

The HKEX logo consists of the letters 'HKEX' in a bold, white, sans-serif font, followed by a stylized circular symbol that resembles a 'C' or a partial circle.

香港交易所

Interim Report 2021

Stock code: 388

The background image is a nighttime cityscape of Hong Kong. In the foreground, a curved highway bridge is shown with long-exposure light trails from cars, creating vibrant streaks of white, blue, and red. The bridge's structure is illuminated with warm orange lights. In the background, the city skyline is lit up with various colors, and the lights reflect on the water of the harbor. Several boats are visible in the water, and the overall atmosphere is a mix of modern urban energy and serene night views.

**Global
Markets.
Asian
Timezone.**



Contents

| | |
|-----------|--|
| 02 | Strategic and Financial Highlights |
| 08 | Chairman's Statement |
| | Management Discussion and Analysis |
| 14 | Business Review |
| 30 | Financial Review |
| 34 | Corporate Governance and Other Information |
| 40 | Shareholder Information |
| 41 | Auditor's Independent Review Report |
| | Condensed Consolidated Financial Statements (Unaudited) |
| 44 | Condensed Consolidated Income Statement (Unaudited) |
| 45 | Condensed Consolidated Statement of Comprehensive Income (Unaudited) |
| 46 | Condensed Consolidated Statement of Financial Position (Unaudited) |
| 47 | Condensed Consolidated Statement of Changes in Equity (Unaudited) |
| 48 | Condensed Consolidated Statement of Cash Flows (Unaudited) |
| 49 | Notes to the Condensed Consolidated Financial Statements (Unaudited) |
| 67 | Glossary |

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



Strategic and Financial Highlights

“This has been a record first half for HKEX. Driven by a buoyant IPO market, strong trading volumes and significant momentum in Stock Connect, revenue and profit reached record highs. The macro backdrop will remain challenging in the months ahead, but we remain resolutely focused on continuing to enhance the attractiveness of our markets, responding to the needs of our customers and driving our business forward. We are well-placed for the opportunities and challenges ahead.”

Nicolas Aguzin
Chief Executive Officer



Strategic Highlights



Market Operations

- 29 Mar** Second phase enhancement of Volatility Control Mechanism implemented in the Cash Market
- 12 Apr** Volatility Control Mechanism and Pre-Market Opening Session enhancements implemented in the Derivatives Market
- 26 Apr** Completed upgrade of OTC Clearing and Settlement System
- 8 Jun** LME published discussion paper outcomes on future market structure

Corporate

- 30 Apr** 3rd Anniversary of the new listing regime
- 25 May** LME Asia Metals Seminar hosted in Hong Kong

Regulation

- 31 Mar** Published consultation paper on Listing Regime for Overseas Issuers
- 16 Apr** Published consultation paper on Review of Corporate Governance Code and Related Listing Rules
- 20 May** Published consultation conclusions on the Main Board Profit Requirement and Review of Listing Rules Relating to Disciplinary Powers and Sanctions and the joint statement with the SFC on IPO-related misconduct



Corporate Social Responsibility

- Apr** Go Green with HKEX campaign
- 7 May** Launched the inaugural ESG Academy webinar series
- 1 Jun** Launched the 2021 HKEX Charity Partnership Programme



Products and Services

- 18 Jan** Launched Hang Seng TECH Index Options
- 20 Jan** First L&I Products tracking the FTSE China A50 Index
- 1 Feb** Eligible A shares listed on SSE's STAR Market, and corresponding H shares, were included in Stock Connect
- 10 Feb** First ETF tracking the SSE's STAR Market
- 18 Mar** First ETF focusing on Hong Kong-listed biotech companies
- 29 Mar** FTSE Russell confirmed Chinese government bonds will be included in the FTSE World Government Bond Index
- 14 Apr** First long duration China bond ETF and the first high yield bond ETF
- 26 Apr** Launch of mini USD/CNH Futures contract
- 10 May** OTC Clear launched clearing services for Cross Currency Swaps referencing Secured Overnight Financing Rate and Hong Kong Dollar Overnight Index Average
- 24 May** Bond Connect launched dealer pay model
- 28 May** First L&I Products tracking Taiwanese underlying
- 31 May** Introduced a new tiered structure for ETP trading fee exemption for market makers, and fee waivers for Hong Kong-listed fixed income and money market ETFs
- 1 Jun** First ETF listings in Hong Kong and Shanghai under the Hong Kong-Mainland ETF Cross-listing Scheme

Financial Highlights

1H 2021 revenue and other income reached a half-yearly record of \$10,909 million, 24 per cent higher than 1H 2020 (up 5 per cent against the previous record set in 2H 2020).

- Core business revenue was up 27 per cent compared with 1H 2020, reflecting higher trading and clearing fees driven by record headline ADT¹, and higher depository, custody and nominee services fees.
- Stock Connect revenue and other income reached a record half-yearly high of \$1,320 million, up 78 per cent against 1H 2020.
- Net investment income was \$64 million lower compared with 1H 2020, due to reduced Margin Fund investment income, impacted by a low interest rate environment, though partly offset by \$321 million gains on collective investment schemes (1H 2020: \$138 million losses).

Operating expenses were 9 per cent higher than 1H 2020. Excluding HKEX Foundation charitable donations², operating expenses were up 7 per cent, attributable to higher staff and IT costs.

EBITDA margin³ was 79 per cent, 2 per cent higher than 1H 2020 and the 2020 financial year.

There was a one-off deferred tax charge on acquired LME intangible assets of \$160 million arising from the approval of the change in UK statutory tax rate in June 2021 from 19 per cent to 25 per cent effective from April 2023.

Profit attributable to shareholders rose by 26 per cent against 1H 2020, to a record half-yearly high of \$6,610 million.

| Revenue and other income | Profit attributable to shareholders | Basic earnings per share |
|--------------------------|-------------------------------------|--------------------------|
| \$10,909 | \$6,610 | \$5.22 |
| Million | Million | |
| ↑ 24% | ↑ 26% | ↑ 26% |

1 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange

2 HKEX Foundation was established to deepen HKEX's connectivity and long-standing commitment to our communities. From July 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme was received by HKEX Foundation, and then donations were made to the Hong Kong Community Chest by HKEX Foundation. As a result, HKEX recorded both donation income of \$74 million (1H 2020: \$Nil), under revenue and other income; and HKEX Foundation charitable donations of \$69 million (1H 2020: \$28 million), under operating expenses in 1H 2021.

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

Key Financials

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m | Change |
|--|--|--|--------|
| Revenue and other income | | | |
| Core business revenue | 10,061 | 7,944 | 27% |
| HKEX Foundation donation income ² | 74 | – | N/A |
| Net investment income | 774 | 838 | (8%) |
| | 10,909 | 8,782 | 24% |
| Operating expenses ² | 2,221 | 2,045 | 9% |
| EBITDA | 8,607 | 6,706 | 28% |
| Profit attributable to shareholders | 6,610 | 5,233 | 26% |
| Capital expenditure | 536 | 519 | 3% |
| Basic earnings per share | \$5.22 | \$4.15 | 26% |
| Interim dividend per share | \$4.69 | \$3.71 | 26% |

Key Market Statistics

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 | Change |
|---|---------------------------------|---------------------------------|--------|
| ADT of equity products traded on the Stock Exchange ⁴ (\$bn) | 165.8* | 100.0 | 66% |
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn) | 22.4 | 17.5 | 28% |
| ADT traded on the Stock Exchange ^{4,5} (Headline ADT) (\$bn) | 188.2* | 117.5 | 60% |
| ADT of Northbound Trading of Stock Connect ⁴ (RMBbn) | 114.4* | 74.3 | 54% |
| ADT of Southbound Trading of Stock Connect ⁴ (\$bn) | 48.1* | 20.7 | 132% |
| ADV of derivatives contracts traded on the Futures Exchange ('000 contracts) | 517 | 673 | (23%) |
| ADV of stock options contracts traded on the Stock Exchange ('000 contracts) | 688 | 502 | 37% |
| Chargeable ADV ⁶ of metals contracts traded on the LME ('000 lots) | 544 | 625 | (13%) |
| ADT of Bond Connect (RMBbn) | 26.6* | 19.9 | 34% |

* New record half-yearly high in 1H 2021

4 Includes buy and sell trades under Stock Connect

5 ADT of Southbound Trading is included within Headline ADT.

6 Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades.

Chairman's Statement



“As the world slowly recovers from the pandemic, HKEX, as a leading global financial markets infrastructure group, has a more important role than ever to play in promoting our collective prosperity and long-term sustainability. This we seek to do through the way we conduct ourselves and the way we develop our markets and business, working alongside our customers and our stakeholders, to partner for the future.”

Global financial markets saw a strong start to the year, with optimism around vaccine rollout, encouraging signs of early economic recovery, and government stimulus measures fuelling positive sentiment. However, markets throughout the first half of the year have remained volatile, reflecting concerns over the path to recovery from the pandemic, continued fragile global geopolitics and concerns over rising inflation levels around the world.

Set against this backdrop, HKEX has successfully both maintained its resiliency, and driven new market and product initiatives and programmes, supporting the delivery of another set of record financial results for the first half of 2021.

Amid the ongoing market volatility, the average daily turnover in Hong Kong's securities market (\$188.2 billion) and the average daily volume of futures and options traded in the derivatives market (1,204,798 contracts) in the first half of 2021 increased by 60 per cent and 3 per cent respectively year-on-year. Hong Kong's IPO market remained buoyant in the first half of 2021, welcoming major listings such as Kuaishou Technology and JD Logistics, and a range of innovative new biotechnology companies, and raising total IPO funds of \$211.7 billion, up 128 per cent year-on-year. The IPO pipeline remains strong.

Stock Connect carried its strong momentum into 2021, achieving record half-yearly turnover in both Northbound and Southbound Trading. Bond Connect trading also continued on its robust growth path, reaching new highs in trading volume and number of investors.

Reflecting demand within the global metals market, the chargeable average daily volume of metals contracts traded on the LME decreased by 13 per cent year-on-year. The LME announced the outcomes of its discussion paper on future market structure in June, following extensive consideration of market feedback, and is now moving forward its plans to enhance its electronic offering and provide greater transparency. The Ring, which has been temporarily closed due to the pandemic, is scheduled to re-open for trading on 6 September 2021 for the determination of Official Prices, alongside electronic Closing Prices discovery and trading.

For the six months ended 30 June 2021, the Group recorded total revenue and other income of \$10,909 million and profit attributable to shareholders of \$6,610 million, up 24 per cent and 26 per cent respectively, year-on-year. The Board declared an interim dividend of \$4.69 per share, payable in cash.

On the strategic front, we have continued to drive sustainability and innovation across our markets, enhancing our competitiveness and relevance at the heart of the global financial community.

Building on the success of our 2018 listing reforms, which have transformed HKEX into the go-to listing venue for new economy and biotech companies, we have been exploring and working on a number of key initiatives to reinforce the competitiveness of our listing regimes, whilst safeguarding investors' interest. The Exchange issued a consultation paper in March 2021 to seek market views on proposals to enhance and streamline the listing regime for overseas issuers. The Exchange also launched a market consultation in April on proposals to further raise corporate governance standards among listed issuers in Hong Kong. To uphold and enhance market quality and promote investor protections, the Exchange announced in May amendments to the profit requirement for Main Board listings, and listing rule amendments to strengthen its disciplinary regime. With strong market support, we will proceed to introduce a new platform, FINI (Fast Interface for New Issuance) to comprehensively streamline and digitalise Hong Kong's IPO settlement process in the fourth quarter of 2022 at the earliest.

To cement our position as Asia's global marketplace, we continued to broaden our product ecosystem across asset class in the first half of 2021, focused on driving market liquidity and vibrancy, and expanding our capabilities in market connectivity.

Across the Group we continued to deliver on our sustainability agenda through a number of important initiatives. Of note are LME's launch of a new digital register, LMEpassport, starting with aluminium due in the third quarter of 2021 to promote disclosure over sustainability criteria, and the introduction of six new contracts in July to support the circular economy and a more sustainable metals market. We have also continued to build 'STAGE', our sustainable and green information platform, now displaying 72 products; and to drive our market education programme on ESG through our newly launched 'ESG Academy', which seeks to build ESG capabilities among our listed issuers and market participants. Our investment in the newly established Guangzhou Futures Exchange (GFE) early this year further underscored HKEX's commitment to sustainability, reinforcing our role in contributing to Mainland China's continuing internationalisation. With the official launch of GFE in April, we look forward to working with our Mainland partners in building an innovative, market-oriented exchange to support the development of sustainable finance in the Greater Bay Area and beyond.

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

As the world slowly recovers from the pandemic, HKEX, as a leading global financial markets infrastructure group, has a more important role than ever to play in promoting our collective prosperity and long-term sustainability. This we seek to do through the way we conduct ourselves and the way we develop our markets and business, working alongside our customers and our stakeholders, to partner for the future. This is also reflected in our commitment to continuing to make a meaningful and direct impact on our broader communities through the work of the HKEX Foundation, which this year, to date, has contributed \$80 million to projects and programmes within Hong Kong and beyond, focused on financial literacy, poverty relief, diversity and inclusion and environmental stewardship.

Looking forward, we will maintain our resolute focus on our resilience, sustainability, and innovation, delivering on our ambitions, and reinforcing our role as the global markets leader in the Asian time zone. We will closely collaborate with our customers, partners, regulators and other stakeholders, to uphold market quality and integrity, further increase our product diversity and heighten our relevance in connecting Mainland China and international capital markets.

The Board, along with the management team, will work together in the coming months to develop and refine our strategy, so that we remain well-placed to meet the opportunities and challenges that lie ahead. We are confident that, under the leadership of Mr Nicolas Aguzin, our new Chief Executive Officer, HKEX will continue its record of success, and continue to contribute to the development of Hong Kong as a leading international financial centre.

On behalf of the Board, I would like to thank our shareholders, our regulators, customers, partners and friends, for their ongoing trust and confidence, and all our employees for their dedicated commitment and hard work through these challenging times.

Laura M CHA
Chairman

Hong Kong, 11 August 2021



**Management
Discussion and
Analysis**

**Business
Review**

—
**Financial
Review**



Business Review

Overview

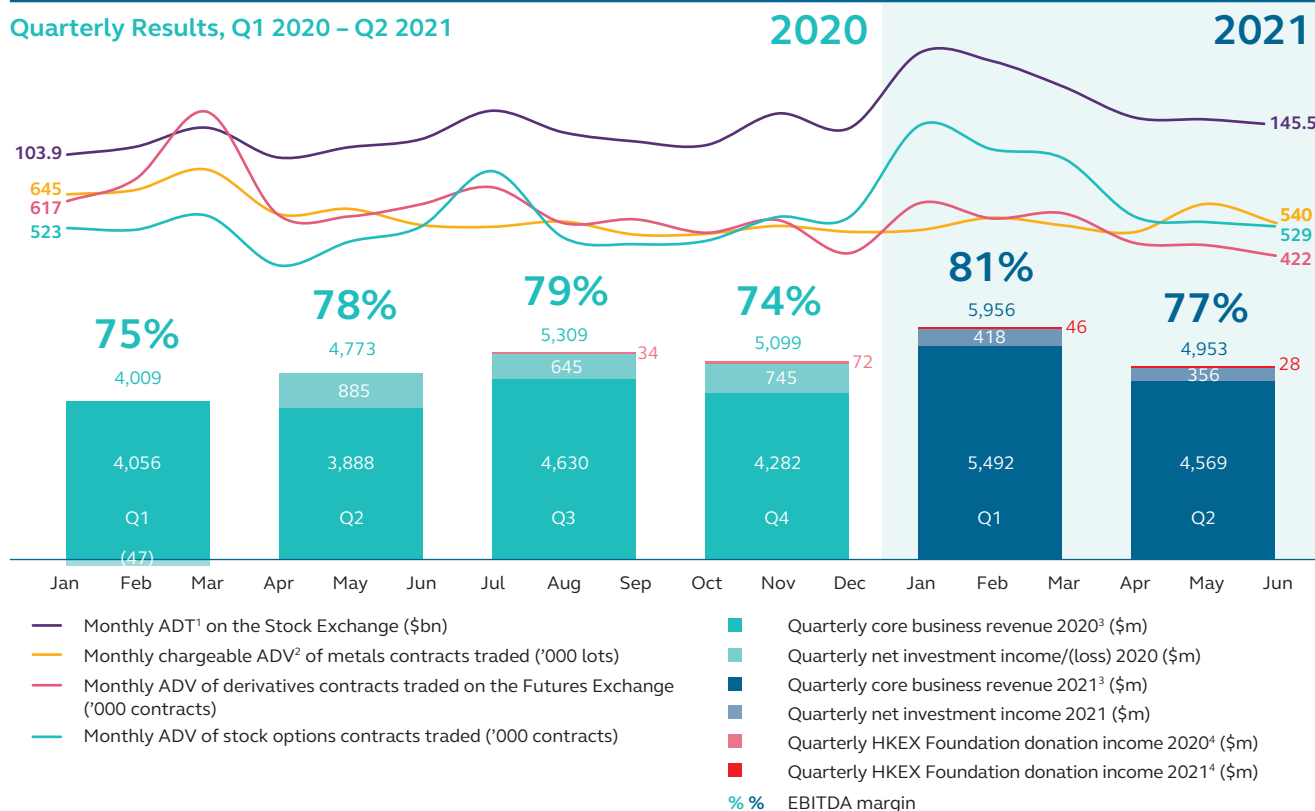


Fig. 1 – Market activity and Group's revenue and other income/(loss)

HKEX performed well in 1H 2021, with record half-yearly revenue and other income and profit, exceeding previous records set in 2H 2020. Driven by an exceptionally buoyant first quarter, with record monthly high ADT in January of \$245.7 billion, 1H 2021 headline ADT¹ rose to a record half-yearly high of \$188.2 billion, 60 per cent above 1H 2020, and 33 per cent above 2H 2020. Stock Connect trading volumes also saw record half-yearly highs with Northbound and Southbound ADT being 54 per cent and 132 per cent higher than 1H 2020 respectively. The Hong Kong IPO market continued to be vibrant, welcoming 46 new company listings, raising over

\$200 billion, more than double that of 1H 2020, ranking HKEX third globally by IPO funds raised during the period.

Revenue and other income for 1H 2021 rose by 24 per cent against 1H 2020, reaching a record half-yearly high of \$10.9 billion, driven by higher trading and clearing fees and higher depository, custody and nominee services fees. Operating expenses increased by 9 per cent against 1H 2020. Excluding HKEX Foundation charitable donations⁴, operating expenses were up 7 per cent, mainly due to higher staff costs, and higher maintenance expenses for new IT systems and upgraded networks.

1 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange

2 Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades.

3 Revenue and other income, excluding net investment income and HKEX Foundation donation income

4 HKEX Foundation was established to deepen HKEX's connectivity and long-standing commitment to our communities. From July 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme was received by HKEX Foundation, and then donations were made to the Hong Kong Community Chest by HKEX Foundation. As a result, HKEX recorded both donation income of \$74 million (1H 2020: \$Nil), under revenue and other income; and HKEX Foundation charitable donations of \$69 million (1H 2020: \$28 million), under operating expenses in 1H 2021.

For Q2 2021, revenue and other income was \$5.0 billion. This reflected more moderate Q2 trading volumes compared with the exceptional Q1 2021 volumes, resulting in lower headline ADT and Derivatives Market ADV. This was partly offset by the seasonal increase in depository, custody and nominee services fees.

Throughout the period, the Group maintained its focus on executing and delivering upon its strategy, driving its competitiveness, seeking growth opportunities and ensuring the continued stability and resilience of its markets. At the same time the Group also continued to adopt a prudent approach to cost control and risk management.

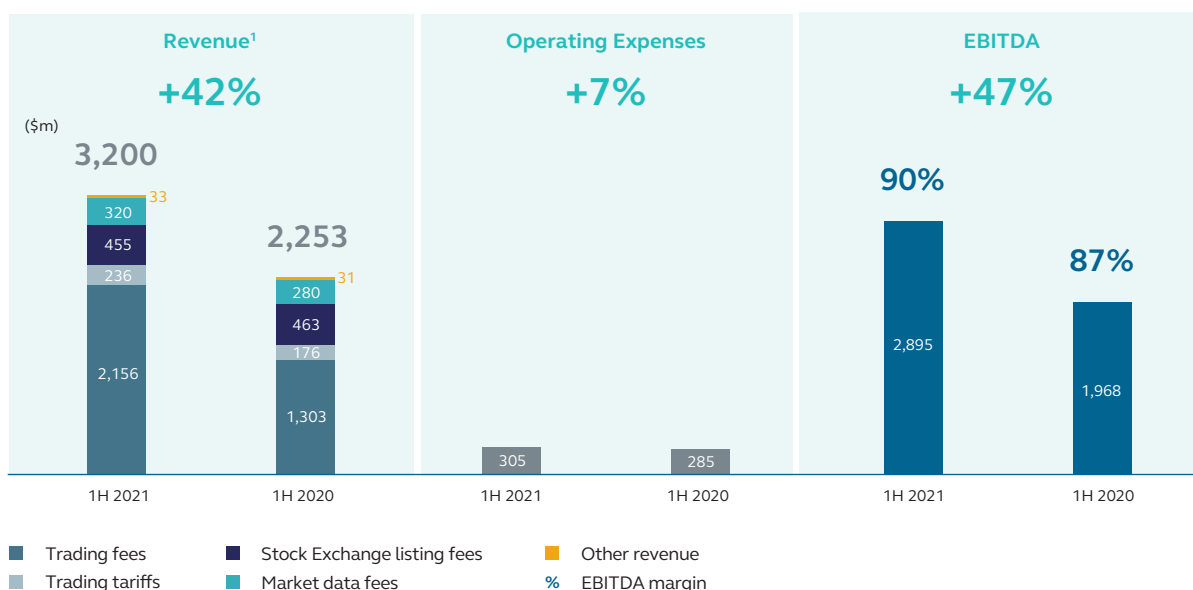
Analysis of Results and Business Update by Operating Segment

| | Six months ended 30 June 2021 | | | | Six months ended 30 June 2020 | | | |
|----------------------------------|---------------------------------|-------------------------------------|---|---------------|---------------------------------|-------------------------------------|---|---------------|
| | Revenue and other income \$m | Transaction-related expenses \$m | Revenue and other income less transaction-related expenses \$m | EBITDA \$m | Revenue and other income \$m | Transaction-related expenses \$m | Revenue and other income less transaction-related expenses \$m | EBITDA \$m |
| Results by segment: | | | | | | | | |
| Cash | 3,200 | - | 3,200 | 2,895 | 2,253 | - | 2,253 | 1,968 |
| Equity and Financial Derivatives | 1,731 | (63) | 1,668 | 1,331 | 1,638 | (23) | 1,615 | 1,331 |
| Commodities | 723 | - | 723 | 399 | 749 | - | 749 | 420 |
| Post Trade | 4,224 | (18) | 4,206 | 3,760 | 3,629 | (8) | 3,621 | 3,197 |
| Technology | 523 | - | 523 | 375 | 443 | - | 443 | 304 |
| Corporate Items | 508 | - | 508 | (153) | 70 | - | 70 | (514) |
| | 10,909 | (81) | 10,828 | 8,607 | 8,782 | (31) | 8,751 | 6,706 |

Cash Segment

Analysis of Results

1H 2021 vs 1H 2020



1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

Revenue was up 42 per cent and EBITDA was up 47 per cent compared with 1H 2020.

Trading fees increased by \$853 million or 65 per cent compared with 1H 2020. This was mainly attributable to the 66 per cent increase in ADT of equity products. In particular, trading fees from Stock Connect Northbound Trading and Stock Connect Southbound Trading reached record half-yearly highs of \$296 million (1H 2020: \$175 million) and \$125 million (1H 2020: \$51 million) respectively. Trading tariffs rose by 34 per cent, driven by the increase in equity products' trading.

Stock Exchange listing fees dropped by \$8 million, mainly due to fewer forfeitures of initial listing fees.

Operating expenses increased by 7 per cent due to higher staff costs for new initiatives, and higher maintenance costs on upgraded systems and networks.

Business Update

The securities market remained resilient and saw significant growth in trading volume in 1H 2021 as compared with 1H 2020, with headline ADT up 60 per cent to a record half-yearly high of \$188.2 billion.

Stock Connect showed strong momentum in 1H 2021, with Northbound and Southbound ADT both reaching record half-yearly highs at RMB114.4 billion (up 54 per cent against 1H 2020) and \$48.1 billion (up 132 per cent against 1H 2020) respectively. In particular, Southbound Trading turnover reached a record daily high on 24 February 2021, exceeding \$100 billion for the first time ever. As a result, Stock Connect generated record half-yearly revenue and other income of \$1,320 million (1H 2020: \$743 million), of which \$1,018 million (1H 2020: \$578 million) arose from trading and clearing activities.

HKEX, SSE and SZSE together continued their commitment to enhance their mutual market access programme, including the expansion in the scope of eligible stocks for both Northbound and Southbound Trading. On 1 February 2021, eligible A shares listed on the Sci-Tech Innovation Board (STAR Market) of the SSE were included in Northbound Trading under Shanghai-Hong Kong Stock Connect, and their corresponding H shares were also included in Stock Connect Southbound Trading. This expansion was warmly welcomed by the market and trading has been smooth and active since the inclusion of the new eligible stocks.

Further to the successful launch of the first phase enhancement of the Volatility Control Mechanism (VCM) in the Hong Kong securities market in May 2020, the second phase enhancement was successfully launched on 29 March 2021, allowing multiple triggers of VCM per applicable security in the same trading session.

Hong Kong continues to be a popular destination for issuers. In 1H 2021, HKEX welcomed 46 company listings (including four biotech companies listed under Chapter 18A of the Main Board Listing Rules; three issuers with weighted voting rights (WVR) structure under Chapter 8A; and four secondary listings under Chapter 19C), raising a total of \$211.7 billion, more than double that of 1H 2020. Hong Kong ranked third globally⁵ by IPO funds raised in 1H 2021, demonstrating the continued vibrancy of Hong Kong's IPO market.

Key Market Indicators

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 |
|--|---------------------------------|---------------------------------|
| ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn) | 165.8 ⁴ | 100.0 |
| ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect ² (RMBbn) | 52.8 ⁴ | 31.6 |
| ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect ² (RMBbn) | 61.6 ⁴ | 42.7 |
| ADT of Southbound Trading – Shanghai-Hong Kong Stock Connect ² (\$bn) | 23.1 ⁴ | 11.9 |
| ADT of Southbound Trading – Shenzhen-Hong Kong Stock Connect ² (\$bn) | 25.0 ⁴ | 8.8 |
| ADT of Bond Connect (RMBbn) | 26.6 ⁴ | 19.9 |
| Average daily number of trades of equity products traded on the Stock Exchange ^{1,2} ('000) | 2,097 ⁴ | 1,518 |
| Number of newly listed companies on the Main Board ³ | 45 | 59 |
| Number of newly listed companies on GEM | 1 | 5 |
| Total equity funds raised | | |
| – IPOs (\$bn) | 211.7 | 92.8 |
| – Post-IPO (\$bn) | 275.6 | 139.5 |
| Number of companies listed on the Main Board at 30 Jun | 2,190 | 2,111 |
| Number of companies listed on GEM at 30 Jun | 364 | 376 |
| Number of trading days | 121 | 122 |

1 Excludes \$22.4 billion (1H 2020: \$17.5 billion) of ADT of DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes ADT of Southbound Trading under Stock Connect

2 Includes buy and sell trades under Stock Connect

3 Includes 1 transfer from GEM (1H 2020: 5 transfers)

4 New record half-yearly high in 1H 2021

HKEX celebrated the third anniversary of its new listing regime in April 2021. Strong fund raising growth in the New Economy healthcare and information technology sectors, was recorded with 2017-2020 compound annual growth rates of 135 per cent and 115 per cent respectively. In 2020, the top four stocks by trading volume were all New Economy stocks, compared with only one in 2017. This demonstrates the significant change brought by the new listing regime in broadening the type of new issuers at HKEX as the market develops.

5 Source: Dealogic

During 1H 2021, HKEX ETP market performed well and a number of new initiatives were introduced to further enhance the ETP market's attractiveness and depth:

Key initiatives for the ETP market

- HKEX introduced a new tiered structure for ETP trading fee exemption for market makers. Effective from 31 May 2021, the fee exemption for market makers was adjusted to reflect their ADT over a 12-month period and their relevant investment exposure
 - HKEX expanded its product suite, welcoming the first ETF tracking the SSE's STAR Market, the first ETF focused on Hong Kong-listed biotech companies, the first batch of L&I Products tracking the FTSE China A50 Index, the first L&I Products tracking Taiwanese underlying, the first long duration China bond ETF and the first high yield bond ETF
 - HKEX introduced fee waivers for Hong Kong-listed fixed income and money market ETFs, helping to reduce transaction costs for investors
 - HKEX welcomed the first ETF listings in Hong Kong and Shanghai under the Hong Kong-Mainland ETF Cross-listing Scheme, marking another milestone in the development of cross-border ETFs and collaboration between Hong Kong and Mainland exchanges
-

In 1H 2021, Bond Connect's trading volume continued to grow, with ADT reaching a record high of RMB26.6 billion for the half year. ADT reached a record monthly high of RMB30.5 billion in June, and the highest single-daily turnover was recorded on 21 April 2021 with RMB49.6 billion traded. By 30 June 2021, Bond Connect had attracted 2,650 institutional investors, up from 2,352 as at 31 December 2020. Key developments of Bond Connect in 1H 2021 are highlighted as follows:

Key developments of Bond Connect

- The People's Bank of China announced a new Bond Connect filing arrangement to further facilitate overseas institutional investors' participation in China's inter-bank bond market. Effective from 9 March 2021, the new arrangement enables filings to be submitted by the investment manager at entity level, with one filing for multiple products now allowed
 - Enhanced arrangements were implemented to allow Bond Connect investors to select up to three foreign exchange (FX) settlement banks to conduct their currency conversion and facilitate their FX risk management needs
 - FTSE Russell confirmed that Chinese government bonds would be included in the FTSE World Government Bond Index (WGBI), with inclusion to be phased into the index over a period of 36 months, commencing 29 October 2021
 - Bond Connect launched a new dealer pay model, which allows global investors to get price quotations from market makers with trading fee built into the bond price
-

The Hong Kong listed bond market flourished in 1H 2021. Including the latest series of inflation-linked retail bonds (iBond) due in 2024, there were 244 newly listed bonds in 1H 2021 (up 35 per cent from 1H 2020), raising more than \$791 billion (up 17 per cent from 1H 2020).

Since its launch on 1 December 2020, HKEX's Sustainable and Green Exchange (STAGE) has continued to gain traction. As at 30 June 2021, there were a total of 67 sustainable-focused products from leading Asian corporates displayed on STAGE, including green, social, sustainable, or similar, bonds from issuers across different sectors, as well as ESG-related ETPs. In 1H 2021, there were 42 green/ESG-related bond listings, raising a total of \$124 billion (1H 2020: 4 listings raising \$10 billion).

On 20 May 2021, the Stock Exchange published consultation conclusions on the Main Board Profit Requirement (the amendments will take effect on 1 January 2022) and Review of Listing Rules Relating to Disciplinary Powers and Sanctions (the amendments were effective from 3 July 2021). Both consultations received a broad range of responses representing stakeholders across Hong Kong's capital markets. Combined with the approach being taken by the Stock Exchange and the SFC as set out in the Joint Statement on IPO-related misconduct, the conclusions seek to further strengthen and enhance the quality and integrity of Hong Kong's capital markets.

In addition, the Stock Exchange published the following guidance materials during 1H 2021:

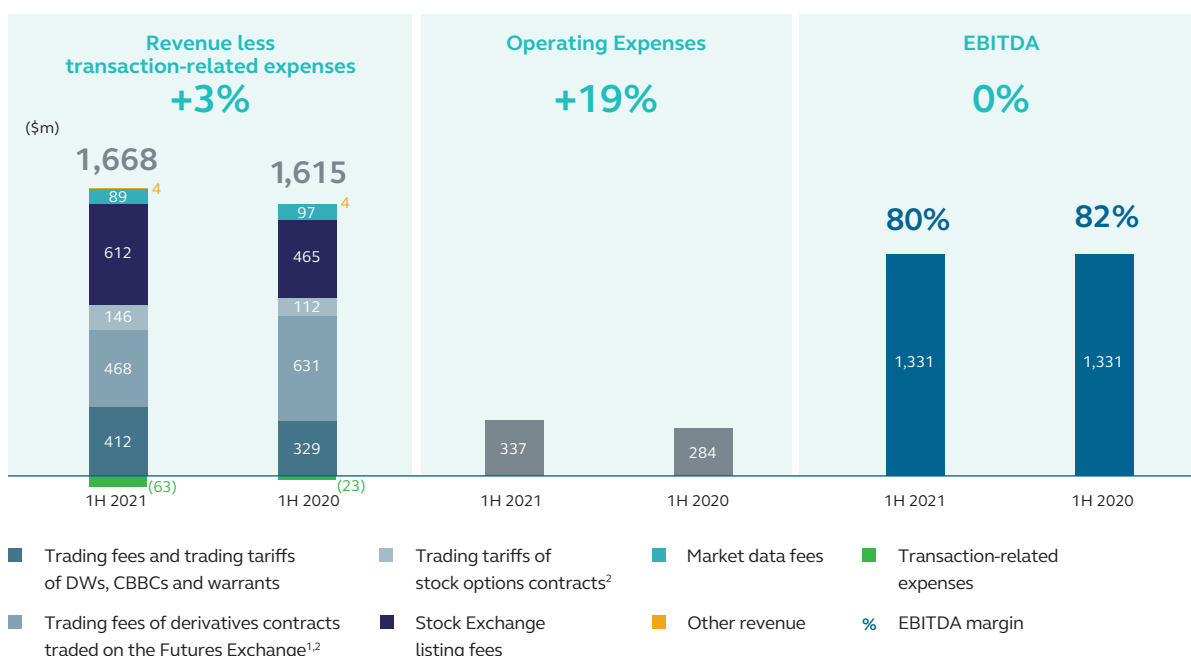
Guidance materials

- Semi-annual (i) Listing Division Newsletter and (ii) Listed Issuers' Regulation Newsletter
- A "Review of Issuers' Annual Report Disclosure – Report 2020" on the findings and recommendations from a review of issuers' annual reports for the financial year ended between 1 January and 31 December 2019
- A new Guidance Letter on pre-vetting for placing to connected clients in an initial public offering; and updated Guidance Letters on (i) disclosure in listing documents for biotech companies; (ii) placing to connected clients, and existing shareholders or their close associates, under the Listing Rules; and (iii) sufficiency of operations
- A dedicated webpage on secondary listings in Hong Kong to educate on the characteristics of investing in securities of secondary listed issuers
- A new e-Learning module on equity fundraising as part of the new e-Learning series on ongoing compliance requirements under the Listing Rules

Equity and Financial Derivatives Segment

Analysis of Results

1H 2021 vs 1H 2020



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

2 Excludes trading fees and trading tariffs allocated to the Post Trade segment

Revenue, less transaction-related expenses, was up 3 per cent and EBITDA was in line compared with 1H 2020.

Futures Exchange derivatives trading fees⁶ decreased by \$163 million, or 26 per cent, reflecting the 23 per cent decrease in the volume of derivatives contracts traded (1H 2020 saw the second highest half-yearly ADV due to increased volatility), and a lower proportion of higher fee contracts (including HSI futures and options) being traded in 1H 2021.

Trading fees and trading tariffs of DWs, CBBCs and warrants increased by 25 per cent compared with 1H

2020, lower than the 28 per cent increase in ADT and the 36 per cent increase in total number of trades, primarily due to lower percentage increase in trading fees from new issues of CBBCs.

Stock Exchange listing fees increased by 32 per cent, as the number of newly listed DWs and CBBCs reached half-yearly record highs of 8,247 and 21,017 in 1H 2021 respectively.

Operating expenses increased by 19 per cent due to higher allocated costs, reflecting the relative higher increase in listing fees from DWs and CBBCs; and incentives relating to the MSCI index futures contracts which commenced in 2H 2020.

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

Business Update

ADV of derivatives contracts was 1,203,625⁶ in 1H 2021, 3 per cent higher than 1H 2020, mainly attributable to the 37 per cent increase in stock options, partly offset by the 23 per cent drop in derivatives contracts traded on the Futures Exchange.

The Hang Seng TECH Index derivative products continue to gain traction with investors. Since the launch of Hang Seng TECH Index Futures (HTIF) in November 2020, both trading volume and open interest (OI) for HTIF grew during 1H 2021. ADV reached 8,672 contracts in Q2 2021, an increase of 33 per cent over Q1 2021, and daily trading volume reached a record high of 30,561 contracts on 25 May 2021. OI for HTIF increased from 4,721 contracts as of 31 December 2020 to 18,944 contracts as of 30 June 2021. Hang Seng TECH Index Options (HTIO), which was introduced in January 2021, hit a daily record high of 2,032 contracts on 11 May 2021, and OI reached 8,143 contracts at 30 June 2021.

HKEX further expanded its fixed income and currency product coverage, with the launch of Mini USD/CNH Futures contract on 26 April 2021, complementing the existing USD/CNH contract with a smaller contract size of US\$20,000. Since its launch, trading demand for the contract experienced strong momentum, with ADV of 7,130 contracts traded up to 30 June 2021. Trading volume reached a daily record high of 13,448 contracts on 21 June 2021.

To broaden the derivatives product offering and complement the existing Hang Seng product suite, HKEX announced its plan to introduce physically settled Options on Futures Contracts (OOF) on Hang Seng Index Futures and Hang Seng China Enterprises Index Futures in Q3 2021, subject to regulatory approvals and market readiness. The introduction of OOF brings new trading and risk management tools to Hong Kong to complement the existing suite of products available.

During the period, HKEX has continued to enhance its market microstructure, with the roll-out of a number of key initiatives: both the VCM and Pre-Opening Session (POS) enhancements in its Derivatives Market were introduced on 12 April 2021, allowing multiple VCM triggers per trading session to better safeguard market integrity; and introducing a random cut-off mechanism to the pre-opening session and the pre-open allocation session, aiming to deter manipulation of the Calculated Opening Price near the end of the auction process.

Key Market Indicators

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 |
|---|---------------------------------|---------------------------------|
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn) | 22.4 | 17.5 |
| Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000) | 433 ² | 316 |
| ADV of derivatives contracts traded on the Futures Exchange ¹ ('000 contracts) | 516 | 672 |
| ADV of stock options contracts traded on the Stock Exchange ('000 contracts) | 688 ² | 502 |
| Number of newly listed DWs | 8,247 ² | 5,460 |
| Number of newly listed CBBCs | 21,017 ² | 18,920 |
| Number of newly listed Inline Warrants | 83 | 509 |
| ADV of contracts traded during After-Hours Trading (AHT) ¹ ('000 contracts) | 67 | 119 |
| Number of trading days | 121 | 122 |
| | At 30 Jun 2021 | At 30 Jun 2020 |
| Open interest of futures and options contracts ¹ ('000 contracts) | 11,650 | 11,186 |

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

2 New record half-yearly high in 1H 2021

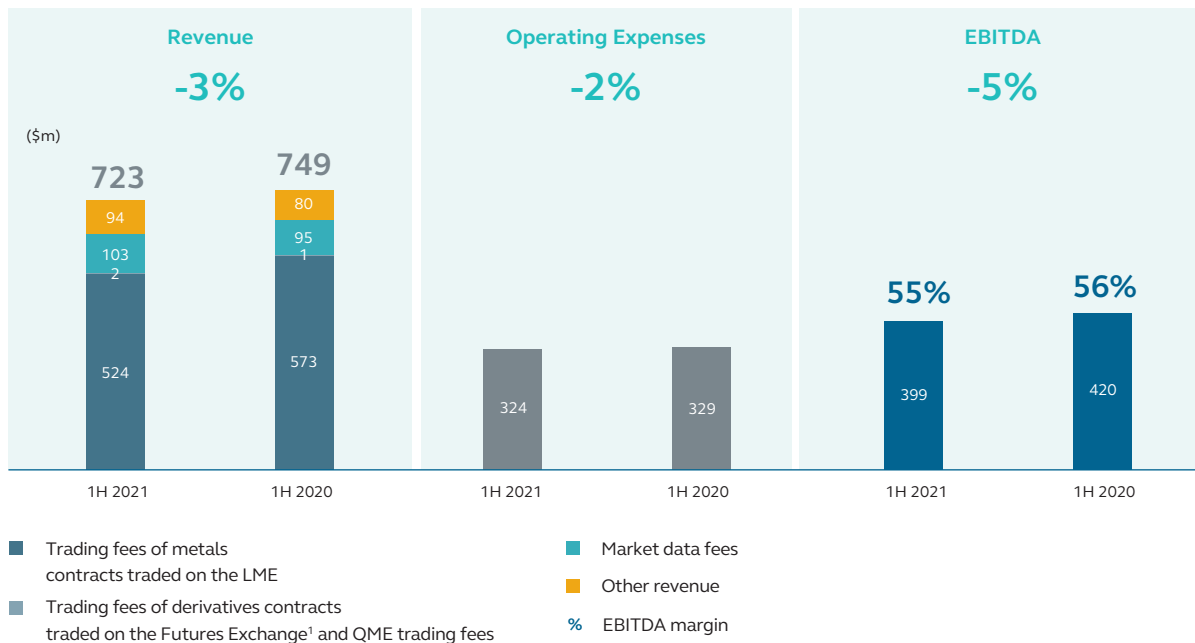
Aiming to enhance the industry understanding of the relevant Exchange and Clearing rules, and to raise compliance standards, HKEX organised a number of market communication and education events in 1H 2021, including the publication of compliance reminders and guidance notes, and the hosting of education seminars and compliance roundtables.

The structured products market remained robust and resilient in 1H 2021, with both listing and trading activities experiencing strong growth. The number of newly listed structured products and ADT of CBBCs, DWs and warrants increased by 18 per cent and by 28 per cent respectively against 1H 2020. In June 2021, HKEX was awarded the "Best Structured Products and Derivatives Exchange" in the "Asia-Pacific Awards 2021" organised by Structured Retail Products, for the second consecutive year.

Commodities Segment

Analysis of Results

1H 2021 vs 1H 2020



¹ Includes London Metal Mini Futures, Gold Futures, Silver Futures and Iron Ore Futures contracts only

Revenue was down 3 per cent and EBITDA was down 5 per cent compared with 1H 2020, impacted by the fragile global economy and the Covid-19 environment.

LME trading fees dropped by \$49 million (9 per cent) due to the 13 per cent decrease in chargeable ADV of metals contracts traded in 1H 2021, partly offset by a higher average fee per contract.

Operating expenses decreased by 2 per cent due to lower professional fees.

Business Update

LME trading activity remained suspended on the Ring in 1H 2021, in accordance with UK Government Covid-19 guidance, and the LME's metals prices continued to be generated via the LME's electronic trading platform, supported by implied pricing functionality. Subject to the ongoing relaxation of UK Government social distancing rules, the LME anticipates that it will be able to re-open the Ring in September 2021.

The LME recently published the outcomes of its discussion paper on market structure, designed to enhance the LME's electronic offering and provide greater transparency, while also preserving optionality for the Exchange's diverse global customer base. The summary outcomes of the paper were:

Key outcomes of the discussion paper on market structure

- Ring trading and reference prices – the Ring will re-open on 6 September, with the LME proposing the determination of Official Prices to take place in the Ring, while permanently moving Closing Price discovery and trading to its electronic platform
- Enhancing liquidity – respondents were broadly supportive of the overarching proposal to enhance electronic liquidity for the benefit of the market as a whole and the LME will implement a range of initiatives, starting in 2022
- Margin methodology – respecting the mixed views expressed and the clear advantages of the two models for different stakeholders, the LME will stay with the existing Contingent Variation Margin (CVM) methodology in the short to medium term, while investigating a hybrid CVM/Realised Variation Margin (RVM) method and prioritising the delivery of a Value at Risk (VaR) initial margin model
- Market conduct – the LME intends to introduce enhancements to off-warrant stock reporting to provide greater transparency on physical stocks to all market participants

The LME has continued to invest in its global physical ecosystem in 2021 and is on track to launch an online service called LMEpassport in 2H 2021. LMEpassport will be utilised for registering Certificates of Analysis (COAs) and a broad range of metal sustainability certifications and disclosures electronically. The LME continues to support its listed brands in working towards compliance with the LME's responsible sourcing requirements through (i) the provision of tools and guidance (ii) the approval of auditors for due diligence and (iii) ongoing support with alignment assessment against the Organisation for Economic Co-operation and Development (OECD) guidance for responsible supply chains.

Six new LME cash settled futures were launched on 19 July 2021. These are LME Steel HRC NW Europe (Argus), LME Steel Scrap CFR Taiwan (Argus), LME Steel Scrap CFR India (Platts), LME Aluminium Premium Duty Paid European (Fastmarkets MB), LME Aluminium UBC Scrap US (Argus) and LME Lithium Hydroxide CIF (Fastmarkets MB).

Key Market Indicators

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 |
|--|---------------------------------|---------------------------------|
| ADV of metals contracts traded on the LME ('000 lots) | | |
| Aluminium | 228 | 266 |
| Copper | 125 | 135 |
| Zinc | 83 | 100 |
| Nickel | 63 | 73 |
| Lead | 39 | 44 |
| Others | 6 | 7 |
| Total chargeable ADV excluding Admin Trades ¹ | 544 | 625 |
| Chargeable Admin Trades ¹ | 26 | 46 |
| Other non-chargeable trades | 1 | 1 |
| Total ADV | 571 | 672 |
| Number of trading days | 124 | 125 |

| | At 30 Jun 2021 | At 30 Jun 2020 |
|--|-------------------|-------------------|
| Total futures Market Open Interest ('000 lots) | 1,885 | 2,094 |

¹ Admin Trades are chargeable at a lower fee rate of US\$0.04 per contract.

On 1 April 2021, the LME introduced a new market data non-display license, applicable to any use of LME data other than where it is in direct support of its display or distribution.

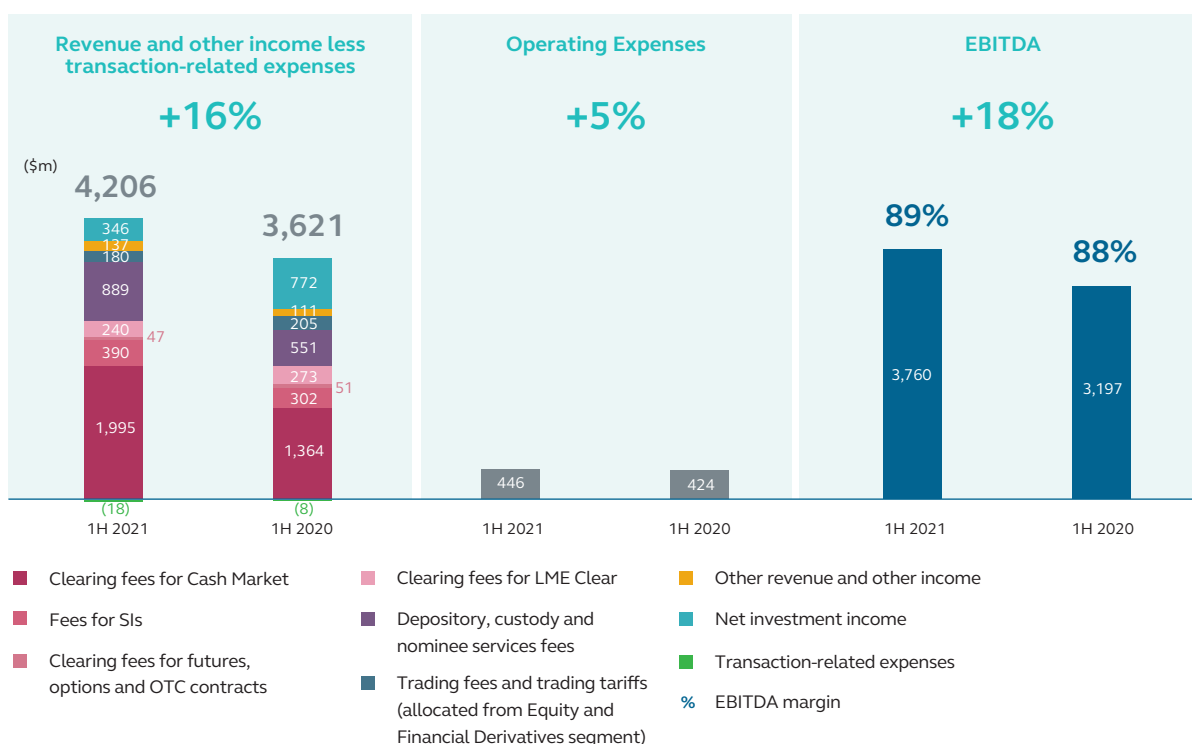
LME Asia Metals Seminar 2021 was successfully hosted in May 2021, bringing together more than 1,000 industry leaders and investors to discuss the latest development in the global commodities market and opportunities emerging from Covid-19.

Despite the volatility in the international commodities market that has changed the purchase and stockpiling pattern of physical producers and traders, the total trading turnover of QME in 1H 2021 reached RMB6.9 billion, more than triple the trading turnover in 1H 2020. In terms of price benchmarks, QME's alumina benchmark price quotation weight in Antaika's index has been adjusted up from 10 per cent to 15 per cent. In addition, the first financing case based on QME's blockchain warrant was successfully completed in April 2021.

Post Trade Segment

Analysis of Results

1H 2021 vs 1H 2020



Revenue and other income, less transaction-related expenses, was up 16 per cent and EBITDA was up 18 per cent compared with 1H 2020.

Clearing and settlement fees for the Cash Market and for Settlement Instructions (SIs) increased by 46 per cent and 29 per cent respectively. The increases were primarily driven by a higher number of transactions, and record clearing fees from Stock Connect Northbound Trading of \$501 million (1H 2020: \$301 million).

Depository, custody and nominee services fees increased by \$338 million, or 61 per cent. This was mainly due to higher e-IPO service fees from a higher number of e-IPO applications, higher scrip fees from more companies having their book close in 1H 2021, and higher Stock Connect portfolio fees due to increase in portfolio values.

Net investment income dropped by \$426 million, mainly due to lower investment return as a result of the low interest rate environment, partly offset by higher average fund sizes of Margin Funds and Clearing House Funds.

The analysis of net investment income is as follows:

| | Six months ended 30 Jun 2021 | | | Six months ended 30 Jun 2020 | | |
|----------------------------------|------------------------------|-----------------------------|--------------|------------------------------|-----------------------------|--------------|
| | 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 | 316 | 9 | 325 | 687 | 58 | 745 |
| – Debt securities | 20 | 1 | 21 | 32 | – | 32 |
| – Exchange losses | – | – | – | (5) | – | (5) |
| Total net investment income | 336 | 10 | 346 | 714 | 58 | 772 |
| Average fund size (\$bn) | 186.0 | 22.5 | 208.5 | 151.7 | 16.3 | 168.0 |
| Annualised net investment return | 0.36% | 0.09% | 0.33% | 0.94% | 0.71% | 0.92% |

Operating expenses increased by 5 per cent, reflecting increases in staff costs for new initiatives.

Business Update

Driven by strong trading activities in 1H 2021, the average daily number of Stock Exchange trades and SIs settled by CCASS increased by 38 per cent and 21 per cent respectively in 1H 2021 when compared to 1H 2020; and the number of Stock Exchange trades reached a record high of 4.6 million on 24 February 2021.

Usage of Stock Connect clearing services increased in 1H 2021 following sustained flows in both Southbound and Northbound Trading, with the average daily value of Northbound SIs increasing by 71 per cent in 1H 2021, against 1H 2020. In addition, the Northbound and Southbound portfolio values of Stock Connect as at 30 June 2021 increased by 12 per cent and 29 per cent to RMB2,629 billion and \$2,709 billion respectively, compared with 31 December 2020.

HKEX has been carrying out phase one of a participants' familiarisation programme for NextGen Risk Management Platform (a newly developed risk management platform) since January 2021. HKEX also kicked off phase two preparation work where default fund information and a margin simulator will be provided to participants.

OTC Clear's USD/CNH Cross Currency Swaps (CCS) clearing volume for 1H 2021 was up 20 per cent, with US\$27.7 billion notional cleared, compared with US\$23.1 billion in 1H 2020. To provide a full

Key Market Indicators

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 |
|---|---------------------------------|---------------------------------|
| ADT traded on the Stock Exchange (\$bn) | 188.2 ² | 117.5 |
| Average daily number of Stock Exchange trades ('000) | 2,530 ² | 1,834 |
| Average daily value of SIs (\$bn) | 450.4 | 339.7 |
| Average daily number of SIs ('000) | 134 | 111 |
| Chargeable ADV ¹ of metals contracts traded on the LME ('000 lots) | 544 | 625 |

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

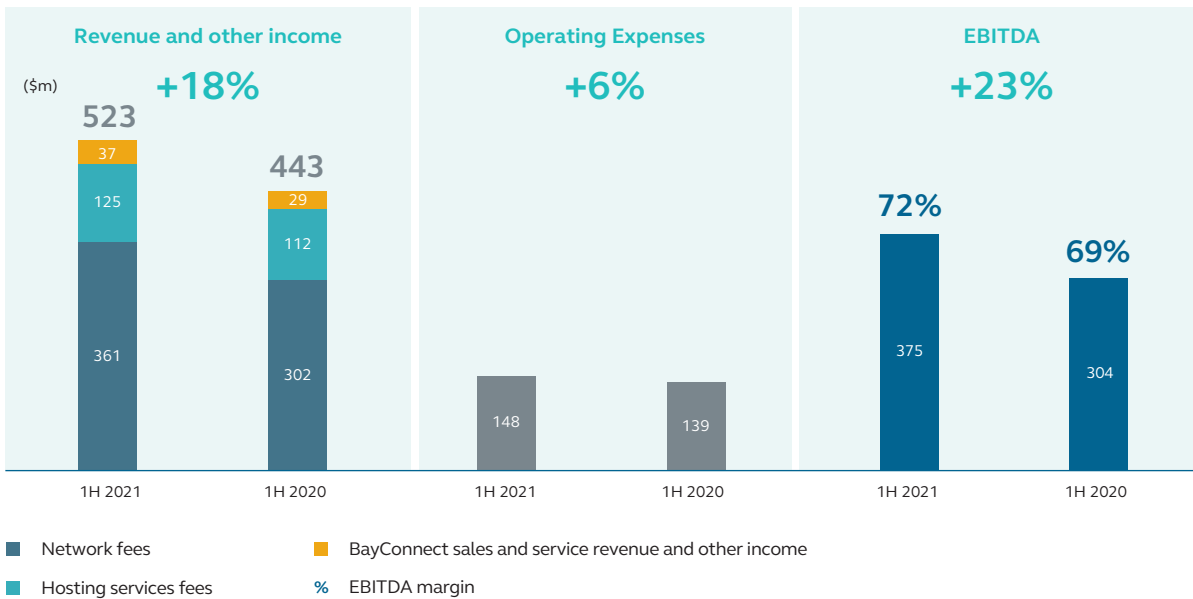
2 New record half-yearly high in 1H 2021

suite of Risk-Free Rate (RFR) based clearing products before the cessation of the use of London Inter-bank Offered Rate (LIBOR), OTC Clear launched clearing services for CCS referencing Secured Overnight Financing Rate (SOFR) and Hong Kong Dollar Overnight Index Average (HONIA) in May 2021, and subsequently cleared the first trade in the same month. In addition, OTC Clear has completed the switch of discounting rates, from Fed Funds rates to SOFR for CCS, Deliverable FX derivatives and Non Deliverable FX derivatives in June 2021.

Technology Segment

Analysis of Results

1H 2021 vs 1H 2020



Revenue and other income was up 18 per cent and EBITDA was up 23 per cent compared with 1H 2020.

During 1H 2021, network fees rose by 20 per cent due to increased usage of the Orion Central Gateway and China Connect Central Gateway by EPs, and higher fees from the sale of new throttles.

Hosting services fees rose by 12 per cent, compared with 1H 2020, due to organic growth from both new customer subscriptions and increased usage by existing customers.

Operating expenses increased by 6 per cent due to higher IT expenses for new systems and upgraded networks.

Business Update

During 1H 2021, despite market volatility and challenges posed by Covid-19 on work arrangements, all of HKEX's major trading, clearing, settlement and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform robustly.

HKEX has committed to further improve the system infrastructure resilience of Hong Kong Futures Automated Trading System (HKATS) by adding two new Matching Engines in Q3 2021, and by reallocating products of a similar nature into the new Matching Engines to facilitate new product initiatives.

To further enhance the operating efficiency of the existing Derivatives Clearing and Settlement System (DCASS) services on External Position Transfer and Position Re-opening (collectively "Position Adjustment"), HKEX plans to enhance the Position Adjustment service by allowing CPs to submit their Position Adjustment requests directly at DCASS Online. The service is scheduled to be launched in 2H 2021.

The upgrade of the OTC Clearing and Settlement System (OCASS) completed on 26 April 2021. This further enhanced system performance, flexibility and stability, and at the same time brought in significant functional and technical improvements (in particular the new risk engine, low-latency technical architecture and market data catch-up processes) to both OTC Clear and its Clearing Members.

The project for hardware obsolescence replacement for various trading and clearing systems, together with the relocation of one of HKEX secondary data centre sites, has been progressing well. The upgrade and relocation of the derivatives trading and clearing systems infrastructure was successfully completed in 1H 2021. The upgrade and relocation of the CCASS infrastructure has been progressing according to plan and is expected to complete in Q3 2021, which will conclude the entire project.

Corporate Items

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|---|--|--|
| Net investment income | 428 | 66 |
| HKEX Foundation donation income ⁴ | 74 | - |
| Others | 6 | 4 |
| Total revenue and other income | 508 | 70 |
| Operating expenses: | | |
| – HKEX Foundation charitable donations ⁴ | (69) | (28) |
| – Others | (592) | (556) |
| EBITDA | (153) | (514) |

Analysis of Results

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

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|--|--|
| Net investment income/(loss) from: | | |
| – Collective investment schemes ¹ | 321 | (138) |
| – Cash and bank deposits | 92 | 237 |
| – Exchange gains/(losses) | 15 | (33) |
| Total net investment income | 428 | 66 |
| Average fund size (\$bn) | 33.8 | 29.3 |
| Annualised net investment return | 2.53% | 0.45% |

¹ See Financial Review section for further details

Net investment income of Corporate Funds in 1H 2021 increased by \$362 million compared with 1H 2020. This was principally due to fair value gains on collective investment schemes of \$321 million in 1H 2021, as opposed to losses of \$138 million in 1H 2020, but partly offset by the decrease in interest income under the low interest rate environment.

The fair value change on collective investment schemes mainly came from funds invested in public equities (1H 2021: gains of \$182 million, 1H 2020: losses of \$246 million). As the valuation of the collective investment schemes reflects movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold.

Operating expenses increased by 13 per cent against 1H 2020. Excluding HKEX Foundation charitable donations, operating expenses increased by 6 per cent against 1H 2020 due to increased staff costs.

Business Update

In 1H 2021, HKEX completed a minority stake investment in the newly-established Guangzhou Futures Exchange (GFE) for a total consideration of RMB210 million, the first investment in a domestic futures exchange by a non-Mainland Chinese investor. Anchored in the Guangdong-Hong Kong-Macao Greater Bay Area, GFE was launched in April, and aims to become an innovative and market-oriented exchange with international influence, focusing on serving the real economy and green development initiatives. This investment supports our China Anchored strategy, providing HKEX with the opportunity to help build and promote the development of China's derivatives market, alongside our Mainland partners and customers.

In 1H 2021, HKEX continued to play an active role in shaping the long-term sustainability of global financial markets. Our Corporate Social Responsibility focus remained on our markets, our people and our operations. HKEX's promotion of good corporate governance and ESG stewardship through ongoing industry knowledge sharing and leadership on best practices has been a cornerstone of our outreach during the period.

As part of the Group's ongoing efforts to promote ESG, HKEX rolled out a new ESG Academy webinar series to advocate best practice sharing on ESG stewardship. HKEX continued to promote sustainable and green finance through publication of insights and research papers through STAGE as well as active engagement with regulators, industry practitioners, professional bodies and other stakeholders.

HKEX Foundation, HKEX's dedicated charitable channel, supported those in need in our communities through partnerships with local charities, and supported projects across the Foundation's four focus areas: financial literacy, diversity and inclusion, poverty relief and environmental sustainability. During 1H 2021, HKEX Foundation launched the flagship 2021 HKEX Charity Partnership Programme to support long-term projects in the community. In the first half of the year HKEX Foundation made donations of \$69 million to the community.

Expenses, Other Costs and Taxation

Operating Expenses

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m | Change |
|--|--|--|--------|
| Staff costs and related expenses | 1,495 | 1,398 | 7% |
| IT and computer maintenance expenses | 338 | 315 | 7% |
| Premises expenses | 57 | 59 | (3%) |
| Product marketing and promotion expenses | 36 | 17 | 112% |
| Professional fees | 48 | 66 | (27%) |
| HKEX Foundation charitable donations | 69 | 28 | 146% |
| Other operating expenses | 178 | 162 | 10% |
| Total | 2,221 | 2,045 | 9% |

Staff costs and related expenses increased by \$97 million (7 per cent) mainly due to annual payroll adjustments, the increase in part-time wages for supporting new initiatives, and the increase in LME staff costs due to the appreciation of GBP.

IT and computer maintenance expenses increased by \$23 million (7 per cent), attributable to higher maintenance expenses for new systems and upgraded networks.

Product marketing and promotion expenses increased by \$19 million (112 per cent), partially attributable to incentives related to MSCI contracts launched in 2H 2020.

Professional fees decreased by \$18 million (27 per cent), due to lower fees incurred for strategic projects and other business initiatives in 1H 2021.

Depreciation and Amortisation

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m | Change |
|-------------------------------|--|--|--------|
| Depreciation and amortisation | 662 | 545 | 21% |

Depreciation and amortisation increased by \$117 million (21 per cent), as new IT systems and upgrades were completed in 2H 2020 and 1H 2021.

During 1H 2021, the Group incurred capital expenditure⁷ of \$536 million, an increase of 3 per cent from 1H 2020.

⁷ Capital expenditure excludes right-of-use assets recognised under HKFRS 16: Leases.

Finance Costs

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m | Change |
|---------------|--|--|--------|
| Finance costs | 77 | 96 | (20%) |

Finance costs decreased due to lower negative interest charges on lower amount of Euro and Japanese Yen deposits collected from CPs as collateral.

Taxation

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m | Change |
|----------|--|--|--------|
| Taxation | 1,317 | 870 | 51% |

Taxation increased due to higher profit before taxation in 1H 2021, and a one-off deferred tax charge of \$160 million on acquired LME intangible assets arising from approval of the change of statutory UK tax rate in June 2021 from 19 per cent to 25 per cent effective from April 2023.

Financial Review

Significant Financial Assets and Financial Liabilities by Funds

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m | Change |
|--|--------------------------|--------------------------|-----------|
| Financial assets | | | |
| Cash and cash equivalents | 154,621 | 157,996 | (2%) |
| Financial assets measured at fair value through profit or loss | 130,607 | 100,597 | 30% |
| Financial assets measured at fair value through other comprehensive income | 8,288 | 7,942 | 4% |
| Financial assets measured at amortised cost | 64,673 | 62,688 | 3% |
| Total | 358,189 | 329,223 | 9% |

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

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m | Change |
|--|--------------------------|--------------------------|-----------|
| Financial assets | | | |
| Corporate Funds ¹ | 34,511 | 33,747 | 2% |
| Margin Funds ² | 179,886 | 175,129 | 3% |
| Clearing House Funds | 22,365 | 21,251 | 5% |
| Base, ferrous, and precious metals derivatives contracts cleared through LME Clear | 121,427 | 92,884 | 31% |
| Cash prepayments and collateral for A shares | - | 6,212 | (100%) |
| Total | 358,189 | 329,223 | 9% |

1 Includes \$1,087 million (31 December 2020: \$1,241 million) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$11,474 million (31 December 2020: \$11,879 million), which are included in accounts receivable, prepayments and other deposits

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m | Change |
|--|--------------------------|--------------------------|------------|
| Financial liabilities | | | |
| Base, ferrous, and precious metals derivatives contracts cleared through LME Clear | 121,427 | 92,884 | 31% |
| Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs | 191,360 | 187,008 | 2% |
| CPs' contributions to Clearing House Funds | 21,501 | 20,439 | 5% |
| Total | 334,288 | 300,331 | 11% |

Financial assets and financial liabilities of Margin Funds at 30 June 2021 were 3 per cent and 2 per cent higher than the amounts at 31 December 2020 respectively, as the increase in contributions required from members of LME Clear due to higher metal contract prices was mostly offset by reduced contributions from HKCC CPs due to reduced open positions.

Financial assets and financial liabilities of Clearing House Funds at 30 June 2021 were 5 per cent higher than the balances at 31 December 2020, as higher contributions required from members of LME Clear and SEOCH CPs were partly offset by lower contributions from HKSCC CPs, in response to changes in risk exposures.

Financial assets of Corporate Funds at 30 June 2021 increased by \$764 million as compared with 31 December 2020 due to the retention of cash generated by the business over the past six months partly offset by the cash paid for the 2020 second interim dividend, and the increase in fair values of collective investment scheme investments.

A portion of the Corporate Funds is invested in a diversified portfolio of collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. Further details of investments in collective investment schemes are as follows:

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m | Change |
|---|--------------------------|--------------------------|------------|
| Strategy | | | |
| Public Equities | 1,935 | 1,684 | 15% |
| Diversifiers ¹ | 4,788 | 4,130 | 16% |
| Government Bonds and Mortgage-backed Securities | 1,984 | 1,679 | 18% |
| Total | 8,707 | 7,493 | 16% |

¹ Diversifiers comprise Absolute Return and Multi-Sector Fixed Income asset classes.

Working Capital, Financial Resources and Gearing

Working capital rose by \$209 million or 1 per cent to \$29,568 million at 30 June 2021 (31 December 2020: \$29,359 million). The increase was primarily due to the profit of \$6,610 million generated during 1H 2021, partly offset by the 2020 second interim dividend of \$5,646 million paid in March 2021 and net increase in non-current assets of \$572 million.

At 30 June 2021, the Group's outstanding borrowings represented written put options to non-controlling interests of \$425 million (31 December 2020: \$423 million). As a result, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 1 per cent (31 December 2020: 1 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2020: zero per cent). For this purpose, gross debt is defined as total borrowings (excluding lease liabilities) and net debt¹ is defined as gross debt less cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds), and adjusted capital as all components of equity attributable to shareholders other than designated reserves.

¹ Net debt is zero when the amount of cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds) is higher than gross debt.

Banking facilities have been put in place for contingency purposes. At 30 June 2021, the Group's total available banking facilities for its daily operations amounted to \$21,230 million (31 December 2020: \$21,223 million), which included \$14,729 million (31 December 2020: \$14,722 million) of committed banking facilities and \$6,500 million (31 December 2020: \$6,500 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 2021, the total amount of the facilities was HK\$30,444 million (31 December 2020: HK\$30,244 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2020: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect.

At 30 June 2021, 89 per cent (31 December 2020: 82 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Capital Expenditure and Commitments

During 1H 2021, the Group incurred capital expenditure² of \$536 million (1H 2020: \$519 million) mainly related to the development and upgrade of various trading and clearing systems (notably trading systems for Commodities Market and software for cash clearing systems), and the setup of the new secondary data centre.

The Group's capital expenditure commitments at 30 June 2021, including those authorised by the Board but not yet contracted for, amounted to \$711 million (31 December 2020: \$890 million). They were mainly related to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems, and the setup of the new secondary data centre.

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

In 1H 2021, HKEX completed a minority stake investment in the newly-established Guangzhou Futures Exchange (GFE) for a total consideration of RMB210 million.

Following the capital injection of \$100 million in Fusion Bank Limited in 2019 and 2020, HKEX will further provide additional capital of \$100 million to the bank in Q4 2021.

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 were no material investments or additions of capital assets authorised by the Board at the date of this Interim Report.

² Capital expenditure excludes right-of-use assets recognised under HKFRS 16: Leases.

Pledges of Assets

Details of pledges of assets are included in note 26 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The functional currencies of the Hong Kong and PRC entities are either HKD or RMB and the functional currency of the LME entities is USD. Foreign currency risks arise mainly from the Group's investments and bank deposits in currencies other than HKD and USD and the GBP expenditure of 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 and highly probable forecast transactions 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 Fund and Default Fund will generally be in the currency in which cash was received.

The aggregate net open foreign currency positions (excluding collective investment schemes and equity investments) at 30 June 2021 amounted to HK\$1,837 million, of which HK\$395 million were non-USD exposures (31 December 2020: HK\$2,750 million, of which HK\$382 million were non-USD exposures).

Contingent Liabilities

Details of contingent liabilities are included in note 24 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Changes since 31 December 2020

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 2020.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2021 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 2021.

Corporate Governance and Other Information

Board and Committees

Board

Independent Non-executive Directors

Laura May-Lung CHA * GBM, GBS, JP (Chairman)
Nicholas Charles ALLEN ¹
Apurv BAGRI
CHAN Tze Ching, Ignatius ² BBS, JP
CHEAH Cheng Hye
CHEUNG Ming Ming, Anna ¹
CHOW WOO Mo Fong, Susan *
FUNG Yuen Mei, Anita * ² BBS, JP
Rafael GIL-TIENDA * ³
HU Zulu, Fred ²
HUNG Pi Cheng, Benjamin * BBS, JP
LEUNG Nisa Bernice Wing-Yu * ⁴ JP
LEUNG Pak Hon, Hugo
John Mackay McCulloch WILLIAMSON ⁵
YIU Kin Wah, Stephen * ³
ZHANG Yichen ¹

Executive Director

Alejandro Nicolas AGUZIN ⁶ (Chief Executive)
TAI Chi Kin, Calvin ⁷ (ex-Interim Chief Executive)
LI Xiaojia, Charles ⁸ SBS (ex-Chief Executive)

Group Company Secretary

FU Yat Hung, David

Committees

Audit Committee

YIU Kin Wah, Stephen ³ (Chairman)
Nicholas Charles ALLEN ⁴
CHAN Tze Ching, Ignatius ⁹
CHEUNG Ming Ming, Anna ⁴
FUNG Yuen Mei, Anita ⁹
LEUNG Nisa Bernice Wing-Yu ⁴
LEUNG Pak Hon, Hugo
John Mackay McCulloch WILLIAMSON ⁹

Board Executive Committee

Laura May-Lung CHA (Chairman)
Alejandro Nicolas AGUZIN ⁶
CHEAH Cheng Hye
CHEUNG Ming Ming, Anna ⁴
LEUNG Pak Hon, Hugo
TAI Chi Kin, Calvin ¹⁰
John Mackay McCulloch WILLIAMSON ⁹

Corporate Social Responsibility Committee

Laura May-Lung CHA (Chairman)
Alejandro Nicolas AGUZIN ⁶
CHEUNG Ming Ming, Anna ⁴
CHOW WOO Mo Fong, Susan ⁴
HU Zulu, Fred ⁹
TAI Chi Kin, Calvin ¹⁰
John Mackay McCulloch WILLIAMSON ⁹
YIU Kin Wah, Stephen ⁹
ZHANG Yichen ⁴

Committees (continued)

Investment Committee

CHEAH Cheng Hye (Chairman)
FUNG Yuen Mei, Anita ⁹
HU Zulu, Fred ⁹
HUNG Pi Cheng, Benjamin
LEUNG Pak Hon, Hugo
ZHANG Yichen ⁴

Listing Operation Governance Committee ¹¹

CHOW WOO Mo Fong, Susan ¹² (Chairman)
Peter Wilhelm Hubert BRIEN ^{12, 13}
LEUNG Pak Hon, Hugo ¹²
Keith Timothy POGSON ^{12, 14}
YIU Kin Wah, Stephen ¹²

Nomination and Governance Committee

Laura May-Lung CHA (Chairman)
Apurv BAGRI
CHAN Tze Ching, Ignatius ⁹
CHEAH Cheng Hye
Rafael GIL-TIENDA ³
HUNG Pi Cheng, Benjamin

Panel Member Selection Committee

LEUNG Pak Hon, Hugo ¹⁵ (Chairman)
CHAN Tze Ching, Ignatius ⁹ (ex-Chairman)
CHEAH Cheng Hye
FUNG Yuen Mei, Anita ⁹
Rafael GIL-TIENDA ⁹
LEUNG Nisa Bernice Wing-Yu ⁴
YIU Kin Wah, Stephen ⁴
ZHANG Yichen ⁴

Remuneration Committee

Rafael GIL-TIENDA ³ (Chairman)
Apurv BAGRI ⁴
Laura May-Lung CHA
CHEAH Cheng Hye
CHOW WOO Mo Fong, Susan
HU Zulu, Fred ⁹
John Mackay McCulloch WILLIAMSON ⁹

Risk Committee

CHOW WOO Mo Fong, Susan ¹⁵ (Chairman)
John Mackay McCulloch WILLIAMSON ⁹ (ex-Chairman)
Nicholas Charles ALLEN ⁴
Laura May-Lung CHA
CHAN Tze Ching, Ignatius ⁹
LEUNG Nisa Bernice Wing-Yu ⁴
LEUNG Pak Hon, Hugo
YIU Kin Wah, Stephen ³

Risk Management Committee (statutory) ^Δ

Laura May-Lung CHA ¹⁶ (Chairman)
CHAN Ka Chai, Clara ^{** 17}
CHEUNG Wai Hing, Daisy ^{** 18}
CHOW WOO Mo Fong, Susan
KWOK Pui Fong, Miranda ^{** 19}
LAM Yuk Kun, Lawrence ^{** 20}
LEUNG Chung Yin, Rico ^{** 21}
LEUNG Pak Hon, Hugo ⁴
Barbara SHIU ^{** 20}
SUN Yu ^{** 19}
John Mackay McCulloch WILLIAMSON ⁹

* Government Appointed Director

** Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

¹ Elected on 28 April 2021

² Retired on 28 April 2021

³ Re-appointment effective 28 April 2021

⁴ Appointment effective 28 April 2021

⁵ Retired on 28 April 2021 and was appointed as Senior Advisor to the Board from 29 April 2021 to 28 April 2022

⁶ Appointment effective 24 May 2021

⁷ Served as Interim Chief Executive and Executive Director from 1 January to 23 May 2021 and continues in his roles as Chief Operating Officer and Co-President (up to 31 July 2021)/President (since 1 August 2021) of HKEX

⁸ Retired on 31 December 2020 and served as Senior Advisor to the Board from 1 January to 7 April 2021

⁹ Appointment ceased on 28 April 2021

¹⁰ Served as a member from 1 January to 23 May 2021

¹¹ Established on 16 June 2021

¹² Appointment effective 16 June 2021

¹³ Member by virtue of being chairman of the Listing Committee of the Stock Exchange

¹⁴ Member by virtue of being deputy chairman of the Listing Committee of the Stock Exchange

¹⁵ Resignation from member to chairman effective 28 April 2021

¹⁶ Member by virtue of being HKEX's Chairman

¹⁷ Member by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority

¹⁸ Member by virtue of being Chairman of Hong Kong Interbank Clearing Limited

¹⁹ Appointment effective 1 July 2021

²⁰ Appointment ceased on 1 July 2021

²¹ Member by virtue of being Executive Director (Supervision of Markets) of the SFC

Changes made during the period and up to the date of this Interim Report are as follows:

Listing Operation Governance Committee

The Listing Operation Governance Committee was established in June 2021 to assist the Board in overseeing the operation and management of the Listing Division. The chairman and each member of the Committee are entitled to a fee of \$250,000 and \$160,000, respectively for 2021/2022 (subject to Shareholders' approval). The terms of reference of the Committee is available in the About HKEX (Our Structure) section of the HKEX Group website.

Mainland China Advisory Group

HKEX has established a Mainland China Advisory Group (the "Advisory Group") to advise the Board on the development of China's financial markets and economy. The Advisory Group is chaired by HKEX Chairman, Laura M Cha, and also comprises Nicolas Aguzin, HKEX Chief Executive Officer, and Zhang Yichen, a Director, and three other senior industry experts with deep China market knowledge and experience.

Members of the Advisory Group

- Laura M CHA (Chairman)
 - Nicolas AGUZIN
 - Fred HU
 - MA Weihua
 - ZHANG Lei
 - ZHANG Yichen
-

Consultative Panels

Taking into account the changes in the Board composition and the expiry of the terms of certain members of the three Consultative Panels, the Board and the Panel Member Selection Committee approved changes in the composition of the Cash Market Consultative Panel, the Clearing Consultative Panel and the Derivatives Market Consultative Panel in February and May 2021 respectively. The member lists of the Consultative Panels are available in the About HKEX (Our Structure) section of the HKEX Group website.

Changes in Information

Save as disclosed above, 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) |
|--|----------------------------|--------------------------|
| Nicolas Aguzin | | |
| • HKFE – chairman and director | 1 August 2021 | – |
| • HKSCC – chairman and director | 1 August 2021 | – |
| • LME – director | 17 June 2021 | – |
| • SEHK – chairman and director | 1 August 2021 | – |
| • HKEX's certain other subsidiaries – director | 1 August 2021 | – |
| Nicholas Allen | | |
| • RAK Rock LLC – independent non-executive director | – | 10 July 2021 |
| • Stevin Rock LLC – independent non-executive director | – | 10 July 2021 |
| • Lenovo Group Limited * – independent non-executive director | – | 20 July 2021 |
| Laura M Cha | | |
| • HSBC Holdings plc * – independent non-executive director | – | 28 May 2021 |
| • The Hongkong and Shanghai Banking Corporation Limited – chairman and independent non-executive director | – | 7 June 2021 |
| Susan Chow | | |
| • HKEX Foundation – director | 28 April 2021 | – |
| • HKFE – member of Disciplinary Appeals Committee | 28 April 2021 | – |
| Rafael Gil-Tienda | | |
| • HKEX – deputy chairman of Cash Market Consultative Panel | – | 28 April 2021 |
| – deputy chairman of Clearing Consultative Panel | – | 28 April 2021 |
| Hugo Leung | | |
| • HKEX – chairman of Derivatives Market Consultative Panel | 28 April 2021 | – |
| • HKFE – chairman of Disciplinary Appeals Committee | 28 April 2021 | – |
| – chairman of Exchange Participant Admission Appeals Committee | 28 April 2021 | – |
| Stephen Yiu | | |
| • HKCC – chairman of Participant Admission Appeals Committee | 28 April 2021 | – |
| • HKEX – chairman of Clearing Consultative Panel | 28 April 2021 | – |
| • HKSCC – chairman of Disciplinary Appeals Committee | 28 April 2021 | – |
| – chairman of Participant Admission Appeals Committee | 28 April 2021 | – |
| • SEHK – member of Listing Nominating Committee | 28 April 2021 | – |
| • SEOCH – chairman of Participant Admission Appeals Committee | 28 April 2021 | – |

* Listed on the Stock Exchange

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

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

Compliance with Corporate Governance Code

Throughout the six months ended 30 June 2021, 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 Chief Executive Officer in his capacity as a Director is not subject to retirement by rotation, as his term on the Board is coterminous with his employment as the Chief Executive Officer 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 2021.

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

The interests and short positions of Directors, including HKEX's Chief Executive Officer, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 30 June 2021 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 | | |
| Nicolas Aguzin | 211,756 ² | – | – | – | 211,756 | 0.02 |
| Anna Cheung | 300 | – | – | – | 300 | 0.00 |
| Stephen Yiu | – | 2,000 ³ | – | – | 2,000 | 0.00 |

¹ Based on 1,267,836,895 HKEX shares in issue as at 30 June 2021

² Represents Mr Aguzin's interest in Awarded Shares which remained unvested under the Share Award Scheme as at 30 June 2021. Details of Mr Aguzin's interest in Awarded Shares are set out in Share Award Scheme below.

³ 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 2021 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 2021, 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 2021, 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, 12 entities have been approved as Minority Controllers on the basis that they hold HKEX shares in custody for their clients. According to the Participant Shareholding Report

as at 30 June 2021, these Minority Controllers in aggregate held approximately 77 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 2021 as recorded in the register required to be kept under Section 336 of the SFO 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. (JPMC) | Interest of corporation controlled by JPMC | 6,996,254 | 80,232,437 ² | 6.32 |
| | Investment manager | 36,015,289 | | |
| | Person having a security interest in shares | 139,354 | | |
| | Trustee | 37,499 | | |
| | Approved lending agent | 37,044,041 | | |
| HK SAR Government (for the account of the Exchange Fund) | Beneficial owner | 74,840,961 ³ | 74,840,961 | 5.90 |

Short Positions in Shares and Underlying Shares of HKEX

| Name | Capacity | Number of shares/ underlying shares held | Total | % of HKEX ¹ shares in issue |
|------|--|---|------------------------|---|
| JPMC | Interest of corporation controlled by JPMC | 8,210,454 | 8,210,454 ⁴ | 0.64 |

¹ Based on 1,267,836,895 shares in issue as at 30 June 2021

² It included an aggregate interest in 4,422,034 underlying shares through JPMC's holding of certain listed derivatives (physically settled: 2,367,600 shares; cash settled: 149,760 shares; convertible instruments: 23,834 shares) and unlisted derivatives (physically settled: 349,166 shares; cash settled: 1,531,674 shares)

³ Based on Hong Kong Monetary Authority's notification to HKEX on 4 June 2018

⁴ It included an aggregate interest in 8,187,640 underlying shares through JPMC's holding of certain listed derivatives (physically settled: 1,751,000 shares; cash settled: 2,423,350 shares; convertible instruments: 10,215 shares) and unlisted derivatives (physically settled: 3,407,362 shares; cash settled: 595,713 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 2021 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 in retaining 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 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 of the Scheme is available in the Corporate Governance section of the HKEX Group website.

From the Adoption Date to 30 June 2021, a total of 14,435,440 shares had been awarded under the Scheme, representing about 1.4 per cent of the number of HKEX shares in issue on the Adoption Date. As at 30 June 2021, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,658,857 shares held in trust under the Scheme (excluding shares vested but not yet transferred to awardees). Further details of the Scheme are set out in note 20 to the Unaudited Condensed Consolidated Financial Statements.

Non-executive Directors are not entitled to participate in the Share Award Scheme. Details of the interests of HKEX's Chief Executive Officer in the Awarded Shares are set out below.

| | Date of ¹ award | Number of Awarded Shares | As at 1 Jan 2021 | Number of shares | | | As at 30 Jun 2021 | Vesting period |
|----------------|-------------------------------|--------------------------------|---------------------|--|--|--|----------------------|------------------------------|
| | | | | Shares acquired during the six months ended 30 Jun 2021 out of the dividend | Vested during the six months ended 30 Jun 2021 | Lapsed during the six months ended 30 Jun 2021 | | |
| Nicolas Aguzin | 2 Jun 2021 | 211,756 ² | - | - | - | - | 211,756 | 24 May 2022 – 24 May 2023 |

1 This refers to the date on which the trustee allocated the Awarded Shares to Mr Aguzin.

2 The award was granted under the Scheme pursuant to the employment contract entered into by Mr Aguzin with the Company. The Awarded Shares and the related income (if any) are vested in two equal tranches on the first and second anniversary of the date of grant.

Purchase, Sale or Redemption of HKEX's Listed Securities

During the six months ended 30 June 2021, 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 697,300 HKEX shares at a total consideration of \$331 million.

Sustainable Workplace

During the six months ended 30 June 2021, the Group organised 79 in-house courses for employees to enhance their job knowledge, skills and well-being. Moreover, the Group sponsored a total of 56 employees to attend external training.

As at 30 June 2021, the Group had 2,112 permanent employees and 223 temporary employees. HKEX's remuneration policy has remained unchanged since the date of the 2020 Annual Report. Information regarding employees' remuneration and benefits for the six months ended 30 June 2021 is set out in note 7 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 \$4.69 per share for the year ending 31 December 2021, payable in cash.

Key Dates for 2021 Interim Dividend

| | |
|--|---|
| Ex-dividend date | 24 August 2021 |
| Latest time to lodge transfer documents for registration with HKEX's registrar | At 4:30 pm on 25 August 2021 |
| Closure of HKEX's Register of Members | 26 to 27 August 2021 (both dates inclusive) |
| Record date | 27 August 2021 |
| Despatch of dividend warrants | 13 September 2021 |

Registration for News Alerts

Shareholders who would like to be notified when HKEX publishes its corporate communications on the HKEXnews website can register for the News Alerts service in the Market Data section of the HKEX Market website (www.hkex.com.hk).

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

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 (www.hkexgroup.com).

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

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 44 to 66, which comprises the interim 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 2021 and the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 11 August 2021

A nighttime photograph of a city street. In the background, a tall, modern building with a glass facade is illuminated with blue lights. A vertical sign on the building displays the Chinese characters "大自" in red. In the foreground, a busy pedestrian crossing is visible, with many people walking, their figures blurred due to motion. To the left, a building features a large sign with the Chinese characters "黃金" (Golden) and "物" (Goods). A large, colorful mosaic sign is also visible on the building's facade. The overall scene is vibrant and captures the energy of a city at night.

Condensed Consolidated Financial Statements

(Unaudited)



Condensed Consolidated Income Statement

(Unaudited)

| | Note | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|---|--------|--|--|
| Trading fees and trading tariffs | 4 | 4,124 | 3,330 |
| Stock Exchange listing fees | | 1,067 | 928 |
| Clearing and settlement fees | | 2,672 | 1,990 |
| Depository, custody and nominee services fees | | 889 | 551 |
| Market data fees | | 512 | 472 |
| Other revenue | | 786 | 668 |
| Revenue | | 10,050 | 7,939 |
| Investment income | | 796 | 1,167 |
| Interest rebates to Participants | | (22) | (329) |
| Net investment income | 5 | 774 | 838 |
| HKEX Foundation donation income | (a) | 74 | - |
| Sundry income | | 11 | 5 |
| Revenue and other income | | 10,909 | 8,782 |
| Less: Transaction-related expenses | (a), 6 | (81) | (31) |
| Revenue and other income less transaction-related expenses | | 10,828 | 8,751 |
| Operating expenses | | | |
| Staff costs and related expenses | 7 | (1,495) | (1,398) |
| Information technology and computer maintenance expenses | | (338) | (315) |
| Premises expenses | | (57) | (59) |
| Product marketing and promotion expenses | | (36) | (17) |
| Professional fees | | (48) | (66) |
| HKEX Foundation charitable donations | (a) | (69) | (28) |
| Other operating expenses | | (178) | (162) |
| | | (2,221) | (2,045) |
| EBITDA* | | 8,607 | 6,706 |
| Depreciation and amortisation | | (662) | (545) |
| Operating profit | | 7,945 | 6,161 |
| Finance costs | 8 | (77) | (96) |
| Share of profits less losses of joint ventures | | 38 | 39 |
| Profit before taxation | | 7,906 | 6,104 |
| Taxation | 9 | (1,317) | (870) |
| Profit for the period | | 6,589 | 5,234 |
| Profit/(loss) attributable to: | | | |
| - Shareholders of HKEX | | 6,610 | 5,233 |
| - Non-controlling interests | | (21) | 1 |
| Profit for the period | | 6,589 | 5,234 |
| Basic earnings per share | 10(a) | \$5.22 | \$4.15 |
| Diluted earnings per share | 10(b) | \$5.21 | \$4.14 |

* 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 ventures.

(a) As disclosed in the 2020 Annual Report, the Group has revised the presentation of these items. Comparative figures have been restated to conform with the revised presentation.

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|---|---|
| Profit for the period | 6,589 | 5,234 |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences of foreign subsidiaries | 29 | (92) |
| Cash flow hedges | (2) | (7) |
| Changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax | 10 | 7 |
| Other comprehensive income | 37 | (92) |
| Total comprehensive income | 6,626 | 5,142 |
| Total comprehensive income attributable to: | | |
| – Shareholders of HKEX | 6,646 | 5,144 |
| – Non-controlling interests | (20) | (2) |
| Total comprehensive income | 6,626 | 5,142 |

Condensed Consolidated Statement of Financial Position

(Unaudited)

| | Note | At 30 Jun 2021 | | | At 31 Dec 2020 | | |
|--|------|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | | Current \$m | Non-current \$m | Total \$m | Current \$m | Non-current \$m | Total \$m |
| Assets | | | | | | | |
| Cash and cash equivalents | 12 | 154,621 | - | 154,621 | 157,996 | - | 157,996 |
| Financial assets measured at fair value through profit or loss | 12 | 129,770 | 837 | 130,607 | 100,081 | 516 | 100,597 |
| Financial assets measured at fair value through other comprehensive income | 12 | 8,288 | - | 8,288 | 7,942 | - | 7,942 |
| Financial assets measured at amortised cost | 12 | 64,271 | 402 | 64,673 | 62,589 | 99 | 62,688 |
| Accounts receivable, prepayments and deposits | 13 | 27,279 | 21 | 27,300 | 47,059 | 21 | 47,080 |
| Tax recoverable | | 8 | - | 8 | 26 | - | 26 |
| Interests in joint ventures | | - | 202 | 202 | - | 164 | 164 |
| Goodwill and other intangible assets | | - | 18,897 | 18,897 | - | 18,737 | 18,737 |
| Fixed assets | | - | 1,553 | 1,553 | - | 1,657 | 1,657 |
| Right-of-use assets | | - | 2,037 | 2,037 | - | 2,193 | 2,193 |
| Deferred tax assets | | - | 36 | 36 | - | 26 | 26 |
| Total assets | | 384,237 | 23,985 | 408,222 | 375,693 | 23,413 | 399,106 |
| Liabilities and equity | | | | | | | |
| Liabilities | | | | | | | |
| Financial liabilities at fair value through profit or loss | 14 | 121,427 | - | 121,427 | 92,884 | - | 92,884 |
| Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants | 15 | 191,360 | - | 191,360 | 187,008 | - | 187,008 |
| Accounts payable, accruals and other liabilities | 16 | 17,044 | - | 17,044 | 42,974 | - | 42,974 |
| Deferred revenue | | 725 | 352 | 1,077 | 1,049 | 371 | 1,420 |
| Taxation payable | | 1,741 | - | 1,741 | 1,174 | - | 1,174 |
| Other financial liabilities | | 106 | - | 106 | 48 | - | 48 |
| Participants' contributions to Clearing House Funds | 17 | 21,501 | - | 21,501 | 20,439 | - | 20,439 |
| Lease liabilities | | 299 | 1,902 | 2,201 | 304 | 2,054 | 2,358 |
| Borrowings | 18 | 340 | 85 | 425 | 340 | 83 | 423 |
| Provisions | | 126 | 98 | 224 | 114 | 98 | 212 |
| Deferred tax liabilities | | - | 1,077 | 1,077 | - | 930 | 930 |
| Total liabilities | | 354,669 | 3,514 | 358,183 | 346,334 | 3,536 | 349,870 |
| Equity | | | | | | | |
| Share capital | 19 | | | 31,891 | | | 31,891 |
| Shares held for Share Award Scheme | 19 | | | (807) | | | (485) |
| Employee share-based compensation reserve | 20 | | | 360 | | | 232 |
| Hedging and revaluation reserves | | | | 33 | | | 25 |
| Exchange reserve | | | | (190) | | | (218) |
| Designated reserves | 21 | | | 622 | | | 628 |
| Reserve relating to written put options to non-controlling interests | | | | (369) | | | (369) |
| Retained earnings | | | | 18,201 | | | 17,214 |
| Equity attributable to shareholders of HKEX | | | | 49,741 | | | 48,918 |
| Non-controlling interests | | | | 298 | | | 318 |
| Total equity | | | | 50,039 | | | 49,236 |
| Total liabilities and equity | | | | 408,222 | | | 399,106 |
| Net current assets | | | | 29,568 | | | 29,359 |

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

| | Attributable to shareholders of HKEX | | | | | | | | | |
|--|--|---|--------------------------------------|----------------------|-----------------------------------|--|-----------------------|-----------|-------------------------------|------------------|
| | Share capital and shares held for Share Award Scheme (note 19) \$m | Employee share-based compensation reserve (note 20) \$m | Hedging and revaluation reserves \$m | Exchange reserve \$m | Designated reserves (note 21) \$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 2021 | 31,406 | 232 | 25 | (218) | 628 | (369) | 17,214 | 48,918 | 318 | 49,236 |
| Profit for the period | - | - | - | - | - | - | 6,610 | 6,610 | (21) | 6,589 |
| Other comprehensive income | - | - | 8 | 28 | - | - | - | 36 | 1 | 37 |
| Total comprehensive income | - | - | 8 | 28 | - | - | 6,610 | 6,646 | (20) | 6,626 |
| Total transactions with shareholders of HKEX, recognised directly in equity: | | | | | | | | | | |
| - 2020 second interim dividend at \$4.46 per share | - | - | - | - | - | - | (5,646) | (5,646) | - | (5,646) |
| - Unclaimed HKEX dividends forfeited | - | - | - | - | - | - | 13 | 13 | - | 13 |
| - Shares purchased for Share Award Scheme | (331) | - | - | - | - | - | - | (331) | - | (331) |
| - Vesting of shares of Share Award Scheme | 9 | (9) | - | - | - | - | - | - | - | - |
| - Employee share-based compensation benefits | - | 137 | - | - | - | - | - | 137 | - | 137 |
| - Tax relating to Share Award Scheme | - | - | - | - | - | - | 4 | 4 | - | 4 |
| - Transfer of reserves | - | - | - | - | (6) | - | 6 | - | - | - |
| | (322) | 128 | - | - | (6) | - | (5,623) | (5,823) | - | (5,823) |
| At 30 Jun 2021 | 31,084 | 360 | 33 | (190) | 622 | (369) | 18,201 | 49,741 | 298 | 50,039 |

| | Attributable to shareholders of HKEX | | | | | | | | | |
|--|--|---|--------------------------------------|----------------------|-------------------------|--|-----------------------|-----------|-------------------------------|------------------|
| | Share capital and shares held for Share Award Scheme \$m | Employee share-based compensation reserve \$m | Hedging and revaluation reserves \$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 2020 | 29,679 | 250 | 3 | (181) | 587 | (369) | 14,204 | 44,173 | 328 | 44,501 |
| Profit for the period | - | - | - | - | - | - | 5,233 | 5,233 | 1 | 5,234 |
| Other comprehensive income | - | - | - | (89) | - | - | - | (89) | (3) | (92) |
| Total comprehensive income | - | - | - | (89) | - | - | 5,233 | 5,144 | (2) | 5,142 |
| Total transactions with shareholders of HKEX, recognised directly in equity: | | | | | | | | | | |
| - 2019 second interim dividend at \$2.99 per share | - | - | - | - | - | - | (3,761) | (3,761) | - | (3,761) |
| - Unclaimed HKEX dividends forfeited | - | - | - | - | - | - | 10 | 10 | - | 10 |
| - Shares issued in lieu of cash dividends | 1,428 | - | - | - | - | - | - | 1,428 | - | 1,428 |
| - Shares purchased for Share Award Scheme | (3) | - | - | - | - | - | - | (3) | - | (3) |
| - Vesting of shares of Share Award Scheme | 17 | (16) | - | - | - | - | (1) | - | - | - |
| - Employee share-based compensation benefits | - | 135 | - | - | - | - | - | 135 | - | 135 |
| - Tax relating to Share Award Scheme | - | - | - | - | - | - | 2 | 2 | - | 2 |
| - Transfer of reserves | - | - | - | - | 38 | - | (38) | - | - | - |
| | 1,442 | 119 | - | - | 38 | - | (3,788) | (2,189) | - | (2,189) |
| At 30 Jun 2020 | 31,121 | 369 | 3 | (270) | 625 | (369) | 15,649 | 47,128 | 326 | 47,454 |

Condensed Consolidated Statement of Cash Flows

(Unaudited)

| | Note | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|-------|--|--|
| Cash flows from principal operating activities | | | |
| Net cash inflow from principal operating activities | 22 | 8,030 | 5,075 |
| Cash flows from other operating activities | | | |
| Net (payments to)/redemption from external fund managers for (purchases)/sales of financial assets measured at fair value through profit or loss | | (1,450) | 2,189 |
| Net cash inflow from operating activities | | 6,580 | 7,264 |
| Cash flows from investing activities | | | |
| Payments for purchases of fixed assets and intangible assets | | (720) | (637) |
| Net increase in financial assets of Corporate Funds: | | | |
| Decrease/(increase) in time deposits with original maturities more than three months | | 1,268 | (3,164) |
| Proceeds received upon maturity of financial assets measured at amortised cost (excluding time deposits) | | 79 | - |
| Payments for purchases of financial assets measured at amortised cost (excluding time deposits) | | (305) | (305) |
| Payments for financial assets measured at fair value through profit or loss | | (249) | (160) |
| Interest received from financial assets measured at fair value through other comprehensive income | | 21 | 32 |
| Net cash inflow/(outflow) from investing activities | | 94 | (4,234) |
| Cash flows from financing activities | | | |
| Purchases of shares for Share Award Scheme | | (331) | (3) |
| Payments of other finance costs | | (34) | (47) |
| Dividends paid to shareholders of HKEX | | (5,620) | (2,314) |
| Lease payments | | | |
| – Capital elements | | (157) | (140) |
| – Interest elements | | (41) | (46) |
| Net cash outflow from financing activities | | (6,183) | (2,550) |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at 1 Jan | | 10,442 | 10,603 |
| Exchange differences on cash and cash equivalents | | 5 | - |
| Cash and cash equivalents at 30 Jun | | 10,938 | 11,083 |
| Analysis of cash and cash equivalents | | | |
| Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds | 12 | 11,416 | 12,113 |
| Less: Cash reserved for supporting Skin-in-the-Game and default fund credits of clearing houses | 12(b) | (478) | (1,030) |
| | | 10,938 | 11,083 |

(a) “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 four exchanges and five clearing houses and ancillary services of the Group. This non-HKFRS measure may not be comparable to similar measures presented by other companies. 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.

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 2020 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020.

The financial information relating to the year ended 31 December 2020 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2021 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 2020 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. Adoption of new/revised HKFRSs

In 2021, the Group has adopted the following amendment to Hong Kong Financial Reporting Standards (HKFRSs) which is pertinent to the Group's operations:

Amendments to HKFRS 16 Leases: COVID-19-Related Rent Concessions¹

¹ Effective for accounting periods beginning on or after 1 June 2020

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

3. Operating Segments

The Group determines its operating segments based on the internal management reports that are used to make strategic decisions reviewed by the chief operating decision-maker.

The Group has five reportable segments (“Corporate Items” is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies.

The operations in each of the Group’s reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms of The Stock Exchange of Hong Kong Limited (Stock Exchange), the Shanghai Stock Exchange and the Shenzhen Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (Stock Connect), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariffs, listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on the Stock Exchange and Hong Kong Futures Exchange Limited (Futures Exchange) and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants, and sales of related market data. The major sources of revenue are trading fees, trading tariffs, 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 UK for the trading of base, ferrous, and precious metals futures and options contracts, and the operations of Qianhai Mercantile Exchange Co., Ltd. (QME), the commodity trading platform in the Mainland. It also covers the commodities contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees of commodity products, commodity market data fees and fees from ancillary operations.

The **Post Trade** segment refers to the operations of the five clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear Limited (LME Clear), which are responsible for clearing, settlement and custodian activities of the exchanges of the Group and Northbound trades under Stock Connect, 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 the Margin Funds and Clearing House Funds.

The **Technology** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group, and services provided by BayConnect Technology Company Limited (BayConnect). Its major sources of revenue are network, terminal user, data line and software sub-license fees and hosting services fees.

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

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA.

3. Operating Segments (continued)

An analysis by operating segment of the Group's EBITDA, profit before taxation and analysis of revenue by timing of revenue recognition for the period, is set out as follows:

| | Six months ended 30 Jun 2021 | | | | | | Group \$m |
|---|------------------------------|---|--------------------|----------------------|-------------------|---------------------------|--------------|
| | Cash \$m | Equity and Financial Derivatives \$m | Commodities \$m | Post Trade \$m | Technology \$m | Corporate Items \$m | |
| Timing of revenue recognition: | | | | | | | |
| Point in time | 2,406 | 1,029 | 579 | 3,511 | 54 | - | 7,579 |
| Over time | 794 | 702 | 143 | 362 | 467 | 3 | 2,471 |
| Revenue | 3,200 | 1,731 | 722 | 3,873 | 521 | 3 | 10,050 |
| Net investment income | - | - | - | 346 | - | 428 | 774 |
| HKEX Foundation donation income | - | - | - | - | - | 74 | 74 |
| Sundry income | - | - | 1 | 5 | 2 | 3 | 11 |
| Revenue and other income | 3,200 | 1,731 | 723 | 4,224 | 523 | 508 | 10,909 |
| Less: Transaction-related expenses | - | (63) | - | (18) | - | - | (81) |
| Revenue and other income less transaction-related expenses | 3,200 | 1,668 | 723 | 4,206 | 523 | 508 | 10,828 |
| Operating expenses | (305) | (337) | (324) | (446) | (148) | (661) | (2,221) |
| Reportable segment EBITDA | 2,895 | 1,331 | 399 | 3,760 | 375 | (153) | 8,607 |
| Depreciation and amortisation | (80) | (69) | (171) | (163) | (39) | (140) | (662) |
| Finance costs | (6) | (6) | (4) | (33) | (1) | (27) | (77) |
| Share of profits less losses of joint ventures | 38 | - | - | - | - | - | 38 |
| Reportable segment profit before taxation | 2,847 | 1,256 | 224 | 3,564 | 335 | (320) | 7,906 |

3. Operating Segments (continued)

| Six months ended 30 Jun 2020 | | | | | | | |
|--|-------------|---|--------------------|----------------------|-------------------|---------------------------|--------------|
| | Cash \$m | Equity and Financial Derivatives \$m | Commodities \$m | Post Trade \$m | Technology \$m | Corporate Items \$m | Group \$m |
| Timing of revenue recognition: | | | | | | | |
| Point in time | 1,491 | 1,076 | 616 | 2,586 | 30 | - | 5,799 |
| Over time | 762 | 562 | 133 | 268 | 412 | 3 | 2,140 |
| Revenue | 2,253 | 1,638 | 749 | 2,854 | 442 | 3 | 7,939 |
| Net investment income | - | - | - | 772 | - | 66 | 838 |
| Sundry income | - | - | - | 3 | 1 | 1 | 5 |
| Revenue and other income | 2,253 | 1,638 | 749 | 3,629 | 443 | 70 | 8,782 |
| Less: Transaction-related expenses | - | (23) | - | (8) | - | - | (31) |
| Revenue and other income less transaction-related expenses | 2,253 | 1,615 | 749 | 3,621 | 443 | 70 | 8,751 |
| Operating expenses | (285) | (284) | (329) | (424) | (139) | (584) | (2,045) |
| Reportable segment EBITDA | 1,968 | 1,331 | 420 | 3,197 | 304 | (514) | 6,706 |
| Depreciation and amortisation | (60) | (51) | (169) | (106) | (22) | (137) | (545) |
| Finance costs | (7) | (6) | (4) | (46) | (1) | (32) | (96) |
| Share of profits less losses of joint ventures | 39 | - | - | - | - | - | 39 |
| Reportable segment profit before taxation | 1,940 | 1,274 | 247 | 3,045 | 281 | (683) | 6,104 |

4. Trading Fees and Trading Tariffs

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|---|---|
| Equity securities traded on the Stock Exchange and through Stock Connect | 2,392 | 1,479 |
| DWs, CBBCs and warrants traded on the Stock Exchange | 412 | 329 |
| Futures and options contracts traded on the Stock Exchange and the Futures Exchange | 795 | 949 |
| Base, ferrous, and precious metals futures and options contracts traded on the LME and QME | 525 | 573 |
| | 4,124 | 3,330 |

5. Net Investment Income

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|---|---|---|
| Gross interest income from financial assets measured at amortised cost | 438 | 1,311 |
| Gross interest income from financial assets measured at fair value through other comprehensive income | 21 | 32 |
| Interest rebates to Participants | (22) | (329) |
| Net interest income | 437 | 1,014 |
| Net gains/(losses) on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss | | |
| – collective investment schemes | 321 | (138) |
| – other investments | 4 | – |
| | 325 | (138) |
| Others | 12 | (38) |
| Net investment income | 774 | 838 |

6. Transaction-related Expenses

Transaction-related expenses comprise of license fees, bank charges and other costs which directly vary with trading and clearing transactions.

7. Staff Costs and Related Expenses

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|---|---|
| Salaries and other short-term employee benefits | 1,261 | 1,174 |
| Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme) | 137 | 135 |
| Termination benefits | 6 | 1 |
| Retirement benefit costs (note (a)) | 91 | 88 |
| | 1,495 | 1,398 |

- (a) 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), and has joined defined contribution retirement schemes arranged by local government labour and security authorities for employees of its PRC subsidiaries and representative office (PRC Retirement Schemes). 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, the LME Pension Scheme, the PRC Retirement Schemes and related fees.

8. Finance Costs

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|---|---|---|
| Interest on borrowings | 2 | 3 |
| Interest on lease liabilities | 41 | 46 |
| Banking facility commitment fees | 26 | 26 |
| Negative interest on Euro and Japanese Yen deposits | 8 | 21 |
| | 77 | 96 |

9. Taxation

Taxation charge in the condensed consolidated income statement represents:

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|-------------------------------------|---|---|
| Current tax – Hong Kong Profits Tax | 1,080 | 724 |
| Current tax – Overseas Tax | 99 | 104 |
| Total current tax | 1,179 | 828 |
| Deferred tax (note (b)) | 138 | 42 |
| Taxation charge | 1,317 | 870 |

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2020: 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 per cent (2020: 19 per cent).
- (b) Through the enactment of the Finance Act 2021 in June 2021, the UK Corporate Tax rate would increase from 19 per cent to 25 per cent from 1 April 2023. As a result, a one-off deferred tax charge on acquired LME intangible assets of \$160 million was recognised during the six months ended 30 June 2021 (2020: \$61 million deferred tax charge was recognised as the UK Corporate Tax rate remained at 19 per cent from 1 April 2020 instead of reducing to 17 per cent as previously enacted).

10. 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 2021 | Six months ended 30 Jun 2020 |
|--|------------------------------------|------------------------------------|
| Profit attributable to shareholders (\$m) | 6,610 | 5,233 |
| Weighted average number of shares in issue less shares held for Share Award Scheme (in '000) | 1,265,672 | 1,260,758 |
| Basic earnings per share (\$) | 5.22 | 4.15 |

10. Earnings Per Share (continued)

(b) Diluted earnings per share

| | Six months ended 30 Jun 2021 | Six months ended 30 Jun 2020 |
|---|------------------------------------|------------------------------------|
| Profit attributable to shareholders (\$m) | 6,610 | 5,233 |
| Weighted average number of shares in issue less shares held for Share Award Scheme (in '000) | 1,265,672 | 1,260,758 |
| Effect of shares awarded under Share Award Scheme (in '000) | 1,879 | 3,172 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000) | 1,267,551 | 1,263,930 |
| Diluted earnings per share (\$) | 5.21 | 4.14 |

11. Dividends

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|---|---|
| Interim dividend declared of \$4.69 (2020: \$3.71) per share at 30 Jun | 5,946 | 4,704 |
| Less: Dividend for shares held by Share Award Scheme at 30 Jun | (12) | (12) |
| | 5,934 | 4,692 |

12. Financial Assets

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|--|--------------------------|--------------------------|
| Cash and cash equivalents | 154,621 | 157,996 |
| Financial assets measured at fair value through profit or loss | 130,607 | 100,597 |
| Financial assets measured at fair value through other comprehensive income | 8,288 | 7,942 |
| Financial assets measured at amortised cost | 64,673 | 62,688 |
| | 358,189 | 329,223 |

12. Financial Assets (continued)

The Group's financial assets comprised financial assets of cash prepayments and collateral for A shares (Cash for A shares), Corporate Funds, Margin Funds, Clearing House Funds and metals derivatives contracts as follows:

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|--|--------------------------|--------------------------|
| <u>Cash for A shares</u> (note (a)) | | |
| Cash and cash equivalents | - | 6,212 |
| <u>Corporate Funds</u> | | |
| Cash and cash equivalents (note (b)) | 11,416 | 10,753 |
| Financial assets measured at fair value through profit or loss | 9,180 | 7,713 |
| Financial assets measured at amortised cost (note (b)) | 13,915 | 15,281 |
| | 34,511 | 33,747 |
| <u>Margin Funds</u> ¹ | | |
| Cash and cash equivalents | 123,574 | 122,184 |
| Financial assets measured at fair value through other comprehensive income | 5,554 | 5,538 |
| Financial assets measured at amortised cost | 50,758 | 47,407 |
| | 179,886 | 175,129 |
| <u>Clearing House Funds</u> (note 17) | | |
| Cash and cash equivalents | 19,631 | 18,847 |
| Financial assets measured at fair value through other comprehensive income | 2,734 | 2,404 |
| | 22,365 | 21,251 |
| <u>Metals derivatives contracts</u> | | |
| Financial assets measured at fair value through profit or loss (note (d)) | 121,427 | 92,884 |
| | 358,189 | 329,223 |

1 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to China Securities Depository and Clearing Corporation Limited (ChinaClear) and margin receivable from Clearing Participants of \$11,474 million (31 December 2020: \$11,879 million), which are included in accounts receivable, prepayments and deposits. If such amounts are included, total Margin Funds would be \$191,360 million (31 December 2020: \$187,008 million) (note 15).

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

| | At 30 Jun 2021 | | | | | | At 31 Dec 2020 | | | | | |
|----------------------|--------------------------------|------------------------|-----------------------------------|---|---------------------------|----------------|--------------------------------|------------------------|-----------------------------------|---|---------------------------|----------------|
| | Cash for A shares \$m | Margin Funds \$m | Clearing House Funds \$m | Metals derivatives contracts \$m | Corporate Funds \$m | Total \$m | Cash for A shares \$m | Margin Funds \$m | Clearing House Funds \$m | Metals derivatives contracts \$m | Corporate Funds \$m | Total \$m |
| Within twelve months | - | 179,886 | 22,365 | 121,427 | 33,272 | 356,950 | 6,212 | 175,129 | 21,251 | 92,884 | 33,132 | 328,608 |
| Over twelve months | - | - | - | - | 1,239 | 1,239 | - | - | - | - | 615 | 615 |
| | - | 179,886 | 22,365 | 121,427 | 34,511 | 358,189 | 6,212 | 175,129 | 21,251 | 92,884 | 33,747 | 329,223 |

(a) Cash for A shares includes:

- (i) Renminbi (RMB) cash prepayments received (i) by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such prepayments will be used to settle HKSCC's Continuous Net Settlement (CNS) obligations payable on the next business day; and
- (ii) Hong Kong Dollar/United States Dollar cash collateral received by HKSCC from its Clearing Participants for releasing their allocated A shares on the trade day. Such collateral will be refunded to the Clearing Participants when they settle their RMB CNS obligations on the next business day.

12. Financial Assets (continued)

- (b) At 30 June 2021, cash and cash equivalents of Corporate Funds of \$478 million (31 December 2020: \$311 million) and financial assets measured at amortised cost of Corporate Funds of \$609 million (31 December 2020: \$930 million) were solely used to support Skin-in-the-Game and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund (note 17(a)).
- (c) The cash and cash equivalents of Margin Funds, Clearing House Funds, Corporate Funds reserved for supporting Skin-in-the-Game and default fund credits of Clearing House Funds (note (b)), and Cash for A shares are held for specific purposes and cannot be used by the Group to finance other activities. These balances are not included in cash and cash equivalents of the Group for cash flow purpose in the condensed consolidated statement of cash flows.
- (d) Metals derivatives contracts represent the fair value of outstanding base, ferrous, and precious metals futures and options contracts cleared through 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 has been recognised under financial liabilities at fair value through profit or loss (note 14).

13. Accounts Receivable, Prepayments and Deposits

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|---|--------------------------|--------------------------|
| The breakdown of accounts receivable, prepayments and deposits, net of provision for impairment losses, are as follows: | | |
| CNS money obligations receivable | 13,958 | 32,910 |
| Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear | 11,420 | 11,862 |
| Other receivables, prepayments and deposits | 1,922 | 2,308 |
| | 27,300 | 47,080 |

CNS money obligations receivable mature within two days after the trade date. The balance of Settlement Reserve Fund and Settlement Guarantee Fund with ChinaClear is rebalanced on a monthly basis. 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.

14. Financial Liabilities at Fair Value through Profit or Loss

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|---|--------------------------|--------------------------|
| Held by LME Clear in its capacity as a central counterparty | | |
| Derivative financial instruments: | | |
| – base, ferrous, and precious metals futures and options contracts cleared through LME Clear (note 12(d)) | 121,427 | 92,884 |

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

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|---|--------------------------|--------------------------|
| Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised: | | |
| SEOCH Clearing Participants' margin deposits | 18,701 | 16,873 |
| HKCC Clearing Participants' margin deposits | 51,818 | 59,422 |
| HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral | 25,350 | 27,111 |
| OTC Clear Clearing Participants' margin deposits | 7,280 | 6,899 |
| LME Clear Clearing Participants' margin deposits | 88,211 | 76,703 |
| | 191,360 | 187,008 |

16. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represent the Group's CNS money obligations payable, which accounted for 82 per cent (31 December 2020: 91 per cent) of the total accounts payable, accruals and other liabilities. CNS 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.

17. Clearing House Funds

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|--|--------------------------|--------------------------|
| The Clearing House Funds comprised: | | |
| Clearing Participants' cash contributions | 21,501 | 20,439 |
| Contribution to OTC Clear Rates and FX Guarantee Resources | 156 | 156 |
| Clearing House Funds reserves (note 21) | 622 | 628 |
| | 22,279 | 21,223 |
| The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds: | | |
| Financial assets of Clearing House Funds (note 12) | 22,365 | 21,251 |
| Less: Other financial liabilities of Clearing House Funds | (86) | (28) |
| | 22,279 | 21,223 |
| The Clearing House Funds comprised the following Funds: | | |
| HKSCC Guarantee Fund | 3,429 | 5,667 |
| SEOCH Reserve Fund | 2,207 | 909 |
| HKCC Reserve Fund | 1,475 | 1,205 |
| OTC Clear Rates and FX Guarantee Fund | 2,758 | 2,730 |
| OTC Clear Rates and FX Guarantee Resources | 171 | 171 |
| LME Clear Default Fund | 12,239 | 10,541 |
| | 22,279 | 21,223 |

- (a) Contributions by HKSCC, SEOCH and HKCC to their respective default funds (Skin-in-the-Game) are set at 10 per cent of the size of the respective funds, and such contributions, together with default fund credits granted to HKSCC and HKCC Participants, are included in Corporate Funds. At 30 June 2021, the Skin-in-the-Game and default fund credits amounted to \$1,087 million (31 December 2020: \$1,241 million) (note 12(b)).

18. Borrowings

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|--|--------------------------|--------------------------|
| Written put options to non-controlling interests | 425 | 423 |
| Analysed as: | | |
| Non-current liabilities | 85 | 83 |
| Current liabilities | 340 | 340 |
| | 425 | 423 |

During the six months ended 30 June 2021, none of the written put options was exercised.

19. Share Capital and Shares Held for Share Award Scheme

Issued and fully paid – ordinary shares with no par:

| | Number of shares '000 | Number of shares held for Share Award Scheme '000 | Share capital \$m | Shares held for Share Award Scheme \$m | Total \$m |
|---|-----------------------------|---|----------------------|---|---------------|
| At 1 Jan 2020 | 1,261,201 | (3,274) | 30,449 | (770) | 29,679 |
| Shares issued in lieu of cash dividends (note (a)) | 6,636 | (45) | 1,438 | (10) | 1,428 |
| Shares purchased for Share Award Scheme (note (b)) | – | (84) | – | (31) | (31) |
| Vesting of shares of Share Award Scheme (note (c)) | – | 1,420 | 4 | 326 | 330 |
| At 31 Dec 2020 | 1,267,837 | (1,983) | 31,891 | (485) | 31,406 |
| At 1 Jan 2021 | 1,267,837 | (1,983) | 31,891 | (485) | 31,406 |
| Shares purchased for Share Award Scheme (note (b)) | – | (697) | – | (331) | (331) |
| Vesting of shares of Share Award Scheme (note (c)) | – | 22 | – | 9 | 9 |
| At 30 Jun 2021 | 1,267,837 | (2,658) | 31,891 | (807) | 31,084 |

- (a) In April 2020, 6,635,576 new fully paid HKEX shares were issued and allotted at \$216.70 per share to the shareholders (including 45,127 shares allotted to the Share Award Scheme) who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme. Following the suspension of the scrip dividend scheme from August 2020, no HKEX shares were issued during the six months ended 30 June 2021.
- (b) During the six months ended 30 June 2021, the Share Award Scheme acquired 697,300 HKEX shares (year ended 31 December 2020: 84,000 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$331 million (year ended 31 December 2020: \$31 million).
- (c) During the six months ended 30 June 2021, a total of 22,003 HKEX shares (year ended 31 December 2020: 1,419,931 shares) were vested. The total cost of the vested shares was \$9 million (year ended 31 December 2020: \$326 million). During the year ended 31 December 2020, \$4 million was credited to share capital in respect of vesting of certain shares whose fair values were higher than the costs.

20. Employee Share-based Arrangements

The Group operates the Share Award Scheme as part of the benefits of its employees. It allows shares to be granted to employees under the following two categories of awards:

- (i) Employee Share Awards – for all employees of the Group (including the Executive Director); and
- (ii) Senior Executive Awards – for selected senior executives of the Group (including the Executive Director).

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

During the six months ended 30 June 2021, no Senior Executive Awards were granted and details of Employee Share Awards awarded are set out below:

| Date of award | Number of shares awarded | Average fair value per share \$ | Vesting period |
|---------------|--------------------------|---------------------------------|---------------------------|
| 13 May 2021 | 600 | 442.39 | 31 Mar 2022 – 31 Mar 2023 |
| 13 May 2021 | 727,088 ¹ | 439.26 | 9 Dec 2022 – 9 Dec 2023 |
| 2 Jun 2021 | 211,756 ² | 484.20 | 24 May 2022 – 24 May 2023 |

1 261,516 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 13 May 2021.

2 The shares were awarded to HKEX's Chief Executive.

21. Designated Reserves

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

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|--|--------------------|--------------------|
| Clearing House Funds reserves (note 17) | | |
| – HKSCC Guarantee Fund reserve | 175 | 185 |
| – SEOCH Reserve Fund reserve | 114 | 113 |
| – HKCC Reserve Fund reserve | 245 | 244 |
| – OTC Clear Rates and FX Guarantee Fund reserve | 73 | 71 |
| – OTC Clear Rates and FX Guarantee Resources reserve | 15 | 15 |
| | 622 | 628 |

22. 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 2021 \$m | Six months ended 30 Jun 2020 \$m |
|--|---|---|
| Profit before taxation | 7,906 | 6,104 |
| Adjustments for: | | |
| Net interest income | (437) | (1,014) |
| Net fair value (gains)/losses 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 | (325) | 138 |
| Finance costs | 77 | 96 |
| Depreciation and amortisation | 662 | 545 |
| Employee share-based compensation benefits | 137 | 135 |
| Share of profits less losses of joint ventures | (38) | (39) |
| Other non-cash adjustments | 12 | 5 |
| Net increase in financial assets of Margin Funds | (4,340) | (17,015) |
| Net increase in financial liabilities of Margin Funds | 4,352 | 17,022 |
| Net increase in Clearing House Fund financial assets | (1,114) | (1,707) |
| Net increase in Clearing House Fund financial liabilities | 1,120 | 1,669 |
| Decrease in cash prepayments and collateral for A shares | 6,212 | 1,460 |
| Decrease/(increase) in Corporate Funds used for supporting Skin-in-the-Game and default fund credits | 154 | (212) |
| Decrease in accounts receivable, prepayments and deposits | 19,425 | 7,423 |
| Decrease in other liabilities | (25,595) | (8,741) |
| Net cash inflow from principal operations | 8,208 | 5,869 |
| Interest received from financial assets measured at amortised cost and cash and cash equivalents | 438 | 1,311 |
| Interest paid to Participants | (22) | (329) |
| Income tax paid | (594) | (1,776) |
| Net cash inflow from principal operating activities | 8,030 | 5,075 |

23. Capital Expenditures and Commitments

During the six months ended 30 June 2021, the Group incurred capital expenditures of \$536 million (2020: \$519 million).

(a) At 30 June 2021, the Group's commitments in respect of capital expenditure were as follows:

| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m |
|------------------------------------|--------------------------|--------------------------|
| Contracted but not provided for: | | |
| – fixed assets | 14 | 15 |
| – intangible assets | 189 | 146 |
| Authorised but not contracted for: | | |
| – fixed assets | 204 | 260 |
| – intangible assets | 304 | 469 |
| | 711 | 890 |

(b) Commitments for investment in an unlisted equity investment

In June 2021, the Group has undertaken to make a further capital injection of \$100 million to Fusion Bank Limited. Upon the completion of this investment in the fourth quarter of 2021, the Group's total investment in Fusion Bank Limited will become \$200 million.

24. Contingent Liabilities

At 30 June 2021, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2020: \$71 million). Up to 30 June 2021, 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 628 trading Participants (31 December 2020: 635) covered by the indemnity at 30 June 2021 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$126 million (31 December 2020: \$127 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.

25. Material Related Party Transactions

- (a) Key management personnel compensation

| | Six months ended 30 Jun 2021 \$m | Six months ended 30 Jun 2020 \$m |
|---|--|--|
| Salaries and other short-term employee benefits | 60 | 63 |
| Employee share-based compensation benefits | 35 | 30 |
| Retirement benefit costs | 3 | 4 |
| | 98 | 97 |

- (b) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and the LME Pension Scheme as its post-retirement benefit plans (note 7(a)).

26. Pledges of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margins posted by its Clearing Participants. The total fair value of this collateral was US\$756 million (approximately HK\$5,871 million) at 30 June 2021 (31 December 2020: US\$2,241 million (approximately HK\$17,376 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\$13,110 million (approximately HK\$101,810 million) at 30 June 2021 (31 December 2020: US\$11,486 million (approximately HK\$89,061 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 2021. Such non-cash collateral, together with certain financial assets amounting to US\$525 million (approximately HK\$4,077 million) at 30 June 2021 (31 December 2020: US\$496 million (approximately HK\$3,845 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.

27. Capital Management

At 30 June 2021, the Group had set aside \$4,000 million (31 December 2020: \$4,000 million) of shareholders' funds for the purpose of supporting the risk management regime of the clearing houses in their roles as central counterparties, of which \$2,160 million (31 December 2020: \$2,160 million) had been injected into HKSCC, SEOCH and HKCC as share capital.

28. Fair Value of Financial Assets and Financial Liabilities

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

The following tables present the carrying values 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 2021 | | | | At 31 Dec 2020 | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
| Financial assets | | | | | | | | |
| Financial assets measured at fair value through profit or loss: | | | | | | | | |
| – collective investment schemes | 1,768 | 6,939 | – | 8,707 | 1,131 | 6,362 | – | 7,493 |
| – equity securities | – | – | 473 | 473 | – | – | 220 | 220 |
| – base, ferrous, and precious metals futures and options contracts cleared through LME Clear | – | 121,427 | – | 121,427 | – | 92,884 | – | 92,884 |
| Financial assets measured at fair value through other comprehensive income: | | | | | | | | |
| – debt securities | 5,776 | 2,512 | – | 8,288 | 5,439 | 2,503 | – | 7,942 |
| | 7,544 | 130,878 | 473 | 138,895 | 6,570 | 101,749 | 220 | 108,539 |
| Financial liabilities | | | | | | | | |
| Financial liabilities at fair value through profit or loss: | | | | | | | | |
| – base, ferrous, and precious metals futures and options contracts cleared through LME Clear | – | 121,427 | – | 121,427 | – | 92,884 | – | 92,884 |

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

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

During the six months ended 30 June 2021 and 30 June 2020, there were no transfers of instruments between Level 1 and Level 2 or transfer into or out of Level 3.

Level 2 fair values of collective investment schemes, debt securities, base, ferrous, and precious metals futures and options contracts 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 schemes.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Fair value measurements using significant unobservable inputs (Level 3)

| | 2021 \$m | 2020 \$m |
|--|-------------|-------------|
| At 1 Jan | 220 | 50 |
| Investment in minority stakes in unlisted companies | 249 | 160 |
| Gains recognised in profit or loss | 4 | – |
| Gains recognised in other comprehensive income | – | 10 |
| At 30 Jun 2021/31 Dec 2020 | 473 | 220 |
| Total gains or losses recognised for the period/year in the condensed consolidated income statement for assets held at 30 Jun 2021/31 Dec 2020 | 4 | – |

Level 3 valuations are prepared on bi-annually basis, at each interim and annual reporting date. The assumptions and inputs to the valuation model, the valuation techniques and the valuation results are reviewed and approved by management.

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

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

The following table summarises the basis of valuation used in level 3 fair value measurements:

| Description | Fair value | | Valuation technique | Unobservable inputs | Range |
|---|--------------------|--------------------|------------------------------|---------------------|-------|
| | At 30 Jun 2021 \$m | At 31 Dec 2020 \$m | | | |
| Minority stake in Fusion Bank Limited | 100 | 100 | Market approach ¹ | N/A | N/A |
| Minority stake in Huakong TsingJiao Information Science (Beijing) Limited | 120 | 120 | Market approach ¹ | N/A | N/A |
| Minority stake in Guangzhou Futures Exchange | 253 | – | Market approach ¹ | N/A | N/A |
| Total | 473 | 220 | | | |

¹ Based on recent transactions

Fusion Bank Limited has a virtual banking license granted by the Hong Kong Monetary Authority. The investment is not traded in an active market. The company launched its virtual banking platform in 2020, offering a variety of banking services including savings, time deposits, local fund transfers and foreign exchange. At 30 June 2021, the latest fair value was based on recent market transactions.

Huakong TsingJiao Information Science (Beijing) Limited is a data technology company, which specialises in the research and development of multi-party computation technologies, allowing collaborative data analysis without revealing private data during the computation and analysis process. The investment is not traded in an active market. At 30 June 2021, the latest fair value was based on recent market transactions.

Guangzhou Futures Exchange was officially launched in April 2021, and it seeks to become an innovative and market-oriented exchange with international influence, focusing on serving the real economy and green development initiatives. At 30 June 2021, the latest fair value was based on recent market transactions.

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

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

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

| | At 30 Jun 2021 | | At 31 Dec 2020 | |
|--|--|-------------------|--|-------------------|
| | 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: | | | | |
| – debt securities maturing over one year ¹ | 306 | 306 | – | – |
| – other financial assets maturing over one year ² | 96 | 87 | 99 | 94 |
| Liabilities | | | | |
| Borrowings: | | | | |
| – written put options to non-controlling interests ³ | 425 | 431 | 423 | 430 |
| Financial guarantee to the Collector of Stamp Revenue ⁴ | 20 | 60 | 20 | 76 |

1 The fair values are provided by a reputable independent financial institution.

2 The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 0.28 per cent to 1.35 per cent at 30 June 2021 (31 December 2020: 0.12 per cent to 0.60 per cent).

3 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 1.22 per cent at 30 June 2021 (31 December 2020: 1.19 per cent).

4 The fair values are based on the fees charged by financial institutions for granting such guarantees discounted to perpetuity using a ten-year Hong Kong Government bond rate, adjusted by an estimated credit spread, but capped at the maximum exposure of the financial guarantee. The discount rate used was 2.65 per cent at 30 June 2021 (31 December 2020: 2.10 per cent).

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

Glossary

- ADT** • Average daily turnover value
- ADV** • Average daily volume (in number of contracts/lots)
- Awarded Shares** • Shares awarded under the Share Award Scheme
- BayConnect** • BayConnect Technology Company Limited
- 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
- CCASS** • Central Clearing and Settlement System
- Chief Executive Officer** • HKEX's Chief Executive
- ChinaClear** • China Securities Depository and Clearing Corporation Limited
- CNH** • Offshore RMB traded outside Mainland China
- CNS** • Continuous Net Settlement
- Corporate Governance Code** • Refers to Appendix 14 to the Main Board Listing Rules
- CPs** • Clearing Participants
- Derivatives Market** • HKEX's derivatives related business including stock options
- Director(s)** • HKEX's director(s)
- DWs** • Derivative warrants
- e-IPO** • Electronic Initial Public Offering
- EPs** • Exchange Participants
- ESG** • Environmental, Social and Governance
- ETF(s)** • Exchange Traded Fund(s)
- ETP(s)** • Exchange Traded Product(s), which include(s) ETFs and L&I Products
- Euro** • The official currency of the Eurozone
- Exchange or SEHK or Stock Exchange** • The Stock Exchange of Hong Kong Limited
- Financial Secretary** • Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
- Futures Exchange or HKFE** • Hong Kong Futures Exchange Limited
- GBM** • Grand Bauhinia Medal
- GBS** • Gold Bauhinia Star
- Government or HKSAR 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
- Greater Bay Area** • Guangdong-Hong Kong-Macao Greater Bay Area
- Group or HKEX Group** • HKEX and its subsidiaries
- HKCC** • HKFE Clearing Corporation Limited
- HKEX Foundation** • HKEX Foundation Limited
- HKEX or the Company** • Hong Kong Exchanges and Clearing Limited
- HKFRS(s)** • Hong Kong Financial Reporting Standard(s)
- HKSCC** • Hong Kong Securities Clearing Company Limited
- HSI** • Hang Seng Index
- IPO(s)** • Initial Public Offering(s)

IT • Information Technology

JD Logistics • JD Logistics, Inc.

JP • Justice of the Peace

L&I Products • Leveraged and Inverse Products

Listing Rule(s) • Main Board Listing Rules and Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited

LME • The London Metal Exchange

LME Clear • LME Clear Limited

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.

Northbound Trading or Stock Connect Northbound • Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through Stock Connect

OTC • Over-the-counter

OTC Clear • OTC Clearing Hong Kong Limited

QME • Qianhai Mercantile Exchange Co., Ltd.

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

Shareholder(s) • HKEX's shareholder(s)

Share Award Scheme or the Scheme • The HKEX Employees' Share Award Scheme

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 or Stock Connect Southbound • Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connect

SSE • Shanghai Stock Exchange

STAGE • HKEX's Sustainable and Green Exchange

STAR Market • Sci-Tech Innovation Board of SSE

SZSE • Shenzhen Stock Exchange

Stock Connect • Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

UK • United Kingdom

US • United States of America

US\$/USD • US dollar

\$/HK\$/HKD • Hong Kong dollar

\$bn/bn • Hong Kong dollar in billion/billion

\$m • Hong Kong dollar in million

£/GBP • Pound sterling

1H, 2H • First half, second half (of the year)

Q1, Q2, Q3, Q4 • First quarter, second quarter, third quarter, fourth quarter (of the year)



Hong Kong Exchanges and Clearing Limited

8/F, Two Exchange Square,
8 Connaught Place, Central, Hong Kong
T (852) 2522 1122 F (852) 2295 3106
info@hkex.com.hk

hkexgroup.com | hkex.com.hk