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香港交易及結算所有限公司

HONG KONG EXCHANGES AND CLEARING LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 388)

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

2016 INTERIM RESULTS, **INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board is pleased to submit the unaudited consolidated results of the Group for the six months ended 30 June 2016.

FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Revenue and other income	5,630	6,853	(18%)
Operating expenses	1,688	1,580	7%
EBITDA*	3,942	5,273	(25%)
Profit attributable to shareholders	2,985	4,095	(27%)
Basic earnings per share	\$2.47	\$3.49	(29%)
Interim dividend per share	\$2.21	\$3.08	(28%)

- Revenue and other income for the six months ended 30 June 2016 (1H 2016) was 18 per cent lower than the six months ended 30 June 2015 (1H 2015). The significant drivers of the Group's revenue during the period were:
 - Subdued activity on the Cash Market in Hong Kong and commodities trading on the LME.
 - Increased trading of derivatives contracts on the Futures Exchange, which reached a half-yearly record high in 1H 2016.
- Operating expenses overall increased by 7 per cent against 1H 2015. However, excluding the effect of a non-recurring recovery of \$77 million from the liquidators of Lehman Brothers Securities Asia Limited in 1H 2015, core operating expenses increased by only 2 per cent compared to the prior year.
- The EBITDA margin of 70 per cent for 1H 2016 was 7 per cent lower than 1H 2015 reflecting the decline of trading income as compared to the prior period.
- Profit attributable to shareholders decreased by 27 per cent against 1H 2015 where exceptionally high trading income delivered record high profits for the Group. Nevertheless, notwithstanding difficult trading conditions, the 1H 2016 profit attributable to shareholders compares well with pre 2015 results and was 26 per cent higher than the equivalent period in 2014.

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	48.3	96.9	(50%)
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.2	28.4	(32%)
ADT traded on the Stock Exchange (\$bn)	67.5	125.3	(46%)
Average daily number of derivatives contracts traded on the Futures Exchange	488,566	365,449	34%
Average daily number of stock options contracts traded on the Stock Exchange	292,861	442,928	(34%)
Average daily volume of metals contracts traded on the LME (lots)	635,111	695,588	(9%)

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

CHAIRMAN'S STATEMENT

The global financial markets witnessed heightened volatility in the first half of the year arising from the increasing concerns over a slowing global economy and the wider divergence in monetary policies among major central banks. Considerable uncertainty surrounding the UK's EU referendum (Brexit) also intensified market volatility and dampened market activity.

During the first half of 2016, our markets experienced downward pressure on trading activity. In Hong Kong, the average daily turnover in the securities market and the average daily volume of futures and options in the derivatives market decreased by 46 per cent and 3 per cent respectively. Nonetheless, the securities market maintained its leading position worldwide in IPO fundraising, and the average daily volume of our RMB currency futures contracts increased by 186 per cent. In London, the average daily volume of metals contracts on the LME dropped 9 per cent, reflecting the continued weakness in the global metals market. The LME's contracts are denominated and cleared by LME Clear in USD so the impact of Brexit on the LME is limited to general commodity market movements. The LME will continue to monitor the changes to the regulatory infrastructure in the UK and the potential longer term market impact. Despite the volatility in our markets in both Hong Kong and London, all of our trading, clearing and other systems remain resilient and continue to perform effectively.

For the six months ended 30 June 2016, the Group recorded consolidated revenue and other income of \$5,630 million and a profit attributable to shareholders of \$2,985 million, down 18 per cent and 27 per cent respectively from the corresponding period of 2015. The Board declared an interim dividend of \$2.21 per share, which is 90 per cent of the profit attributable to shareholders.

On the strategic development front, we continue to make good progress as we seek to apply our connectivity model across asset classes, build out our RMB-ecosystem, and broaden our product suite to support the RMB's internationalisation and capitalise on the opportunities from the Mainland's integration with the world's other markets. In the first half of the year, we introduced leveraged and inverse products, sector index futures and additional RMB currency futures, and we launched the first tradeable RMB index in collaboration with Thomson Reuters. With the successful implementation of Phase 1 of the securities market's closing auction in July, we are now set to launch the Volatility Control Mechanism for selected securities later this month. In commodities, we are working on our plan to build a spot commodities platform in Shenzhen, using our experience with the LME. Details of the status of our initiatives are set out in the Business Review section of this announcement.

The Group will remain cautious and is committed to robust and prudent risk management for the maintenance of orderly markets in Hong Kong and London while enhancing our competitive advantages. At HKEX, we will continue to work with the SFC on our joint market consultation which will close in September, in relation to the Exchange's decision-making and governance structure for listing regulation, with an aim of ensuring that the structure addresses market development and meets future regulatory needs efficiently and effectively.

With continued support from our stakeholders and determined effort from our staff and the management, we believe that we are well-positioned to meet the challenges ahead and deliver long-term value for our shareholders.

CHOW Chung Kong
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

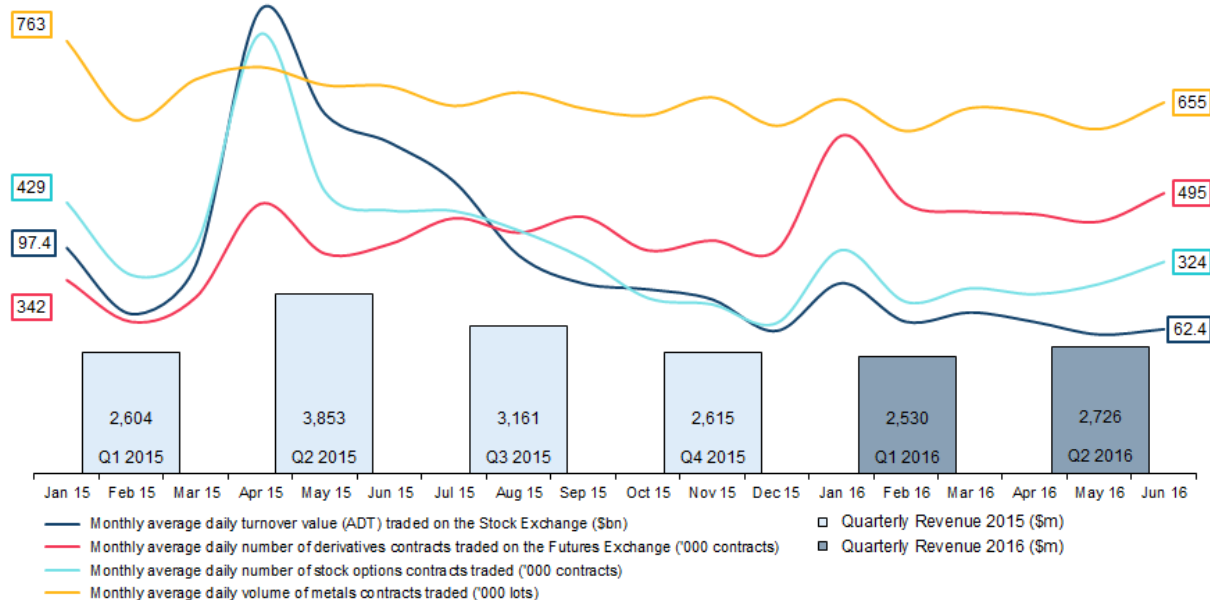


Fig. 1 – Market activity and Group Revenue

Market sentiment remained subdued in Q2 2016¹ with headline ADT declining a further 14 per cent against Q1 2016 to \$62.6 billion. Nevertheless, Revenue² was 8 per cent higher than Q1 2016 principally due to seasonal increases in depository, custody and nominee services.

Overall Revenue and Other Income for 1H 2016 dropped by \$1,223 million (18 per cent) compared to 1H 2015, due to declines in the Group's trading and clearing income. This reflected a significant drop in Hong Kong Cash Market ADT, which was 46 per cent lower than the record high of \$125.3 billion in 1H 2015, as well as more modest declines in commodities and stock options markets. However, the overall reduction in trading and clearing income was mitigated by a substantial increase in activity on the Futures Exchange where increased volatility saw average daily volumes increase by 34 per cent and overall trading income from futures and options³ increase by 33 per cent, as compared to 1H 2015.

A comparison of the 1H 2016 results with those of the exceptional trading volumes of 2015 masks what has been an historically solid performance in difficult trading conditions; 1H 2016 delivered a profit attributable to shareholders that was 26 per cent higher than the equivalent period in 2014. A full analysis of the 1H 2016 results also needs to reflect two exceptional items that increased 1H 2015 profit attributable to shareholders by a total \$89 million: a gain on sale of the Group's investment in LCH's shares and a recovery from Lehman's liquidators.

The increase of 7 per cent in overall operating expenses over 1H 2015 includes a recovery of \$77 million from Lehman's liquidators received in 1H 2015. After adjusting for this, core operating expenses increased by only 2 per cent. Nevertheless, in response to the persistence of uncertain market conditions the Group will continue to adopt a prudent approach to expenditure control. While still moving forward with strategic initiatives the timing of less critical projects has been deferred and planned headcount increases have been reduced. These measures will be kept under review and revised in line with changes in trading conditions over 2H 2016.

1 Q1 = first quarter, Q2 = second quarter, 1H = first half, 2H = second half

2 Excludes net investment income and sundry income

3 Including trading fees and trading tariff allocated to the Clearing segment

Business Update and Analysis of Results by Operating Segment

	Six months ended 30 Jun 2016		Six months ended 30 Jun 2015		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
	Results by segment:					
Cash	1,282	1,012	1,886	1,610	(32%)	(37%)
Equity and Financial Derivatives	1,065	836	1,100	864	(3%)	(3%)
Commodities	804	513	886	632	(9%)	(19%)
Clearing	2,122	1,770	2,657	2,348	(20%)	(25%)
Platform and Infrastructure	264	190	248	174	6%	9%
Corporate Items	93	(379)	76	(355)	22%	7%
	5,630	3,942	6,853	5,273	(18%)	(25%)

Cash Segment

Business Update

Market sentiment continued to be weighed down by uncertainties over the Mainland's economic growth and the state of the global economy, and the Hong Kong Cash Market experienced reduced trading volume in 1H 2016, as compared to the record-highs achieved in 1H 2015. This slowdown in trading volume was also seen across a number of other Asian markets, including Japan, Singapore, Taiwan, Korea and India.

Despite the challenging environment, HKEX continued to invest in Cash Market infrastructure to meet investors' needs, strengthen market integrity and improve efficiency. The Closing Auction Session was launched on 25 July 2016 to facilitate trade executions at securities' closing prices and the Volatility Control Mechanism, which safeguards the Cash Market from abnormal price fluctuations, is set for launch on 22 August 2016.

The Stock Connect programme continued to operate smoothly and generated income of approximately \$71 million for 1H 2016 (1H 2015: \$115 million). Although ADT of 1H 2016 was down in both Northbound and Southbound Trading, compared to 1H 2015, Stock Connect turnover as a percentage of home markets' turnover increased in both directions.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2016	30 Jun 2015
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	48.3	96.9
ADT of Northbound Trading ² (RMBbn)	3.0	7.4
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	913,114	1,317,560
Number of newly listed companies on the Main Board ³	25	37
Number of newly listed companies on GEM	15	14
Total equity funds raised		
- IPOs (\$bn)	43.6	129.5
- Post-IPOs (\$bn)	101.4	582.2
Number of companies listed on the Main Board at 30 Jun	1,666	1,580
Number of companies listed on GEM at 30 Jun	236	213
Number of trading days	121	121
1 Excludes DWs, CBBCs and warrants which are included under the Equity and Financial Derivatives segment and includes \$2.6 billion (1H 2015: \$4.4 billion) of ADT of Southbound Trading under Stock Connect		
2 Includes buy and sell trades under Stock Connect		
3 Includes 1 transfer from GEM (1H 2015: 5 transfers)		

Despite a 66 per cent drop in IPO funds raised compared to 1H 2015, HKEX remained the global leader in IPO fundraising⁴. HKEX continued to proactively promote Hong Kong as the preferred offshore listing venue for Mainland enterprises and conducted a variety of IPO seminars and presentations in the Mainland. Hong Kong listed companies were also encouraged to raise their profile with Mainland investors and in partnership with the Hong Kong Investor Relations Association, HKEX accompanied a delegation of 25 Hong Kong listed companies to deliver a roadshow to 16 leading Mainland brokers research teams in Shanghai.

On 13 June 2016, HKEX achieved an important milestone in the development of Hong Kong’s Exchange Traded Fund (ETF) market by having its first listings of Leveraged and Inverse Products (commonly known as Leveraged and/or Inverse ETFs).

In the interest of maintaining the reputation and efficiency of the Cash Market, the Stock Exchange continues to provide guidance to the market on a wide variety of topics. Full details of these are published on the HKEX website⁵. In addition, a revamped Environmental, Social and Governance (ESG) webpage was launched on the HKEX website and a series of issuer training seminars were held, to provide listed issuers with updated guidance on ESG reporting.

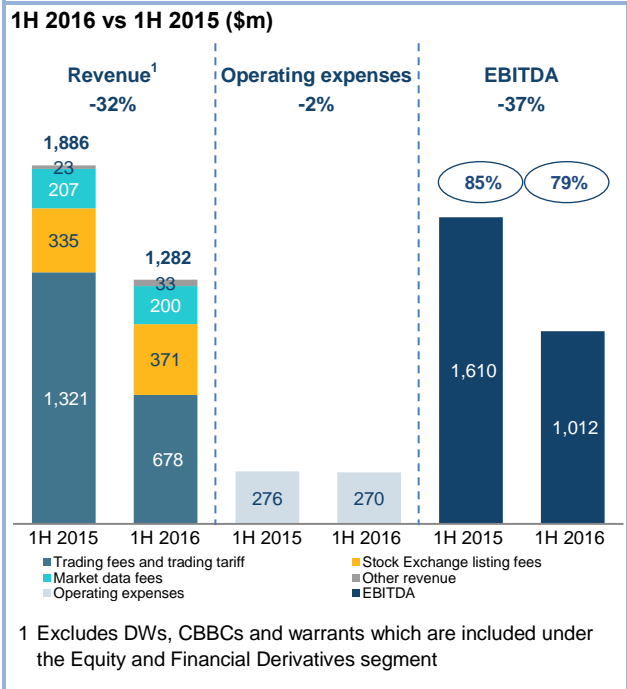
As part of the ongoing efforts to improve market quality, the Stock Exchange is conducting a holistic review of regulations in connection with listed company activities including backdoor listings, handling of long suspended companies, delistings and equity fund raisings as well as a review of GEM.

Analysis of Results

Trading fees and trading tariff dropped by 49 per cent compared to 1H 2015 mirroring the 50 per cent fall in ADT. The overall drop in revenue was partly offset by an 11 per cent increase in Stock Exchange listing fees due to an increase in the total number of listed companies compared to 30 June 2015.

Operating expenses declined by 2 per cent due to reduced volume related variable costs as well as cost control measures.

The decline in the EBITDA margin is a direct reflection of the decline in trading fees and trading tariff.



4 Source: Bloomberg

5 http://www.hkex.com.hk/eng/rulesreg/listrules/latestrelease/latest_release.htm

Equity and Financial Derivatives Segment

Business Update

The volume of derivatives contracts traded on the Futures Exchange declined slightly from that seen in Q1 but remained at an elevated level with 1H 2016 volumes 34 per cent higher than those seen in 1H 2015. The number of trades conducted in After-Hours Futures Trading (AHFT) increased even more dramatically and more than doubled, reaching a record high of 103,998 contracts traded after hours, on 27 June 2016.

The rise in trading volume reflected enhanced demand for risk management products across all key investor groups as they responded to both general and specific market volatility. International investors continue to contribute to growth in trading volume, particularly in Hang Seng Index futures and options, and there has also been strong interest from the Mainland investors following the decline in trading volumes of CSI 300 Index futures in 2H 2015. The uncertainty caused by Brexit (the EU referendum in the UK) also triggered an upturn in volumes with average daily volume traded up 11 per cent in June 2016 compared to the previous month. The overall revenue efficiency of the derivatives business has also been enhanced by an increase in the proportion of contracts from higher fee futures and options products. This was partly offset by the lower average daily number of stock options contracts traded.

New products launched during the period included:

- i. Seven Sector Index Futures on 9 May 2016;
- ii. A cash settled USD/CNH futures contract (to complement the existing physically settled USD/CNH futures contract) on 30 May 2016; and
- iii. RMB currency futures contracts against the Euro, Japanese Yen and Australian Dollar on 30 May 2016.

HKEX also launched a series of co-branded RMB currency (RXY) indices on 23 June 2016 in partnership with Thomson Reuters. These indices offer independent, transparent and timely benchmarks for the RMB against the currencies of some of the Mainland's key trade partners. This important addition to HKEX's RMB infrastructure is designed to become the basis for investing and trading products including futures, options and ETFs.

HKEX continues to introduce new products and services that provide trading and risk management tools for Exchange Participants and investors, with an emphasis on those most relevant to the ongoing internationalisation of the RMB. The third annual RMB Fixed Income and Currency Conference was held on 24 May 2016 to promote industry awareness in this area and RMB-related trends, products and market development were discussed by the 650 industry experts and business leaders who attended. A Derivatives Market Data Distribution Partnership Programme was also launched, in January 2016, to promote visibility of market data of HKEX's new derivatives products in the Mainland. Eight major Mainland information vendors have joined this programme.

Key Market Indicators

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.2	28.4
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	198,809	255,811
Average daily number of derivatives contracts traded on the Futures Exchange ¹	488,438	365,202
Average daily number of stock options contracts traded on the Stock Exchange	292,861	442,928
Number of newly listed DWs	2,321	3,622
Number of newly listed CBBCs	4,406	5,353
Average daily number of contracts traded during AHFT ¹	40,729	18,307
Number of trading days	121	121
	At 30 Jun 2016	At 30 Jun 2015
Open interest of futures and options contracts ¹	8,571,036	9,785,226
¹ Excludes London Metal Mini Futures contracts which are included under the Commodities segment		

A market consultation on changes to stock option position limits (SOPL) was completed during the period and consultation conclusions issued in June 2016. Responses were received from a broad spectrum of market participants with the majority expressing support for proposals that will align Hong Kong’s SOPL regime more closely with international practice. HKEX will continue discussions with the SFC on implementation of the proposals.

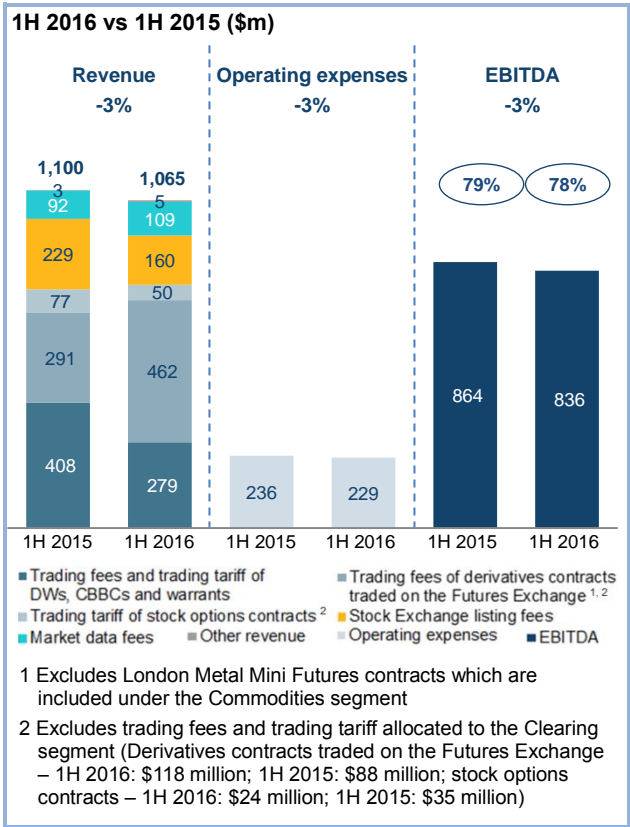
A Pre-Trade Risk Management System for the Derivatives Market was launched on 11 April 2016, which provides a tool for Exchange Participants to manage their pre-trade risk exposure.

Analysis of Results

Trading fees and trading tariff of DWs, CBBCs, warrants and stock options declined by approximately one third, in line with the drop in trading volume. This reduction was more than offset by a 59 per cent increase in trading fees of derivatives contracts traded on the Futures Exchange from more active trading. The percentage increase in HKFE trading fees was higher than the 34 per cent increase in average daily number of contracts traded as a higher proportion of derivatives contracts traded in 1H 2016 related to higher fee products.

Stock Exchange listing fees dropped by 30 per cent reflecting a decrease in the number of newly listed DWs and CBBCs.

Operating expenses decreased by 3 per cent principally due to lower staff costs including a drop in variable pay accruals, but were partly offset by higher index license fees from increased trading volume of derivatives contracts.



Commodities Segment

Business Update

Difficult market conditions prevailed in the global metals market during 1H 2016, with very little price recovery and a number of participants withdrawing from the physical market. During 1H 2016, the average daily volume of the LME decreased by 9 per cent from 1H 2015.

Market open interest (MOI), showing long term position holders, at the end of June 2016 registered a 8 per cent decrease from that reported at 30 June 2015.

The LME and the World Gold Council, together with Goldman Sachs, ICBC Standard Bank, Morgan Stanley, Natixis, OSTC and Societe Generale, announced on 9 August 2016 their intention to introduce a suite of exchange-traded and centrally-cleared precious metals products, gold and silver futures and options with London delivery

(LMEprecious). LMEprecious opens up trading opportunities for existing LME members and their clients, as well as for new participants wishing to take advantage of on-exchange precious metals trading that will be cleared through a recognised clearing house, LME Clear. The offering is targeted for launch in 1H 2017.

In the latest step in the warehouse reform programme, the LME has undertaken an extensive review of the issue of increasing warehousing costs. It has been concluded that a fair and straightforward approach to this complex issue would be to cap maximum storage rates and impose a medium-term freeze on future increases and a market-wide consultation is being conducted on these proposals. The consultation will be open until 19 August 2016, with the publication of conclusions targeted for 30 September 2016. If implemented, the first capped charges would come into effect on 1 April 2017.

In a referendum held on 23 June 2016, the UK voted to exit the EU (Brexit). Despite the expected volatility on 24 June 2016, there was no disruption of the LME market. Brexit has no immediate implications for the LME's business; all existing regulatory requirements remain in place and all current implementation plans will continue. In particular, with regards to the EU Markets in Financial Instruments Directives II (MiFID II), the LME intends to be fully compliant by the January 2018 deadline.

Following extensive discussions with its membership and broader user base, the LME announced, on 5 August 2016, a set of measures, including fee reductions, designed to further enhance its market structure, strengthen its role as the global liquidity centre for metals trading, and facilitate enhanced trading opportunities for members and their clients. These measures, including fee reductions effective from 1 September 2016, are specifically designed to support active inventory management – an important tool for LME's industrial user base – and efficient position management.

The annual "LME Week Asia" event was held on 14 June 2016 in Hong Kong. The Metals Seminar attracted over 770 participants, and the Gala Dinner was attended by over 1,650 guests – the largest ever since the inception of the LME Week Asia event in 2013. During the same week, an Investment in Metals Forum, a Precious Metals and Base Metals Workshop and two educational briefing sessions for investors were also held. HKEX also organised the third joint training programme with China Futures Association, which was attended by senior staff from the top 20 Mainland Chinese futures brokers.

Key Market Indicators	Six months	Six months
	ended	ended
	30 Jun 2016	30 Jun 2015
Average daily volume of metals contracts traded on the LME (lots)		
Aluminium	231,148	255,767
Copper	162,932	172,533
Zinc	106,151	120,439
Nickel	81,930	82,094
Lead	44,992	55,223
Others	7,958	9,532
Total	635,111	695,588
Number of trading days	125	124
	At	At
	30 Jun 2016	30 Jun 2015
Total futures MOI (lots)	2,257,622	2,449,799

To enhance market awareness and encourage Mainland investors to trade both HKEX and LME products, HKEX and the LME sponsored the third Global Derivatives Trading Competition organised by the China Futures Daily. HKEX has also continued with a programme of seminars and educational training workshops in the Mainland, Hong Kong and Taiwan. Since April 2016, HKEX has partnered with 18 universities, providing students with a better understanding of global financial markets and HKEX and LME markets.

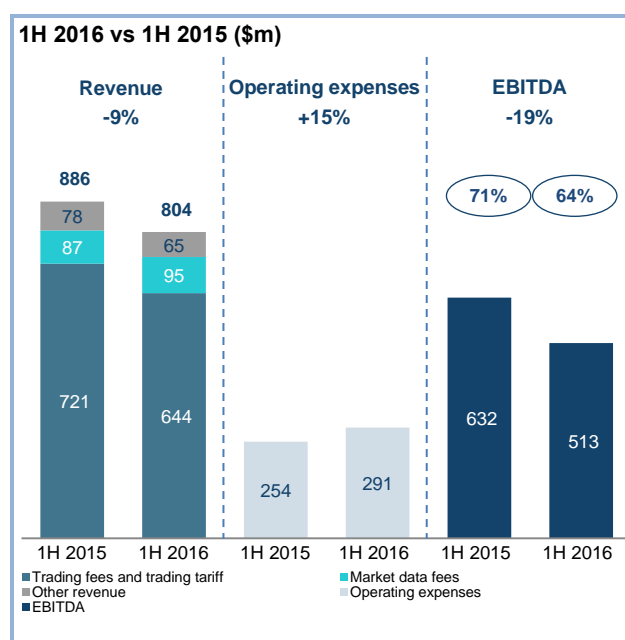
HKEX has continued to recruit Chinese firms to join the LME community, and during the period welcomed the first Chinese LME Listed Samplers and Assayers BGRIMM-SIAC (Sub-Institute of Analytical Chemistry, Beijing General Research Institute of Mining & Metallurgy).

In 1H 2016, HKEX initiated a strategic project involving the establishment of a commodities trading platform in the Mainland supported by warehousing and financing facilities. Progress has been made on developing business models and technical requirements, as well as beginning to onboard relevant personnel.

Analysis of Results

Trading fees fell by 11 per cent compared to 1H 2015 due to a 9 per cent drop in average daily volume of metals contracts traded together with the effect of incentive rebates introduced in the third quarter of 2015.

Operating expenses rose by 15 per cent. This increase in costs was principally attributable to increased headcount for strategic initiatives (including product development and the establishment of a commodities trading platform in the Mainland) but also to higher legal and professional fees incurred on strategic projects.



Clearing Segment

Business Update

The Hong Kong Securities Clearing business saw overall lower volumes in 1H 2016, largely driven by the reduced trading volume in the Cash Market compared to 1H 2015. The average daily number of Stock Exchange trades decreased by 29 per cent, while the average daily number of settlement instructions (SIs) (driven by the number of stock transfers between custodian banks and brokers) decreased by 22 per cent.

In contrast, the Clearing business in the derivatives market saw a slight improvement as the trading activities increased in futures and options traded on HKFE, offset partially by lower volumes in stock options.

Key Market Indicators	Six months ended	Six months ended
	30 Jun 2016	30 Jun 2015
ADT traded on the Stock Exchange (\$bn)	67.5	125.3
Average daily number of Stock Exchange trades	1,111,923	1,573,371
Average daily value of SIs (\$bn)	177.6	292.9
Average daily number of SIs	83,391	106,520

HKSCC continued to enhance the Stock Connect clearing facility, in particular the Special Segregated Account (SPSA) model, resulting in a higher participation from asset management companies in 1H 2016.

In preparation for the anticipated Shenzhen-Hong Kong Stock Connect, HKSCC completed the development and testing of the required systems, and is technically ready to support the rollout, subject to regulatory approval.

HKCC started to offer margin offset between USD/CNH currency futures and CNH/USD currency futures in July 2016. With this new arrangement in place, Clearing Participants will benefit from a reduction in margin costs for their offsetable positions in these two products.

During 1H 2016, further progress was made to enhance the OTC Clear business. In Q1 2016, OTC Clear broadened its membership base to admit HK-incorporated licensed corporations. In April 2016, OTC Clear submitted an application for recognition as a Designated Central Counterparty for over-the-counter derivative transactions to prepare for the commencement of phase one of mandatory clearing in Hong Kong in September 2016. In July 2016, the SFC approved the clearing service of cross currency swaps with expected service launch in August 2016 – this will enable OTC Clear to become the first international clearing house to provide clearing service for USD/CNH cross currency swaps.

In Q2 2016, LME Clear won the Metals Service Provider of the Year at the Platts Global Metals Awards. This is in recognition of LME Clear’s innovations in the metals trading industry, noting in particular the risk management transparency of the new clearing system and the introduction of warrants as collateral and compression services. In the coming months, LME Clear will continue to develop its clearing model in response to MiFID II regulation and work on the solution to bring over-the-counter averaging business for clearing, for delivery in 2017.

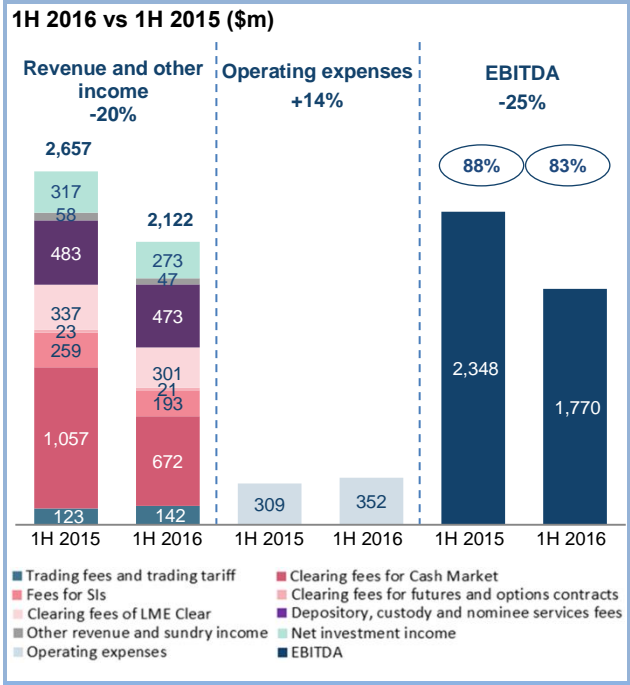
Analysis of Results

Despite the 46 per cent drop in ADT in the Cash Market, the associated clearing fees and fees for SIs decreased by a lesser 36 per cent and 25 per cent respectively. This was due to a drop in transaction size for Cash Market trades and SIs, which resulted in more transactions being subject to the minimum fee.

Clearing fees of LME Clear decreased by 11 per cent, largely reflecting the 9 per cent drop in average daily volume of metals contracts traded.

Trading fees and trading tariff reallocated from the Equity and Financial Derivatives segment increased by 15 per cent as a result of the 34 per cent increase in average daily number of derivatives contracts traded on the Futures Exchange, offsetting a 34 per cent decrease in stock options.

Revenue from the depository, custody and nominee services business remained relatively stable, as these services are less correlated with the level of trading activities.



Net investment income fell by 14 per cent compared to 1H 2015 (see the analysis below):

	<u>Six months ended 30 Jun 2016</u>			<u>Six months ended 30 Jun 2015</u>		
	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	253	10	263	301	10	311
- Debt securities	8	-	8	6	-	6
- Exchange gains	2	-	2	-	-	-
Total net investment income	263	10	273	307	10	317
Average fund size (\$bn)	117.2	7.6	124.8	146.4	11.4	157.8
Annualised net investment return	0.45%	0.28%	0.44%	0.42%	0.17%	0.40%

The decrease in net investment income of Margin Funds in 1H 2016 was attributable to lower interest income from cash and bank deposits on lower average fund size, resulting from lower margin requirements per contract cleared through HKCC; lower cash margins received by LME Clear due to lower margin requirements on lower prices of metal contracts, and more Clearing Participants posting non-cash collateral instead of cash margin.

Operating expenses increased by 14 per cent, which included a non-recurring recovery from Lehman's liquidators of \$77 million in 1H 2015. Excluding this, operating expenses dropped by 9 per cent, mainly a result of lower staff costs from a reduction in variable pay accruals.

The EBITDA margin declined from 88 per cent to 83 per cent (a drop of 2 per cent after adjusting for the non-recurring recovery from Lehman's liquidators mentioned above).

Platform and Infrastructure Segment

Business Update

During 1H 2016, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably. On 22 July 2016, the opening of the LME's electronic trading platform experienced a delay due to changes undertaken by a third party telecom network provider, which affected LME's member network. However, telephone trading of LME products was able to continue as normal.

The LME and LME Clear were required to vacate their offices on 19 July 2016 due to a structural deficiency in non-LME parts of the building. Back up facilities, including the trading ring, were immediately activated and all operating and support systems have functioned as expected with no disruption to market activity.

The system development phase for the implementation of Orion Trading Platform – Securities Market is progressing on schedule. The development phase is scheduled to be complete by the end of 2016 and testing and other market readiness activities will be carried out in 2017.

Enhancements to both the HKEX Group website and the HKEX Market website to improve the user experience are in progress. The launch of the revamped HKEX Group website is expected in the last quarter of 2016 and the HKEX Market website in 2017.

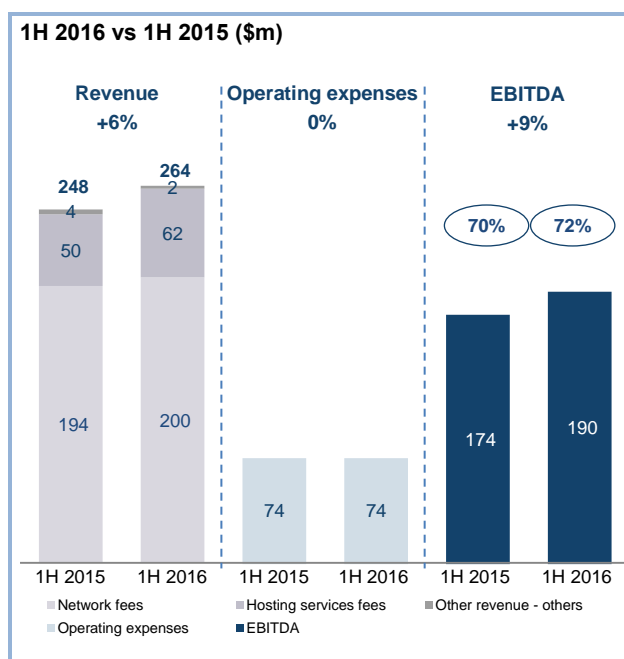
HKEX's Hosting Services continued to attract new customers. During 1H 2016, seven new customers have subscribed for the services. At the end of June 2016, 128 Exchange Participants, who accounted for approximately 47 per cent of the Cash Market turnover and 58 per cent of the Derivatives Market trading volume, were using HKEX's Hosting Services.

Analysis of Results

Network, terminal user, dataline and software sub-license fees (Network fees) rose by 3 per cent as a result of an increase in Cash Market trading system line rental income, as more Exchange Participants migrated from the obsolescent Open Gateway to HKEX Orion Central Gateway. This was partly offset by a decrease in sales of throttles.

Hosting services fees increased by 24 per cent due to an increase in the number of racks taken up by customers.

As operating expenses remained the same, EBITDA margin rose from 70 per cent to 72 per cent.



Corporate Items

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

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Net investment income	82	74
Others	11	2
Total	93	76

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

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Net investment income from:		
- Cash and bank deposits	41	35
- Equity securities	(16)	42
- Debt securities	80	23
- Exchange losses	(23)	(26)
Total net investment income	82	74
Average fund size (\$bn)	16.8	12.6
Annualised net investment return	0.97%	1.17%

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

In 1H 2015, a \$31 million gain on sale of the remaining stake in shares of LCH was included in net investment income - equity securities. Excluding the LCH gain, net investment income of the Corporate Funds in 1H 2016 increased by \$39 million principally due to higher fair value gains on debt securities, partly offset by fair value losses on equity securities in 1H 2016 versus gains in 1H 2015.

As the valuations of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

Expenses, Other Costs and Taxation

Operating Expenses

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Staff costs and related expenses	1,016	1,034	(2%)
IT and computer maintenance expenses	251	251	0%
Premises expenses	162	139	17%
Product marketing and promotion expenses	21	21	0%
Legal and professional fees	46	29	59%
Other operating expenses	192	106	81%
Total	1,688	1,580	7%

Staff costs and related expenses decreased by \$18 million or 2 per cent mainly due to lower variable pay accruals, partly offset by annual payroll adjustments and increased headcount for strategic initiatives.

Premises expenses increased by \$23 million or 17 per cent due to the new offices taken up following the sale of the Group's Worldwide House office premises in Hong Kong in September 2015, and the relocation of LME to a new office in January 2016.

Legal and professional fees increased by \$17 million or 59 per cent as more fees were incurred on strategic projects. However, this overall increase was inflated by an insurance recovery of \$5 million in 1H 2015 in respect of litigation in the UK.

Other operating expenses increased by \$86 million or 81 per cent due to the non-recurring recovery from the liquidators of LBSA of \$77 million which reduced these costs in 1H 2015. Excluding this recovery, operating expenses rose by only \$9 million or 5 per cent, which was primarily due to higher index license fees arising on the increased trading volume of derivatives contracts.

Excluding the recovery from Lehman liquidators, which reduced operating expenses in 1H 2015, underlying costs rose by only 2 per cent.

Depreciation and Amortisation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Depreciation and amortisation	382	325	18%

Depreciation and amortisation increased by \$57 million or 18 per cent due to the completion of various new systems including a new corporate Enterprise Resource Planning system and upgrades to the cash clearing system and the commodities trading and clearing systems.

Finance Costs

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Finance costs	43	77	(44%)

The decrease in finance costs was due to the conversion of all convertible bonds to equity in Q2 2015.

Taxation

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m	Change
Taxation	540	783	(31%)

Taxation decreased due to lower profit before taxation.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities by Funds

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial assets			
Cash and cash equivalents	98,053	110,890	(12%)
Financial assets measured at fair value through profit or loss	56,265	72,705	(23%)
Financial assets measured at amortised cost	24,286	19,496	25%
Total	178,604	203,091	(12%)

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

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial assets			
Corporate Funds	16,985	15,636	9%
Margin Funds ¹	105,620	114,416	(8%)
Clearing House Funds	8,156	8,430	(3%)
Base metals derivatives contracts cleared through LME Clear	47,843	64,480	(26%)
Cash prepayments for A shares ²	–	129	(100%)
Total	178,604	203,091	(12%)

1 Excludes margin receivable from Clearing Participants and Settlement Reserve Fund and Settlement Guarantee Fund which have been paid to ChinaClear of \$385 million (31 December 2015: \$797 million)

2 The trading of A shares under Stock Connect was not available on 30 June 2016 due to the public holiday in Hong Kong the following day.

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m	Change
Financial liabilities			
Base metals derivatives contracts cleared through LME Clear	47,843	64,480	(26%)
Other financial liabilities at fair value through profit or loss	7	6	17%
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	106,005	115,213	(8%)
Participants' contributions to Clearing House Funds	7,196	7,474	(4%)
Total	161,051	187,173	(14%)

The decrease in financial assets and financial liabilities of Margin Funds at 30 June 2016 compared to 31 December 2015 was mainly due to lower contributions from Participants of HKCC as a result of lower margin requirements per contract, and lower contributions from Participants of LME Clear due to lower margin requirements as a result of lower prices of metals and more non-cash collateral received in lieu of cash margin.

The decrease in financial assets and financial liabilities of Clearing House Funds at 30 June 2016 compared to 31 December 2015 was mainly attributable to decreased contributions required from Clearing Participants in response to market volatility and changes in risk exposures.

Corporate Funds at 30 June 2016 increased by \$1,349 million or 9 per cent during 1H 2016 due to the retention of cash generated by the business over the past six months partly offset by the cash element of the 2015 final dividend payment.

Working Capital, Financial Resources and Gearing

Working capital rose by \$1,255 million or 9 per cent to \$15,850 million at 30 June 2016 (31 December 2015: \$14,595 million). The increase was primarily due to the profit of \$2,985 million generated during 1H 2016, partly offset by the 2015 final dividend, net of scrip dividend, of \$1,937 million in June 2016.

At 30 June 2016, the Group had the following outstanding borrowings:

	At 30 Jun 2016		At 31 Dec 2015	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	1,587	July 2020 & July 2021	1,585	July 2020 & July 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,518	Dec 2018 & Jan 2019	1,516	Dec 2018 & Jan 2019
Written put options to non-controlling interests	313	N/A	308	N/A
	3,418		3,409	

At 30 June 2016, the Group had a gross gearing ratio (gross debt divided by adjusted capital) of 11 per cent (31 December 2015: 12 per cent), and a net gearing ratio (net debt divided by adjusted capital) of zero per cent (31 December 2015: zero per cent). For this purpose, gross debt is defined as total borrowings and net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds (and will be zero when the amount of cash and cash equivalents of Corporate Funds is greater than total borrowings). Adjusted capital is defined as all components of equity attributable to shareholders other than designated reserves.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 30 June 2016, the Group's total available banking facilities for its daily operations amounted to \$17,012 million (31 December 2015: \$17,012 million), which included \$10,000 million (31 December 2015: \$10,000 million) of committed banking facilities and \$7,000 million (31 December 2015: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 30 June 2016, the total amount of the facilities was RMB21,500 million (31 December 2015: RMB17,000 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2015: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect, eg, natural disasters or extreme weather conditions in Hong Kong.

At 30 June 2016, 91 per cent (31 December 2015: 92 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Capital Expenditure and Commitments

During 1H 2016, the Group incurred capital expenditure of \$266 million (1H 2015: \$262 million) related to the renovation of new offices and the development and upgrade of various IT systems including the commodities trading and clearing systems, a cash trading system, a pre-trade risk management system for Derivatives Market, trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong, and a new corporate Enterprise Resource Planning system.

The Group's capital expenditure commitments at 30 June 2016, including those authorised by the Board but not yet contracted for, amounted to \$901 million (31 December 2015: \$961 million) and were mainly related to the development and enhancement of IT systems including cash and commodities trading and clearing systems, and trading and clearing systems to facilitate mutual stock market access between Mainland China and Hong Kong.

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

The Group completed an internal reorganisation of its subsidiaries on 22 January 2016. Following the internal reorganisation, HKCC, SEOCH, The Stock Exchange Club Limited (subsequently renamed as HKEX Investment (China) Limited), HKEX Information Services Limited and HK Conversion Agency Services Limited, which were previously held by HKFE, SEHK and HKSCC, became direct wholly-owned subsidiaries of HKEX. The internal reorganisation will help the Group to focus its attention on complying with various regulatory obligations and better manage the risks associated with the businesses and operations of the recognised exchanges and clearing houses.

Save for those disclosed in this announcement, 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 announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement.

Pledge of Assets

LME Clear receives debt securities and gold bullion as collateral for margin posted by its Clearing Participants. The total fair value of this collateral was US\$1,717 million (HK\$13,320 million) at 30 June 2016 (31 December 2015: US\$2,015 million (HK\$15,617 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\$6,803 million (HK\$52,777 million) at 30 June 2016 (31 December 2015: US\$7,911 million (HK\$61,311 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 2016. Such non-cash collateral, together with certain financial assets amounting to US\$450 million (HK\$3,487 million) at 30 June 2016 (31 December 2015: US\$639 million (HK\$4,953 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.

Exposure to Fluctuations in Exchange Rates and Related Hedges

In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

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

The functional currency of the LME and LME Clear is USD as the majority of their income is denominated in USD. As a result, the LME Group is exposed to foreign currency risk arising from expenditure (predominantly in GBP) and bank deposits denominated in foreign currencies (mainly GBP). Their risk management policy is to forecast and monitor the amount of future GBP payments and to retain some GBP bank deposits or convert from USD to GBP as soon as deemed appropriate. Forward foreign exchange contracts may also be used to hedge the currency exposure resulting from its USD revenue against GBP payments.

The aggregate net open foreign currency positions at 30 June 2016 amounted to HK\$3,201 million, of which HK\$581 million were non-USD exposures (31 December 2015: HK\$970 million, of which HK\$179 million were non-USD exposures) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$904 million (31 December 2015: HK\$2,261 million). All forward foreign exchange contracts mature within two months (31 December 2015: three months).

Contingent Liabilities

At 30 June 2016, 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 2015: \$71 million). Up to 30 June 2016, 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 530 trading Participants covered by the indemnity at 30 June 2016 (31 December 2015: 515) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$106 million (31 December 2015: \$103 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.
- (d) US litigation

In 2013, the LME, LME Holdings Limited and HKEX were named as defendants in aluminium warehousing litigation alleging anti-competitive behaviour in the US. Following vigorous defence by the Group, the US District Court for the Southern District of New York (District Court) dismissed all the claims in a series of orders. In 2014, plaintiffs classified as "consumer end users" and "commercial end users" filed appeals against the District Court's decisions but the appeals were all dismissed by the US Court of Appeals in July 2015 with the agreement of the plaintiffs. While the direct action plaintiffs and plaintiffs classified as "first level" purchasers do not currently have a right to appeal against the District Court's decisions, they may do so after their claims against the other non-HKEX group defendants have concluded or if the court grants them permission to appeal in the meantime. It is not clear when the litigation against the non-HKEX group defendants will conclude but to date, no application to appeal has been filed by any of the direct action plaintiffs or the "first level" purchasers against the District Court's decisions.

CHANGES SINCE 31 DECEMBER 2015

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 2015.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2016 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 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2016, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

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

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any HKEX shares.

SUSTAINABLE WORKPLACE

During the six months ended 30 June 2016, the Group organised 63 in-house courses for employees to enhance their job knowledge, skills and well-being. Moreover, the Group sponsored a total of 206 employees to attend external training.

As at 30 June 2016, the Group had 1,610 employees, including 58 temporary staff and 29 interns. HKEX's remuneration policy has remained unchanged since the date of the 2015 Annual Report.

Details of HKEX's principles and practices related to governance and sustainability are set out in the About HKEX (Corporate Governance and Corporate Social Responsibility) section of the HKEX website.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Trading fees and trading tariff		2,255	2,941
Stock Exchange listing fees		531	564
Clearing and settlement fees		1,187	1,676
Depository, custody and nominee services fees		473	483
Market data fees		404	386
Other revenue		406	407
REVENUE	2	5,256	6,457
Investment income		410	402
Interest rebates to Participants		(55)	(11)
Net investment income	3	355	391
Sundry income		19	5
REVENUE AND OTHER INCOME		5,630	6,853
OPERATING EXPENSES			
Staff costs and related expenses		(1,016)	(1,034)
IT and computer maintenance expenses		(251)	(251)
Premises expenses		(162)	(139)
Product marketing and promotion expenses		(21)	(21)
Legal and professional fees		(46)	(29)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	4	-	77
Others		(192)	(183)
		(1,688)	(1,580)
EBITDA		3,942	5,273
Depreciation and amortisation		(382)	(325)
OPERATING PROFIT		3,560	4,948
Finance costs	5	(43)	(77)
Share of loss of a joint venture		(5)	(5)
PROFIT BEFORE TAXATION	2	3,512	4,866
TAXATION	6	(540)	(783)
PROFIT FOR THE PERIOD		2,972	4,083
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEX		2,985	4,095
- Non-controlling interests		(13)	(12)
PROFIT FOR THE PERIOD		2,972	4,083
Basic earnings per share	7(a)	\$2.47	\$3.49
Diluted earnings per share	7(b)	\$2.47	\$3.47

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
PROFIT FOR THE PERIOD	2,972	4,083
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	10	(3)
OTHER COMPREHENSIVE INCOME	10	(3)
TOTAL COMPREHENSIVE INCOME	2,982	4,080
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEX	2,995	4,092
- Non-controlling interests	(13)	(12)
TOTAL COMPREHENSIVE INCOME	2,982	4,080

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Jun 2016			At 31 Dec 2015		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	9	98,053	-	98,053	110,890	-	110,890
Financial assets measured at fair value through profit or loss	9	56,265	-	56,265	72,705	-	72,705
Financial assets measured at amortised cost	9	24,224	62	24,286	19,439	57	19,496
Accounts receivable, prepayments and deposits	9,10	7,903	21	7,924	15,535	21	15,556
Taxation recoverable		2	-	2	2	-	2
Interest in a joint venture		-	63	63	-	68	68
Goodwill and other intangible assets		-	17,842	17,842	-	17,872	17,872
Fixed assets		-	1,491	1,491	-	1,560	1,560
Lease premium for land		-	21	21	-	22	22
Deferred tax assets		-	32	32	-	22	22
Total assets		186,447	19,532	205,979	218,571	19,622	238,193
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss		47,850	-	47,850	64,486	-	64,486
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants		106,005	-	106,005	115,213	-	115,213
Accounts payable, accruals and other liabilities	11	8,073	22	8,095	15,270	15	15,285
Deferred revenue		495	-	495	773	-	773
Taxation payable		845	-	845	653	-	653
Other financial liabilities		49	-	49	42	-	42
Participants' contributions to Clearing House Funds		7,196	-	7,196	7,474	-	7,474
Borrowings	12	-	3,418	3,418	-	3,409	3,409
Provisions		84	68	152	65	70	135
Deferred tax liabilities		-	754	754	-	761	761
Total liabilities		170,597	4,262	174,859	203,976	4,255	208,231
Equity							
Share capital				20,816			19,285
Shares held for Share Award Scheme				(578)			(590)
Employee share-based compensation reserve				281			199
Exchange reserve				(244)			(254)
Designated reserves				776			778
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings				10,229			10,691
Equity attributable to shareholders of HKEX				30,987			29,816
Non-controlling interests				133			146
Total equity				31,120			29,962
Total liabilities and equity				205,979			238,193
Net current assets				15,850			14,595

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements should be read in conjunction with the 2015 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2015. Amendments to Hong Kong Financial Reporting Standards (HKFRSs) effective for the financial year ending 31 December 2016 do not have any financial impact to the Group.

The financial information relating to the year ended 31 December 2015 that is included in these unaudited condensed consolidated financial statements for the six months ended 30 June 2016 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 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

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

2. Operating Segments

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

The Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different IT 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 and the Shanghai Stock Exchange through 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 tariff and listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on the Futures Exchange and the Stock 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, DWs, CBBCs and warrants and sales of market data relating to these products. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees.

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

The **Clearing** segment refers to the operations of the five clearing houses, namely HKSCC, SEOCH, HKCC, OTC Clear and LME Clear, which are responsible for clearing, settlement and custodian activities of the Stock Exchange, the Futures Exchange and the Shanghai Stock Exchange through Stock Connect, clearing and settlement of over-the-counter derivatives contracts, and clearing and settlement of base metals futures and options contracts traded on the LME. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on Margin Funds and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. Its major sources of revenue are network, terminal user, dataline and software sub-license fees, trading booth user fees and hosting services fees.

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

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis by operating segment of the Group’s EBITDA and profit before taxation for the period is as follows:

	Six months ended 30 Jun 2016						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,282	1,065	804	1,838	264	3	5,256
Net investment income	-	-	-	273	-	82	355
Sundry income	-	-	-	11	-	8	19
Revenue and other income	1,282	1,065	804	2,122	264	93	5,630
Operating expenses	(270)	(229)	(291)	(352)	(74)	(472)	(1,688)
Reportable segment EBITDA	1,012	836	513	1,770	190	(379)	3,942
Depreciation and amortisation	(44)	(45)	(147)	(88)	(22)	(36)	(382)
Finance costs	-	-	-	-	-	(43)	(43)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	968	786	366	1,682	168	(458)	3,512

Six months ended 30 Jun 2015

	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,886	1,100	886	2,335	248	2	6,457
Net investment income	-	-	-	317	-	74	391
Sundry income	-	-	-	5	-	-	5
Revenue and other income	1,886	1,100	886	2,657	248	76	6,853
Operating expenses	(276)	(236)	(254)	(309)	(74)	(431)	(1,580)
Reportable segment EBITDA	1,610	864	632	2,348	174	(355)	5,273
Depreciation and amortisation	(49)	(36)	(129)	(69)	(22)	(20)	(325)
Finance costs	-	-	-	-	-	(77)	(77)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,561	823	503	2,279	152	(452)	4,866

3. Net Investment Income

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Gross interest income from financial assets measured at amortised cost	359	357
Interest rebates to Participants	(55)	(11)
Net interest income	304	346
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	68	57
Others	(17)	(12)
Net investment income	355	391

4. Reversal of Provision for Impairment Losses Arising from Participants' Default on Market Contracts

During the six months ended 30 June 2015, the liquidators of LBSA paid dividends of \$77 million, and these were recognised within operating expenses in the Group's condensed consolidated income statement, as a reversal of a provision for impairment losses recognised in prior years.

5. Finance Costs

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interest expenses on borrowings	40	78
Net foreign exchange losses/(gains) on financing activities	3	(1)
	43	77

6. Taxation

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

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Current tax - Hong Kong Profits Tax	447	648
Current tax - Overseas Tax	111	172
	558	820
Deferred tax	(18)	(37)
	540	783

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2015: 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 rate applicable to the subsidiaries in the UK being 20 per cent (2015: 20.25 per cent).

7. 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 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Basic earnings per share (\$)	2.47	3.49

(b) Diluted earnings per share

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Profit attributable to shareholders (\$m)	2,985	4,095
Interest expenses on convertible bonds (net of tax) (\$m)	-	41
Adjusted profit attributable to shareholders (\$m)	2,985	4,136
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,206,736	1,172,838
Effect of employee share options (in '000)	-	12
Effect of shares awarded under Share Award Scheme (in '000)	3,173	2,821
Effect of convertible bonds (in '000)	-	17,829
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,209,909	1,193,500
Diluted earnings per share (\$)	2.47	3.47

8. Dividends

	Six months ended 30 Jun 2016 \$m	Six months ended 30 Jun 2015 \$m
Interim dividend declared of \$2.21 (2015: \$3.08) per share at 30 Jun	2,690	3,688
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(7)	(9)
	2,683	3,679

9. Financial Assets

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

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
<u>Clearing House Funds</u>		
Cash and cash equivalents	8,000	8,210
Financial assets measured at amortised cost	156	220
	8,156	8,430
<u>Margin Funds</u>		
Cash and cash equivalents	79,574	89,807
Financial assets measured at fair value through profit or loss	3,913	5,844
Financial assets measured at amortised cost	22,133	18,765
Accounts receivable and deposits	385	797
	106,005	115,213
<u>Base metals derivatives contracts</u>		
Financial assets measured at fair value through profit or loss (note (a))	47,843	64,480
<u>Cash prepayments for A shares</u>		
Cash and cash equivalents	-	129
<u>Corporate Funds</u>		
Cash and cash equivalents	10,479	12,744
Financial assets measured at fair value through profit or loss	4,509	2,381
Financial assets measured at amortised cost	1,997	511
	16,985	15,636
	178,989	203,888

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

	At 30 Jun 2016						At 31 Dec 2015					
	Clearing House Funds	Margin Funds	Base metals derivatives contracts	Cash prepayments for A shares	Corporate Funds	Total	Clearing House Funds	Margin Funds	Base metals derivatives contracts	Cash prepayments for A shares	Corporate Funds	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Within 12 months	8,156	106,005	47,843	-	16,923	178,927	8,430	115,213	64,480	129	15,579	203,831
Over 12 months	-	-	-	-	62	62	-	-	-	-	57	57
	8,156	106,005	47,843	-	16,985	178,989	8,430	115,213	64,480	129	15,636	203,888

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

10. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 80 per cent (31 December 2015: 87 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

11. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 79 per cent (31 December 2015: 89 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

During the six months ended 30 June 2016, \$11 million (2015: \$9 million) of dividends declared by HKEX, which were unclaimed over a period of six years from the date of payment, were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association.

12. Borrowings

	At 30 Jun 2016 \$m	At 31 Dec 2015 \$m
Bank borrowings	1,587	1,585
Notes	1,518	1,516
Written put options to non-controlling interests	313	308
Total borrowings	3,418	3,409

During the six months ended 30 June 2016, there were no repayments of the bank borrowings or notes, and none of the written put options were exercised.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has declared an interim dividend of \$2.21 per share (2015: \$3.08 per share) for the year ending 31 December 2016. The interim dividend will be payable in cash with a scrip dividend alternative where a 5 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto. Details of the scrip dividend alternative will be set out in a circular to Shareholders.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	23 August 2016
Closure of HKEX's Register of Members	25 to 26 August 2016 (both dates inclusive)
Record date	26 August 2016
Despatch of scrip dividend circular and election form	On or about 31 August 2016
Announcement of scrip share subscription price	On or about 6 September 2016
Despatch of dividend warrants/definitive share certificates	23 September 2016

To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEX's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on Wednesday, 24 August 2016.

PUBLICATION OF 2016 INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the HKEXnews website at www.hkexnews.hk and the HKEX website at www.hkex.com.hk/eng/exchange/invest/results/2016Results.htm. The 2016 Interim Report will be available on the HKEXnews and HKEX websites and despatched to Shareholders on or about Thursday, 25 August 2016.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Joseph MAU
Company Secretary

Hong Kong, 10 August 2016

At the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Mr John Barrie HARRISON, Dr HU Zuli, Fred, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mrs LEUNG KO May Yee, Margaret, and Mr John Mackay McCulloch WILLIAMSON, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive.

GLOSSARY

ADT	Average daily turnover value
Board	HKEX's board of directors
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
Corporate Governance Code	Refers to Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
EU	European Union
Exchange or SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBP	Pounds sterling
GEM	The Growth Enterprise Market
Government Appointed Directors	Directors appointed by the Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China pursuant to Section 77 of the SFO
Group	HKEX and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEX or the Company	Hong Kong Exchanges and Clearing Limited
HKSCC	Hong Kong Securities Clearing Company Limited
IPO(s)	Initial Public Offering(s)
IT	Information Technology
LBSA or Lehman	Lehman Brothers Securities Asia Limited
LCH	LCH.Clearnet Group Limited
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LME Holdings Limited, the LME and LME Clear
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange through the Stock Connect
OTC Clear	OTC Clearing Hong Kong Limited
RMB	Renminbi
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)
Stock Connect	A pilot programme that links the stock markets in Shanghai and Hong Kong. Under the programme, investors in Hong Kong and Mainland China can trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholders	HKEX's shareholders

Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through the Stock Connect
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million