

2023 Interim Results Analyst Presentation

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HKEX
香港交易所

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Agenda

01 | 1H 2023 Key Highlights

02 | HKEX Group Financial Review

03 | Business and Strategic Update

04 | Appendix



1H 2023 key highlights

Financial Performance

1H 2023: HK\$10.6b
(+18%YoY)

Revenue and other income

1H 2023: HK\$6.3b
(+31%YoY)

Profit attributable to shareholders

Business and Strategy

- **Good results:** 1H results demonstrated core business **resiliency**, despite global economic fragility and weak market sentiment
- **Second best ever half-yearly revenue and other income and profit, after exceptional 1H 2021**
- **Half year of significant strategic progress:**
 - Expansion of eligible stocks under Stock Connect took effect (Mar)
 - Specialist Technology Company listing regime took effect (Mar)
 - Swap Connect launched (May)
 - HKD-RMB Dual Counter Model and Dual Counter Market Making Programme launched (Jun)
 - Grand opening of New York office (Jun)
- **Cash market softness continued** reflecting global market sentiment, ADT down 16%YoY
- **Diversification delivering results:**
 - **Derivatives** saw **record half-yearly** ADV of 1.4m contracts (up 5%YoY)
 - **Strong momentum in ETPs** - ADT up 18%YoY
 - **Data and Connectivity** revenue up 4%YoY
- **IPO pipeline remained strong** with over 100 active applications (30 Jun 2023)
- **Market structure enhancements will further enhance competitiveness**
 - Hong Kong Investor Identification Regime implemented (Mar)
 - LME 2-year programme to strengthen and enhance its markets announced (Mar)
 - Stock Connect trading calendar enhancement took effect (Apr)



**HKEX Group
Financial Review**



1H 2023: Good results, second best ever half-yearly revenue and other income and profit

Core business revenue⁽²⁾

1H 2023: HK\$9.7b (↑5% YoY)
Q2 2023: HK\$4.7b (↑5% YoY)

Revenue and other income⁽³⁾

1H 2023: HK\$10.6b (↑18% YoY)
Q2 2023: HK\$5.0b (↑18% YoY)

EBITDA

1H 2023: HK\$7.9b (↑23% YoY)
Q2 2023: HK\$3.7b (↑25% YoY)

PAT

1H 2023: HK\$6.3b (↑31% YoY)
Q2 2023: HK\$2.9b (↑34% YoY)

EPS

1H 2023: HK\$4.99 (↑31% YoY)
Q2 2023: HK\$2.29 (↑34% YoY)

DPS

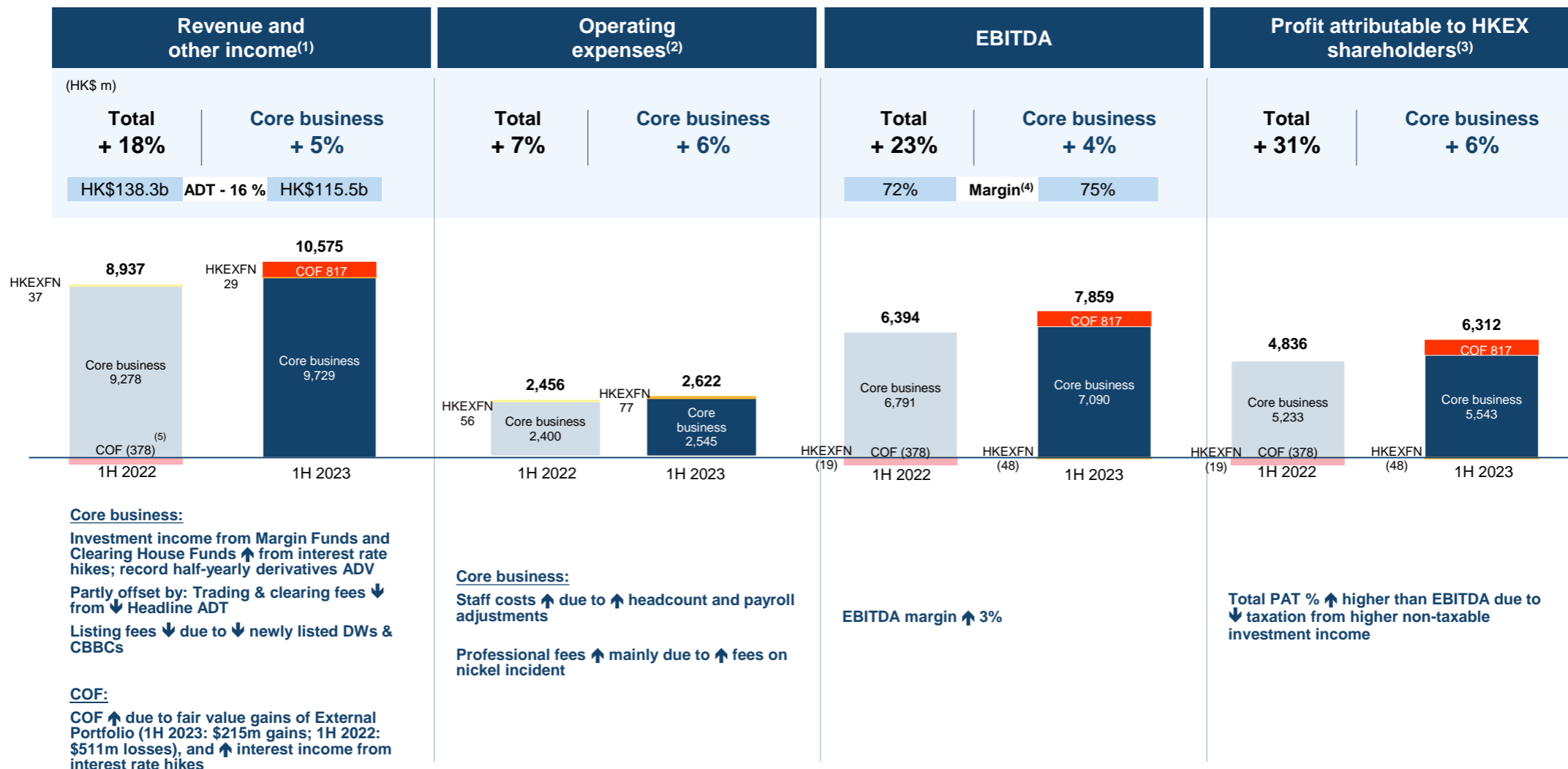
1H 2023: HK\$4.50 (↑30% YoY)



1. All percentage changes are computed based on amounts reported in financial statements
2. Core business revenue represents total revenue and other income, excluding net investment income/(loss) of Corporate Funds and donation income of HKEX Foundation (HKEXFN)
3. Represents gross revenue and other income before deducting transaction-related expenses

1H 2023 vs 1H 2022

1H 2023: Good results, second best ever half-yearly revenue and profit, driven by record net investment income and derivatives ADV

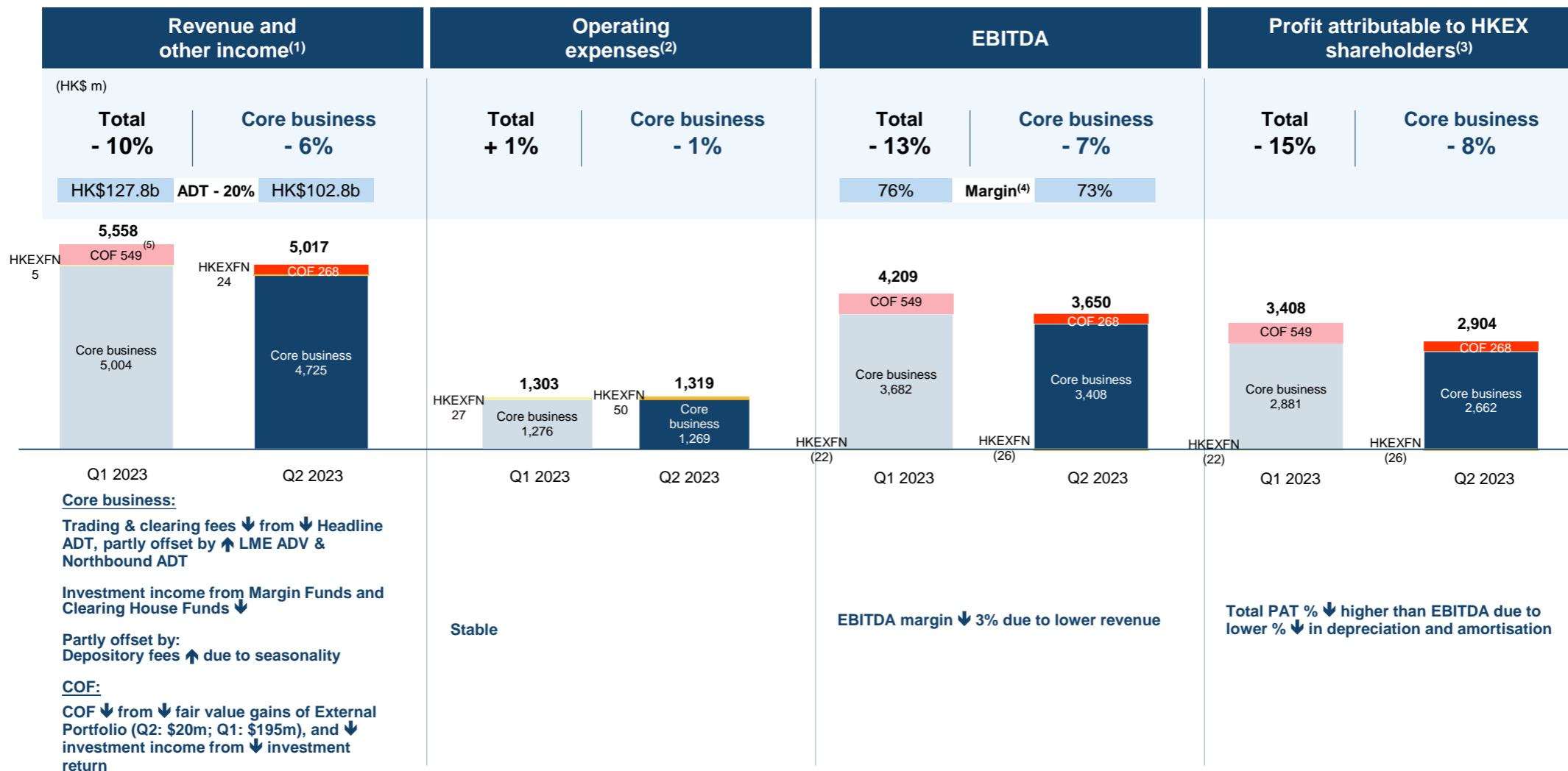


1. Represents gross revenue and other income before deducting transaction-related expenses (1H 2022: \$87m; 1H 2023: \$94m)
2. Excludes transaction-related expenses, depreciation and amortisation, finance costs and share of results of joint ventures
3. For the purpose of this presentation, tax impact of COF is not considered when calculating the PAT attributable to COF
4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses
5. COF represents net investment income/(loss) of Corporate Funds



Q2 2023 vs Q1 2023

Record Q2 revenue; core business net profit down 8% mainly driven by 20% lower Headline ADT

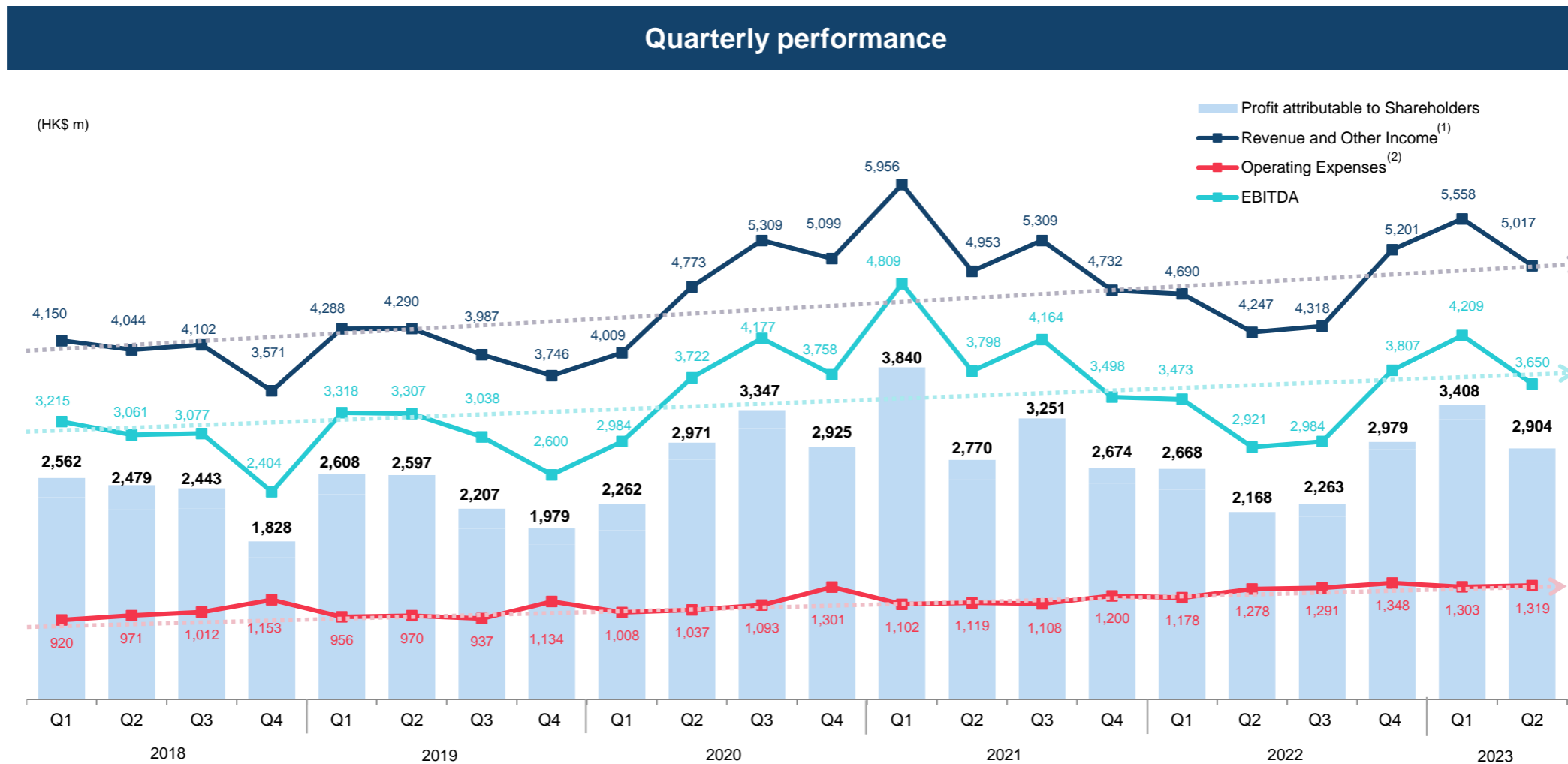


1. Represents gross revenue and other income before deducting transaction-related expenses (Q1 2023: \$46m; Q2 2023: \$48m)
2. Excludes transaction-related expenses, depreciation and amortisation, finance costs and share of results of joint ventures
3. For the purpose of this presentation, tax impact of COF is not considered when calculating the PAT attributable to COF
4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses
5. COF represents net investment income/(loss) of Corporate Funds



Quarterly performance

1H 2023 results in line with long-term historical upward trendline



1. Represents gross revenue and other income before deducting transaction-related expenses
2. Exclude transaction-related expenses, depreciation and amortisation, finance costs, share of results of joint ventures, and certain exceptional costs
3. Dotted trend lines are illustrative and do not constitute a forward forecast

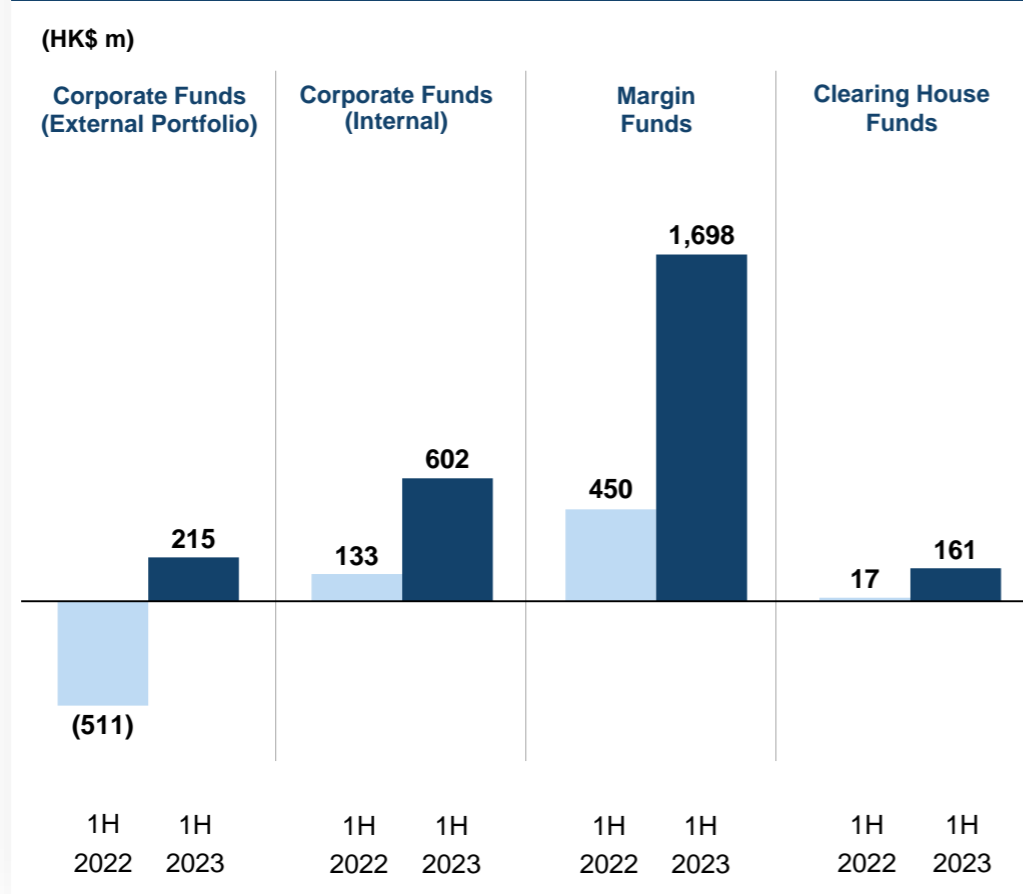


Net investment income (NII) – 1H 2023 vs 1H 2022

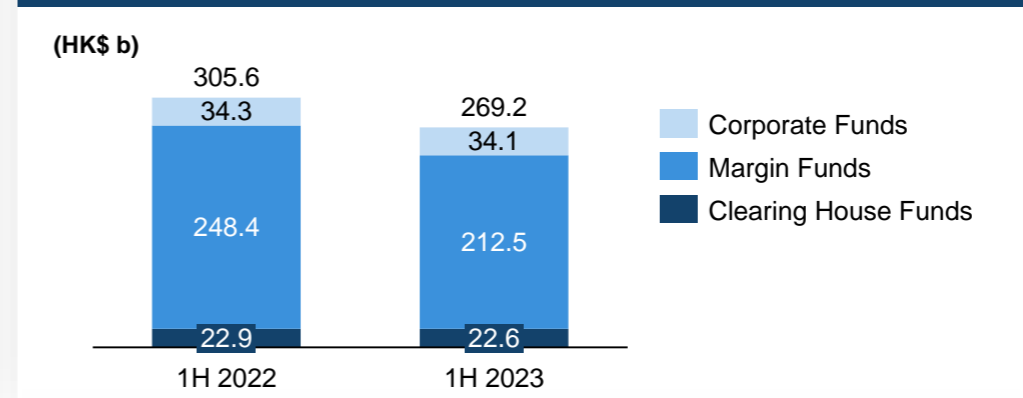
NII benefited from higher interest rates and External Portfolio gains

1H 2023: HK\$2,676m (1H 2022: HK\$89m)

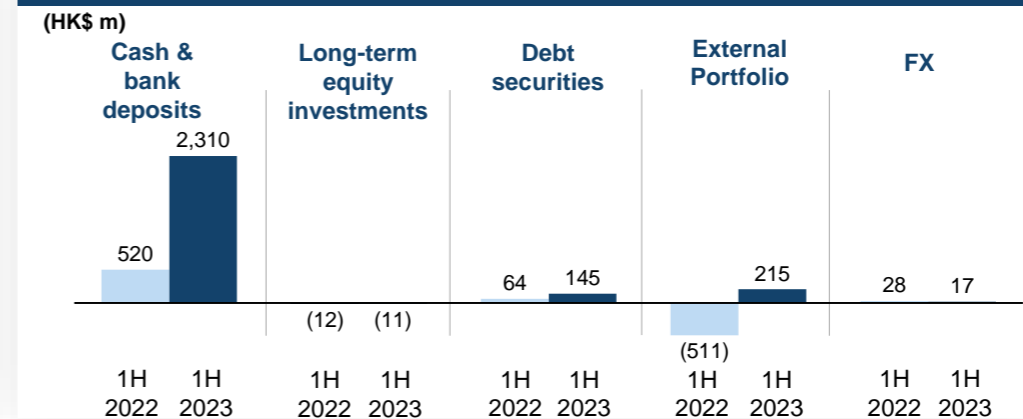
Net investment income by funds



Average fund size



Net investment income by category of investments



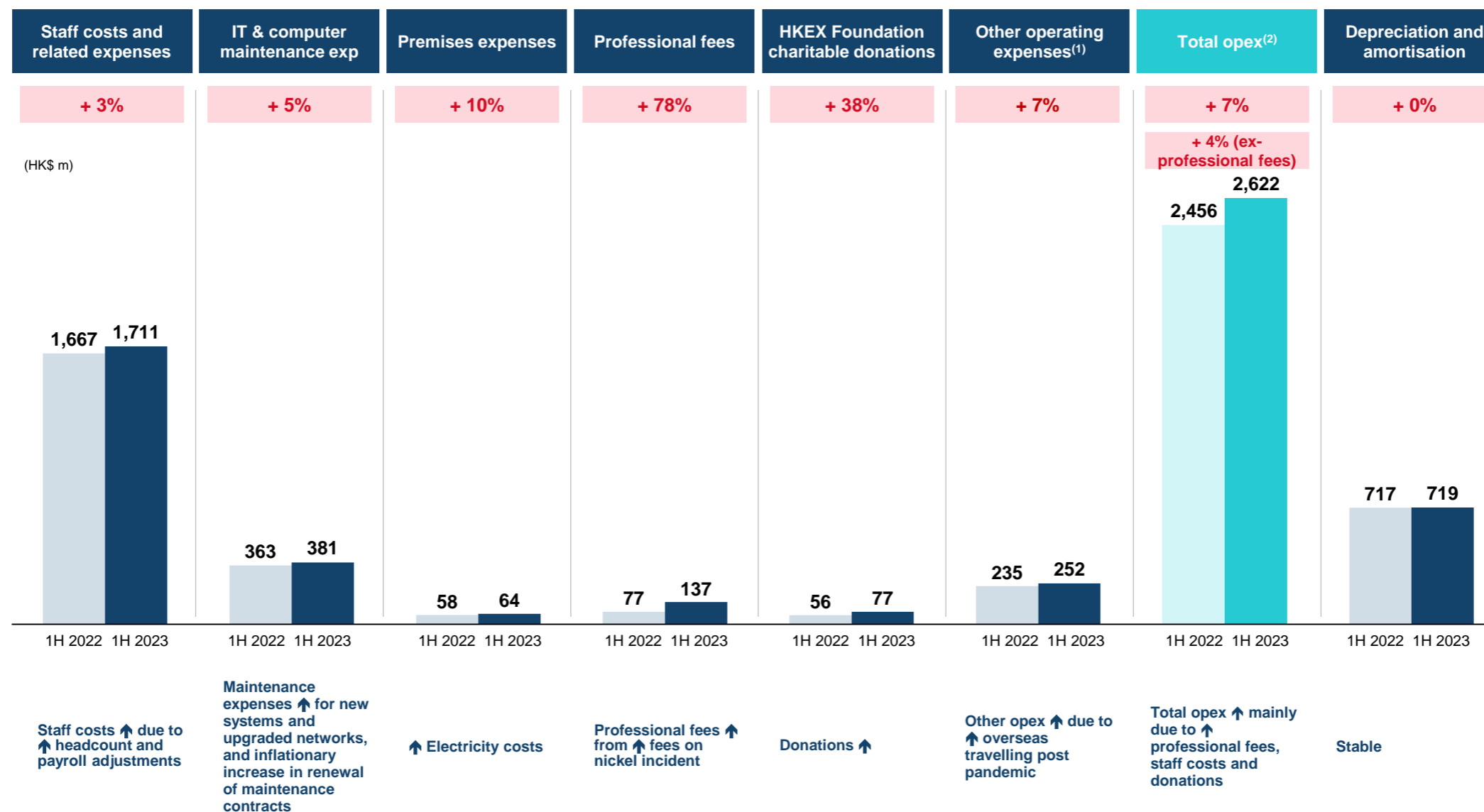
**1H 2023 External Portfolio gains HK\$215m (1H 2022: losses HK\$511m).
Margin Funds NII up 277%YoY in 1H 2023 due to higher interest rates**

1. Margin Funds and Clearing House Funds of LME Clear are mainly invested in overnight reverse repurchase investments, where high quality assets are held against such investments as collateral. In Hong Kong, Clearing House Funds are predominantly kept overnight or invested in Exchange Fund Bills issued by the Hong Kong Monetary Authority due to regulatory requirements. For Margin Funds, a certain proportion of the funds are kept overnight to meet withdrawal requests from Clearing Participants (approximately 16% at 30 Jun 2023), a certain proportion is invested in long-term investment grade debt securities (approximately 8% at 30 Jun 2023) and the remaining funds are invested in time deposits with maturity of up to 12 months (weighted original maturity of 9 months as at 30 Jun 2023).



Operating expenses and depreciation & amortisation – 1H 2023 vs 1H 2022

Targeted, prudent investment in talent and operational excellence



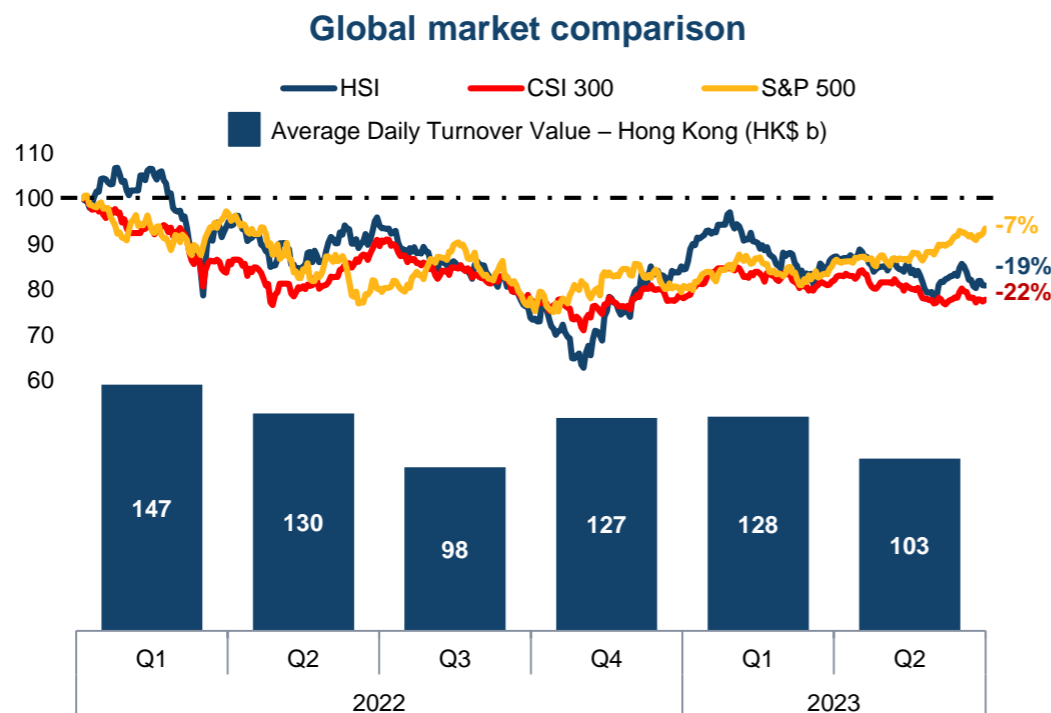
1. Includes product marketing and promotion expenses
 2. Excludes transaction-related expenses, depreciation and amortisation, finance costs, and share of results of joint ventures



Business and Strategic Update



Strong, resilient performance in 1H 2023



Strategic diversification helped mitigate lower cash market volumes

- **Derivatives:** record half-yearly ADV at 1.4m contracts (up 5%YoY)
- **ETPs:** ADT record half-yearly high at HK\$13.9b (up 18%YoY)
- **OTC Clear:** Total clearing volume notional amount at US\$167.9b (up 60%YoY), partly due to Swap Connect launch
- **Data and Connectivity:** revenue at HK\$1.0b (up 4%YoY)

Connect programmes continue to perform well

- **Stock Connect revenue:** HK\$1,152m (down 3%YoY), contributed 11% to Group total revenue
- **Stock Connect NB ADT:** RMB122.5b in Q2 2023 (up 26% vs Q1 2023), reflects Stock Connect expansion in Mar 2023
- **ETF Connect:** SB ADT at HK\$2.3b, NB ADT at RMB356m
- **Bond Connect:** NB ADT record half-yearly high of RMB38.9b (up 25%YoY)

1H 2023 IPO pipeline remains strong; New Specialist Technology Company listing regime took effect

- No. of IPO at 33 (up 22%YoY), IPO funds raised HK\$17.9b (down 9%YoY)
- IPO pipeline remains strong with over 100 active applications as at 30 Jun 2023
- New Specialist Technology Company listing regime took effect (Mar 2023), with the first application received in Jun 2023

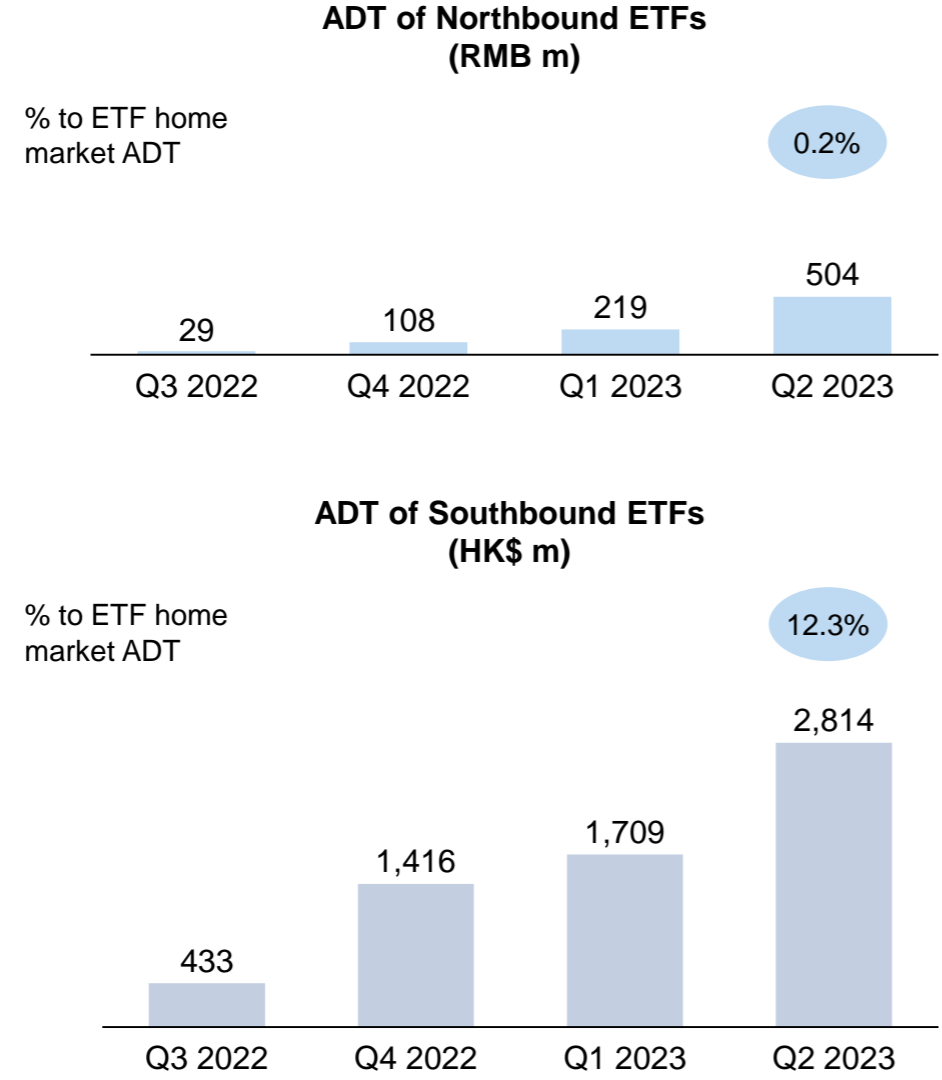
Key market indicators (Q1 2022 – Q2 2023)						
	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
Derivatives Market ADV ('000 contracts)	1,342	1,274	1,115	1,483	1,418	1,316
NB ADT (RMB b)	105.9	101.8	96.7	97.6	97.0	122.5
LME ADV ('000 lots)	620	515	496	507	531	606
No. of IPOs	17	10	29	34	18	15
IPO funds raised (HK\$ b)	14.9	4.8	53.5	31.4	6.7	11.2

Source: HKEX, Bloomberg
 Figures represent data as at 30 Jun 2023 unless otherwise stated



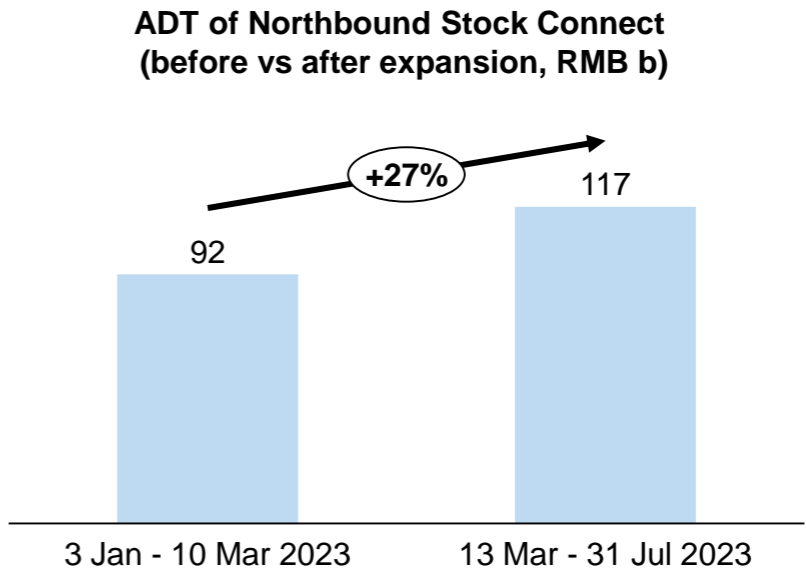
Expansion of Connect programme delivering positive impact

Strong ETF momentum in Stock Connect since launch



Source: HKEX, Bloomberg

Robust Stock Connect growth, driven by expansion



Expansion of eligible stocks in Stock Connect (effective 13 Mar 2023)

- **Northbound: additional 1,034 stocks became eligible**, now covering around 90% of A share market cap
- **Southbound:**
 1. **Eligible primary-listed international companies** in HK were added
 2. **Additional 168 stocks became eligible** for Shanghai-HK Southbound to align with the existing scope for Shenzhen-HK Southbound



Continued half year of strategic progress

	Connecting China and the World <i>- Leverage our China Advantage</i>	Connecting Capital with Opportunities <i>- Improve our market liquidity and ecosystem</i>	Connecting Today with Tomorrow <i>- Prepare our organization for the future</i>
Focus areas	<ul style="list-style-type: none"> • Enhance “Connect” programmes • Become China’s go-to offshore risk management centre • Solidify role as China’s preferred offshore fund raising centre • Grow China-related products 	<ul style="list-style-type: none"> • Further build attractiveness of primary market • Enhance market structure • Expand product ecosystem • Grow client ecosystem 	<ul style="list-style-type: none"> • Modernise infrastructure • Evolve from infrastructure-led to client-led model • Develop strong digital capabilities • Leverage data
Highlights in 1H 2023	<p>Expansion of eligible stocks under Stock Connect went live (Mar)</p> <hr/> <p>Stock Connect trading calendar enhancements effective (Apr)</p> <hr/> <p>Swap Connect launched (May)</p> <hr/> <p>MOU signed with Beijing Stock Exchange (Jun)</p>	<p>LME 2-year programme to strengthen and enhance its markets announced (Mar)</p> <hr/> <p>Specialist Technology Company listing regime went live (Mar)</p> <hr/> <p>HKD-RMB Dual Counter Model and Dual Counter Market Making Programme launched (Jun)</p> <hr/> <p>Grand opening of New York office (Jun)</p>	<p>Consultation on enhancement of climate-related disclosures under the ESG framework published (Apr)</p> <hr/> <p>LME published a new handbook for producers on guidance for responsible sourcing requirements (May)</p> <hr/> <p>FINI, the new IPO settlement platform, to launch in Q4 2023 announced (Jun)</p>

We are building the Marketplace of the Future



Looking ahead

- **Some positive news at macro level**, including: expectations that the rising interest rate cycle is nearing conclusion, China/USA communications re-established, anticipated Mainland economic stimulus programmes
- **But, uncertainties persist**: inflationary pressures, fragile geopolitics, slower than expected economic recovery in Mainland China, fears centred of global recession affecting market sentiment
- **Macro factors will continue to drive Cash Market trading volumes and shape IPO market**
- **New products will underpin anticipated growth in Derivatives Market**; Northbound Stock Connect volumes will continue to benefit from the expansion of eligible stocks in Stock Connect
- **Smaller External Portfolio size has reduced volatility to earnings**; high interest rates will continue to benefit internally-managed investment income, but interest income expected to decline in coming quarters
- **Prudent, targeted investment in talent, technology, client and risk management to continue**, supporting long-term success and sustainable development of business and market
- **Strategy on track, business well-positioned, backdrop remains fragile**. We shall continue to embrace opportunities, fulfil our role as an East-West superconnector and drive forward our strategy to build the Marketplace of the Future





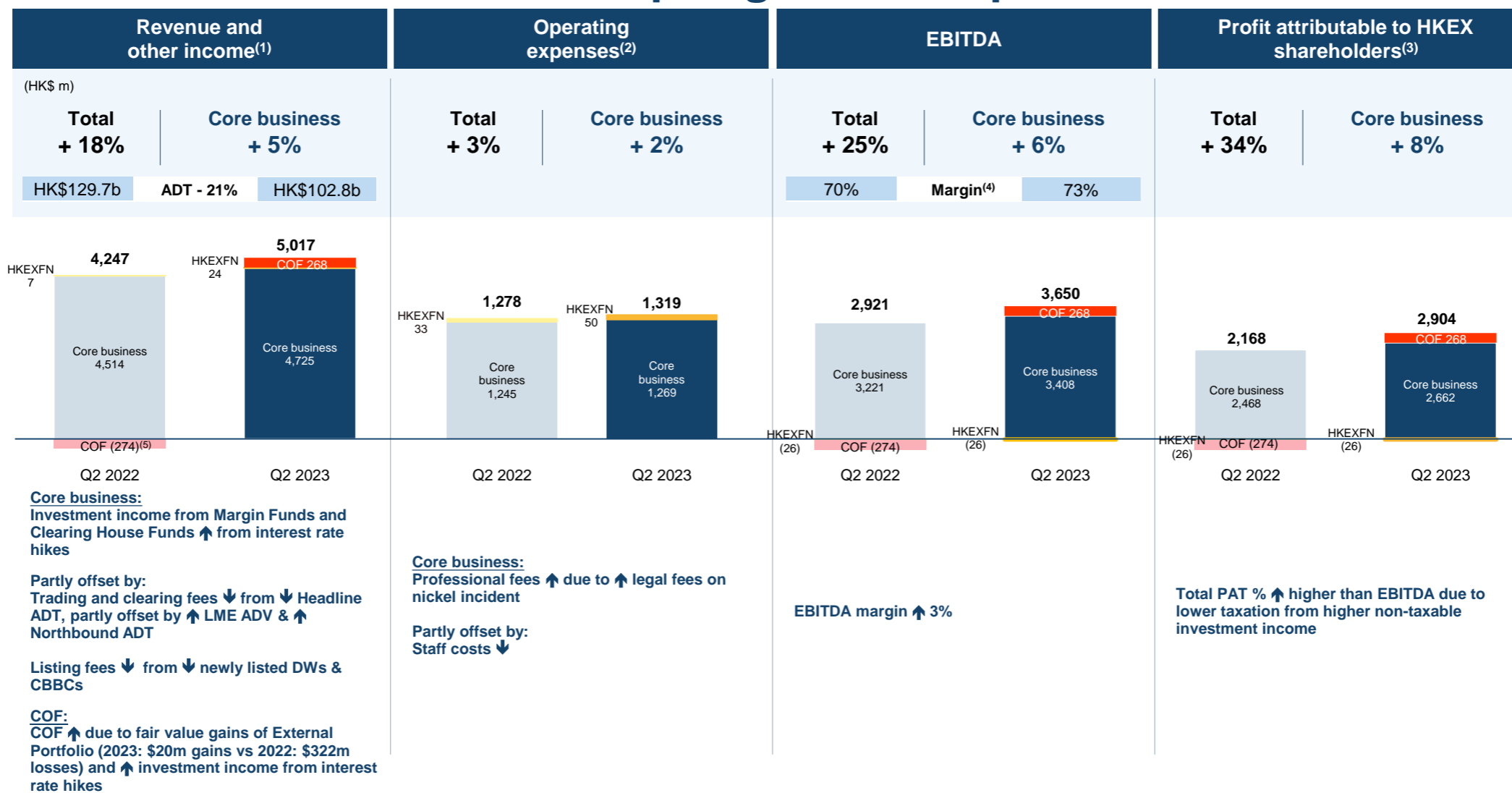
Q&A Session

Appendix



Q2 2023 vs Q2 2022

Record Q2 revenue; core profit up 8% driven by higher net investment income and flat opex growth despite Headline ADT down



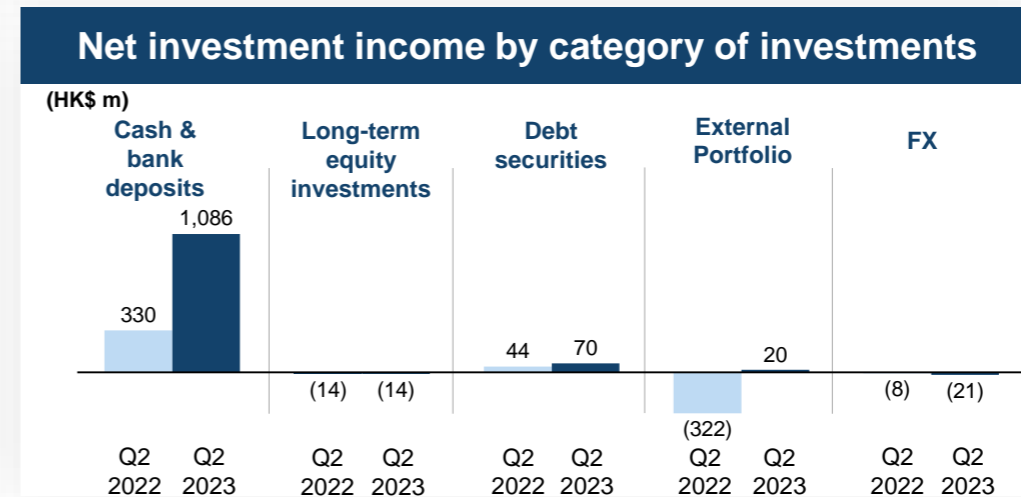
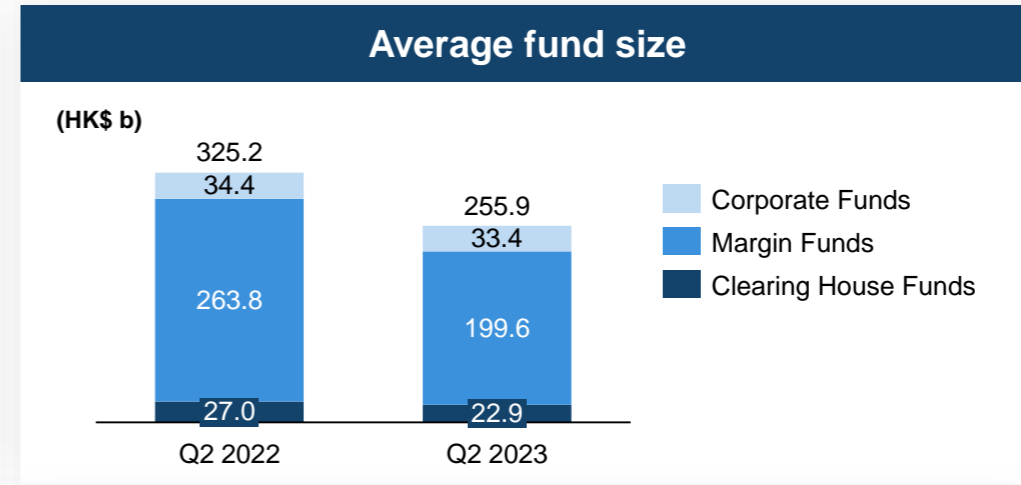
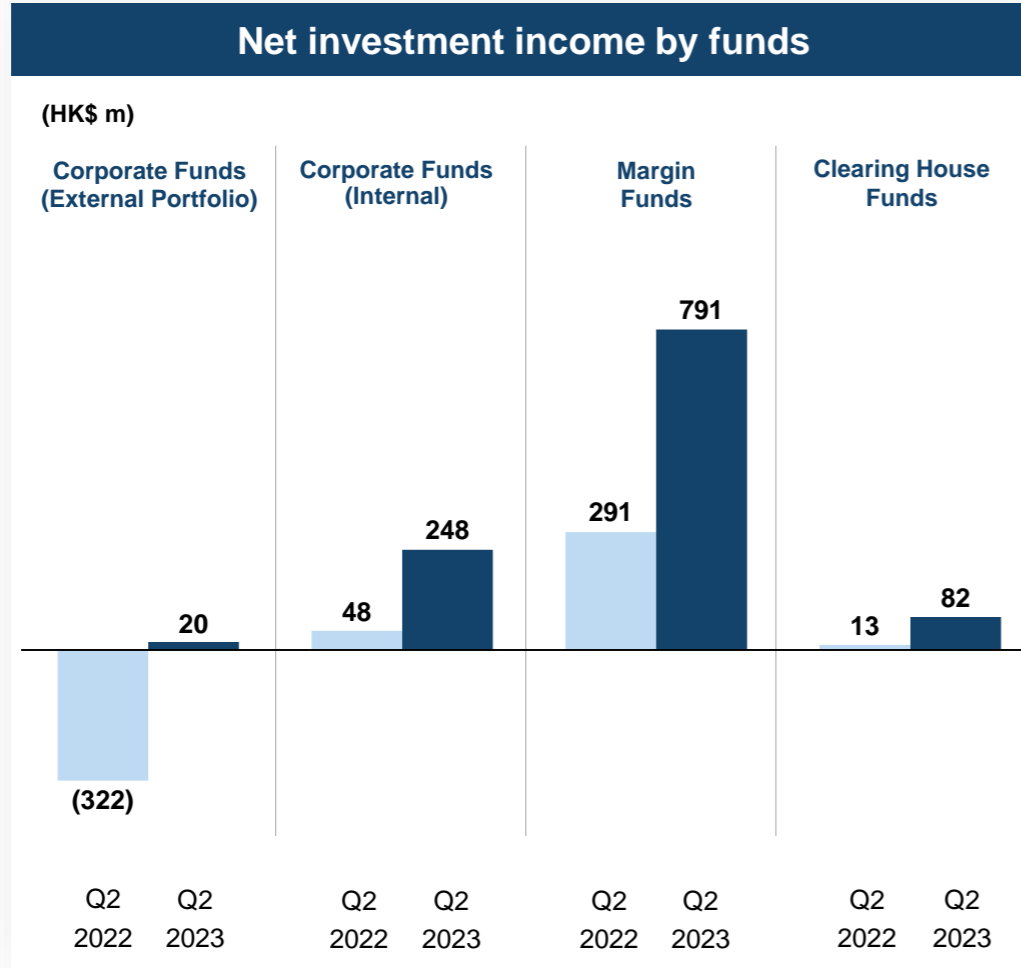
1. Represents gross revenue and other income before deducting transaction-related expenses (Q2 2022: \$48m; Q2 2023: \$48m)
2. Excludes transaction-related expenses, depreciation and amortisation, finance costs and share of results of joint ventures
3. For the purpose of this presentation, tax impact of COF is not considered when calculating the PAT attributable to COF
4. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses
5. COF represents net investment income/(loss) of Corporate Funds



Net investment income (NII) – Q2 2023 vs Q2 2022

NII benefited from higher interest rates and External Portfolio gains

Q2 2023: HK\$1,141m (Q2 2022: HK\$30m)



**Q2 2023 External Portfolio gains HK\$20m (Q2 2022: losses HK\$322m).
Margin Funds NII up 172%YoY in Q2 2023 due to higher interest rates**

- Financial figures on this slide are computed based on financial figures disclosed in 1H 2023 and Q1 2023 results announcements.
- Margin Funds and Clearing House Funds of LME Clear are mainly invested in overnight reverse repurchase investments, where high quality assets are held against such investments as collateral. In Hong Kong, Clearing House Funds are predominantly kept overnight or invested in Exchange Fund Bills issued by the Hong Kong Monetary Authority due to regulatory requirements. For Margin Funds, a certain proportion of the funds are kept overnight to meet withdrawal requests from Clearing Participants (approximately 16% at 30 Jun 2023), a certain proportion is invested in long-term investment grade debt securities (approximately 8% at 30 Jun 2023) and the remaining funds are invested in time deposits with maturity of up to 12 months (weighted original maturity of 9 months as at 30 Jun 2023).



Financial highlights – Income Statement

(HK\$ m, unless stated otherwise)	1H 2023	% of Revenue & Other Income	1H 2022	% of Revenue & Other Income	YoY Change
Results					
Revenue and other income	10,575	100%	8,937	100%	18%
Less: Transaction-related expenses	(94)	(1%)	(87)	(1%)	8%
Revenue and other income less transaction-related expenses	10,481	99%	8,850	99%	18%
Operating expenses	(2,622)	(25%)	(2,456)	(27%)	7%
EBITDA	7,859	74%	6,394	72%	23%
Depreciation and amortisation	(719)	(7%)	(717)	(8%)	0%
Operating profit	7,140	68%	5,677	64%	26%
Finance costs and share of results of joint ventures	(31)	(0%)	(31)	(0%)	0%
Profit before taxation	7,109	67%	5,646	63%	26%
Taxation	(741)	(7%)	(817)	(9%)	(9%)
(Profit)/loss attributable to non-controlling interests	(56)	(1%)	7	0%	N/A
Profit attributable to HKEX shareholders	6,312	60%	4,836	54%	31%
Capex	501		478		5%
Basic earnings per share	HK\$4.99		HK\$3.82		31%
Headline ADT on the Stock Exchange	HK\$115.5b		HK\$138.3b		(16%)

1. % may not add up due to rounding



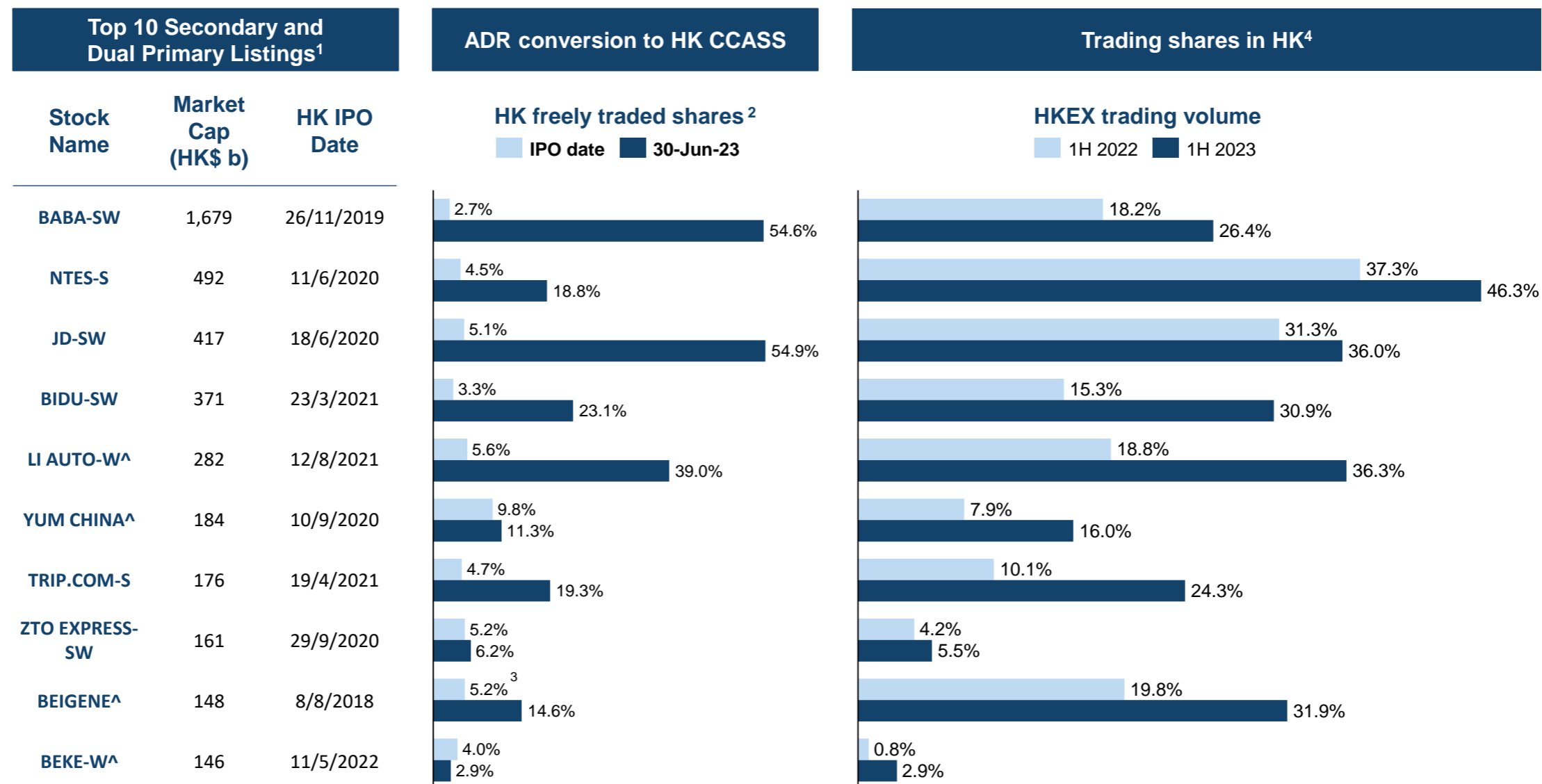
Performance by operating segment

HK\$ m	Cash	Derivatives	Commodities	Data and Connectivity	Corporate Items	Group 1H 2023	Group 1H 2022
Revenue and other income	4,206	3,453	1,039	1,022	855	10,575	8,937
<i>% of Group Total</i>	<i>40%</i>	<i>33%</i>	<i>10%</i>	<i>10%</i>	<i>8%</i>	<i>100%</i>	<i>100%</i>
Less: Transaction-related expenses	(5)	(89)	-	-	-	(94)	(87)
Revenue and other income less transaction-related expenses	4,201	3,364	1,039	1,022	855	10,481	8,850
Operating expenses	(552)	(426)	(591)	(213)	(840)	(2,622)	(2,456)
EBITDA	3,649	2,938	448	809	15	7,859	6,394
<i>% of Group Total</i>	<i>46%</i>	<i>37%</i>	<i>6%</i>	<i>10%</i>	<i>0%</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin⁽¹⁾</i>	<i>87%</i>	<i>87%</i>	<i>43%</i>	<i>79%</i>	<i>2%</i>	<i>75%</i>	<i>72%</i>
Depreciation and amortisation						(719)	(717)
Finance costs						(70)	(73)
Share of results of joint ventures						39	42
Profit before taxation						7,109	5,646

1. EBITDA margin is calculated based on EBITDA divided by revenue and other income less transaction-related expenses
2. % may not add up due to rounding



Continuous ADR conversion and trading migration from China concept homecoming



Source: HKEX, FactSet, as at 30 Jun 2023 ^Dual Primary Listing

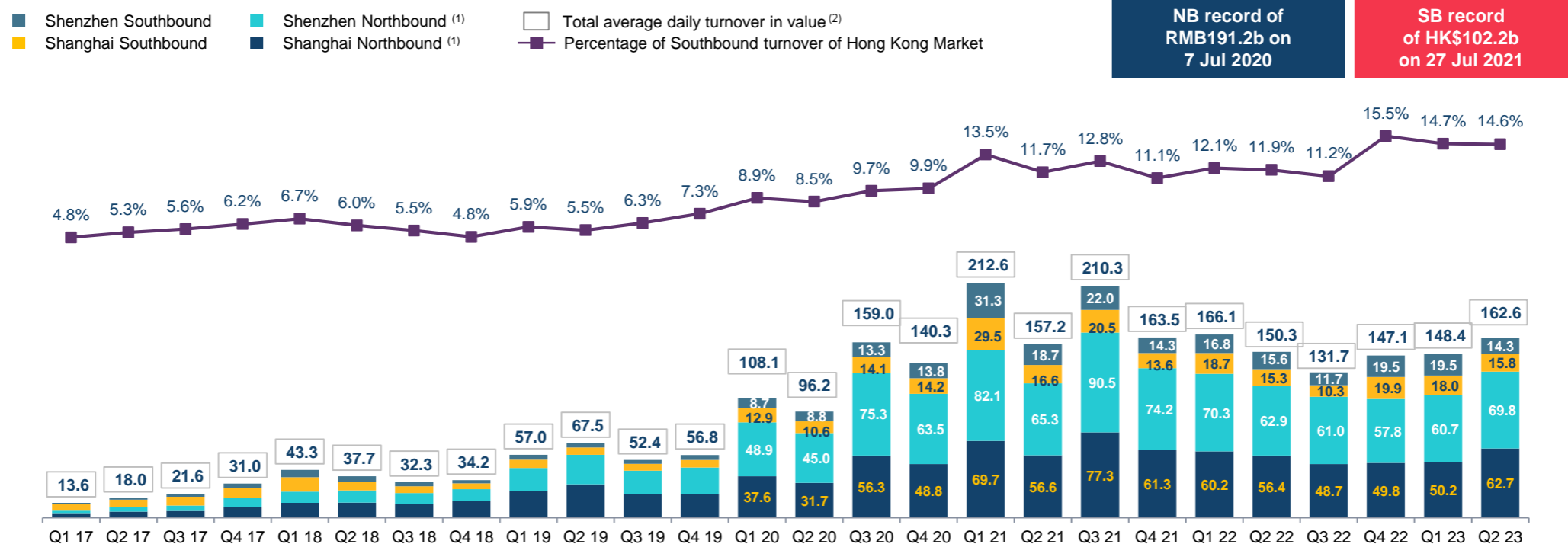
1. Ranked by market cap
2. Based on total CCASS balance deducting the balance of main custodian bank as reference
3. HK freely traded shares of Beigene (6160.HK) on its IPO date is not available and the earliest data available is as at 14 Jan 2022
4. Trading shares in US via various exchanges which include Nasdaq, NYSE, NYSE Arca, FINRA ADF and others. (FINRA ADF is an equity trading facility created by a self-regulatory organization FINRA. The ADF provides members with a facility for the display of quotations, the reporting of trades, and the comparison of trades such as dark pool trading)



Stock Connect – trading trends

Stock Connect generated revenue of HK\$1,152m in 1H 2023, 3% lower than HK\$1,185m in 1H 2022

Stock Connect average daily turnover in value (HK\$ b)



Stock Connect Northbound and Southbound Trading ADT reached RMB109.3b and HK\$33.8b respectively in 1H 2023

Stock Connect revenue reached 11% of the Group's total revenue and other income in 1H 2023 (1H 2022: 13%)

Source: HKEX, SSE and SZSE data

1. Northbound (NB) trading is conducted in RMB; the NB figures in the chart are converted to HKD based on the month-end exchange rate
2. May not add up due to rounding

