

14 August 2019

**2019 INTERIM RESULTS  
ANNOUNCEMENT**

**HKEX**  
香港交易所

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# 1H 2019 – Key Highlights



## Revenue and PAT growth

Revenue of \$8.6bn (+5% YoY) and PAT of \$5.2bn (+3% YoY)



## Macro-driven softness in Cash Market volumes

Cash Market headline ADT -23% YoY, Futures Exchanges' ADV +2% YoY, LME chargeable ADV -6% YoY



## Continued strong IPO market

As of June, 84 IPOs (No.1 globally); Third in IPO funds raised (\$71.8bn, +39% YoY)



## Record half-yearly Stock Connect revenue

Revenue of \$508mn (+39% YoY) and record half-yearly Northbound turnover following the successful inclusion of China A-shares in global indexes; Announced inclusion arrangements of A+H companies listed on the STAR Market in July; Mainland exchanges consulted the market on their proposals to include WVR companies in Southbound Connect in August



## Significant growth in Bond Connect

ADT of RMB6.6bn (+94% YoY) following the inclusion of Chinese RMB-denominated bonds in Bloomberg Barclays Global Aggregate Indices from April; The number of approved international investors reached 1,038 as of June (+192% YoY)



## Solid contribution from Commodities

EBITDA +5% YoY despite a slight drop in revenue due to lower costs; Expanded commodities capabilities by launching new products on the LME, HKFE and QME



## Leveraging new technology

Completed acquisition of Shenzhen Ronghui Tongjin; Innovation Lab has been actively exploring new technology to further improve the Group's efficiency

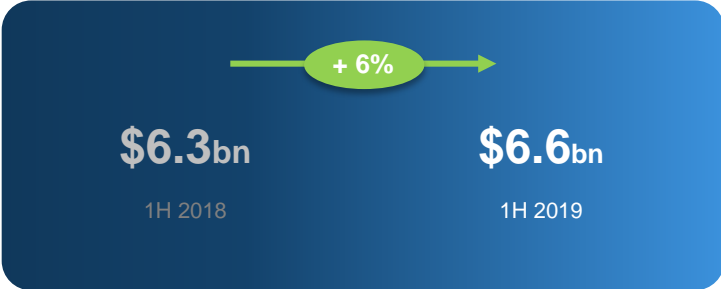


# Key Financial Highlights – Growth in Revenue and Earnings

## Revenue and Other Income



## EBITDA



## Basic Earnings per Share



## Dividend per Share



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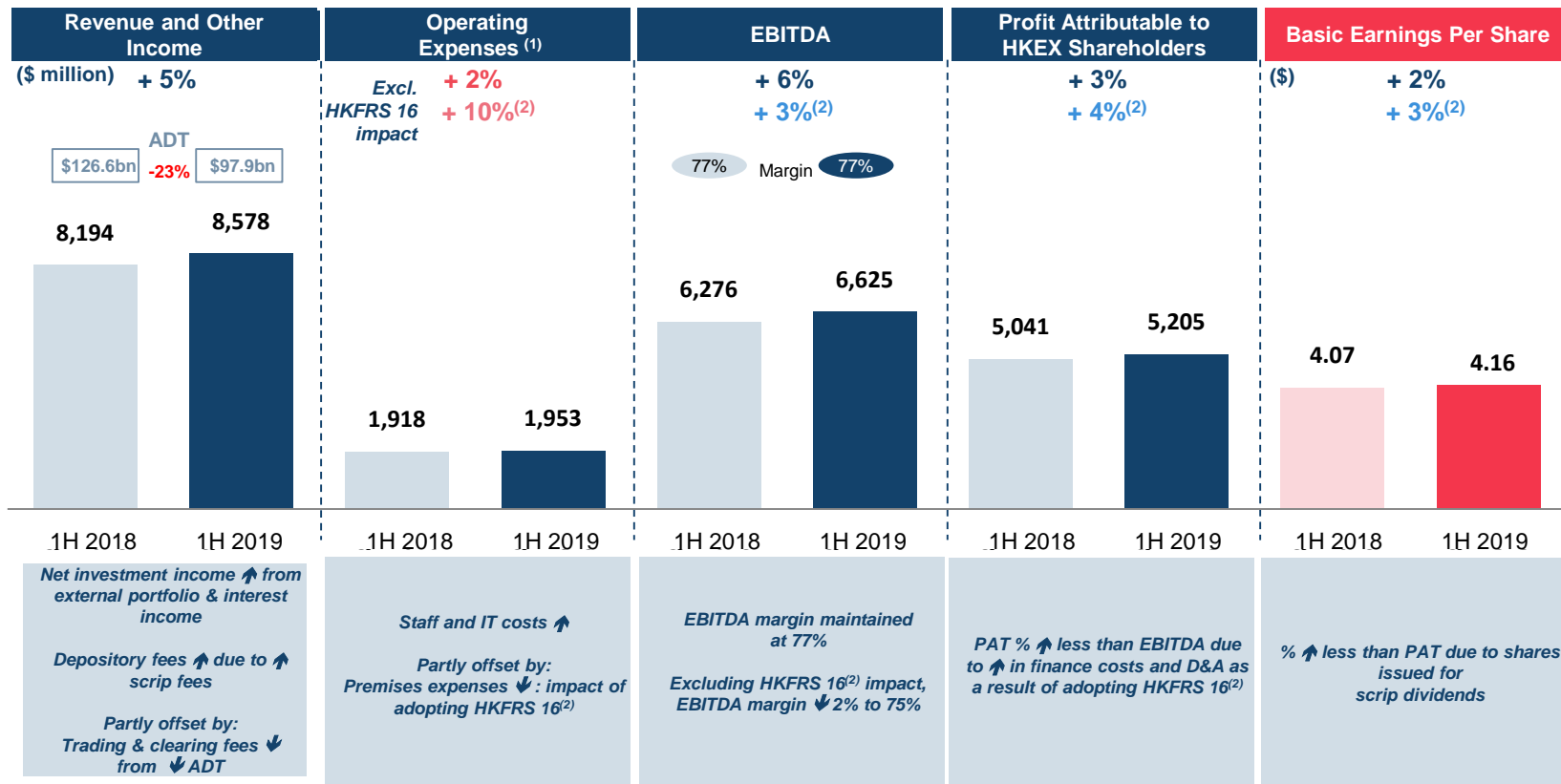
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# 1H 2019 – Solid Financial Performance; Earnings Per Share Up 2% YoY



(1) Excludes depreciation and amortisation, finance costs, and share of profits less losses of joint ventures

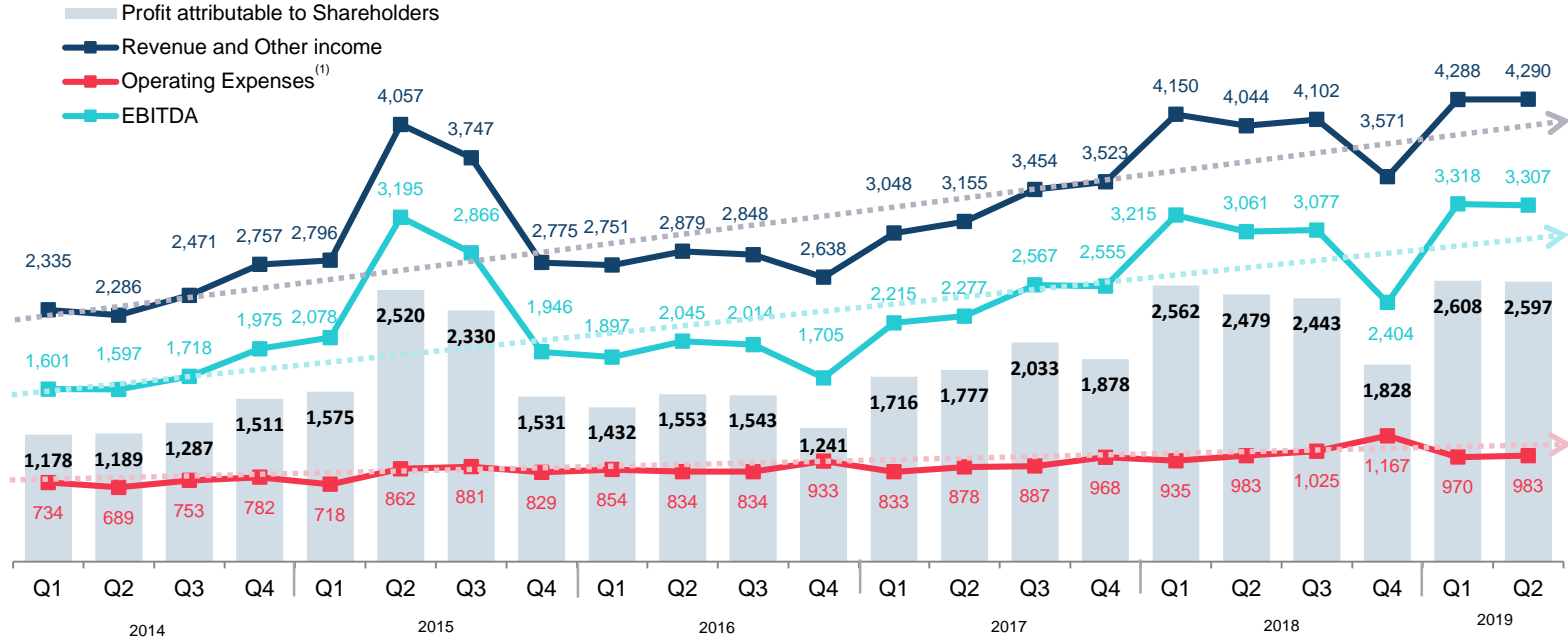
(2) As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to the consolidated income statement under finance costs and depreciation & amortisation.



# 1H 2019 Performance above Historical Trend Line

## Quarterly performance

(\$ million)



**Revenue growth coupled with good cost discipline drove solid earnings in 1H 2019**

(1) Excludes depreciation and amortisation, finance costs, and share of profits less losses of joint ventures

(2) Dotted trend lines are illustrative and do not constitute a forward forecast.

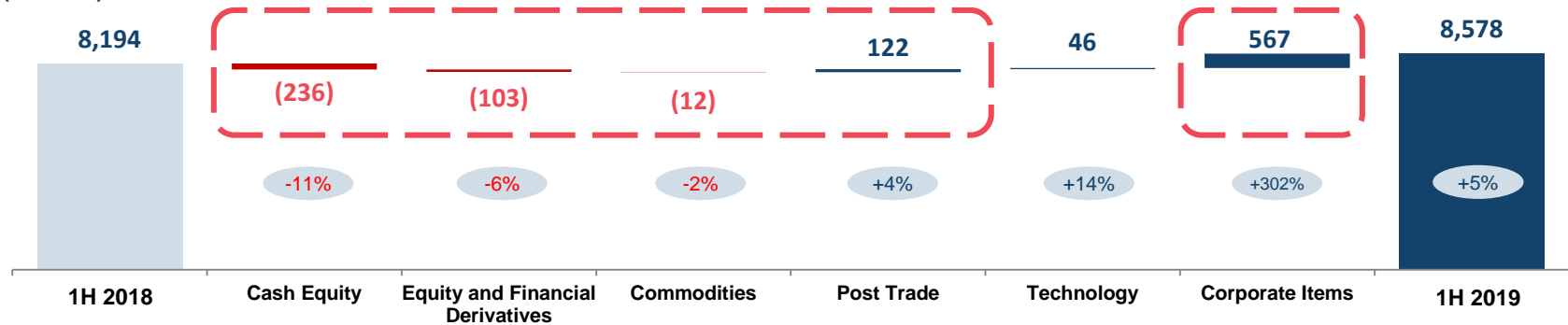




# Investment Income and Depository Fees Offset the Impact of Lower Trading and Clearing Fees

## Segmental revenue

(\$ million)



%  
Change  
year-on-year

Trading fees & tariffs  
↓ from ↓ ADT of  
equity products

Listing fees ↑ due to  
↑ listed companies  
and ↑ forfeitures

Trading fees & tariffs  
↓ from ↓ ADT of  
DWs, CBBCs &  
warrants

Listing fees ↓ due  
to ↓ newly listed DWs  
and CBBCs

Trading fees ↓ from  
↓ LME chargeable  
ADV

New OTC fees ↑

Clearing fees ↓ from  
↓ HK ADT and ↓ SI  
and ↓ LME  
chargeable ADV

Depository ↑ due to  
↑ scrip fees & stock  
withdrawal fees but  
offset by ↓ e-IPO  
service fees

Investment income ↑  
due to ↑ interest  
rates offset by ↓  
Margin Fund size

Network fees  
↑ due to ↑ usage  
by new and existing  
EPs, additional fees  
arising from the  
newly introduced  
throttle monthly  
usage fees, and  
↑ fees due to the  
completion of  
migration from Open  
Gateway to China  
Connect Central  
Gateway in Mar 2018

↑ Net investment  
income of Corporate  
Funds from external  
portfolio and interest  
income

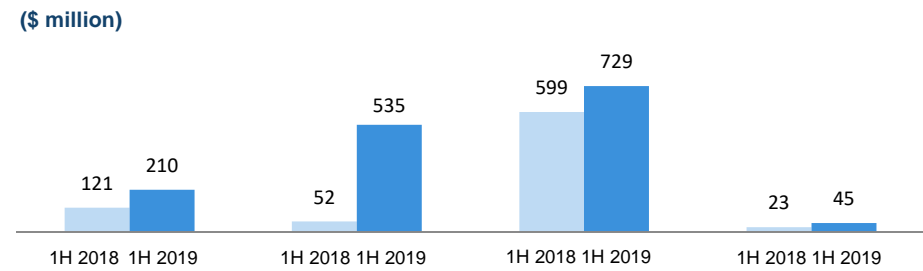
(1) Headline ADT down 23% (1H 2019: \$97.9bn; 1H 2018: \$126.6bn); ADT of cash equity down 25% (1H 2019: \$75.1bn; 1H 2018: \$100.4bn); ADT of DWs, CBBCs and warrants included under equity and financial derivatives down 13% (1H 2019: \$22.8bn; 1H 2018: \$26.2bn)



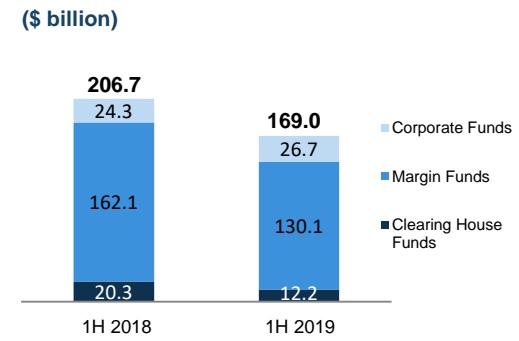
# Net Investment Income – Higher Returns Across External and Internal Portfolios

1H 2019: \$1,519m (1H 2018: \$795m)

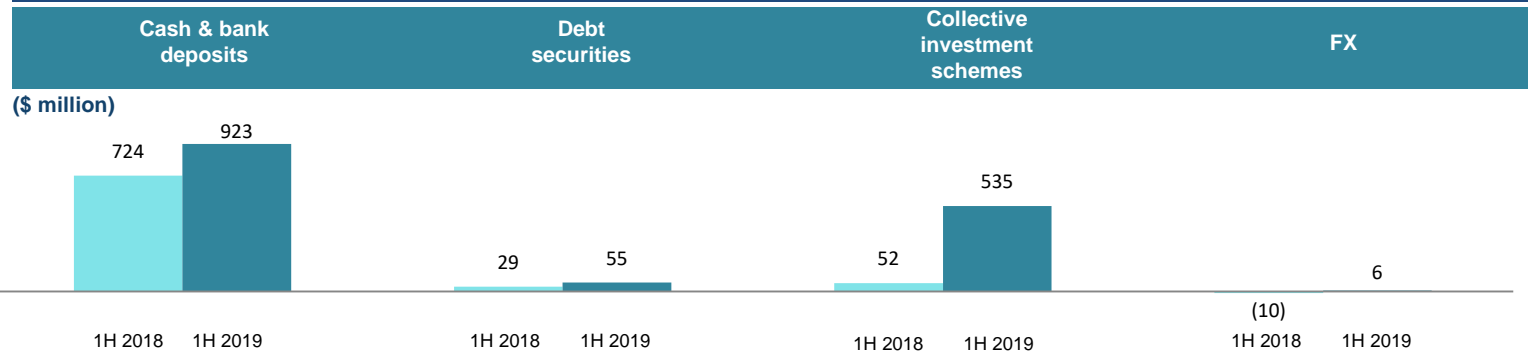
## Net investment income by Funds



## Average fund size

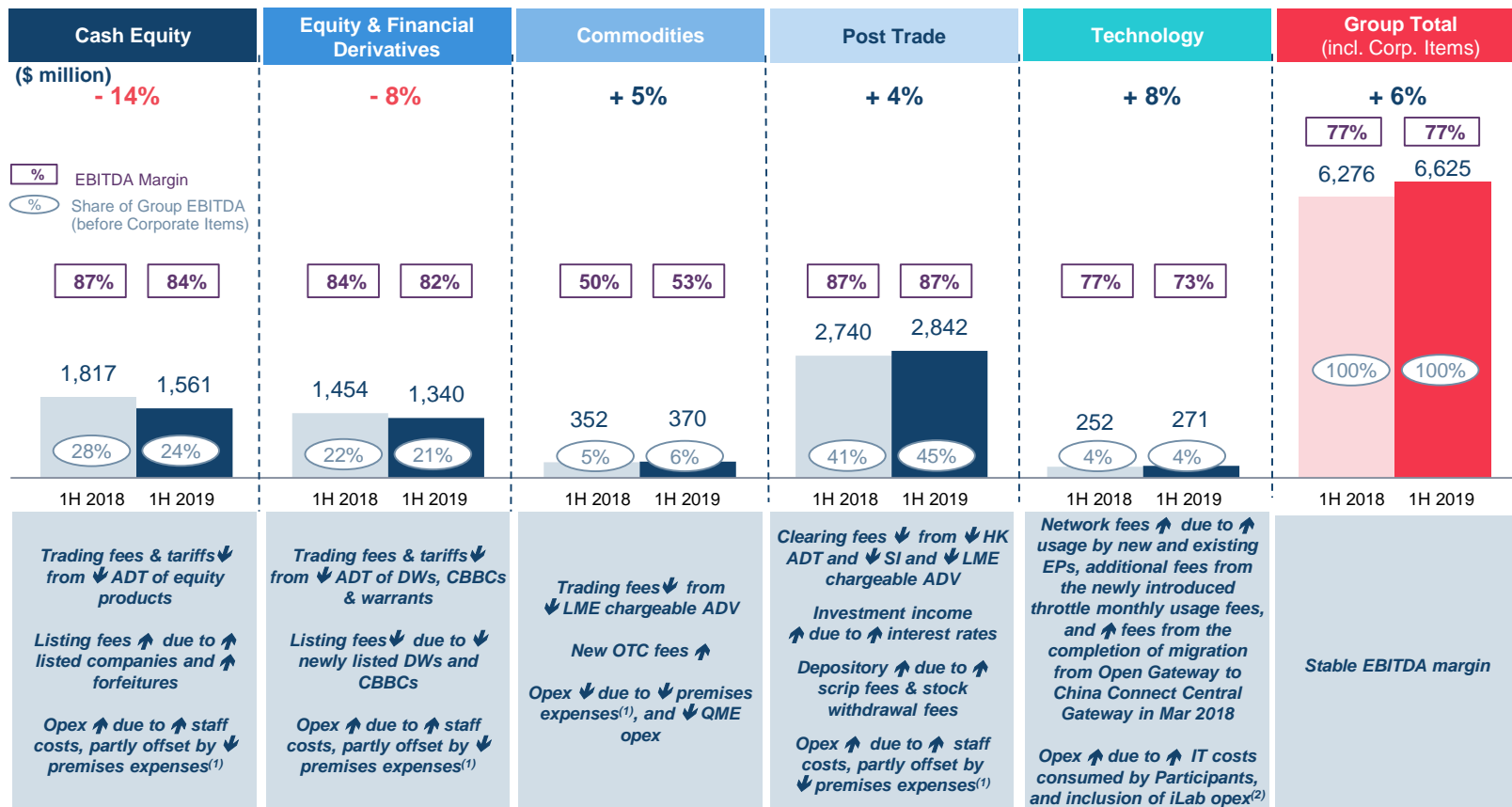


## Net investment income by category of investments



# Lower EBITDA in Cash and Derivatives Segments, Reflecting Lower Volumes

## Segmental EBITDA



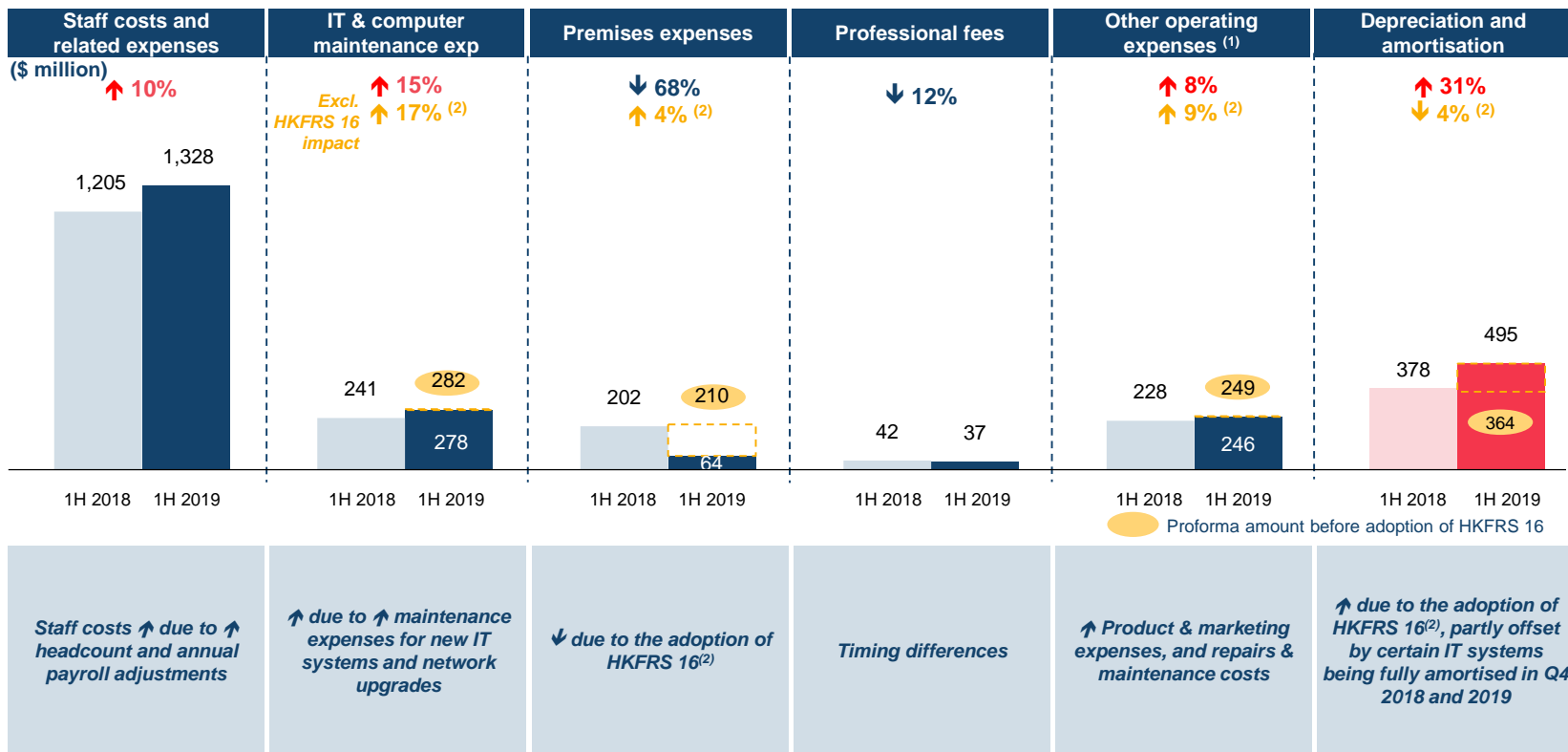
(1) As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to the consolidated income statement under finance costs and depreciation & amortisation.

(2) iLab opex was previously included under Corporate Items in 1H 2018, and it is now included under Technology segment as a result of the Group's reorganisation in 1H 2019.



## Operating Expenses – Investment in Talent and IT

Total opex excluding depreciation and amortisation – 1H 2019: \$1,953m (1H 2018: \$1,918m)



(1) Includes product marketing and promotion expenses

(2) As a result of adopting HKFRS 16: Leases, operating lease rentals are no longer recognised under opex. Instead, they are recognised as right-of-use (RoU) assets and lease liabilities in the consolidated statement of financial position, and they are subsequently charged to the consolidated income statement under finance costs and depreciation & amortisation.



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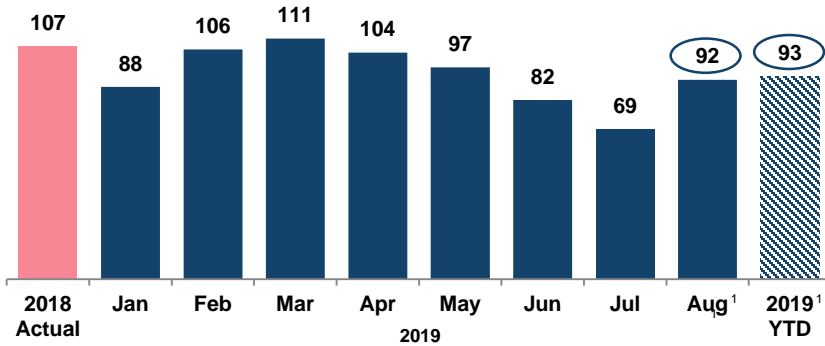
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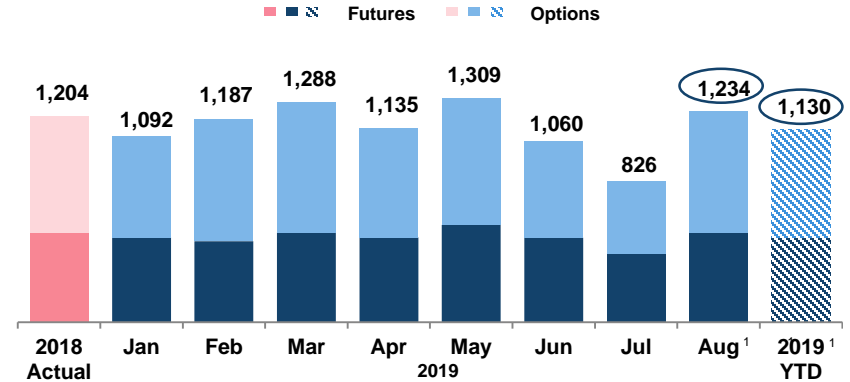


# Markets Remained Volatile Resulting in Lower Cash and Derivatives ADT

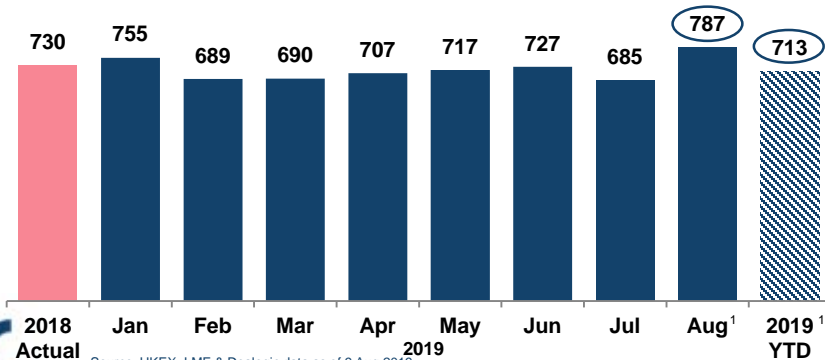
## Securities ADT (HK\$ billion)



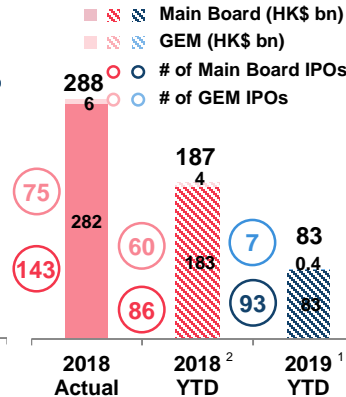
## Derivatives ADV<sup>3</sup> ('000 contracts)



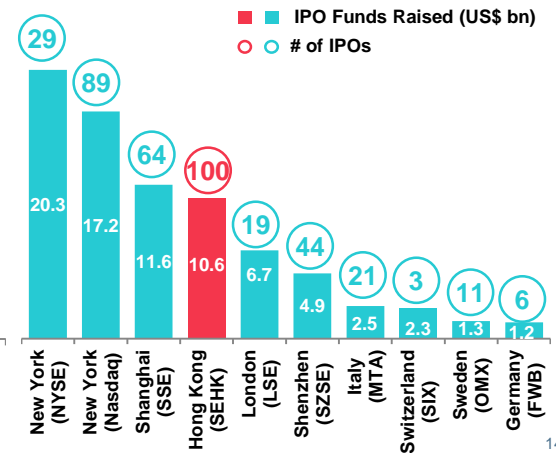
## Commodities ADV<sup>4</sup> ('000 lots)



## IPO Funds Raised



## Global Ranking in 2019<sup>1</sup>



Source: HKEX, LME & Dealogic data as of 9 Aug 2019

(1) 2019 YTD as of 9 Aug 2019

(2) 2018 YTD as of 9 Aug 2018

(3) Shows futures and options (which include all index options and stock options) separately

# Robust IPO Market Focusing on New Economy & Biotech

## 1H 2019 Fund Raising Summary

**\$71.8b** IPO Funds Raised

+39%

**20** New Economy  
& Biotech Companies Listed...

...raising

**\$26.5b**

+186%

+73%

## New Economy<sup>(1)</sup> & Biotech<sup>(2)</sup>

No. of IPO

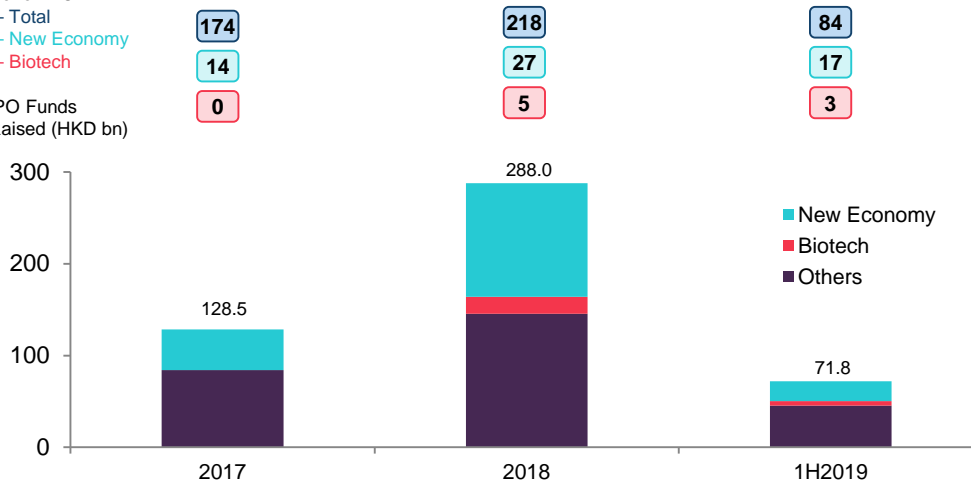
– Total

– New Economy

– Biotech

IPO Funds

Raised (HKD bn)



- Hong Kong has developed a thriving IPO platform for New Economy & Biotech companies, supported by strong valuation levels
- Hong Kong is now the world's second-largest fund raising hub for biotech companies
- In May 2019, organised "HKEX Biotech Week 2019" which attracted over 1,000 scientists, biotech entrepreneurs, investors, technology experts and policymakers, to share industry insights and trends

Source: HKEX, as at Jun 2019

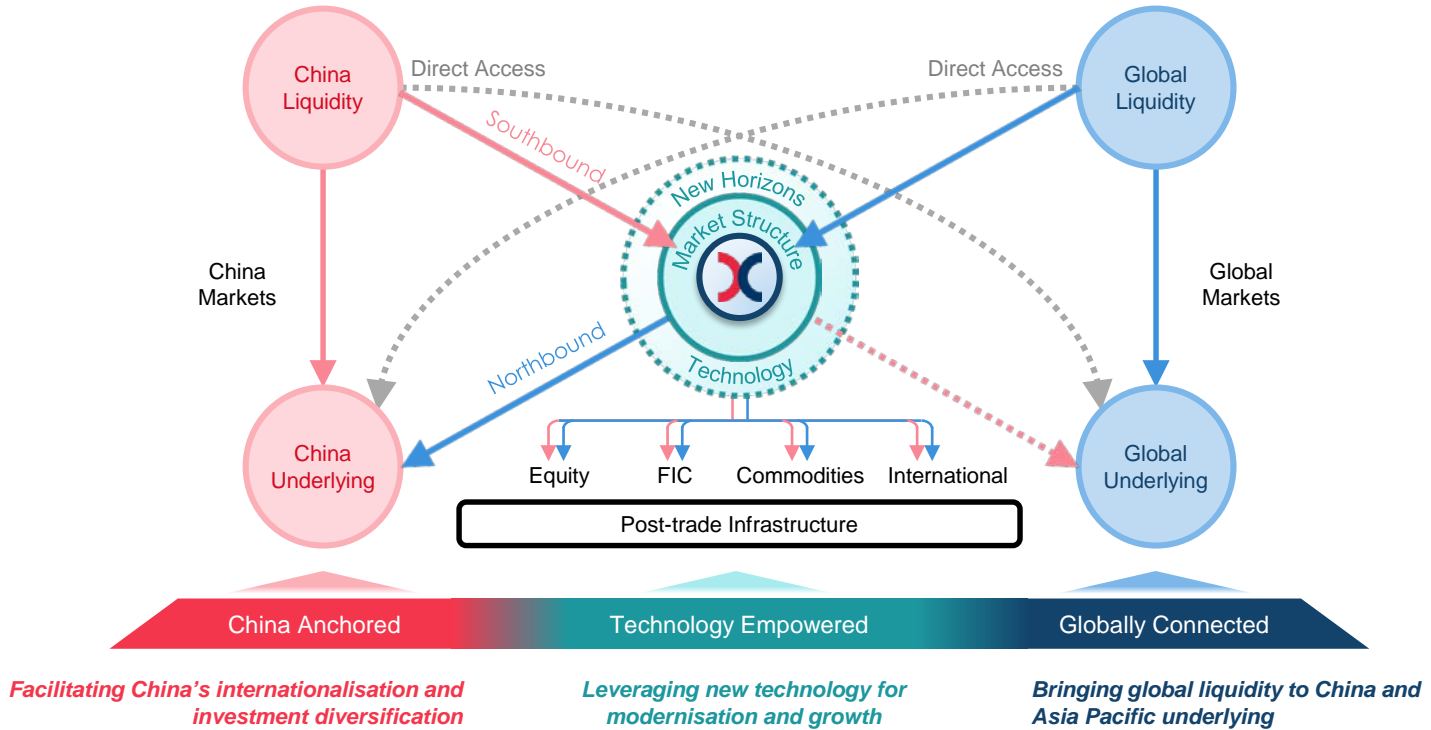
(1) Include Non-18A Biotech companies

(2) Only include Chapter 18A Biotech companies



# Our 2019-2021 Strategic Vision

*The Global Markets Leader in the Asian Time Zone –  
Connecting China, Connecting the World*





### Key Objectives

### 1H 2019 Achievements

- 1 *Expand Northbound capital inflows*
- 2 *Expand Southbound capital allocation*
- 3 *Expand post-trade infrastructure*



Welcomed Bloomberg as a second trading platform for Bond Connect; inclusion of Chinese RMB-denominated bonds in Bloomberg Barclays Global Aggregate Indices



Signed agreement with MSCI to launch China A index futures (currently in the process of obtaining regulatory approval)



Announced inclusion arrangements of A+H companies listed on the STAR Market



Mainland exchanges consulted the market on their proposals to include WVR companies in Southbound Connect



Launched two new products on QME



## GLOBALY CONNECTED

### Key Objectives

### 1H 2019 Achievements

- 1 *Enhance our product ecosystem across asset classes*
- 2 *Improve our market microstructure*
- 3 *Expand our international footprint further*

- ✓ Launched first Active ETF and -2x Inverse Product
- ✓ Launched Inline Warrants
- ✓ Launched six gold indexes and USD-denominated London Metal Mini Futures for six base metals in HK
- ✓ Launched seven new cash-settled metals futures on the LME
- ✓ Extension of Derivatives Market after-hour trading to up to 3 a.m.
- ✓ Further expansion of Closing Auction Session
- ✓ Launched a new buy-in exemption for Exchange Traded Product (ETP)






## TECHNOLOGY EMPOWERED

### Key Objectives

### 1H 2019 Achievements

- 1 *Modernise core systems*
- 2 *Leverage new technology*
- 3 *Expand our horizons*

-  Launched Client Connect
-  Upgraded our derivatives market platform
-  Completed the acquisition of 51% of Shenzhen Ronghui Tongjin
-  Established a consortium with Tencent, ICBC and Hillhouse Capital and obtained virtual banking licence (Fusion Bank)
-  Continued development of HKEX Innovation Lab



# Investing in HKEX's Culture and Community

## ■ *Renewed focus on organisational culture and talent*

- Launch of refreshed **Purpose, Vision & Values**
- Talent mapping and succession planning
- Talent development programmes across the organisation for all levels of seniority

## ■ *Elevated and consolidated approach to sustainability and community*

- **New Group-wide CSR Strategy** focused on People, Markets, Operations: Financial Literacy and Diversity core campaigns
- LME consultation on **Responsible Sourcing standards** for all traded metals
- HKEX Listing consultation on **ESG Reporting**
- Enhanced **CSR and ESG corporate advocacy programme**: United Nations Women Empowerment Principles; Taskforce for Climate Related Financial Disclosure; Belt & Road Green Investment Principle signatory; IFE – HK Financial Literacy Charter, HK Racial & Diversity Inclusion Charter



## Looking Forward

- **Macro political and economic outlook will likely continue to be challenging**
- **Focus on 3-year Strategic Plan initiatives remains on track – *China Anchored, Globally Connected, Technology Empowered***
- **Continued management focus on talent, cost discipline and innovation alongside business development programme remains key**



# Q & A



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## Financial Highlights – Income Statement

(\$ million, unless stated otherwise)	1H 2019	% of Revenue & Other Income	1H 2018	% of Revenue & Other Income	Y-o-Y Change
<b>Results</b>					
Revenue and other income	8,578	100%	8,194	100%	5%
Operating expenses	(1,953)	(23%)	(1,918)	(23%)	2%
<b>EBITDA</b>	<b>6,625</b>	<b>77%</b>	<b>6,276</b>	<b>77%</b>	<b>6%</b>
Depreciation and amortisation	(495)	(6%)	(378)	(5%)	31%
<b>Operating profit</b>	<b>6,130</b>	<b>71%</b>	<b>5,898</b>	<b>72%</b>	<b>4%</b>
Finance costs and share of profits less losses of joint ventures	(80)	(1%)	(51)	(1%)	57%
<b>Profit before taxation</b>	<b>6,050</b>	<b>71%</b>	<b>5,847</b>	<b>71%</b>	<b>3%</b>
Taxation	(847)	(10%)	(822)	(10%)	3%
Loss attributable to non-controlling interests	2	0%	16	0%	(88%)
<b>Profit attributable to HKEX shareholders</b>	<b>5,205</b>	<b>61%</b>	<b>5,041</b>	<b>61%</b>	<b>3%</b>
Basic earnings per share (HK\$)	\$4.16		\$4.07		2%
<b>Headline ADT on the Stock Exchange</b>	<b>\$97.9 bn</b>		<b>\$126.6 bn</b>		<b>(23%)</b>
<b>Capex</b>	<b>\$368 m</b>		<b>\$339 m</b>		<b>9%</b>



(1) % does not add up due to roundings



## Performance by Operating Segment

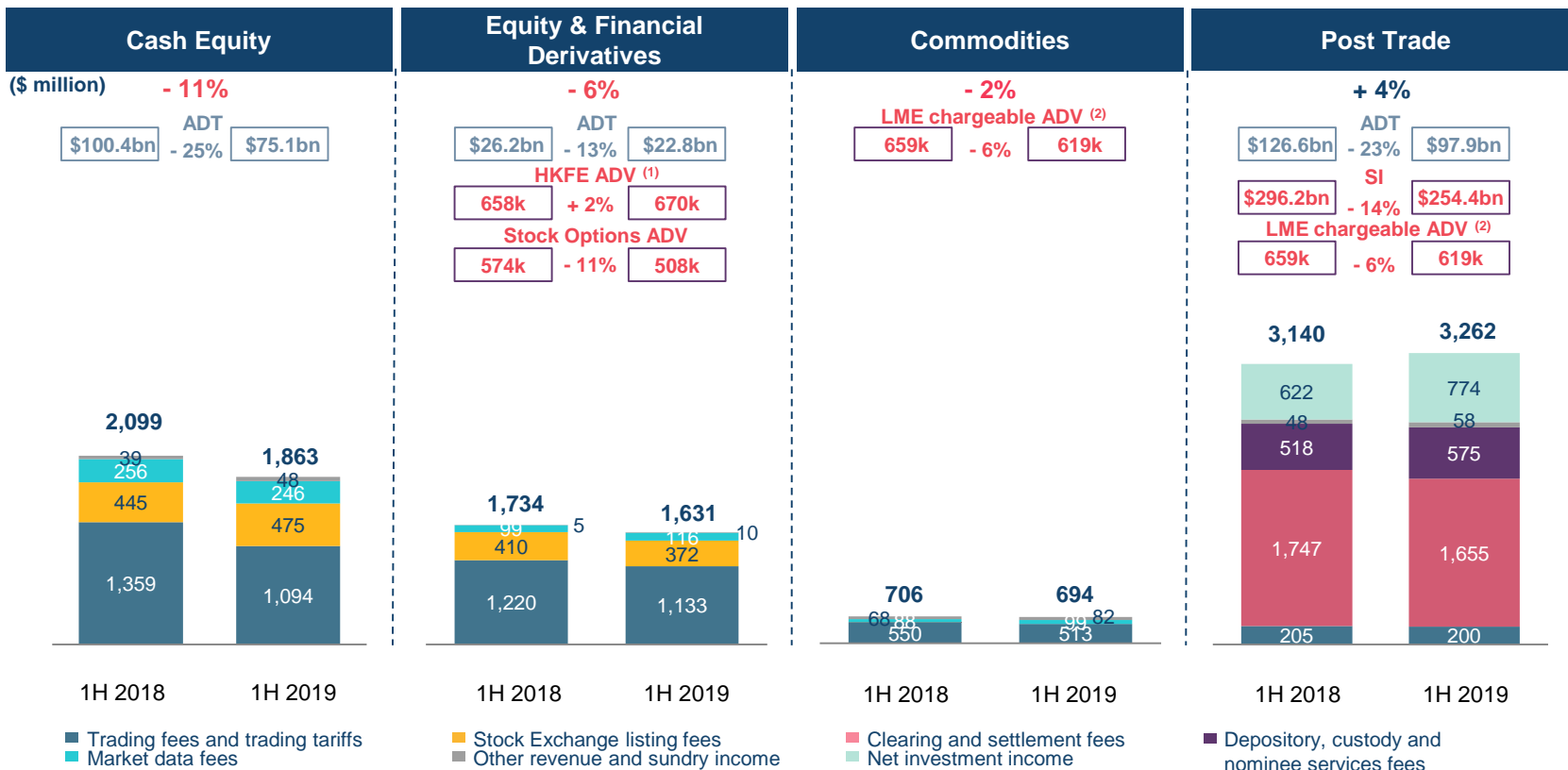
\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Group 1H 2019	Group 1H 2018
<b>Revenue and other income</b>	<b>1,863</b>	<b>1,631</b>	<b>694</b>	<b>3,262</b>	<b>373</b>	<b>755</b>	<b>8,578</b>	<b>8,194</b>
<i>% of Group Total</i>	<i>22%</i>	<i>19%</i>	<i>8%</i>	<i>38%</i>	<i>4%</i>	<i>9%</i>	<i>100%</i>	<i>100%</i>
<b>Operating expenses</b>	<b>(302)</b>	<b>(291)</b>	<b>(324)</b>	<b>(420)</b>	<b>(102)</b>	<b>(514)</b>	<b>(1,953)</b>	<b>(1,918)</b>
<b>EBITDA</b>	<b>1,561</b>	<b>1,340</b>	<b>370</b>	<b>2,842</b>	<b>271</b>	<b>241</b>	<b>6,625</b>	<b>6,276</b>
<i>% of Group Total <sup>(1)</sup></i>	<i>23%</i>	<i>20%</i>	<i>6%</i>	<i>43%</i>	<i>4%</i>	<i>4%</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin</i>	<i>84%</i>	<i>82%</i>	<i>53%</i>	<i>87%</i>	<i>73%</i>	<i>32%</i>	<i>77%</i>	<i>77%</i>
Depreciation and amortisation	(64)	(48)	(158)	(120)	(19)	(86)	<b>(495)</b>	<b>(378)</b>
Finance costs	(8)	(6)	(4)	(39)	(1)	(28)	<b>(86)</b>	<b>(55)</b>
Share of profits less losses of joint ventures	9	(3)	-	-	-	-	<b>6</b>	<b>4</b>
<b>Profit before taxation</b>	<b>1,498</b>	<b>1,283</b>	<b>208</b>	<b>2,683</b>	<b>251</b>	<b>127</b>	<b>6,050</b>	<b>5,847</b>



(1) % Share of Group EBITDA (including Corporate Items)

# Revenue by Operating Segment

Relationship between headline ADT and overall trading and clearing income is not linear



■ Trading fees and trading tariffs  
■ Market data fees

■ Stock Exchange listing fees  
■ Other revenue and sundry income

■ Clearing and settlement fees  
■ Net investment income

■ Depository, custody and nominee services fees

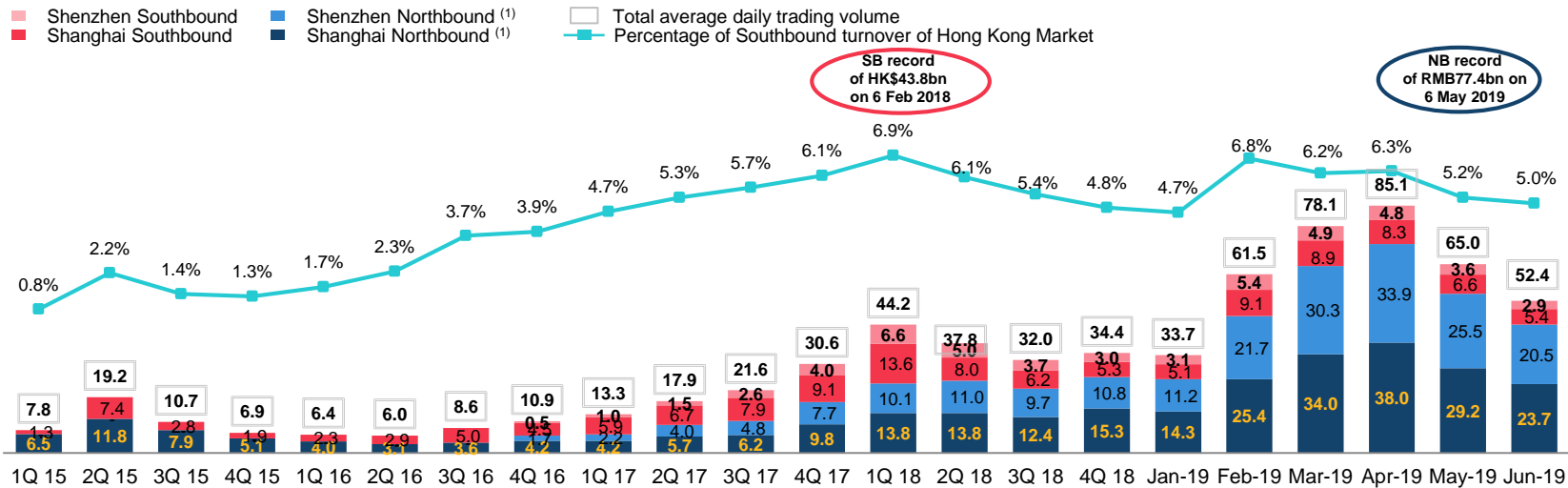
(1) Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures

(2) Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower trading fee rate of US\$0.04 per contract) and other non-chargeable trades; Total LME ADV: 715k (1H 2018: 764k)

# Stock Connect – Trading Trends

Stock Connect revenue contribution: 1H 2019 (\$508m, +39% YoY), FY 2018 (\$678m, +65% YoY)

## Stock Connect Average Daily Trading Volume (HKD bn)



- Northbound turnover reached record half-yearly high in 1H 2019, continuing on the strong performance in 2018 especially after the MSCI A-shares inclusion
- Southbound trading in 1H 2019 picked up versus 2H 2018 due to better market conditions

**Further index inclusions in 2019 are expected to stimulate Northbound turnover**

Source: HKEX data as of Jun 2019

(1) Northbound (NB) trading is conducted in RMB; The NB figures in the chart are converted to HKD based on the month-end exchange rate



# Thank you

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