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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 388)

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## **Condensed Consolidated Financial Statements**

**For the six months ended 30 June 2019**

**(Unaudited)**

As at 14 August 2019, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company) comprises 12 Independent Non-executive Directors, namely Mrs Laura May-Lung CHA (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr CHEAH Cheng Hye, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mr HUNG Pi Cheng, Benjamin, Mr LEUNG Pak Hon, Hugo, Ms MA Xuezheng, Mary, Mr John Mackay McCulloch WILLIAMSON, and Mr YIU Kin Wah, Stephen, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive.

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# CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Trading fees and trading tariffs	4	2,940	3,334
Stock Exchange listing fees		847	855
Clearing and settlement fees		1,655	1,747
Depository, custody and nominee services fees		575	518
Market data fees		461	443
Other revenue		577	488
<b>REVENUE</b>		<b>7,055</b>	<b>7,385</b>
Investment income		2,142	1,300
Interest rebates to Participants		(623)	(505)
Net investment income	5	1,519	795
Sundry income		4	14
<b>REVENUE AND OTHER INCOME</b>		<b>8,578</b>	<b>8,194</b>
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses	6	(1,328)	(1,205)
Information technology and computer maintenance expenses		(278)	(241)
Premises expenses		(64)	(202)
Product marketing and promotion expenses		(29)	(22)
Professional fees		(37)	(42)
Other operating expenses		(217)	(206)
		<b>(1,953)</b>	<b>(1,918)</b>
<b>EBITDA*</b>		<b>6,625</b>	<b>6,276</b>
Depreciation and amortisation		(495)	(378)
<b>OPERATING PROFIT</b>		<b>6,130</b>	<b>5,898</b>
Finance costs	7	(86)	(55)
Share of profits less losses of joint ventures		6	4
<b>PROFIT BEFORE TAXATION</b>		<b>6,050</b>	<b>5,847</b>
<b>TAXATION</b>	8	<b>(847)</b>	<b>(822)</b>
<b>PROFIT FOR THE PERIOD</b>		<b>5,203</b>	<b>5,025</b>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
- Shareholders of HKEX		5,205	5,041
- Non-controlling interests		(2)	(16)
<b>PROFIT FOR THE PERIOD</b>		<b>5,203</b>	<b>5,025</b>
<b>Basic earnings per share</b>	9(a)	<b>\$4.16</b>	\$4.07
<b>Diluted earnings per share</b>	9(b)	<b>\$4.15</b>	\$4.06

\* 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.

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## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
<b>PROFIT FOR THE PERIOD</b>	<b>5,203</b>	5,025
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Currency translation differences of foreign subsidiaries	(35)	67
Cash flow hedges	(2)	(3)
Changes in fair value of financial assets measured at fair value through other comprehensive income	3	(3)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(34)</b>	61
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,169</b>	5,086
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
- Shareholders of HKEX	<b>5,168</b>	5,100
- Non-controlling interests	1	(14)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,169</b>	5,086

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# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	At 30 Jun 2019			At 31 Dec 2018		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	11	114,532	-	114,532	121,196	-	121,196
Financial assets measured at fair value through profit or loss	11	48,623	50	48,673	61,004	-	61,004
Financial assets measured at fair value through other comprehensive income	11	4,247	-	4,247	3,755	-	3,755
Financial assets measured at amortised cost	11	41,502	398	41,900	31,487	398	31,885
Accounts receivable, prepayments and deposits	12	14,038	21	14,059	18,341	21	18,362
Interests in joint ventures		-	69	69	-	63	63
Goodwill and other intangible assets		-	18,193	18,193	-	18,019	18,019
Fixed assets		-	1,512	1,512	-	1,625	1,625
Right-of-use assets	13	-	2,328	2,328	-	-	-
Lease premium for land		-	20	20	-	20	20
Deferred tax assets		-	20	20	-	19	19
<b>Total assets</b>		<b>222,942</b>	<b>22,611</b>	<b>245,553</b>	<b>235,783</b>	<b>20,165</b>	<b>255,948</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	14	39,439	-	39,439	53,915	-	53,915
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	15	134,127	-	134,127	123,728	-	123,728
Accounts payable, accruals and other liabilities	16	9,081	-	9,081	18,316	53	18,369
Deferred revenue		672	411	1,083	1,000	418	1,418
Taxation payable		1,202	-	1,202	678	-	678
Other financial liabilities		65	-	65	59	-	59
Participants' contributions to Clearing House Funds	17	12,374	-	12,374	14,787	-	14,787
Lease liabilities		163	2,223	2,386	-	-	-
Borrowings	18	252	163	415	1,005	161	1,166
Provisions		103	102	205	93	89	182
Deferred tax liabilities		-	743	743	-	743	743
<b>Total liabilities</b>		<b>197,478</b>	<b>3,642</b>	<b>201,120</b>	<b>213,581</b>	<b>1,464</b>	<b>215,045</b>
<b>Equity</b>							
Share capital	19			29,702			27,750
Shares held for Share Award Scheme	19			(681)			(682)
Employee share-based compensation reserve	20			318			218
Hedging and revaluation reserves				(5)			(6)
Exchange reserve				(122)			(84)
Designated reserves	21			547			523
Reserve relating to written put options to non-controlling interests				(369)			(369)
Retained earnings				14,730			13,379
<b>Equity attributable to shareholders of HKEX</b>				<b>44,120</b>			<b>40,729</b>
Non-controlling interests				313			174
<b>Total equity</b>				<b>44,433</b>			<b>40,903</b>
<b>Total liabilities and equity</b>				<b>245,553</b>			<b>255,948</b>
<b>Net current assets</b>				<b>25,464</b>			<b>22,202</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEX									
	Share capital and shares held for Share Award Scheme	Employee share-based compensation reserve	Hedging and revaluation reserves	Exchange reserve	Designated reserves	Reserve relating to written put options to non-controlling interests	Retained earnings	Total	Non-controlling interests	Total equity
	(note 19) \$m	(note 20) \$m	\$m	\$m	(note 21) \$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2019, as previously reported	27,068	218	(6)	(84)	523	(369)	13,379	40,729	174	40,903
Effect of adoption of HKFRS 16 (note 2)	-	-	-	-	-	-	(8)	(8)	-	(8)
At 1 Jan 2019, as restated	27,068	218	(6)	(84)	523	(369)	13,371	40,721	174	40,895
Profit for the period	-	-	-	-	-	-	5,205	5,205	(2)	5,203
Other comprehensive income	-	-	1	(38)	-	-	-	(37)	3	(34)
Total comprehensive income	-	-	1	(38)	-	-	5,205	5,168	1	5,169
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2018 second interim dividend at \$3.07 per share	-	-	-	-	-	-	(3,830)	(3,830)	-	(3,830)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	-	8	8	-	8
- Shares issued in lieu of cash dividends	1,940	-	-	-	-	-	-	1,940	-	1,940
- Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)	-	(3)
- Vesting of shares of Share Award Scheme	16	(15)	-	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	115	-	-	-	-	-	115	-	115
- Tax relating to Share Award Scheme	-	-	-	-	-	-	1	1	-	1
- Non-controlling interests on acquisition of a subsidiary (note 23)	-	-	-	-	-	-	-	-	138	138
- Transfer of reserves	-	-	-	-	24	-	(24)	-	-	-
	1,953	100	-	-	24	-	(3,846)	(1,769)	138	(1,631)
At 30 Jun 2019	29,021	318	(5)	(122)	547	(369)	14,730	44,120	313	44,433

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEX									
	Share capital and shares held for Share Award Scheme	Employee share-based compensation reserve	Hedging and revaluation reserves	Exchange reserve	Designated reserves	Reserve relating to written put options to non-controlling interests	Retained earnings	Total	Non- controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2018, as previously reported	24,535	222	1	(104)	822	(293)	12,090	37,273	102	37,375
Effect of adoption of HKFRS 9 (2014)	-	-	(4)	-	-	-	4	-	-	-
Effect of adoption of HKFRS 15	-	-	-	-	-	-	(62)	(62)	-	(62)
At 1 Jan 2018, as restated	24,535	222	(3)	(104)	822	(293)	12,032	37,211	102	37,313
Profit for the period	-	-	-	-	-	-	5,041	5,041	(16)	5,025
Other comprehensive income	-	-	(6)	65	-	-	-	59	2	61
Total comprehensive income	-	-	(6)	65	-	-	5,041	5,100	(14)	5,086
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2017 final dividend at \$2.85 per share	-	-	-	-	-	-	(3,525)	(3,525)	-	(3,525)
- Unclaimed HKEX dividends forfeited	-	-	-	-	-	-	12	12	-	12
- Shares issued in lieu of cash dividends	1,750	-	-	-	-	-	-	1,750	-	1,750
- Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)	-	(3)
- Vesting of shares of Share Award Scheme	21	(20)	-	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	101	-	-	-	-	-	101	-	101
- Transfer of reserves	-	-	-	-	(314)	-	314	-	-	-
	1,768	81	-	-	(314)	-	(3,200)	(1,665)	-	(1,665)
At 30 Jun 2018	26,303	303	(9)	(39)	508	(293)	13,873	40,646	88	40,734

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
<b>CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES</b>			
Net cash inflow from principal operating activities	22	5,880	5,210
<b>CASH FLOWS FROM OTHER OPERATING ACTIVITIES</b>			
Net payments to external fund managers for purchases of financial assets measured at fair value through profit or loss		(1,796)	-
Net cash inflow from operating activities		4,084	5,210
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets and intangible assets		(508)	(412)
Net increase in financial assets of Corporate Funds:			
Increase in time deposits with original maturities more than three months		(2,933)	(2,012)
Payments for purchase of financial assets measured at amortised cost (excluding time deposits)		(130)	-
Increase in financial assets measured at fair value through profit or loss		(50)	-
Interest received from financial assets measured at fair value through other comprehensive income		52	29
Cash acquired upon acquisition of a subsidiary	23	41	-
Net cash outflow from investing activities		(3,528)	(2,395)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchases of shares for Share Award Scheme		(3)	(3)
Repayment of borrowings		(744)	-
Payments of interest on borrowings		(11)	(21)
Payments of other finance costs		(38)	(28)
Dividends paid to shareholders of HKEX		(1,872)	(1,756)
Lease payments		(159)	-
Net cash outflow from financing activities		(2,827)	(1,808)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,271)</b>	1,007
Cash and cash equivalents at 1 Jan		11,180	13,546
<b>Cash and cash equivalents at 30 Jun</b>		<b>8,909</b>	14,553
<b>Analysis of cash and cash equivalents</b>			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	11	9,775	15,845
Less: Cash reserved for supporting Skin-in-the-Game and default fund credits of clearing houses	11(b)	(866)	(1,292)
		<b>8,909</b>	14,553

- (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.

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## 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 2018 annual consolidated financial statements. Except as described in note 2 below, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2018.

The financial information relating to the year ended 31 December 2018 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2019 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 2018 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 2019, the Group has adopted the following new standard and interpretation to Hong Kong Financial Reporting Standards (HKFRSs) which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2019:

HKFRS 16	Leases
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments

(a) Adoption of HKFRS 16

(i) Impact of adoption

HKFRS 16 affects the accounting for the Group's operating leases. The adoption of HKFRS 16 resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. The new accounting policies are set out in (a)(ii) and the adjustments to the financial statements are set out below.



**2. Adoption of new/revised HKFRSs (continued)**

(a) Adoption of HKFRS 16 (continued)

(i) Impact of adoption (continued)

Prior to the adoption of HKFRS 16, leases where substantially all the rewards and risks of ownership of assets remained with the lessor were accounted for as operating leases. Operating lease rentals were recognised under operating expenses in the condensed consolidated income statement on a straight-line basis over the lease term. Commitments under operating leases for future periods were not recognised as liabilities.

Upon adoption of HKFRS 16, the majority of operating leases (except for short-term leases with lease terms of less than 12 months) are recognised in the condensed consolidated statement of financial position as lease liabilities and right-of-use assets (see note (a)(ii) below).

The Group has applied HKFRS 16 from 1 January 2019. As permitted by the transitional provision of HKFRS 16, comparatives for 2018 were not restated. The Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At initial application, right-of-use assets were measured at their carrying amounts as if HKFRS 16 had always been applied since the commencement date of the leases, discounted at the lessee's incremental borrowing rate at the date of initial application.

2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 16 (continued)

(i) Impact of adoption (continued)

The following table shows the adjustments recognised for each individual line item in the opening condensed consolidated statement of financial position on 1 January 2019. Line items that were not affected by the changes have not been included, and therefore the line items disclosed do not add up to the sub-totals and totals below.

Condensed consolidated statement of financial position (extracts)	31 Dec 2018 As originally presented \$m	Impact from adoption of HKFRS 16 \$m	1 Jan 2019 Restated \$m
<b>Non-current assets</b>			
Fixed assets	1,625	(36)	1,589
Right-of-use assets	-	2,455	2,455
<b>Total assets</b>	<b>255,948</b>	<b>2,419</b>	<b>258,367</b>
<b>Current liabilities</b>			
Lease liabilities	-	235	235
Accounts payable, accruals and other liabilities	18,316	(32)	18,284
<b>Non-current liabilities</b>			
Lease liabilities	-	2,277	2,277
Accounts payable, accruals and other liabilities	53	(53)	-
<b>Total liabilities</b>	<b>215,045</b>	<b>2,427</b>	<b>217,472</b>
<b>Equity</b>			
Retained earnings	13,379	(8)	13,371
<b>Equity attributable to shareholders of HKEX</b>	<b>40,729</b>	<b>(8)</b>	<b>40,721</b>
<b>Total equity</b>	<b>40,903</b>	<b>(8)</b>	<b>40,895</b>
<b>Total liabilities and equity</b>	<b>255,948</b>	<b>2,419</b>	<b>258,367</b>
<b>Net current assets</b>	<b>22,202</b>	<b>(203)</b>	<b>21,999</b>

Note: The Group recognised right-of-use assets of \$2,419 million and current and non-current lease liabilities amounting to \$235 million and \$2,277 million respectively, and de-recognised provision for lease incentives included under current and non-current liabilities of \$32 million and \$53 million respectively, with the net difference of \$8 million being recognised as a reduction in retained earnings. In addition, reinstatement costs of \$36 million, which were previously included under fixed assets, were reclassified to right-of-use assets.

**2. Adoption of new/revised HKFRSs (continued)**

(a) Adoption of HKFRS 16 (continued)

(i) Impact of adoption (continued)

The following table shows the reconciliation from operating lease commitments disclosed under HKAS 17: Leases as at 31 December 2018 to lease liabilities upon adoption of HKFRS 16 as at 1 January 2019.

	<b>\$m</b>
Operating lease commitments disclosed under HKAS 17 as at 31 Dec 2018	<b>3,240</b>
Discount arising from conversion into present value by discounting cash flows using the Group's incremental borrowing rate at 1 Jan 2019 (weighted average of 3.42%)	<b>(534)</b>
Less: short-term leases recognised on a straight-line basis as expenses	<b>(18)</b>
Less: contracts not classified as leases under HKFRS 16	<b>(176)</b>
<b>Lease liabilities recognised as at 1 Jan 2019</b>	<b>2,512</b>
Current lease liabilities	<b>235</b>
Non-current lease liabilities	<b>2,277</b>
	<b>2,512</b>

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2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 16 (continued)

(i) Impact of adoption (continued)

The following tables show the impact on each individual line item of the condensed consolidated income statement and the condensed consolidated statement of cash flows for the six months ended 30 June 2019, and the condensed consolidated statement of financial position as of 30 June 2019 following the adoption of HKFRS 16. Line items that were not affected by the changes have not been included, and therefore the line items disclosed do not add up to the subtotals and totals below.

Condensed consolidated income statement (extracts)	Six months ended 30 Jun 2019		
	Before adoption of HKFRS 16 \$m	Impact from adoption of HKFRS 16 \$m	As reported \$m
<b>OPERATING EXPENSES</b>			
Information technology and computer maintenance expenses	(282)	4	(278)
Premises expenses	(210)	146	(64)
Other operating expenses	(220)	3	(217)
<b>EBITDA</b>	<b>6,472</b>	<b>153</b>	<b>6,625</b>
Depreciation and amortisation	(364)	(131)	(495)
<b>OPERATING PROFIT</b>	<b>6,108</b>	<b>22</b>	<b>6,130</b>
Finance costs	(42)	(44)	(86)
<b>PROFIT BEFORE TAXATION</b>	<b>6,072</b>	<b>(22)</b>	<b>6,050</b>
<b>TAXATION</b>	<b>(847)</b>	<b>-</b>	<b>(847)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>5,225</b>	<b>(22)</b>	<b>5,203</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF HKEX</b>	<b>5,227</b>	<b>(22)</b>	<b>5,205</b>
<b>Basic earnings per share (\$)</b>	<b>4.18</b>	<b>(0.02)</b>	<b>4.16</b>

Condensed consolidated statement of cash flows (extracts)	Six months ended 30 Jun 2019		
	Before adoption of HKFRS 16 \$m	Impact from adoption of HKFRS 16 \$m	As reported \$m
Net cash inflow from operating activities	3,925	159	4,084
Net cash outflow from financing activities	(2,668)	(159)	(2,827)
<b>Net decrease in cash and cash equivalents</b>	<b>(2,271)</b>	<b>-</b>	<b>(2,271)</b>

2. Adoption of new/revised HKFRSs (continued)

(a) Adoption of HKFRS 16 (continued)

(i) Impact of adoption (continued)

Condensed consolidated statement of financial position (extracts)	At 30 Jun 2019		
	Before adoption of HKFRS 16 \$m	Impact from adoption of HKFRS 16 \$m	As reported \$m
<b>Non-current assets</b>			
Fixed assets	1,563	(51)	1,512
Right-of-use assets	-	2,328	2,328
<b>Total assets</b>	<b>243,276</b>	<b>2,277</b>	<b>245,553</b>
<b>Current liabilities</b>			
Lease liabilities	-	163	163
Accounts payable, accruals and other liabilities	9,110	(29)	9,081
<b>Non-current liabilities</b>			
Lease liabilities	-	2,223	2,223
Accounts payable, accruals and other liabilities	50	(50)	-
<b>Total liabilities</b>	<b>198,813</b>	<b>2,307</b>	<b>201,120</b>
<b>Equity</b>			
Retained earnings	14,760	(30)	14,730
<b>Equity attributable to shareholders of HKEX</b>	<b>44,150</b>	<b>(30)</b>	<b>44,120</b>
<b>Total equity</b>	<b>44,463</b>	<b>(30)</b>	<b>44,433</b>
<b>Total liabilities and equity</b>	<b>243,276</b>	<b>2,277</b>	<b>245,553</b>
<b>Net current assets</b>	<b>25,598</b>	<b>(134)</b>	<b>25,464</b>

**2. Adoption of new/revised HKFRSs (continued)**

(a) Adoption of HKFRS 16 (continued)

(ii) Accounting policies applied from 1 January 2019

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received), and subsequently at cost less any accumulated depreciation and impairment losses. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate is used. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Payments associated with short-term leases (ie, leases with a lease term of 12 months or less) and low value leases are recognised on a straight-line basis as an expense in the condensed consolidated income statement.

(b) Adoption of HK(IFRIC) Interpretation 23

The Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12: Income Taxes when there is uncertainty over income tax treatments. The adoption 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.

To optimise resources to successfully deliver the initiatives set out in the Group's Strategic Plan 2019-2021, the Group's operating segments have been reorganised. As a result, since April 2019, the "Clearing segment" has been renamed the "Post Trade segment", and the "Platform and Infrastructure segment" has been renamed the "Technology segment".

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, 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 of Hong Kong Limited (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 (CBCs) 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 Asia Commodities contracts and gold and iron ore futures 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. It also includes the services provided by the Group's newly acquired subsidiary, Shenzhen Ronghui Tongjin Technology Co. Ltd. (note 23). Its major sources of revenue are network, terminal user, dataline and software sub-license fees and hosting services fees.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

3. Operating Segments (continued)

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

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

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

	Six months ended 30 Jun 2019						
	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	1,128	1,144	556	2,302	34	5	5,169
Over time	735	487	138	182	339	5	1,886
Revenue from external customers	1,863	1,631	694	2,484	373	10	7,055
Net investment income	-	-	-	774	-	745	1,519
Sundry income	-	-	-	4	-	-	4
Revenue and other income	1,863	1,631	694	3,262	373	755	8,578
Operating expenses	(302)	(291)	(324)	(420)	(102)	(514)	(1,953)
Reportable segment EBITDA	1,561	1,340	370	2,842	271	241	6,625
Depreciation and amortisation	(64)	(48)	(158)	(120)	(19)	(86)	(495)
Finance costs	(8)	(6)	(4)	(39)	(1)	(28)	(86)
Share of profits less losses of joint ventures	9	(3)	-	-	-	-	6
Reportable segment profit before taxation	1,498	1,283	208	2,683	251	127	6,050
	Six months ended 30 Jun 2018						
	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	1,383	1,225	570	2,352	44	2	5,576
Over time	716	509	136	159	283	6	1,809
Revenue from external customers	2,099	1,734	706	2,511	327	8	7,385
Net investment income	-	-	-	622	-	173	795
Sundry income	-	-	-	7	-	7	14
Revenue and other income	2,099	1,734	706	3,140	327	188	8,194
Operating expenses	(282)	(280)	(354)	(400)	(75)	(527)	(1,918)
Reportable segment EBITDA	1,817	1,454	352	2,740	252	(339)	6,276
Depreciation and amortisation	(40)	(36)	(147)	(101)	(18)	(36)	(378)
Finance costs	-	-	-	(16)	-	(39)	(55)
Share of profits less losses of joint ventures	8	(4)	-	-	-	-	4
Reportable segment profit before taxation	1,785	1,414	205	2,623	234	(414)	5,847



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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

**4. Trading Fees and Trading Tariffs**

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Equity securities traded on the Stock Exchange and through Stock Connect	<b>1,094</b>	1,359
DWs, CBBCs and warrants traded on the Stock Exchange	<b>358</b>	417
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	<b>976</b>	1,008
Base, ferrous, and precious metals futures and options contracts traded on the LME	<b>512</b>	550
	<b>2,940</b>	3,334

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**5. Net Investment Income**

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Gross interest income from financial assets measured at amortised cost	<b>1,549</b>	1,229
Gross interest income from financial assets measured at fair value through other comprehensive income	<b>52</b>	29
Interest rebates to Participants	<b>(623)</b>	(505)
Net interest income	<b>978</b>	753
Net gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	<b>535</b>	52
Others	<b>6</b>	(10)
Net investment income	<b>1,519</b>	795

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

**6. Staff Costs and Related Expenses**

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Salaries and other short-term employee benefits	1,124	1,012
Employee share-based compensation benefits of HKEX Share Award Scheme (Share Award Scheme)	115	101
Termination benefits	3	14
Retirement benefit costs (note (a))	86	78
	<b>1,328</b>	1,205

(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.

**7. Finance Costs**

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Interest on borrowings	4	27
Interest on lease liabilities	44	-
Banking facility commitment fees	25	21
Negative interest on Euro and Japanese Yen deposits	13	7
	<b>86</b>	55

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

**8. Taxation**

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

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Current tax - Hong Kong Profits Tax	744	762
Current tax - Overseas Tax	102	61
Total current tax	846	823
Deferred tax	1	(1)
Taxation charge	847	822

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2018: 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 (2018: 19 per cent).

**9. Earnings Per Share**

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

- (a) Basic earnings per share

	Six months ended 30 Jun 2019	Six months ended 30 Jun 2018
Profit attributable to shareholders (\$m)	5,205	5,041
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,250,719	1,238,023
Basic earnings per share (\$)	4.16	4.07

- (b) Diluted earnings per share

	Six months ended 30 Jun 2019	Six months ended 30 Jun 2018
Profit attributable to shareholders (\$m)	5,205	5,041
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,250,719	1,238,023
Effect of shares awarded under Share Award Scheme (in '000)	3,010	2,872
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,253,729	1,240,895
Diluted earnings per share (\$)	4.15	4.06

**10. Dividends**

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Interim dividend declared of \$3.72 (2018: \$3.64) per share at 30 Jun	4,680	4,538
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(12)	(11)
	4,668	4,527

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

11. Financial Assets

	At 30 Jun 2019 \$m	At 31 Dec 2018 \$m
Cash and cash equivalents	114,532	121,196
Financial assets measured at fair value through profit or loss	48,673	61,004
Financial assets measured at fair value through other comprehensive income	4,247	3,755
Financial assets measured at amortised cost	41,900	31,885
	<b>209,352</b>	<b>217,840</b>

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 2019 \$m	At 31 Dec 2018 \$m
<u>Cash for A shares (note (a))</u>		
Cash and cash equivalents	-	3,014
<u>Corporate Funds</u>		
Cash and cash equivalents (note (b))	9,775	11,904
Financial assets measured at fair value through profit or loss	9,234	7,089
Financial assets measured at amortised cost	8,903	5,840
	<b>27,912</b>	<b>24,833</b>
<u>Margin Funds<sup>1</sup></u>		
Cash and cash equivalents	91,635	90,773
Financial assets measured at fair value through other comprehensive income	4,247	3,755
Financial assets measured at amortised cost	32,997	26,045
	<b>128,879</b>	<b>120,573</b>
<u>Clearing House Funds (note 17)</u>		
Cash and cash equivalents	13,122	15,505
<u>Metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (d))	39,439	53,915
	<b>209,352</b>	<b>217,840</b>

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 \$5,248 million (31 December 2018: \$3,155 million), which are included in accounts receivable, prepayments and deposits. If such amounts are included, total Margin Funds would be \$134,127 million (31 December 2018: \$123,728 million) (note 15).

## 11. Financial Assets (continued)

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

	At 30 Jun 2019						At 31 Dec 2018					
	Cash for A shares	Corporate Funds	Margin Funds	Clearing House Funds	Metals derivatives contracts	Total	Cash for A shares	Corporate Funds	Margin Funds	Clearing House Funds	Metals derivatives contracts	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Within twelve months	-	27,464	128,879	13,122	39,439	208,904	3,014	24,435	120,573	15,505	53,915	217,442
Over twelve months	-	448	-	-	-	448	-	398	-	-	-	398
	-	27,912	128,879	13,122	39,439	209,352	3,014	24,833	120,573	15,505	53,915	217,840

(a) Cash for A shares includes:

- (i) Renminbi (RMB) cash prepayments received 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.
- (b) At 30 June 2019, cash and cash equivalents of Corporate Funds of \$866 million (31 December 2018: \$724 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).

## 12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represent the Group's CNS money obligations receivable, and Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear, which accounted for 50 per cent (31 December 2018: 73 per cent) and 37 per cent (31 December 2018: 17 per cent) of the total accounts receivable, prepayments and deposits respectively. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

### 13. Right-of-Use Assets

Right-of-use assets relate to the following types of assets:

	At 30 Jun 2019 \$m	At 1 Jan 2019 \$m
Properties	2,279	2,398
Information technology facilities	33	38
Office equipment	16	19
	<b>2,328</b>	<b>2,455</b>

### 14. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2019 \$m	At 31 Dec 2018 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear (note 11(d))	39,439	53,915

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

	At 30 Jun 2019 \$m	At 31 Dec 2018 \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised:		
SEOCH Clearing Participants' margin deposits	9,399	9,011
HKCC Clearing Participants' margin deposits	58,340	52,446
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	11,116	7,982
OTC Clear Clearing Participants' margin deposits	4,683	3,395
LME Clear Clearing Participants' margin deposits	50,589	50,894
	<b>134,127</b>	<b>123,728</b>

### 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 77 per cent (31 December 2018: 89 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 2019 \$m	At 31 Dec 2018 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions	12,374	14,787
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Clearing House Funds reserves (note 21)	547	523
	<b>13,077</b>	15,466
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Financial assets of Clearing House Funds (note 11)	13,122	15,505
Less: Other financial liabilities of Clearing House Funds	(45)	(39)
	<b>13,077</b>	15,466
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,551	2,075
SEOCH Reserve Fund	763	957
HKCC Reserve Fund	1,750	1,167
OTC Clear Rates and FX Guarantee Fund	2,693	2,561
OTC Clear Rates and FX Guarantee Resources	166	164
LME Clear Default Fund	5,154	8,542
	<b>13,077</b>	15,466

- (a) Contributions by HKSCC, HKCC and SEOCH 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 2019, the Skin-in-the-Game and default fund credits amounted to \$866 million (31 December 2018: \$724 million) (note 11(b)), and are invested in overnight deposits and monitored on a daily basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

18. Borrowings

	At 30 Jun 2019 \$m	At 31 Dec 2018 \$m
Notes	-	753
Written put options to non-controlling interests	415	413
<b>Total borrowings</b>	<b>415</b>	<b>1,166</b>
Analysed as:		
Non-current liabilities	163	161
Current liabilities	252	1,005
	<b>415</b>	<b>1,166</b>

During the six months ended 30 June 2019, the notes were fully repaid, and 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 2018	1,239,809	(2,994)	25,141	(606)	24,535
Shares issued in lieu of cash dividends (note (a))	10,823	(81)	2,605	(18)	2,587
Shares purchased for Share Award Scheme (note (b))	-	(1,288)	-	(300)	(300)
Vesting of shares of Share Award Scheme (note (c))	-	1,248	4	242	246
<b>At 31 Dec 2018</b>	<b>1,250,632</b>	<b>(3,115)</b>	<b>27,750</b>	<b>(682)</b>	<b>27,068</b>
At 1 Jan 2019	1,250,632	(3,115)	27,750	(682)	27,068
Shares issued in lieu of cash dividends (note (a))	7,476	(36)	1,950	(10)	1,940
Shares purchased for Share Award Scheme (note (b))	-	(11)	-	(3)	(3)
Vesting of shares of Share Award Scheme (note (c))	-	65	2	14	16
<b>At 30 Jun 2019</b>	<b>1,258,108</b>	<b>(3,097)</b>	<b>29,702</b>	<b>(681)</b>	<b>29,021</b>

- (a) 7,476,293 new fully paid HKEX shares were issued in April 2019 (year ended 31 December 2018: 10,822,583 shares) and allotted at \$260.77 per share (year ended 31 December 2018: weighted average price of \$240.76 per share) to the shareholders (including 36,539 shares (year ended 31 December 2018: 80,717 shares) allotted to the Share Award Scheme) who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme.



**19. Share Capital and Shares Held for Share Award Scheme (continued)**

- (b) During the six months ended 30 June 2019, the Share Award Scheme acquired 10,600 HKEX shares (year ended 31 December 2018: 1,287,300 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$3 million (year ended 31 December 2018: \$300 million).
- (c) During the six months ended 30 June 2019, the Share Award Scheme transferred 64,517 HKEX shares (year ended 31 December 2018: 1,247,793 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$14 million (year ended 31 December 2018: \$242 million), and \$2 million (year ended 31 December 2018: \$4 million) was credited to share capital in respect of vesting of certain shares whose fair values were higher than cost.

**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 2019, 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 Jun 2019	996	259.65	13 Jun 2019 – 12 Dec 2019
13 Jun 2019	9,603	259.65	8 Apr 2021 – 8 Apr 2022

21. Designated reserves

Clearing House Funds reserves (note 17)

	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	OTC Clear Rates and FX Guarantee Resources reserve \$m	Total \$m
At 1 Jan 2018	357	105	349	6	5	822
Contributions from clearing houses reappropriated to retained earnings of clearing houses (note (a))	(200)	-	(120)	-	-	(320)
Surplus of net investment income net of expenses of Clearing House Funds	4	1	2	11	3	21
Transfer (to)/from retained earnings	(196)	1	(118)	11	3	(299)
At 31 Dec 2018	161	106	231	17	8	523
At 1 Jan 2019	<b>161</b>	<b>106</b>	<b>231</b>	<b>17</b>	<b>8</b>	<b>523</b>
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings	1	2	4	15	2	24
At 30 Jun 2019	<b>162</b>	<b>108</b>	<b>235</b>	<b>32</b>	<b>10</b>	<b>547</b>

- (a) In June 2018, the contributions by HKSCC and HKCC to the HKSCC Guarantee Fund and HKCC Reserve Fund were changed from fixed contributions to 10 per cent of their respective fund size and are currently kept under Corporate Funds. Therefore, the fixed contributions of \$320 million from the two clearing houses to their respective Clearing House Funds were transferred to retained earnings of the respective clearing houses during the year ended 31 December 2018.

**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 2019 \$m	Six months ended 30 Jun 2018 \$m
Profit before taxation	<b>6,050</b>	5,847
Adjustments for:		
Net interest income	<b>(978)</b>	(753)
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	<b>(535)</b>	(52)
Finance costs	<b>86</b>	55
Depreciation and amortisation	<b>495</b>	378
Employee share-based compensation benefits	<b>115</b>	101
Provision for impairment losses of receivables	<b>7</b>	5
Other non-cash adjustments	<b>-</b>	4
Net (increase)/decrease in financial assets of Margin Funds	<b>(10,396)</b>	3,674
Net increase/(decrease) in financial liabilities of Margin Funds	<b>10,399</b>	(3,674)
Net decrease/(increase) in Clearing House Fund financial assets	<b>2,383</b>	(3,889)
Net (decrease)/increase in Clearing House Fund financial liabilities	<b>(2,407)</b>	4,203
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	<b>-</b>	(18)
Decrease in cash prepayments and collateral for A shares	<b>3,014</b>	1,689
Increase in Corporate Funds used for supporting Skin-in-the-Game and default fund credits	<b>(142)</b>	(1,292)
Decrease/(increase) in accounts receivable, prepayments and deposits	<b>6,631</b>	(1,634)
(Decrease)/increase in other liabilities	<b>(9,446)</b>	157
Net cash inflow from principal operations	<b>5,276</b>	4,801
Interest received from financial assets measured at amortised cost and cash and cash equivalents	<b>1,549</b>	1,229
Interest paid to Participants	<b>(623)</b>	(505)
Income tax paid	<b>(322)</b>	(315)
Net cash inflow from principal operating activities	<b>5,880</b>	5,210

### 23. Acquisition of a Subsidiary

On 28 June 2019, the Group completed the acquisition of a 51 per cent equity interest of Shenzhen Ronghui Tongjin Technology Co. Ltd. (Ronghui Tongjin) for a total cash consideration of RMB233 million (\$262 million) through capital injection into Ronghui Tongjin.

Ronghui Tongjin is a Shenzhen-based financial markets technology firm that specialises in financial exchanges, regulation technologies and data applications. The acquisition is expected to support the Group's strategy to further build its financial markets technological capabilities, at a time of rapid changes in the global exchange landscape.

The goodwill arising from the acquisition is attributable to the workforce and the synergies expected from integrating Ronghui Tongjin into the Group's technology business. It has been included under the Technology segment. The goodwill recognised is not expected to be deductible for income tax purposes.

The following table summarises the purchase consideration for Ronghui Tongjin, the fair value of assets acquired and liabilities assumed at the acquisition date.

	\$m
Cash and cash equivalents	41
Accounts receivable, prepayments and deposits	4
Deferred revenue	(15)
Provisions	(1)
Accounts payable, accruals and other liabilities	(9)
Net identifiable assets acquired (before capital injection by the Group)	20
Add: Capital injection by the Group	262
<b>Net identifiable assets acquired (after capital injection by the Group)</b>	<b>282</b>
Less: non-controlling interests	(138)
Add: goodwill and intangible assets	127
<b>Total</b>	<b>271</b>
<b>Total cash consideration</b>	<b>262</b>
Add: Net loss on cash flow hedges reclassified from hedging reserve	9
<b>Total</b>	<b>271</b>
<b>Cash and cash equivalents acquired in respect of the acquisition of Ronghui Tongjin</b>	<b>41</b>

**23. Acquisition of a Subsidiary (continued)**

Acquisition-related costs of less than \$1 million were included in “professional fees” in the condensed consolidated income statement for the six months ended 30 June 2019.

The accounts receivables, prepayments and deposits acquired included accounts receivables with fair value of \$3 million. The gross contractual amount for accounts receivables due is \$4 million, of which \$1 million is expected to be uncollectible.

The Group has chosen to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

The total revenue and net loss contributed by Ronghui Tongjin from its date of acquisition (ie, 28 June 2019) to 30 June 2019 and included in the condensed consolidated income statement were less than \$1 million.

Had Ronghui Tongjin been consolidated from 1 January 2019, the Group’s consolidated revenue and profit for the period up to 30 June 2019 would have been \$7,074 million and \$5,204 million respectively. These amounts have been calculated by adopting the Group’s accounting policies. In determining these amounts, it is assumed that the fair value adjustments that arose on the acquisition date would have been the same had the acquisition occurred on 1 January 2019.

**24. Capital Expenditures and Commitments**

During the six months ended 30 June 2019, the Group incurred capital expenditures of \$368 million (2018: \$339 million).

At 30 June 2019, the Group’s commitments in respect of capital expenditure were as follows:

	At 30 Jun 2019 \$m	At 31 Dec 2018 \$m
Contracted but not provided for:		
- fixed assets	63	30
- intangible assets	118	64
Authorised but not contracted for:		
- fixed assets	425	270
- intangible assets	486	571
	<b>1,092</b>	<b>935</b>

## 25. Contingent Liabilities

At 30 June 2019, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2018: \$71 million). Up to 30 June 2019, 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 657 trading Participants (31 December 2018: 640) covered by the indemnity at 30 June 2019 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$131 million (31 December 2018: \$128 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.

## 26. Material Related Party Transactions

- (a) Key management personnel compensation

	Six months ended 30 Jun 2019 \$m	Six months ended 30 Jun 2018 \$m
Salaries and other short-term employee benefits	63	66
Employee share-based compensation benefits	32	31
Retirement benefit costs	4	4
	<b>99</b>	<b>101</b>

- (b) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and the LME Pension Scheme as its post-retirement benefit plans (note 6 (a)).

## 27. Pledge of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$1,649 million (HK\$12,883 million) at 30 June 2019 (31 December 2018: US\$1,490 million (HK\$11,666 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\$7,179 million (HK\$56,086 million) at 30 June 2019 (31 December 2018: US\$7,650 million (HK\$59,895 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 2019. Such non-cash collateral, together with certain financial assets amounting to US\$437 million (HK\$3,410 million) at 30 June 2019 (31 December 2018: US\$420 million (HK\$3,288 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.

## 28. Capital Management

At 30 June 2019, the Group had set aside \$4,000 million (31 December 2018: \$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 2018: \$2,160 million) had been injected into HKSCC, HKCC and SEOCH as share capital.

**29. 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.

	At 30 Jun 2019				At 31 Dec 2018		
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Total
<b>Recurring fair value measurements:</b>	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial assets</b>							
Financial assets measured at fair value through profit or loss:							
- collective investment schemes	2,590	6,594	-	9,184	1,987	5,102	7,089
- equity securities	-	-	50	50	-	-	-
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear	-	39,439	-	39,439	-	53,915	53,915
Financial assets measured at fair value through other comprehensive income:							
- debt securities	3,046	1,201	-	4,247	3,054	701	3,755
	<b>5,636</b>	<b>47,234</b>	<b>50</b>	<b>52,920</b>	<b>5,041</b>	<b>59,718</b>	<b>64,759</b>
<b>Financial liabilities</b>							
Financial liabilities at fair value through profit or loss:							
- base, ferrous, and precious metals futures and options contracts cleared through LME Clear	-	39,439	-	39,439	-	53,915	53,915



**29. 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 2019 and 30 June 2018, 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)

	\$m
At 1 Jan 2019	-
Investment in shares in an unlisted company	<b>50</b>
At 30 Jun 2019	<b>50</b>
Change in unrealised gains for the period included in profit or loss for assets held at 30 Jun 2019, under net investment income	-

The amount represents the investment in a 9.99 per cent equity interest in Fusion Bank Limited, which has been granted a virtual banking license by the Hong Kong Monetary Authority. As the investment is not traded in an active market and still at an early stage of development without incurring significant costs, its fair value is not expected to be significantly different from its investment cost of \$50 million.

**29. 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 2019		At 31 Dec 2018	
	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
<b>Assets</b>				
Financial assets measured at amortised cost:				
- debt securities maturing over one year <sup>1</sup>	301	301	301	301
- other financial assets maturing over one year <sup>2</sup>	97	76	97	74
<b>Liabilities</b>				
Borrowings:				
- notes <sup>3</sup>	-	-	753	753
- written put options to non-controlling interests <sup>3</sup>	415	421	413	416
Financial guarantee to the Collector of Stamp Revenue <sup>4</sup>	20	52	20	46

<sup>1</sup> The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

<sup>2</sup> 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 2.62 per cent to 2.85 per cent at 30 June 2019 (31 December 2018: 2.59 per cent to 2.74 per cent).

<sup>3</sup> The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 2.60 per cent to 2.84 per cent at 30 June 2019 (31 December 2018: 3.03 per cent to 3.15 per cent).

<sup>4</sup> 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 3.17 per cent at 30 June 2019 (31 December 2018: 3.51 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.