁴ It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 402,588 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in "Share Award Scheme" below.

⁵ Mr Yiu's spouse was the beneficial owner of those shares.

Save as disclosed above, 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 at 30 June 2017 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code.

Apart from the Share Award Scheme, during the six months ended 30 June 2017, neither HKEX nor any of its subsidiary undertakings was a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEX or any other body corporate. Save as disclosed above, during the six months ended 30 June 2017, 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 Interim Report, other than the Government which has been a Minority Controller since 7 September 2007, nine 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 30 June 2017, these Minority Controllers in aggregate held approximately 60 per cent of HKEX shares in issue. More information about Minority Controllers is set out in the Corporate Governance section of the HKEX Group website.

Other persons' interests and short positions in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 30 June 2017 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, are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue		
JPMorgan Chase & Co	Beneficial owner Investment manager Trustee (other than a bare trustee) Custodian corporation/ approved lending agent	34,478,940 1,969,799 4,108 25,329,492	61,782,339 ²	5.01		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 ³			66,730,300	5.41

Short Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
JPMorgan Chase & Co	Beneficial owner	15,675,148	15,675,148 ⁴	1.27

¹ Based on 1,231,597,826 HKEX shares in issue as at 30 June 2017

² It included an aggregate interest in 12,284,160 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (3,194,743 underlying shares), physically settled unlisted equity derivatives (5,417,670 underlying shares), cash settled listed equity derivatives (272,200 underlying shares) and cash settled unlisted equity derivatives (3,399,547 underlying shares). It also included 25,329,492 shares in a lending pool.

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

⁴ It included an aggregate interest in 14,916,892 underlying shares through JPMorgan Chase & Co's holding of certain physically settled listed equity derivatives (1,536,100 underlying shares), physically settled unlisted equity derivatives (3,802,078 underlying shares), cash settled listed equity derivatives (6,281,580 underlying shares) and cash settled unlisted equity derivatives (3,297,134 underlying shares).

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of HKEX as at 30 June 2017 as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange.

Share Award Scheme

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

Since the Adoption Date and up to 30 June 2017, a total of 9,572,177 shares had been awarded under the Scheme, representing 0.9 per cent of the HKEX shares in issue on the Adoption Date. As at 30 June 2017, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,193,152 shares held in trust under the Scheme.

Non-executive Directors are not entitled to participate in the Share Award Scheme. Details of the interests of HKEX's Chief Executive in the Awarded Shares (save for those which had been fully vested as of 31 December 2016) are set out below.

	Date of ² award	Number of Awarded Shares	Number of shares ¹				As at 30 Jun 2017	Vesting period ³
			As at 1 Jan 2017	Shares acquired during the six months ended 30 Jun 2017 out of the dividends	Vested during the six months ended 30 Jun 2017	Lapsed during the six months ended 30 Jun 2017		
Charles Li	3 Dec 2014	47,467 ⁴	50,096	-	45,086 ⁵	5,010 ⁵	-	End of a performance period of 2014 – 2016
	2 Jan 2015	88,345	46,626	511	-	-	47,137	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015	95,100 ⁴	100,375	1,100	-	-	101,475	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	62,173	681	-	-	62,854	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 ⁴	58,440	640	-	-	59,080	End of a performance period of 2016 – 2018
	30 Dec 2016	63,210	63,210	693	-	-	63,903	7 Dec 2018 – 7 Dec 2019
	30 Dec 2016	67,400 ⁴	67,400	739	-	-	68,139	End of a performance period of 2017 – 2019

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

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

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

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

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

5 On 27 February 2017, the Board approved the vesting of 45,086 shares to Mr Li based on his actual performance for the period 2014-2016.

Pursuant to the terms of the Scheme, the remaining 5,010 Awarded Shares previously allocated to Mr Li lapsed on 27 February 2017.

Purchase, Sale or Redemption of HKEX's Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any 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 54,900 HKEX shares at a total consideration of \$10 million.

Sustainable Workplace

During the six months ended 30 June 2017, the Group organised 30 in-house courses for employees to enhance their job knowledge, skills and well-being. Moreover, the Group sponsored a total of 71 employees to attend external training.

As at 30 June 2017, the Group had 1,784 employees, including 69 temporary staff and 30 interns.

HKEX's remuneration policy has remained unchanged since the date of the 2016 Annual Report.

Information regarding employees' remuneration and benefits for the six months ended 30 June 2017 is set out in note 5 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Details of HKEX's principles and practices related to governance and sustainability are set out in the Corporate Governance and Corporate Social Responsibility sections of the HKEX Group website.

SHAREHOLDER INFORMATION

Interim Dividend

The Board has declared an interim dividend of \$2.55 per share (2016: \$2.21 per share) for the year ending 31 December 2017. The interim dividend will be payable in cash with a scrip alternative. While continuing to facilitate the reinvestment of dividends into HKEX shares, having reviewed HKEX's cash flow needs, the Board has decided to reduce the discount on the subscription price for Shareholders who elect to receive the scrip alternative from 5 per cent to 3 per cent. This will be applicable to interim dividend declared for the year ending 31 December 2017 and all subsequent dividends declared with a scrip alternative until otherwise determined. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto. Details of the scrip dividend alternative will be set out in a circular to Shareholders.

Key Dates for Interim Dividend

Ex-dividend date	22 August 2017
Latest time to lodge transfer documents for registration with HKEX's registrar in order to qualify for the dividend	At 4:30 pm on 23 August 2017
Closure of HKEX's Register of Members	24 to 25 August 2017 (both dates inclusive)
Record date	25 August 2017
Despatch of scrip dividend circular and election form	On or about 30 August 2017
Announcement of scrip share subscription price	On or about 5 September 2017
Despatch of dividend warrants/definitive share certificates	21 September 2017

Electronic Communication

This Interim Report is printed in English and Chinese, and is available in the Investor Relations (Regulatory Disclosure) section of the HKEX Group website. Shareholders are encouraged to access HKEX's corporate communications electronically via the HKEX Group website to help protect the environment. Shareholders may at any time change their choice of language or means of receiving HKEX's corporate communications free of charge by giving not less than seven days' notice to HKEX's registrar.

HKEX's Registrar – Hong Kong Registrars Limited

For corporate communications:

By post: 17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
By email: hkex.ecom@computershare.com.hk

For transfer of shares:

Address: Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, 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 Market website (www.hkex.com.hk).

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

AUDITOR'S INDEPENDENT REVIEW REPORT

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

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 28 to 46, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 August 2017

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Trading fees and trading tariff	3	2,180	2,255
Stock Exchange listing fees		593	531
Clearing and settlement fees		1,224	1,187
Depository, custody and nominee services fees		459	473
Market data fees		419	404
Other revenue		504	406
REVENUE	2	5,379	5,256
Investment income		1,021	410
Interest rebates to Participants		(200)	(55)
Net investment income	4	821	355
Sundry income		3	19
REVENUE AND OTHER INCOME		6,203	5,630
OPERATING EXPENSES			
Staff costs and related expenses	5	(1,073)	(1,016)
Information technology and computer maintenance expenses		(210)	(251)
Premises expenses		(176)	(162)
Product marketing and promotion expenses		(20)	(21)
Legal and professional fees		(18)	(46)
Other operating expenses		(214)	(192)
		(1,711)	(1,688)
EBITDA*		4,492	3,942
Depreciation and amortisation		(362)	(382)
OPERATING PROFIT		4,130	3,560
Finance costs	6	(65)	(43)
Share of loss of a joint venture		(5)	(5)
PROFIT BEFORE TAXATION	2	4,060	3,512
TAXATION	7	(582)	(540)
PROFIT FOR THE PERIOD		3,478	2,972
PROFIT/(LOSS) ATTRIBUTABLE TO:			
– Shareholders of HKEX		3,493	2,985
– Non-controlling interests		(15)	(13)
PROFIT FOR THE PERIOD		3,478	2,972
Basic earnings per share	8(a)	\$2.86	\$2.47
Diluted earnings per share	8(b)	\$2.85	\$2.47

* EBITDA represents earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
PROFIT FOR THE PERIOD	3,478	2,972
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	120	10
OTHER COMPREHENSIVE INCOME	120	10
TOTAL COMPREHENSIVE INCOME	3,598	2,982
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
– Shareholders of HKEX	3,613	2,995
– Non-controlling interests	(15)	(13)
TOTAL COMPREHENSIVE INCOME	3,598	2,982

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Jun 2017			At 31 Dec 2016		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	10	117,761	-	117,761	115,723	-	115,723
Financial assets measured at fair value through profit or loss	10	54,292	312	54,604	70,066	-	70,066
Financial assets measured at amortised cost	10	29,961	74	30,035	29,093	74	29,167
Accounts receivable, prepayments and deposits	10, 11	12,456	21	12,477	12,928	21	12,949
Interest in joint ventures		-	54	54	-	59	59
Goodwill and other intangible assets		-	17,940	17,940	-	17,812	17,812
Fixed assets		-	1,438	1,438	-	1,499	1,499
Lease premium for land		-	21	21	-	21	21
Deferred tax assets		-	24	24	-	22	22
Total assets		214,470	19,884	234,354	227,810	19,508	247,318
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	12	45,210	-	45,210	61,627	-	61,627
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	13	126,199	-	126,199	126,846	-	126,846
Accounts payable, accruals and other liabilities	14	12,483	40	12,523	12,246	30	12,276
Deferred revenue		567	-	567	842	-	842
Taxation payable		621	-	621	356	-	356
Other financial liabilities		54	-	54	37	-	37
Participants' contributions to Clearing House Funds	15	9,872	-	9,872	8,656	-	8,656
Borrowings	16	-	3,450	3,450	-	3,422	3,422
Provisions		84	81	165	78	81	159
Deferred tax liabilities		-	705	705	-	713	713
Total liabilities		195,090	4,276	199,366	210,688	4,246	214,934
Equity							
Share capital	17			23,439			22,085
Shares held for Share Award Scheme	17			(595)			(599)
Employee share-based compensation reserve	18			308			226
Exchange reserve				(140)			(260)
Designated reserves	19			824			773
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings				11,309			10,334
Equity attributable to shareholders of HKEX				34,852			32,266
Non-controlling interests				136			118
Total equity				34,988			32,384
Total liabilities and equity				234,354			247,318
Net current assets				19,380			17,122

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to shareholders of HKEX								
	Share capital and shares held for Share Award Scheme (note 17) \$m	Employee share-based compensation reserve (note 18) \$m	Exchange reserve \$m	Designated reserves (note 19) \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2017	21,486	226	(260)	773	(293)	10,334	32,266	118	32,384
Profit/(loss) for the period	-	-	-	-	-	3,493	3,493	(15)	3,478
Other comprehensive income	-	-	120	-	-	-	120	-	120
Total comprehensive income	-	-	120	-	-	3,493	3,613	(15)	3,598
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:									
- 2016 final dividend at \$2.04 per share	-	-	-	-	-	(2,491)	(2,491)	-	(2,491)
- Unclaimed HKEX dividends forfeited (note 14)	-	-	-	-	-	13	13	-	13
- Shares issued in lieu of cash dividends	1,347	-	-	-	-	-	1,347	-	1,347
- Shares purchased for Share Award Scheme	(10)	-	-	-	-	-	(10)	-	(10)
- Vesting of shares of Share Award Scheme	21	(19)	-	-	-	(2)	-	-	-
- Employee share-based compensation benefits	-	101	-	-	-	-	101	-	101
- Tax credit relating to Share Award Scheme	-	-	-	-	-	1	1	-	1
- Transfer of reserves	-	-	-	51	-	(51)	-	-	-
Total changes in ownership interests in subsidiaries that do not result in loss of control:									
- Changes in ownership interest in a subsidiary (note 23)	-	-	-	-	-	12	12	33	45
Total transactions with shareholders recognised directly in equity	1,358	82	-	51	-	(2,518)	(1,027)	33	(994)
At 30 Jun 2017	22,844	308	(140)	824	(293)	11,309	34,852	136	34,988
	Attributable to shareholders of HKEX								
	Share capital and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Designated reserves \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2016	18,695	199	(254)	778	(293)	10,691	29,816	146	29,962
Profit/(loss) for the period	-	-	-	-	-	2,985	2,985	(13)	2,972
Other comprehensive income	-	-	10	-	-	-	10	-	10
Total comprehensive income	-	-	10	-	-	2,985	2,995	(13)	2,982
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:									
- 2015 final dividend at \$2.87 per share	-	-	-	-	-	(3,459)	(3,459)	-	(3,459)
- Unclaimed HKEX dividends forfeited (note 14)	-	-	-	-	-	11	11	-	11
- Shares issued in lieu of cash dividends	1,522	-	-	-	-	-	1,522	-	1,522
- Vesting of shares of Share Award Scheme	21	(20)	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	102	-	-	-	-	102	-	102
- Transfer of reserves	-	-	-	(2)	-	2	-	-	-
Total transactions with shareholders recognised directly in equity	1,543	82	-	(2)	-	(3,447)	(1,824)	-	(1,824)
At 30 Jun 2016	20,238	281	(244)	776	(293)	10,229	30,987	133	31,120

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	20	3,970	3,436
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
Net payments to external fund managers for purchases of financial assets measured at fair value through profit or loss		(601)	(2,000)
Net cash inflow from operating activities		3,369	1,436
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(331)	(277)
Net decrease/(increase) in financial assets of Corporate Funds:			
Decrease/(increase) in time deposits with original maturities more than three months		2,032	(1,017)
Payments for purchase of financial assets measured at amortised cost (excluding time deposits)		(313)	(464)
Interest received from financial assets measured at fair value through profit or loss		12	9
Net cash inflow/(outflow) from investing activities		1,400	(1,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchases of shares for Share Award Scheme		(10)	-
Payments of finance costs		(37)	(34)
Dividends paid to shareholders of HKEX		(1,131)	(1,918)
Proceeds from disposal of interest in a subsidiary without loss of control		28	-
Capital injection by non-controlling interest to a subsidiary		17	-
Net cash outflow from financing activities		(1,133)	(1,952)
Net increase/(decrease) in cash and cash equivalents		3,636	(2,265)
Cash and cash equivalents at 1 Jan		9,286	12,744
Cash and cash equivalents at 30 Jun (note (a))		12,922	10,479
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	10	12,922	10,479

- (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 Hong Kong Exchanges and Clearing Limited (HKEX or the Company) and its subsidiaries (the Group) to finance other activities. These balances are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.
- (b) “Cash flows from principal operating activities” is a non-Hong Kong Financial Reporting Standard (non-HKFRS) measure used by management for monitoring cash flows of the Group and represents the cash flows generated from the trading and clearing operations of the three exchanges and five clearing houses and ancillary services of the Group. Cash flows from principal operating activities and cash flows from other operating activities together represent cash flows from operating activities as defined by Hong Kong Accounting Standard (HKAS) 7: Statement of Cash Flows. This non-HKFRS measure may not be comparable to similar measures presented by other companies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with HKAS 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2016 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2016. Amendments to Hong Kong Financial Reporting Standards (HKFRSs) effective for the financial year ending 31 December 2017 do not have any financial impact to the Group.

The Group has not applied the following new HKFRSs which were issued before 30 June 2017 and are pertinent to its operations but not yet effective:

HKFRS 9 (2014)	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹

¹ Effective for accounting periods beginning on or after 1 January 2018

² Effective for accounting periods beginning on or after 1 January 2019

The adoption of HKFRS 9 (2014), HKFRS 15 and HK(IFRIC)-Int 22 would not have any significant impact on the financial performance and position of the Group.

HKFRS 16 will primarily affect the accounting for the Group's operating leases. Upon adoption of HKFRS 16 the majority of the Group's operating lease commitments will be recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The financial information relating to the year ended 31 December 2016 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2017 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

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

2. Operating Segments

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 Stock Exchange Hong Kong Limited (Stock Exchange), the Shanghai Stock Exchange and the Shenzhen Stock Exchange through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (Stock Connects), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff and listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on two exchanges in Hong Kong and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, derivative warrants (DWs), callable bull/bear contracts (CBCBs) and warrants and sales of market data. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees.

The **Commodities** segment refers to the operations of The London Metal Exchange (LME), which operates an exchange in the United Kingdom (UK) for the trading of base metals futures and options contracts and the development and operations of the new commodity trading platform in the Mainland. It also covers the Asia Commodities contracts traded on Hong Kong Futures Exchange Limited (Futures Exchange). The major sources of revenue of the segment are trading fees of commodities products, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment refers to the operations of the five clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear Limited (LME Clear), which are responsible for clearing, settlement and custodian activities of the exchanges of the Group, and clearing and settlement of over-the-counter derivatives contracts. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on 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 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”.

2. 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 and profit before taxation for the period is as follows:

	Six months ended 30 Jun 2017						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,512	952	721	1,912	279	3	5,379
Net investment income	-	-	-	393	-	428	821
Sundry income	-	-	-	3	-	-	3
Revenue and other income	1,512	952	721	2,308	279	431	6,203
Operating expenses	(291)	(222)	(281)	(378)	(75)	(464)	(1,711)
Reportable segment EBITDA	1,221	730	440	1,930	204	(33)	4,492
Depreciation and amortisation	(33)	(36)	(136)	(92)	(21)	(44)	(362)
Finance costs	-	-	-	-	-	(65)	(65)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,188	689	304	1,838	183	(142)	4,060
	Six months ended 30 Jun 2016						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,282	1,065	804	1,838	264	3	5,256
Net investment income	-	-	-	273	-	82	355
Sundry income	-	-	-	11	-	8	19
Revenue and other income	1,282	1,065	804	2,122	264	93	5,630
Operating expenses	(270)	(229)	(291)	(352)	(74)	(472)	(1,688)
Reportable segment EBITDA	1,012	836	513	1,770	190	(379)	3,942
Depreciation and amortisation	(44)	(45)	(147)	(88)	(22)	(36)	(382)
Finance costs	-	-	-	-	-	(43)	(43)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	968	786	366	1,682	168	(458)	3,512

3. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Trading fees and trading tariff were derived from:		
Equity securities traded on the Stock Exchange and through Stock Connects	828	678
DWs, CBBCs and warrants traded on the Stock Exchange	219	279
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	572	654
Base metals futures and options contracts traded on the LME	561	644
	2,180	2,255

4. Net Investment Income

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Gross interest income from financial assets measured at amortised cost	643	359
Interest rebates to Participants	(200)	(55)
Net interest income	443	304
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	346	68
Others	32	(17)
Net investment income	821	355

5. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Salaries and other short-term employee benefits	901	843
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	101	102
Termination benefits	1	2
Retirement benefit costs (note 24(b))	70	69
	1,073	1,016

6. Finance Costs

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Interest expenses on borrowings	44	40
Net foreign exchange losses on financing activities	21	3
	65	43

7. Taxation

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

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Current tax – Hong Kong Profits Tax	479	447
Current tax – Overseas Tax	116	111
	595	558
Deferred tax	(13)	(18)
	582	540

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2016: 16.5 per cent) and overseas profits tax at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rate applicable to the subsidiaries in the UK being 19.25 per cent (2016: 20 per cent).

8. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

- (a) Basic earnings per share

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016
Profit attributable to shareholders (\$m)	3,493	2,985
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,222,293	1,206,736
Basic earnings per share (\$)	2.86	2.47

- (b) Diluted earnings per share

	Six months ended 30 Jun 2017	Six months ended 30 Jun 2016
Profit attributable to shareholders (\$m)	3,493	2,985
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,222,293	1,206,736
Effect of shares awarded under Share Award Scheme (in '000)	3,134	3,173
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,225,427	1,209,909
Diluted earnings per share (\$)	2.85	2.47

9. Dividends

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Interim dividend declared of \$2.55 (2016: \$2.21) per share at 30 Jun	3,141	2,690
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(8)	(7)
	3,133	2,683

10. Financial Assets

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

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
<u>Clearing House Funds (note 15)</u>		
Cash and cash equivalents	10,730	9,476
Financial assets measured at amortised cost	156	126
	10,886	9,602
<u>Margin Funds (note 13)</u>		
Cash and cash equivalents	93,584	96,698
Financial assets measured at fair value through profit or loss	3,055	3,323
Financial assets measured at amortised cost	28,339	25,782
Accounts receivable and deposits	1,221	1,043
	126,199	126,846
<u>Base metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (a))	45,210	61,618
<u>Cash prepayments for A shares</u>		
Cash and cash equivalents	525	263
<u>Corporate Funds</u>		
Cash and cash equivalents	12,922	9,286
Financial assets measured at fair value through profit or loss	6,339	5,125
Financial assets measured at amortised cost	1,540	3,259
	20,801	17,670
	203,621	215,999

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

	At 30 Jun 2017						At 31 Dec 2016					
	Clearing House Funds \$m	Margin Funds \$m	Base metals derivatives contracts \$m	Cash prepayments for A shares \$m	Corporate Funds \$m	Total \$m	Clearing House Funds \$m	Margin Funds \$m	Base metals derivatives contracts \$m	Cash prepayments for A shares \$m	Corporate Funds \$m	Total \$m
Within twelve months	10,886	126,199	45,210	525	20,415	203,235	9,602	126,846	61,618	263	17,596	215,925
Over twelve months	-	-	-	-	386	386	-	-	-	-	74	74
	10,886	126,199	45,210	525	20,801	203,621	9,602	126,846	61,618	263	17,670	215,999

- (a) The amount represents the fair value of outstanding base metals futures and options contracts of LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME. A corresponding amount was recorded under financial liabilities at fair value through profit or loss (note 12).

11. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 81 per cent (31 December 2016: 78 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

12. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$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 10(a))	45,210	61,618
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts	–	9
	45,210	61,627

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

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
<u>Margin deposits, Mainland security and settlement deposits and cash collateral from Clearing Participants comprised (note (a)):</u>		
SEOCH Clearing Participants' margin deposits	7,316	5,389
HKCC Clearing Participants' margin deposits	51,573	46,974
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	5,437	5,484
OTC Clear Clearing Participants' margin deposits	549	296
LME Clear Clearing Participants' margin deposits	61,324	68,703
	126,199	126,846

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

14. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 85 per cent (31 December 2016: 84 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

During the six months ended 30 June 2017, \$13 million (2016: \$11 million) of dividends declared by HKEX, which were unclaimed over a period of six years from the date of payment, were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association.

15. Clearing House Funds

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions (note (a))	9,872	8,656
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (note 19)	824	773
	10,852	9,585
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Financial assets of Clearing House Funds (note 10)	10,886	9,602
Less: Other financial liabilities of Clearing House Funds	(34)	(17)
	10,852	9,585
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,317	2,219
SEIOCH Reserve Fund	1,085	724
HKCC Reserve Fund	2,056	1,316
OTC Clear Rates and FX Guarantee Fund	769	659
OTC Clear Rates and FX Guarantee Resources	161	160
LME Clear Default Fund	4,464	4,507
	10,852	9,585

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

16. Borrowings

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
Bank borrowings	1,597	1,586
Notes	1,530	1,519
Written put options to non-controlling interests	323	317
Total borrowings	3,450	3,422

During the six months ended 30 June 2017, there were no repayments of the bank borrowings or notes, and none of the written put options were exercised.

17. Share Capital and Shares Held for Share Award Scheme

	Number of shares '000	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2016	1,205,277	19,285	(590)	18,695
Shares issued in lieu of cash dividends (note (a))				
– total	15,786	2,798	–	2,798
– to Share Award Scheme	(92)	–	(16)	(16)
	15,694	2,798	(16)	2,782
Share purchased for Share Award Scheme (note (b))	(992)	–	(188)	(188)
Vesting of shares of Share Award Scheme (note (c))	1,126	2	195	197
At 31 Dec 2016	1,221,105	22,085	(599)	21,486
At 1 Jan 2017	1,221,105	22,085	(599)	21,486
Shares issued in lieu of cash dividends (note (a))				
– total	7,275	1,354	–	1,354
– to Share Award Scheme	(35)	–	(7)	(7)
	7,240	1,354	(7)	1,347
Shares purchased for Share Award Scheme (note (b))	(55)	–	(10)	(10)
Vesting of shares of Share Award Scheme (note (c))	114	–	21	21
At 30 Jun 2017	1,228,404	23,439	(595)	22,844

- (a) In June 2017, 7,275,254 new fully paid HKEX shares (year ended 31 December 2016: 15,786,247 shares) were issued and allotted at \$186.05 per share (year ended 31 December 2016: weighted average price of \$177.28 per share) to the shareholders (including 34,906 new shares (year ended 31 December 2016: 92,144 shares) allotted to the Share Award Scheme) who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme.
- (b) During the six months ended 30 June 2017, the Share Award Scheme acquired 54,900 HKEX shares (year ended 31 December 2016: 991,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$10 million (year ended 31 December 2016: \$188 million).
- (c) During the six months ended 30 June 2017, the Share Award Scheme transferred 114,074 HKEX shares (year ended 31 December 2016: 1,125,802 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$21 million (year ended 31 December 2016: \$195 million).

18. Employee Share-based Arrangements

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

The employee share-based compensation expenses in relation to the share awards are charged to the consolidated income statement under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

18. Employee Share-based Arrangements (continued)

During the six months ended 30 June 2017, no Senior Executive Awards was granted and details of shares awarded under the Employee Share Awards scheme are set out below:

Date of award	Number of shares awarded	Average fair value per share (\$)	Vesting period
1 Mar 2017	24,939	193.76	1 May 2017 – 1 May 2019
1 Mar 2017	25,960	193.76	1 Mar 2017 – 13 Jan 2020
15 May 2017	1,100	197.23	13 Jan 2018 – 13 Jan 2019
23 Jun 2017	2,900	200.82	3 Apr 2018 – 18 Mar 2019

19. Designated reserves

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

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
Clearing House Funds reserves (note 15)		
– HKSCC Guarantee Fund reserve	361	311
– SEOCH Reserve Fund reserve	104	104
– HKCC Reserve Fund reserve	349	350
– OTC Clear Rates and FX Guarantee Fund reserve	5	4
– OTC Clear Rates and FX Guarantee Resources reserve	5	4
	824	773

20. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from principal operating activities:

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Profit before taxation	4,060	3,512
Adjustments for:		
Net interest income	(443)	(304)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(346)	(68)
Finance costs	65	43
Depreciation and amortisation	362	382
Employee share-based compensation benefits	101	102
Provision for impairment losses of receivables	3	2
Other non-cash adjustments	15	3
Net decrease in financial assets of Margin Funds	654	9,207
Net decrease in financial liabilities of Margin Funds	(647)	(9,208)
Net (increase)/decrease in Clearing House Fund financial assets	(1,284)	274
Net increase/(decrease) in Clearing House Fund financial liabilities	1,233	(272)
Net decrease/(increase) in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	5	(58)
(Increase)/decrease in cash prepayments for A shares	(262)	129
Decrease in accounts receivable, prepayments and deposits	47	7,211
Increase/(decrease) in other current liabilities	294	(7,503)
Net cash inflow from principal operations	3,857	3,452
Dividends received	–	2
Interest received from bank deposits	643	359
Interest received from financial assets measured at fair value through profit or loss	–	43
Interest paid to Participants	(200)	(55)
Income tax paid	(330)	(365)
Net cash inflow from principal operating activities	3,970	3,436

21. Capital Expenditures and Commitments

During the six months ended 30 June 2017, the Group incurred capital expenditures of \$306 million (2016: \$266 million).

At 30 June 2017, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
Contracted but not provided for		
– fixed assets	31	66
– intangible assets	57	57
Authorised but not contracted for		
– fixed assets	232	273
– intangible assets	501	585
	821	981

22. Contingent Liabilities

At 30 June 2017, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2016: \$71 million). Up to 30 June 2017, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 589 trading Participants covered by the indemnity at 30 June 2017 (31 December 2016: 556) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$118 million (31 December 2016: \$111 million).
- (c) HKEX had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEX or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEX, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEX, and for the costs of winding up.

23. Transactions with Non-Controlling Interests

- (a) Disposal of interest in a subsidiary without loss of control

During the six months ended 30 June 2017, the Group entered into an agreement to sell 9.99 per cent stake in Qianhai Mercantile Exchange Company Limited (QME) (formerly known as Gangrong Trading Services (Shenzhen) Limited) to Shenzhen Qianhai Financial Holdings Limited (QFH) at a consideration of RMB 25 million. After the sale, the Group's interest in QME dropped to 90.01 per cent. The effect of the disposal of QME on equity attributable to HKEX's shareholders is summarised as follows:

	\$m
Consideration received from non-controlling interests	28
Less: carrying amount of non-controlling interests disposed of	(16)
Gain on disposal credited to retained earnings	12

- (b) During the six months ended 30 June 2017, RMB 135 million and RMB 15 million were further injected by the Group and QFH to QME respectively as its registered capital.

24. Material Related Party Transactions

(a) Key management personnel compensation

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Salaries and other short-term employee benefits	61	60
Employee share-based compensation benefits	33	33
Retirement benefit costs	4	4
	98	97

(b) Post-retirement benefit plans

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group has also sponsored a defined contribution pension scheme for all employees of LME and LME Clear (LME Pension Scheme). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME Pension Scheme and related fees (note 5).

25. Pledge of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$1,280 million (HK\$9,992 million) at 30 June 2017 (31 December 2016: US\$1,781 million (HK\$13,808 million)). LME Clear is obliged to return this non-cash collateral upon request when the Clearing Participants' collateral obligations have been substituted with cash collateral or otherwise discharged.

LME Clear also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$8,306 million (HK\$64,840 million) at 30 June 2017 (31 December 2016: US\$9,418 million (HK\$73,022 million)).

The above non-cash collateral, which LME Clear is permitted to sell or repledge in the absence of default by the counterparties, was not recorded on the condensed consolidated statement of financial position of the Group at 30 June 2017. Such non-cash collateral, together with certain financial assets amounting to US\$471 million (HK\$3,680 million) at 30 June 2017 (31 December 2016: US\$430 million (HK\$3,334 million)), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

26. Fair Value of Financial Assets and Financial Liabilities

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

At 30 June 2017 and 31 December 2016, no non-financial assets or liabilities were carried at fair value.

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

Recurring fair value measurements:	At 30 Jun 2017			At 31 Dec 2016		
	Level 1 \$m	Level 2 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets						
Financial assets measured at fair value through profit or loss:						
- collective investment schemes	2,368	3,971	6,339	2,225	2,886	5,111
- debt securities	3,055	-	3,055	3,022	301	3,323
- forward foreign exchange contracts	-	-	-	-	14	14
- base metals futures and options contracts cleared through LME Clear	-	45,210	45,210	-	61,618	61,618
	5,423	49,181	54,604	5,247	64,819	70,066
Financial liabilities						
Financial liabilities at fair value through profit or loss:						
- forward foreign exchange contracts	-	-	-	-	9	9
- base metals futures and options contracts cleared through LME Clear	-	45,210	45,210	-	61,618	61,618
	-	45,210	45,210	-	61,627	61,627

During the six months ended 30 June 2017, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities, forward foreign exchange contracts, base metals futures and options contracts and collective investment schemes have been determined based on quotes from market makers, funds administrators or alternative pricing sources supported by observable inputs. The most significant input are market interest rates, market prices of metals, net asset values and latest redemption prices or transaction prices of the respective collective investment scheme.

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

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

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.

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

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

	At 30 Jun 2017		At 31 Dec 2016	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Assets				
Financial assets measured at amortised cost:				
– other financial assets maturing over one year ¹	74	70	74	66
Liabilities				
Borrowings:				
– notes ²	1,530	1,545	1,519	1,542
– written put options to non-controlling interests ²	323	328	317	320
Financial guarantee to the Collector of Stamp Revenue ³				
	20	104	20	76

1 The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 1.20 per cent to 2.19 per cent at 30 June 2017 (31 December 2016: 2.62 per cent to 3.72 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 rate used was 1.89 per cent to 2.22 per cent at 30 June 2017 (31 December 2016: 2.09 per cent to 2.95 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 1.41 per cent at 30 June 2017 (31 December 2016: 1.83 per cent).

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

GLOSSARY

2017 AGM	AGM held on 26 April 2017
ADT	Average daily turnover value
AGM	HKEX's annual general meeting
AHFT	After-Hours Futures Trading
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEX's board of directors
Bond Connect	A mutual bond market access programme between Hong Kong and Mainland China, under which Northbound trading enables overseas investors to invest in the China Interbank Bond Market, and Southbound trading will be explored at a later stage
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
Corporate Governance Code	Refers to Appendix 14 to the Main Board Listing Rules
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
ETF	Exchange Traded Fund
EPs	Exchange Participants
Exchange or SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	The Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEX and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEX or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
IT	Information Technology
JP	Justice of the Peace
Lehman	Lehman Brothers Securities Asia Limited
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LME Holdings Limited, the LME and LME Clear
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MSCI	MSCI Inc.

GLOSSARY

Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange through Stock Connects
OTC Clear	OTC Clearing Hong Kong Limited
RMB	Renminbi
SBS	Silver Bauhinia Star
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	A mutual market access programme that links the stock markets in Shanghai and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholders	HKEX's shareholders
Share Award Scheme or the Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015
Shenzhen-Hong Kong Stock Connect	A mutual market access programme that links the stock markets in Shenzhen and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connects
Stock Connects	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
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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