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HKEX

香港交易所

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)

Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

(Unaudited)

As at 9 August 2017, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEX or the Company) comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr CHEAH Cheng Hye, Mr Timothy George FRESHWATER, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mrs LEUNG KO May Yee, Margaret, Mr LEUNG Pak Hon, Hugo, Mr John Mackay McCulloch WILLIAMSON and Mr YIU Kin Wah, Stephen, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEX's Chief Executive.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEX								
	Share capital and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Designated reserves \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2016	18,695	199	(254)	778	(293)	10,691	29,816	146	29,962
Profit/(loss) for the period	-	-	-	-	-	2,985	2,985	(13)	2,972
Other comprehensive income	-	-	10	-	-	-	10	-	10
Total comprehensive income	-	-	10	-	-	2,985	2,995	(13)	2,982
Total contributions by and distributions to shareholders of HKEX, recognised directly in equity:									
- 2015 final dividend at \$2.87 per share	-	-	-	-	-	(3,459)	(3,459)	-	(3,459)
- Unclaimed HKEX dividends forfeited (note 14)	-	-	-	-	-	11	11	-	11
- Shares issued in lieu of cash dividends	1,522	-	-	-	-	-	1,522	-	1,522
- Vesting of shares of Share Award Scheme	21	(20)	-	-	-	(1)	-	-	-
- Employee share-based compensation benefits	-	102	-	-	-	-	102	-	102
- Transfer of reserves	-	-	-	(2)	-	2	-	-	-
Total transactions with shareholders recognised directly in equity	1,543	82	-	(2)	-	(3,447)	(1,824)	-	(1,824)
At 30 Jun 2016	20,238	281	(244)	776	(293)	10,229	30,987	133	31,120

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar unless otherwise stated)

1. Basis of Preparation and Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

2. Operating Segments

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

The Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group's reportable segments are as follows:

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

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

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

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

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

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

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:

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

2. Operating Segments (continued)

	Six months ended 30 Jun 2017						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,512	952	721	1,912	279	3	5,379
Net investment income	-	-	-	393	-	428	821
Sundry income	-	-	-	3	-	-	3
Revenue and other income	1,512	952	721	2,308	279	431	6,203
Operating expenses	(291)	(222)	(281)	(378)	(75)	(464)	(1,711)
Reportable segment EBITDA	1,221	730	440	1,930	204	(33)	4,492
Depreciation and amortisation	(33)	(36)	(136)	(92)	(21)	(44)	(362)
Finance costs	-	-	-	-	-	(65)	(65)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,188	689	304	1,838	183	(142)	4,060

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

3. Trading Fees and Trading Tariff

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

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

4. Net Investment Income

	Six months ended 30 Jun 2017 \$m	Six months ended 30 Jun 2016 \$m
Gross interest income from financial assets measured at amortised cost	643	359
Interest rebates to Participants	(200)	(55)
Net interest income	443	304
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	346	68
Others	32	(17)
Net investment income	821	355

5. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

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

6. Finance Costs

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

7. Taxation

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

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

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

8. Earnings Per Share

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

- (a) Basic earnings per share

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

- (b) Diluted earnings per share

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

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

9. Dividends

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

10. Financial Assets

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

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

10. Financial Assets (continued)

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

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

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

11. Accounts Receivable, Prepayments and Deposits

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

12. Financial Liabilities at Fair Value through Profit or Loss

	At 30 Jun 2017 \$m	At 31 Dec 2016 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
- base metals futures and options contracts cleared through LME Clear (note 10(a))	45,210	61,618
<u>Held for trading</u>		
Derivative financial instruments:		
- forward foreign exchange contracts	-	9
	45,210	61,627

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

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

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

14. Accounts Payable, Accruals and Other Liabilities

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

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

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

15. Clearing House Funds

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

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

16. Borrowings

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

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

17. Share Capital and Shares Held for Share Award Scheme

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

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

18. Employee Share-based Arrangements

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

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

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

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

19. Designated reserves

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

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

20. Notes to the Condensed Consolidated Statement of Cash Flows

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

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

21. Capital Expenditures and Commitments

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

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

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

22. Contingent Liabilities

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

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

23. Transactions with Non-Controlling Interests

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

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

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

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

24. Material Related Party Transactions

(a) Key management personnel compensation

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

(b) Post-retirement benefit plans

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

25. Pledge of Assets

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

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

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

26. Fair Value of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

² The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rate used was 1.89 per cent to 2.22 per cent at 30 June 2017 (31 December 2016: 2.09 per cent to 2.95 per cent).

³ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 1.41 per cent at 30 June 2017 (31 December 2016: 1.83 per cent).

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