



HKEx Group 2014 Interim Results Announcement

6 August 2014

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The implementation of Shanghai-Hong Kong Stock Connect is subject to conditions, including regulatory approvals, completion of all necessary development work and market readiness.

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1 HKEx Group Business Review

2 HKEx Group Financial Review

3 Update on Shanghai-Hong Kong Stock Connect

4 Appendix

2014 1H – Highlights



IPOs raised \$82 billion, up by 107% year-on-year

**Announced Shanghai-Hong Kong Stock Connect;
over 100 market participants have registered for the programme**

Enhanced After-Hours Futures Trading with additional products, block trading facility and later closing time

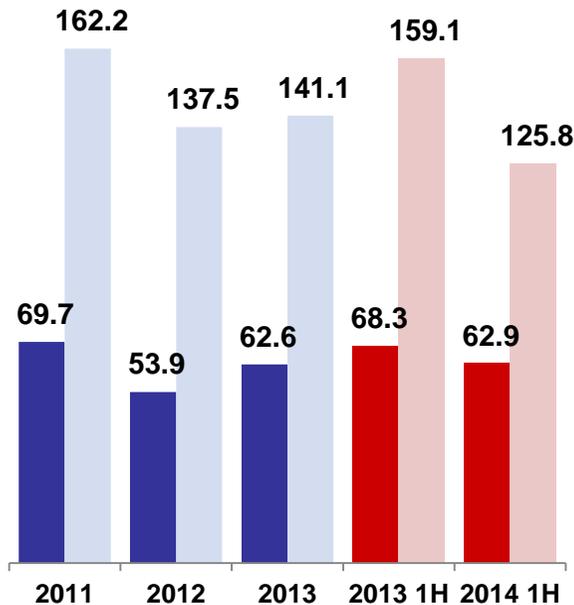
Announced first four Asia commodities products will be launched in Hong Kong in the second half of 2014

LME Ring to be maintained and further invested; LME IT brought in-house; LME Clear on track for September 2014 launch

2014 1H Trading Trend – Lacklustre Markets, But...



Cash Market

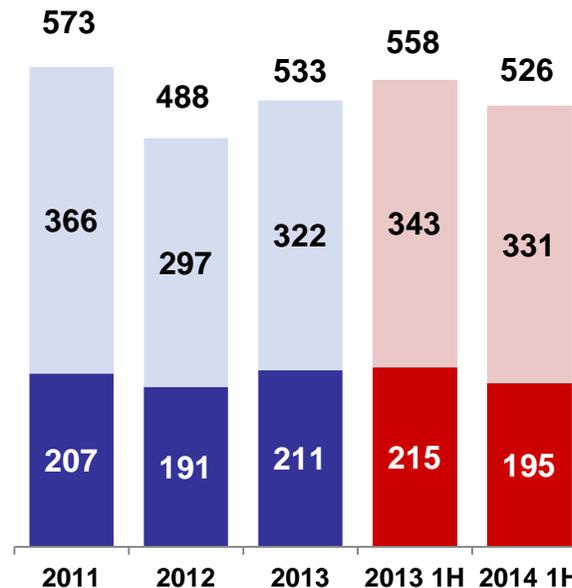


■ ■ ADT in billion \$
■ ■ ADT in billion shares

ADT in billion \$: ↓ 7.8%

Derivatives Market

(In '000 contracts)

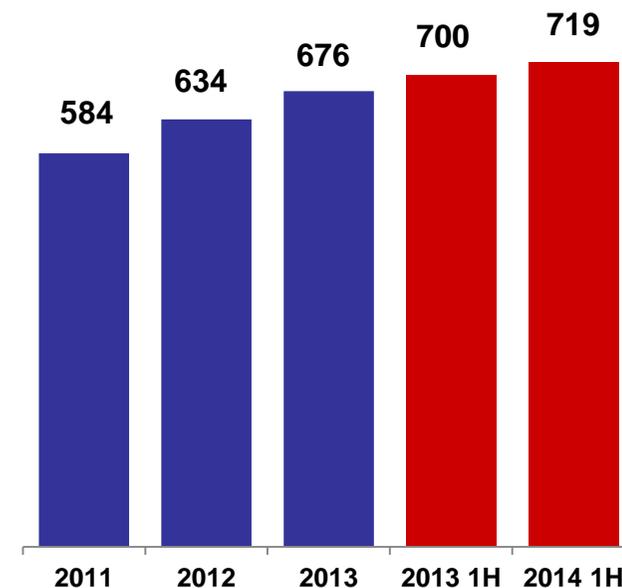


■ ■ Futures contracts traded (ADV)
■ ■ Options contracts traded (ADV)

Derivatives contracts: ↓ 5.8%

Commodities

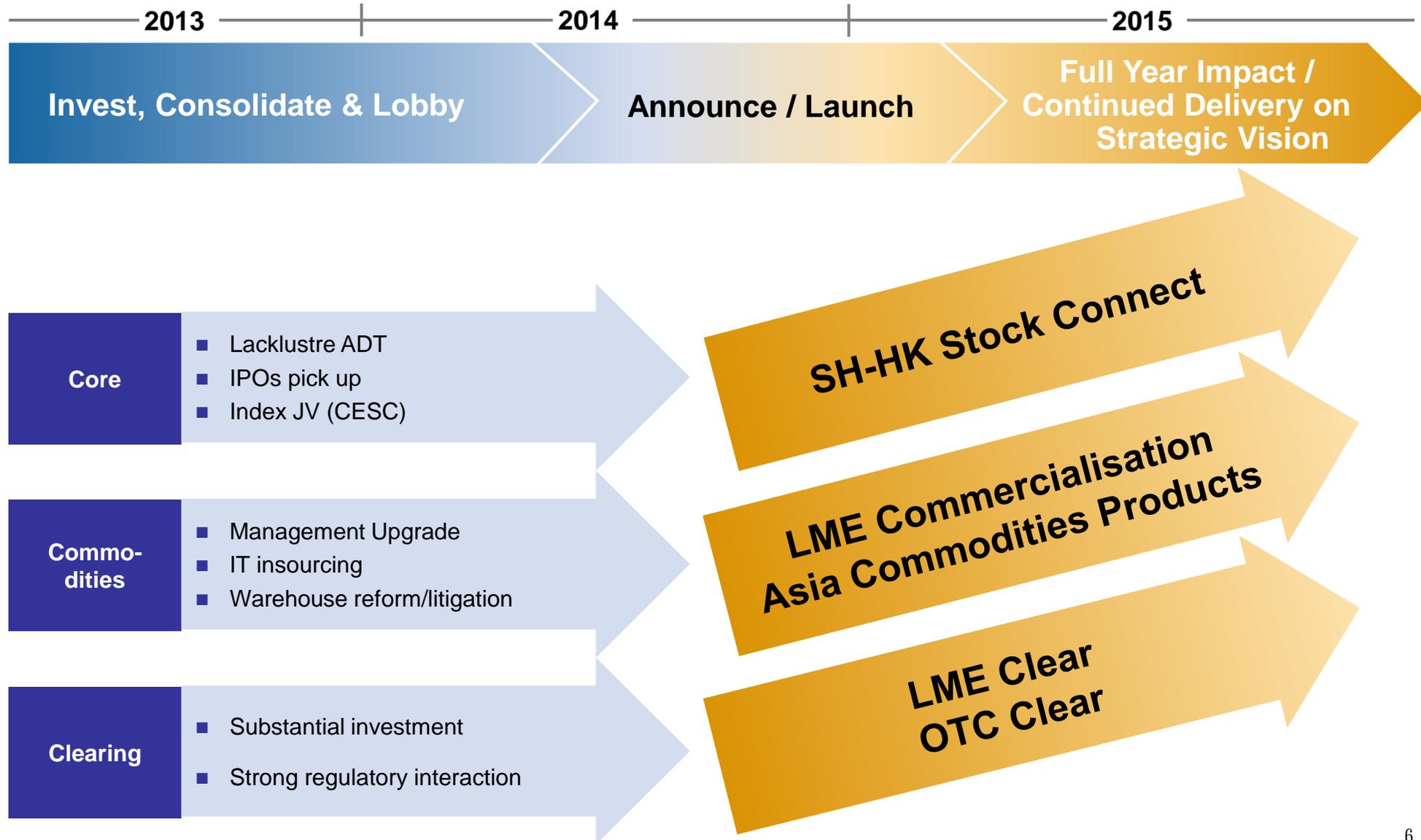
(In '000 lots)



■ ■ Contracts traded (ADV)

Commodities contracts: ↑ 2.8%

... We have reached an inflection point in this transition year



1 HKEx Group Business Review

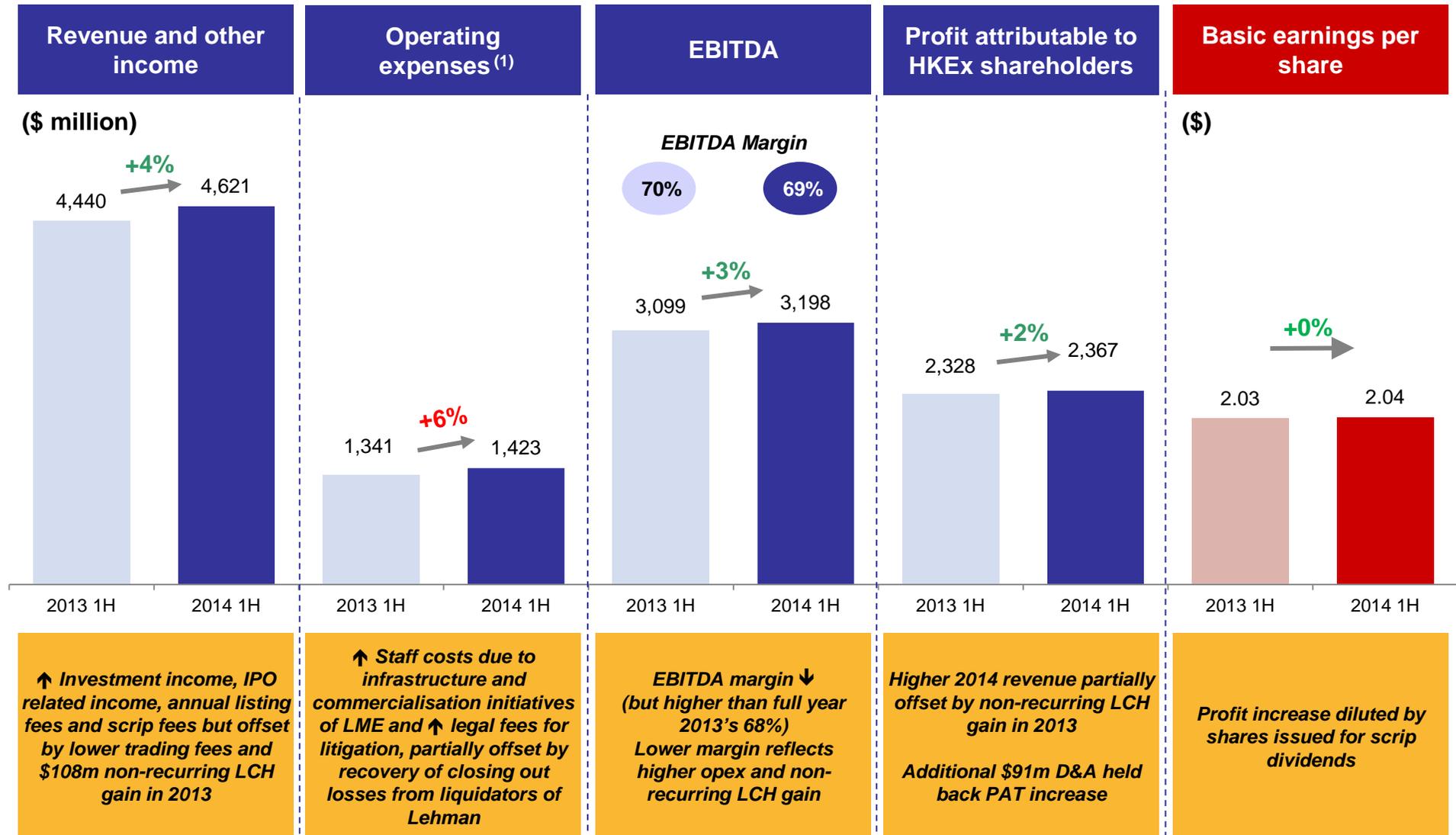
2 HKEx Group Financial Review

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Highlights: 2014 Interim Results

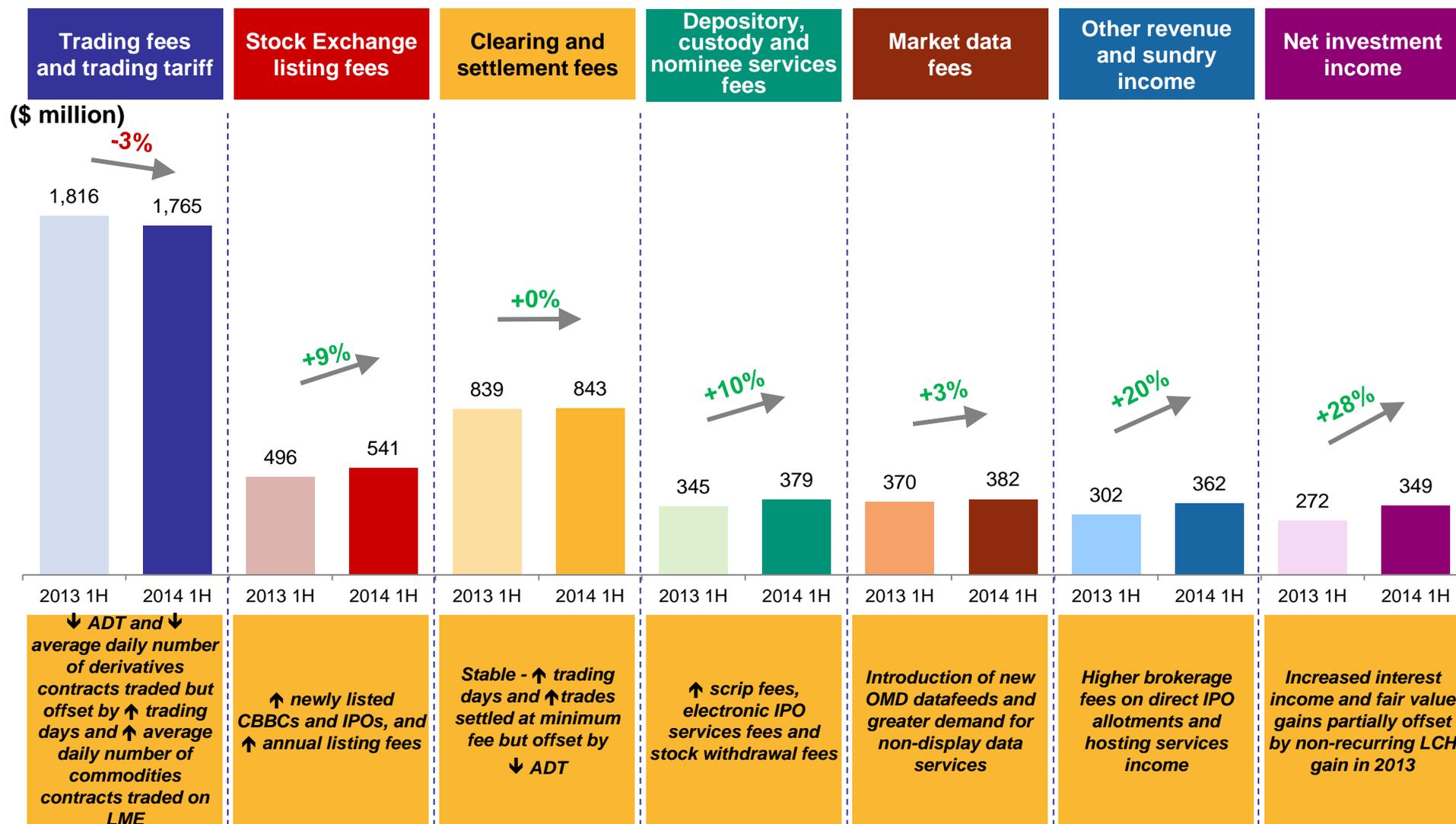
Improvement over 2013 1H despite 8% decline in yoy ADT



(1) Excludes depreciation and amortisation, finance costs, and share of loss of a joint venture

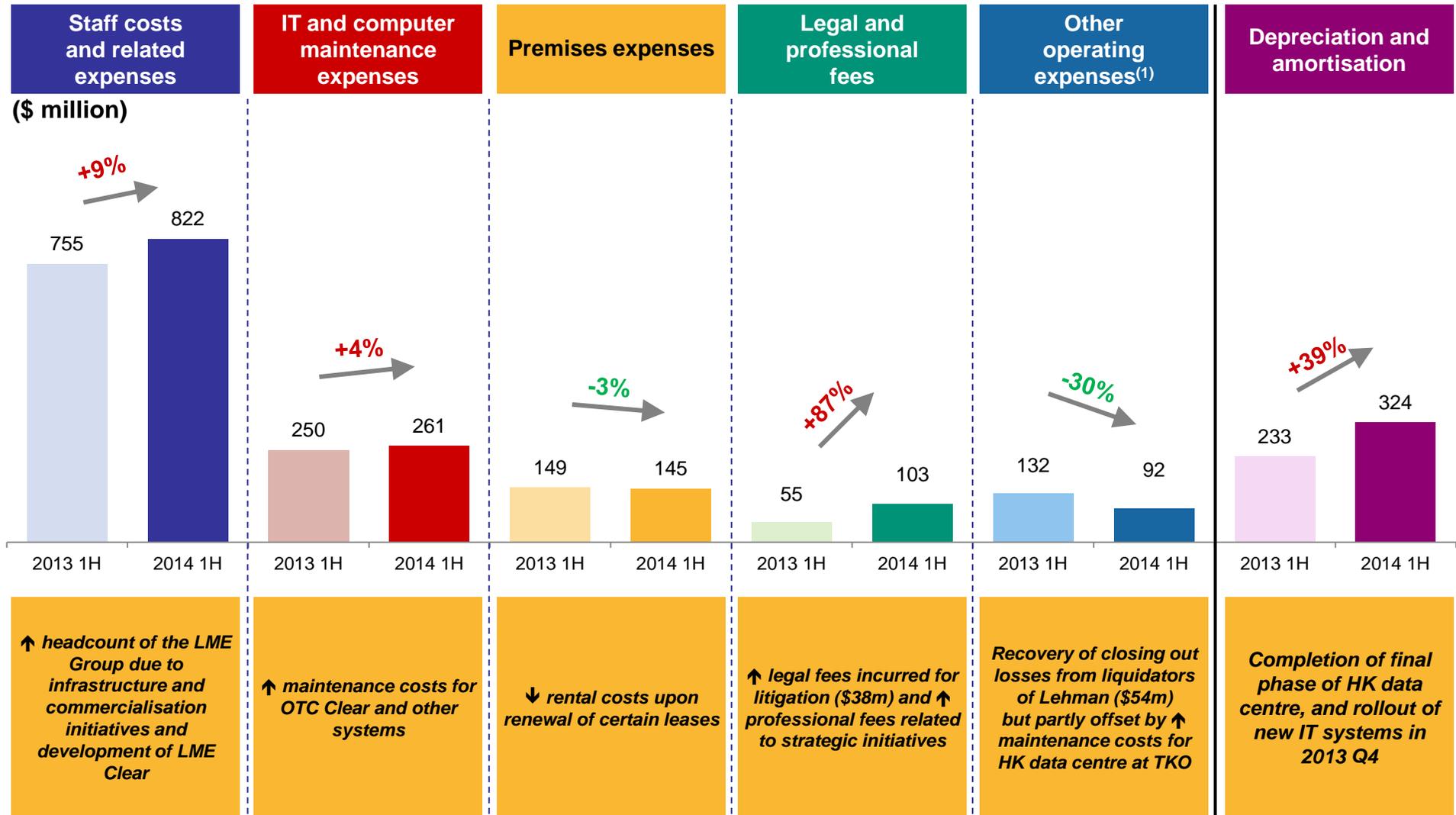
2014 Interim Results

Revenue and Other Income



2014 Interim Results

Operating Expenses and Depreciation & Amortisation

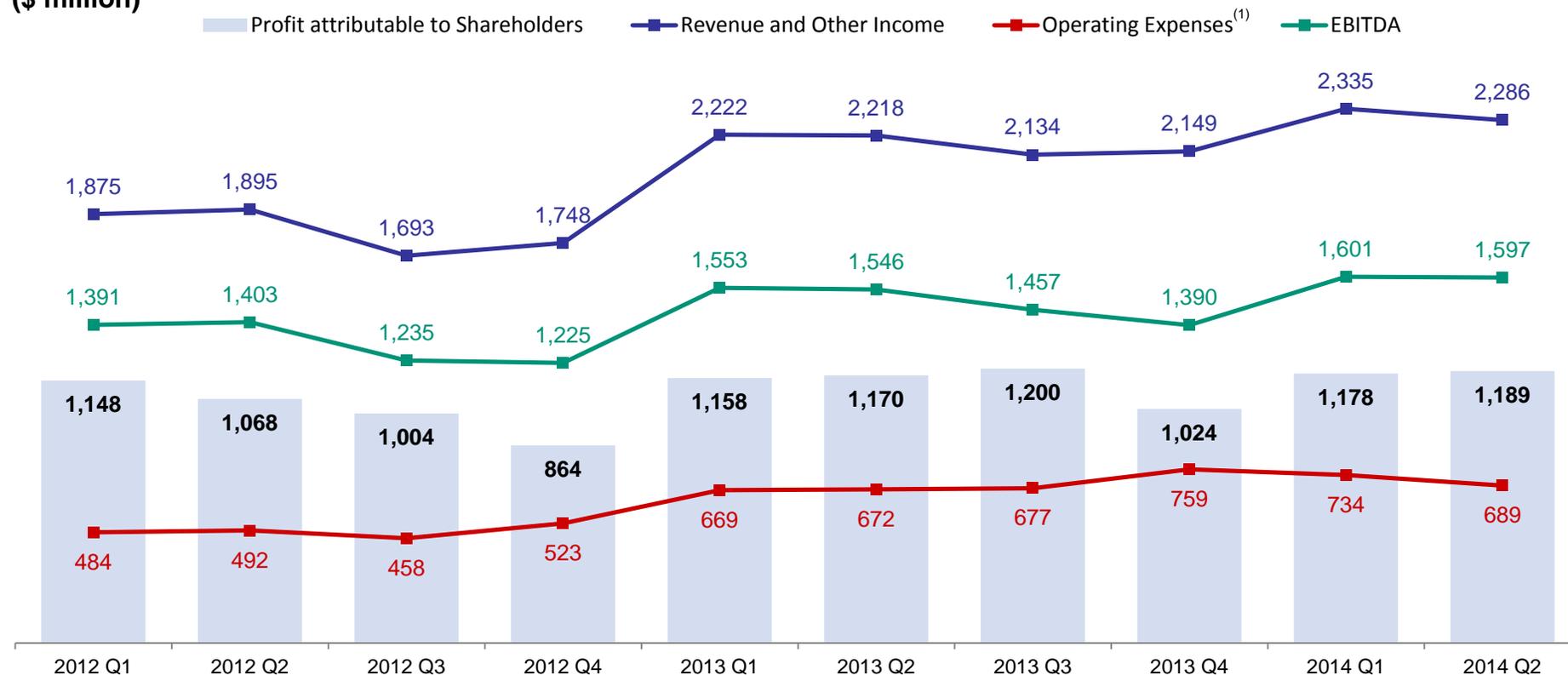


(1) Includes product marketing and promotion expenses

Quarterly Trend

Key Performance Indicators by Quarter

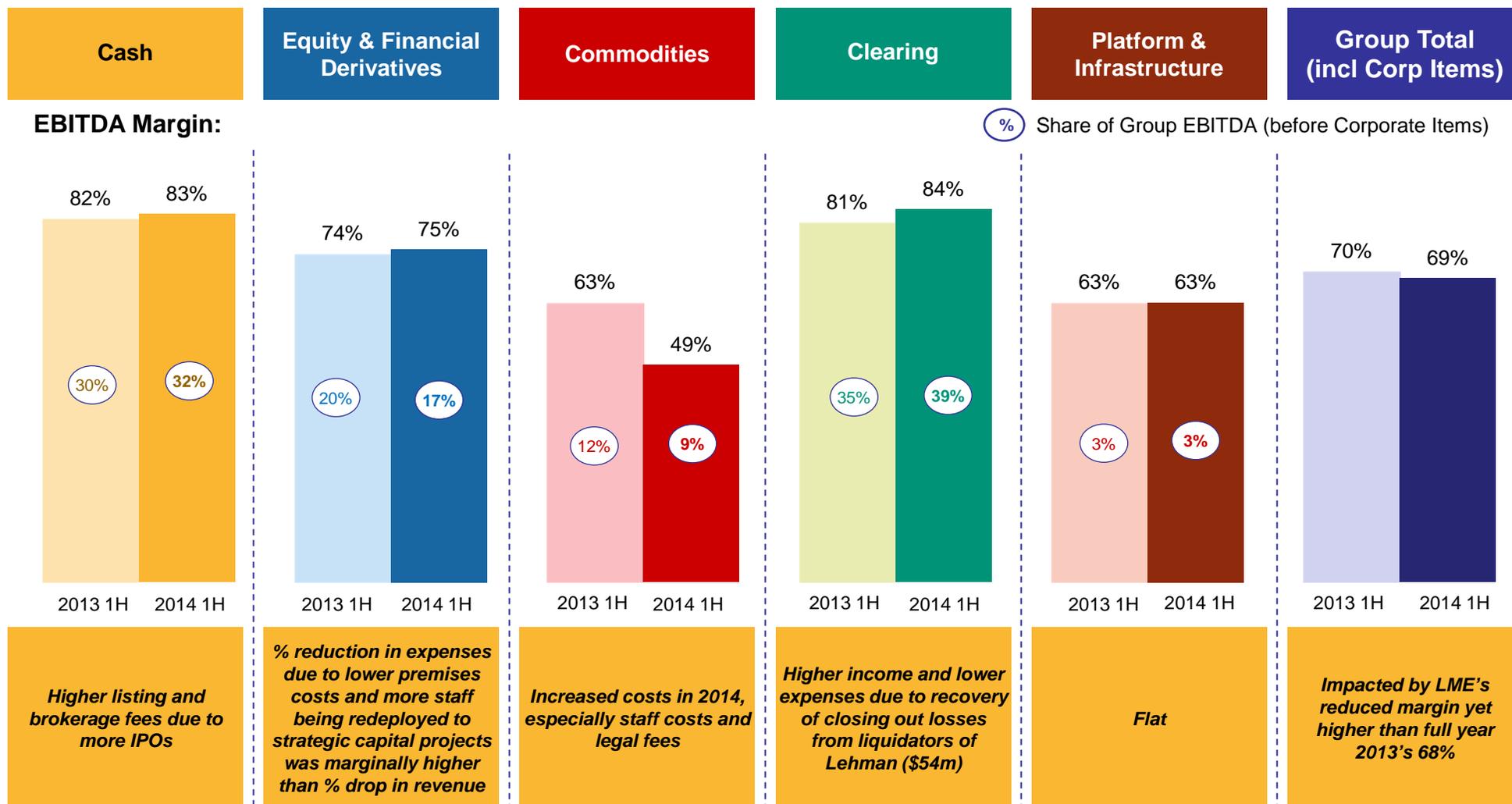
(\$ million)



**All measures have risen since 2013 due to contribution from LME Group
Stable revenue trend with LME contribution; expenses reflect inclusion of LME cost base and implementation of strategic projects**

(1) Excludes depreciation and amortisation, costs relating to the acquisition of the LME Group, fair value loss on derivative component of convertible bonds, finance costs, and share of loss of a joint venture

Performance by Operating Segment



Overall EBITDA margin down slightly due to the Commodities segment

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Market Communication Update

- What have we done?



Target Groups	Update
Brokers/ Vendors	<ul style="list-style-type: none">■ 25 briefings■ >3,000 attendees■ Covers EPs, CPs, Information Vendors and System Vendors■ One-on-one meetings with broker associations <p>110 Participants (~80% market share) have submitted applications</p>
HK and Overseas Investors	<ul style="list-style-type: none">■ Institutional: covered 600 buy-side firms■ Retail:<ul style="list-style-type: none">➢ >20 investor conferences in HK, Mainland, Singapore and Japan➢ 20 broker hosted seminars■ Online video, radio, website
Mainland Investors	<ul style="list-style-type: none">■ Attended >10 Mainland conferences, reached >3,500 investors■ Joined SSE-organised training for Mainland brokers: Beijing, Shanghai and Guangzhou

1. Overall positive, recognising the business opportunities Stock Connect will bring:

- 104 Exchange Participants accounting for over 80% market turnover (including 14 Cat-A, 34 Cat-B, 56 Cat-C)
- 6 non-EP Clearing Participants have applied to participate

2. Clarity of Mainland regulatory and operational issues

Pre-trade Checking	<ul style="list-style-type: none">■ Additional transfer process for custodians to transfer shares on T-day morning
Quota Management	<ul style="list-style-type: none">■ System function ready to restrict order input price to a prescribed % above/below the market price
Market Data	<ul style="list-style-type: none">■ Provide free real-time A-share market data – 1-price-depth, every 5 seconds
Tax Issues	<ul style="list-style-type: none">■ Close to resolution on clarity
Rights Issues	<ul style="list-style-type: none">■ Under discussion; clear resolution prior to launch
Securities Borrowing and Lending	<ul style="list-style-type: none">■ Largely resolved, details pending

System Readiness

- Completed HKEx internal system development and related tests
- Currently conducting four-party interface test with SSE and ChinaClear
- Kicked off end-to-end functionality test for market participants on 2 July 2014 (till 15 August 2014)
- Conduct Market Rehearsal from end August to mid-September 2014

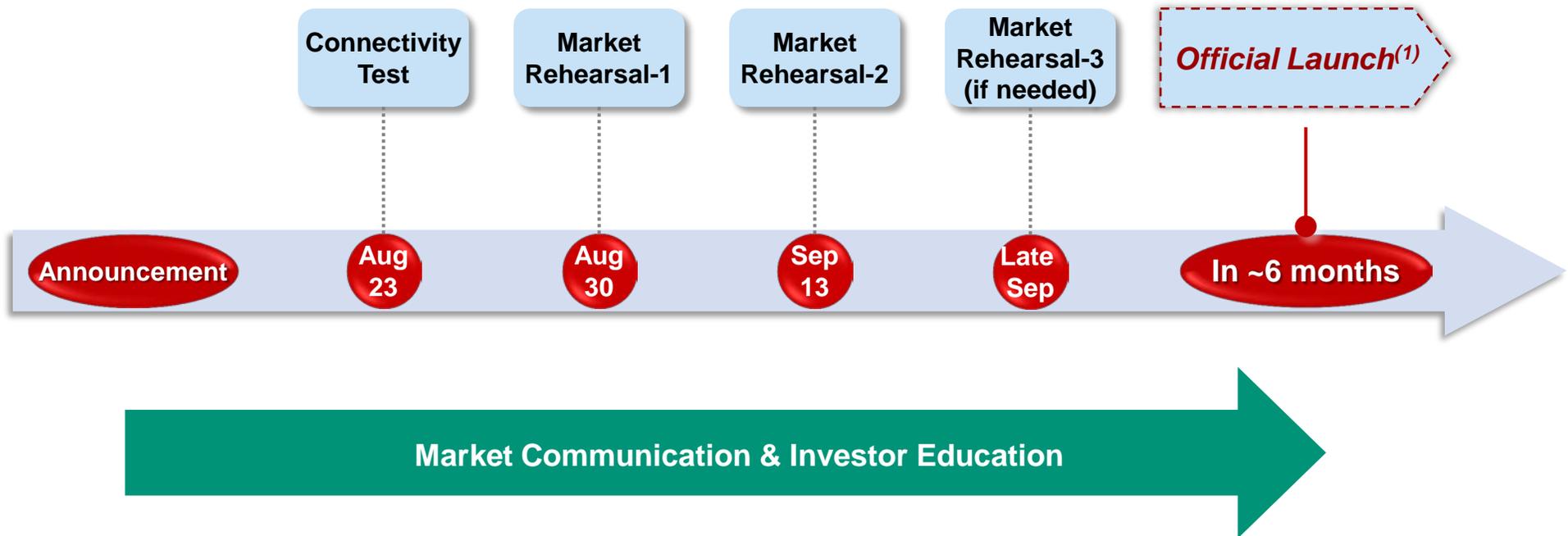
Rule Readiness

- Currently finalising draft amendments to the Rules and Operational Procedures
- To seek appropriate approvals with related authorities and communicate the amended Rules and Operational Procedures with market in due course

Market Readiness

- Commenced market communication programme on 29 April 2014
- Engaged market participants, investors and industry associations in HK, Mainland and overseas
- Preparing for market rehearsals with registered participants

High-level Implementation Timetable



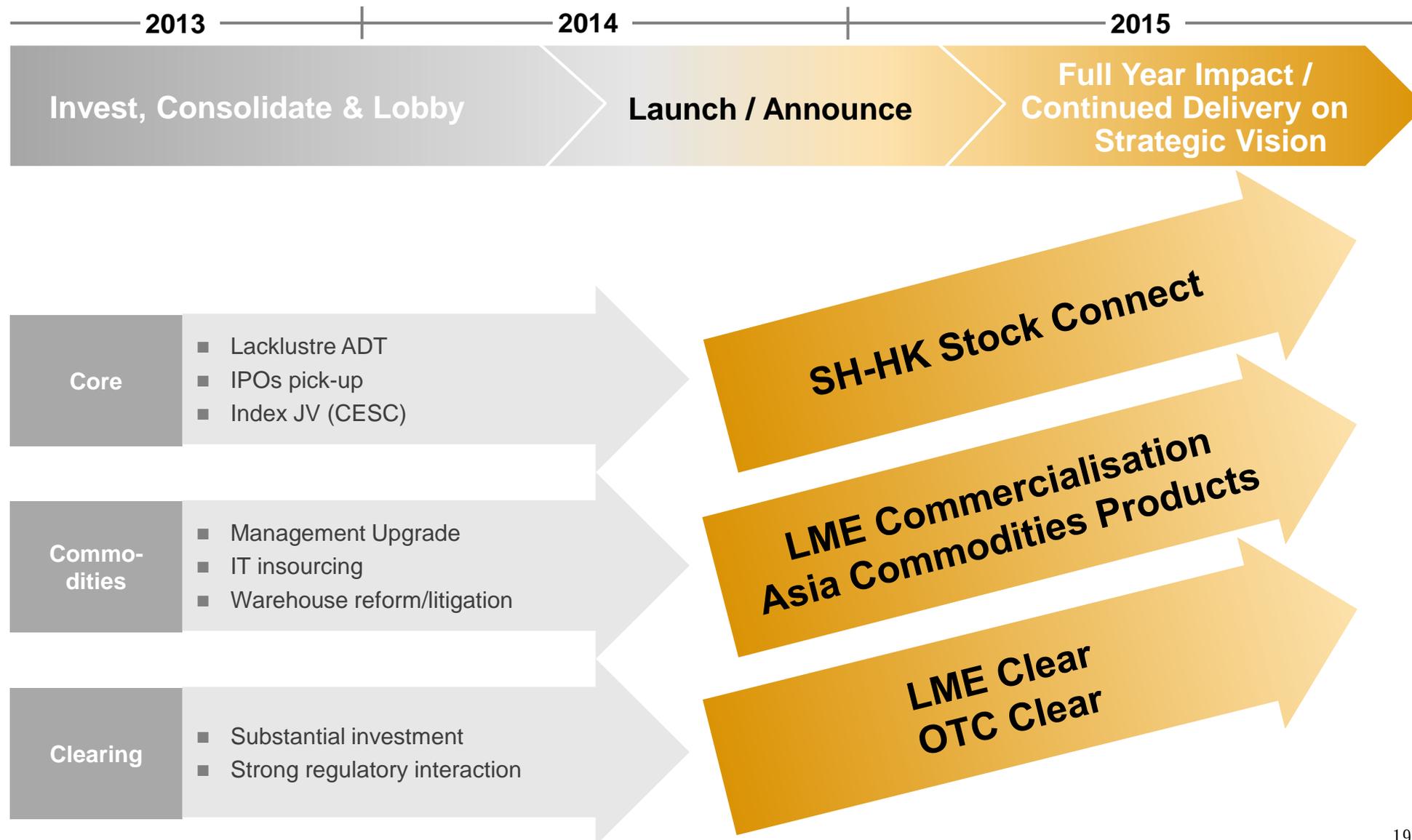
(1) Official launch is subject to the fulfilment of conditions, including regulatory approvals, completion of all necessary development work and market readiness

Looking Ahead...



- Long term structural opening
- Continued improvements to come
- Participants welcome to join the scheme whenever they are ready
- A smooth and steady launch is more important than a big bang
- Only the beginning of a long and historic opening

Delivering on Strategic Vision



Q & A

HKEx Group Website: www.hkexgroup.com
HKExnews Website: www.hkexnews.hk

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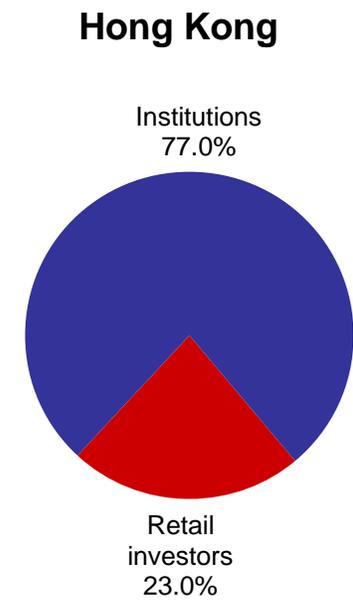
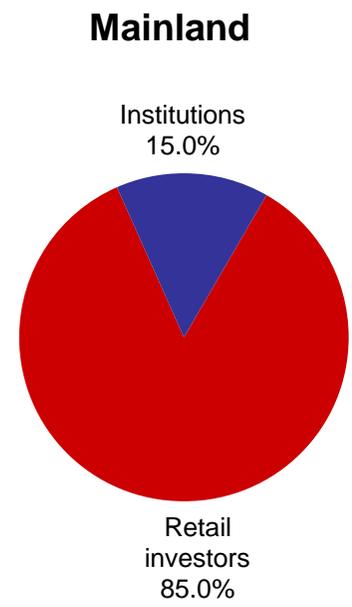
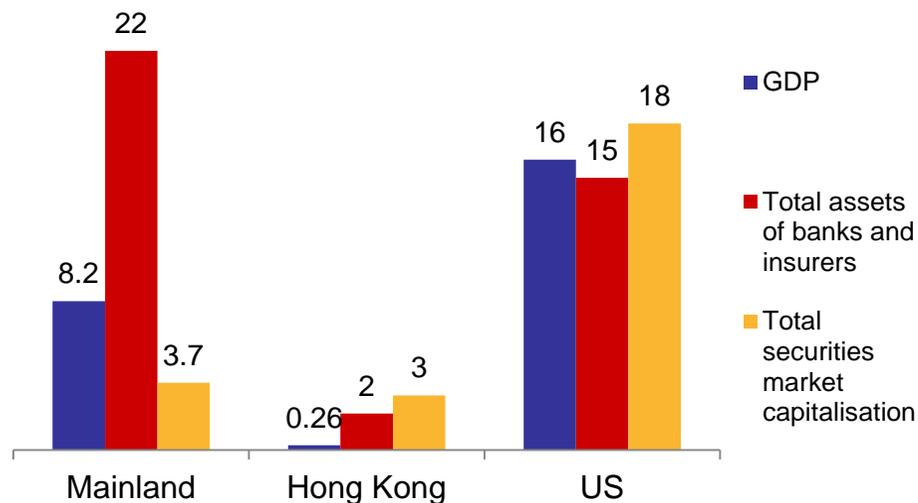
What does Shanghai-Hong Kong Stock Connect mean for Mainland?



Promotes Optimal Asset Reallocation in Mainland

Introduces Different Market Structure and Culture

(USD trillion)



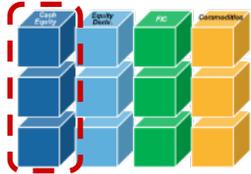
- US GDP : assets of banks and insurers : stock market cap = 1 : 1 : 1
- HK's GDP of US\$0.26 trillion is much smaller than assets of banks and insurers, and securities market
- Mainland capital market is merely 1/6 of banks and insurers

- | | |
|--|---|
| <ul style="list-style-type: none"> ■ Speculation on concepts ■ Short-term investment and high velocity ■ Preference for small cap companies | <ul style="list-style-type: none"> ■ Fundamentals ■ Long-term investment / passive funds ■ Notable premium in prices of blue chips |
|--|---|

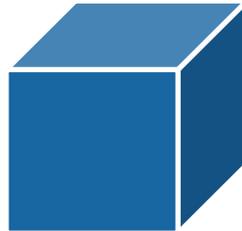
Source: CSRC, CBRC, CIRC, World Bank, HKMA, Office of the Commissioner of Insurance, Federal Reserve System, OECD, WFE (data as of end of 2012); annual trade volume information in Cash Market Transaction Survey 2012/13

Business Updates

Cash Equity

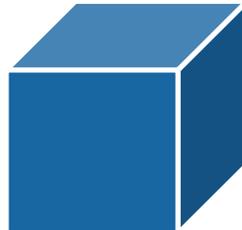


Products



- **IPO funds raised** up 107% y-o-y, reaching HK\$82 billion
- New publication requirement under **the new sponsor regime** took effect on 1 April 2014
- **RMB cash products** increased to 147, of which 52 were newly listed in 1H 2014
- **ETFs** reached 124; **8 newly listed ETFs** in 1H 2014, of which:
 - The first RQFII ETF tracking Mainland's bond market
 - The first RQFII sector ETF

Trading



- Announced **Shanghai-Hong Kong Stock Connect**
 - Over 200 EPs indicated interest and ~100 EPs submitted application form for participation
- Launched **Mainland Market Data Hub (MMDH)** in March 2014

Clearing

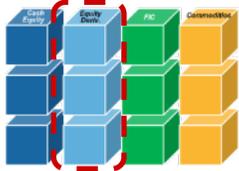


- **Cross-border clearing infrastructure:** In operation with ChinaClear smoothly
- Continue to work on achieving **Uncertified Securities Market (Scripless)** regime
- Achieving compliance with **international standards:** IOSCO, FATCA, PFMI, ESMA...
- **Recovered 35% of loss** resulting from Lehman default in 2008

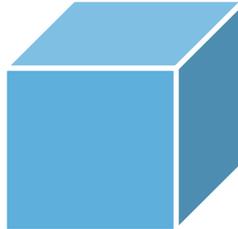
Expect transformational change for both Hong Kong and Mainland's markets from mutual market access

Business Updates

Equity Derivatives



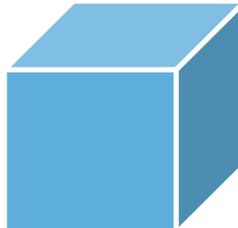
Products



- **CES 120 futures**

- Reviewed **Liquidity Provider Programme**
- Introduced **incentive programmes** in June 2014

Trading

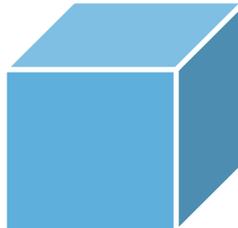


- **After-hours futures trading (AHFT)**

- Added Block Trading, Mini HSI Futures and Mini HHI Futures on 6 January 2014
- Added **RMB Currency Futures** on 7 April 2014
- Accounted for **6% of day session's trading volume**
- To **extend closing time** from 11:00pm to 11:45pm effective 3 November 2014

- Further improvement on **stock option market maker programme**

Clearing



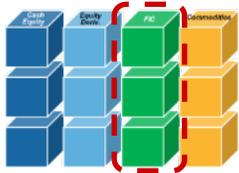
- **Enhanced clearing service** for AHFT's extension of trading hours

- To **extend T+1 Clearing Session Cut-off Time** from 11:45pm to 12:30am (on the next calendar day)
- To conduct **simulation test** in August 2014 to ensure participants' readiness

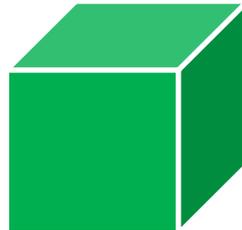
Continue to enhance market structure and maintain competitiveness

Business Updates

Fixed Income and Currency

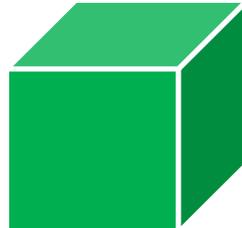


Products



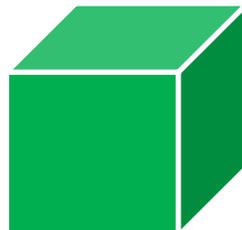
- **RMB Currency Futures** – ADV at 900 contracts in 1H 2014
 - **Daily volume** record high: 6,318 contracts on 19 March 2014
 - **Open interest** record high: 23,887 contracts on 14 February 2014
 - Included in the AHFT session since 7 April 2014, accounted for **5%** of day session

Trading



- Held **RMB FIC Market Strategy Forum** on 22 May in Hong Kong

Clearing

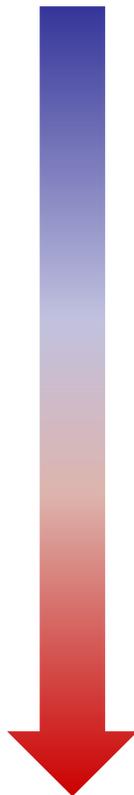
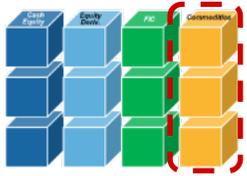


- **OTC Clearing Phase 2 Development**
 - **Scope:** addition of client clearing services and acceptance of non-cash financial instruments as collateral
 - Plan to launch upon regulatory approval in 1H 2015
- OTC Clear achieving **ESMA, PFMI** compliance

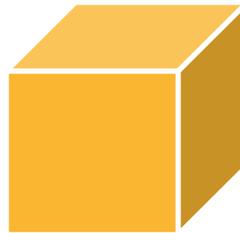
FIC strategy will continue to ride on opportunities from RMB internationalisation

Business Updates

Commodities



Products



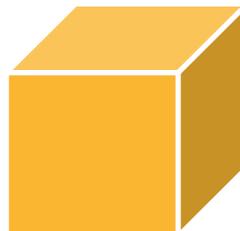
- Trading momentum at the LME continues: **ADV** up 2.8% (vs. 1H 2013)
 - Plan to launch **4 new commodities contracts** in Hong Kong in 2H 2014
 - London Aluminium Mini Futures
 - London Copper Mini Futures
 - London Zinc Mini Futures
 - API 8 Thermal Coal Futures
- traded and settled in RMB
- traded and settled in USD

Trading



- Maintain and further invest in **the Ring**
- Revised approval policy of warehouses following **consultation on warehouses**

Clearing



- **LME Clear**
 - Continue to engage market players
 - Prepare for migration of LME open interest from LCH.Clearnet to LME Clear
 - On track for launch on 22 September 2014

Commercialisation plan under consideration and expect to implement in 2015

Enhanced Platform & Infrastructure Update



Orion Central Gateway (OCG)

- Launched for securities market in June 2014
- Gradually replace existing Open Gateways

Orion Market Data (OMD)

- Introduced Mainland Market Data Hub (MMDH) in Shanghai on 3 March 2014
- To launch for derivatives market in 2014 2H

New Securities Trading Device (NSTD)

- To commence NSTD migration in 2014 2H
 - Will replace the legacy AMS Terminals and MWS trading devices

China Stock Connect (CSC)

- A new order routing system developed for Shanghai-Hong Kong Stock Connect
- To launch in 2014 2H together with Shanghai-Hong Kong Stock Connect

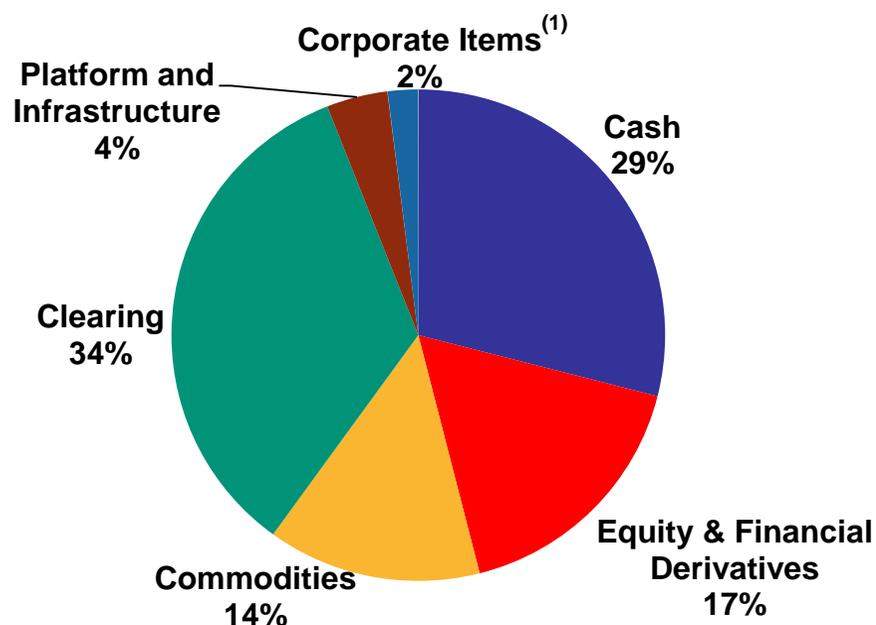
LME

- Launch of LMEwire trade reporting service on 12 February 2014
- LMEstage real time testing service launched 21 March 2014
- Successful insourcing of Information Technology from Xchanging on 1 May 2014
- LMEnet service announced 24 July 2014

Revenue Contribution by Operating Segments

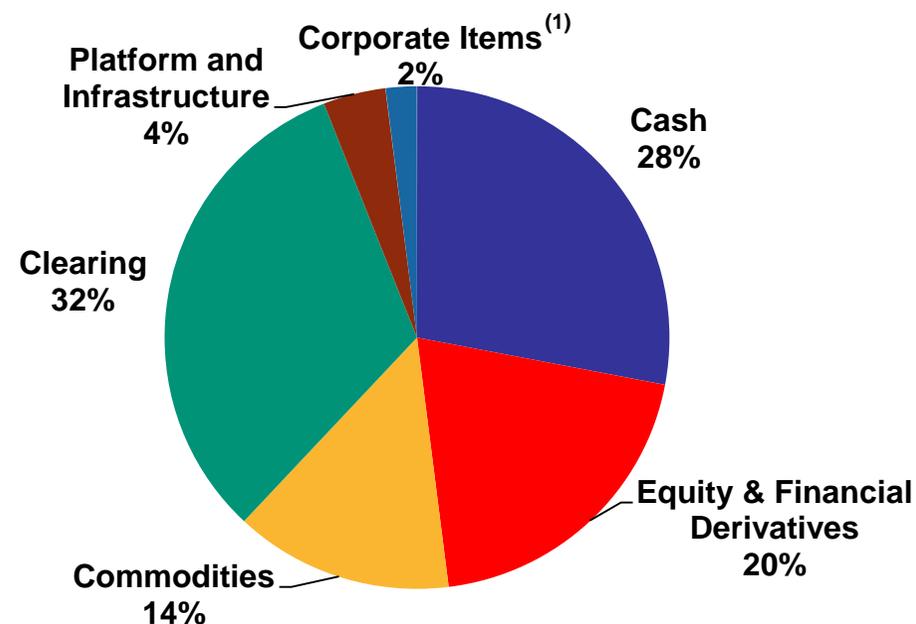
2014 1H

Total revenue and other income = \$4,621m



2013 1H

Total revenue and other income = \$4,440m



Vertically integrated model with further diversified sources of revenue following the acquisition of the LME Group

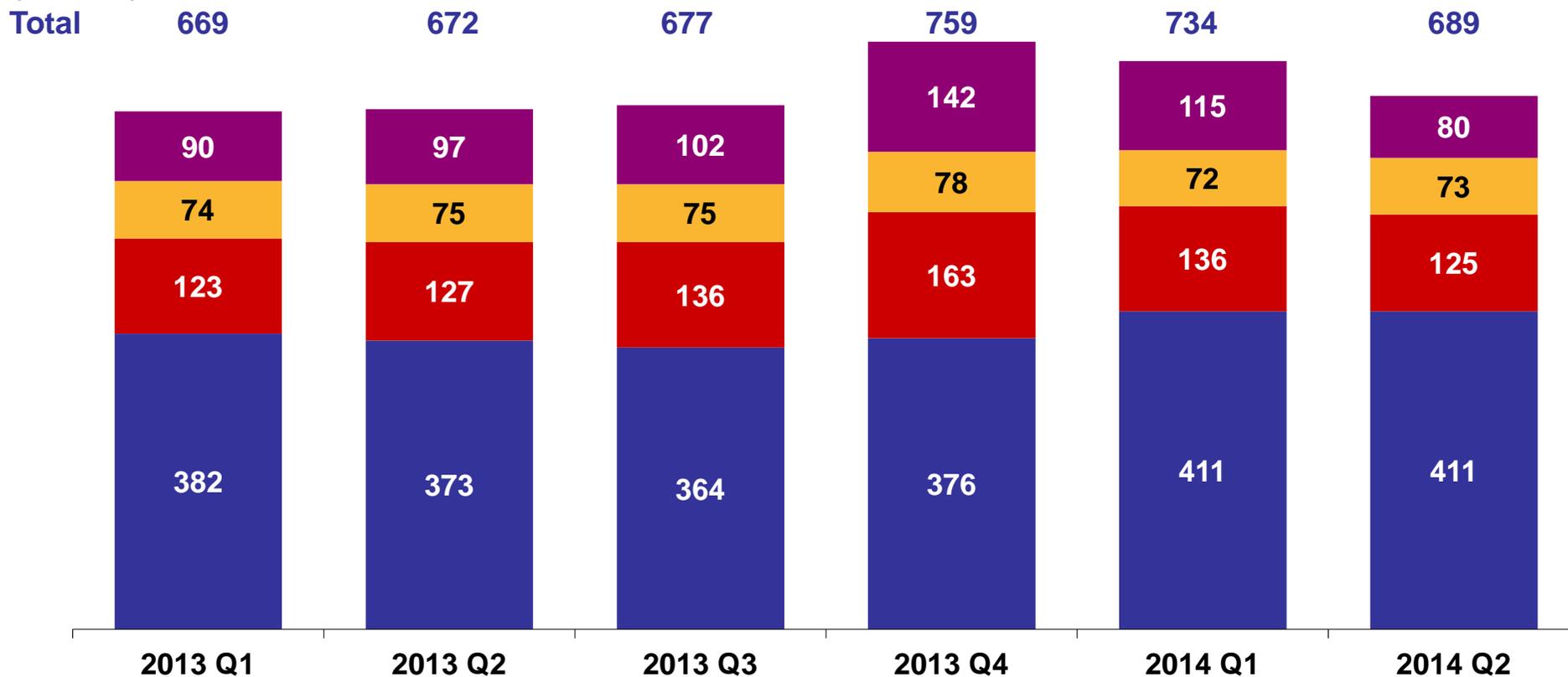
(1) Corporate Items include mainly net investment income of Corporate Funds

Quarterly Trend

Operating Expenses



(\$ million)



(1) Other costs include product marketing and promotion expenses, legal and professional fees and other operating expenses

Performance by Operating Segment: 2014 1H



\$ million	Cash	Equity & Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group 2014 1H	Group 2013 1H
Revenue and other income	1,316	788	645	1,586	196	90	4,621	4,440
<i>% of Group Total</i>	29%	17%	14%	34%	4%	2%	100%	100%
Operating expenses	(223)	(199)	(328)	(248)	(73)	(352)	(1,423)	(1,341)
EBITDA	1,093	589	317	1,338	123	(262)	3,198	3,099
<i>% of Group Total ⁽¹⁾</i>	34%	18%	10%	42%	4%	(8%)	100%	100%
<i>EBITDA margin</i>	83%	75%	49%	84%	63%	(291%)	69%	70%
Depreciation and amortisation	(42)	(31)	(171)	(41)	(24)	(15)	(324)	(233)
Finance costs	-	-	-	-	-	(98)	(98)	(92)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)	(4)
Profit before taxation	1,051	553	146	1,297	99	(375)	2,771	2,770

LME's results are included under 'Commodities', 'Clearing' and 'Corporate Items'

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

Financial Highlights – Income Statement

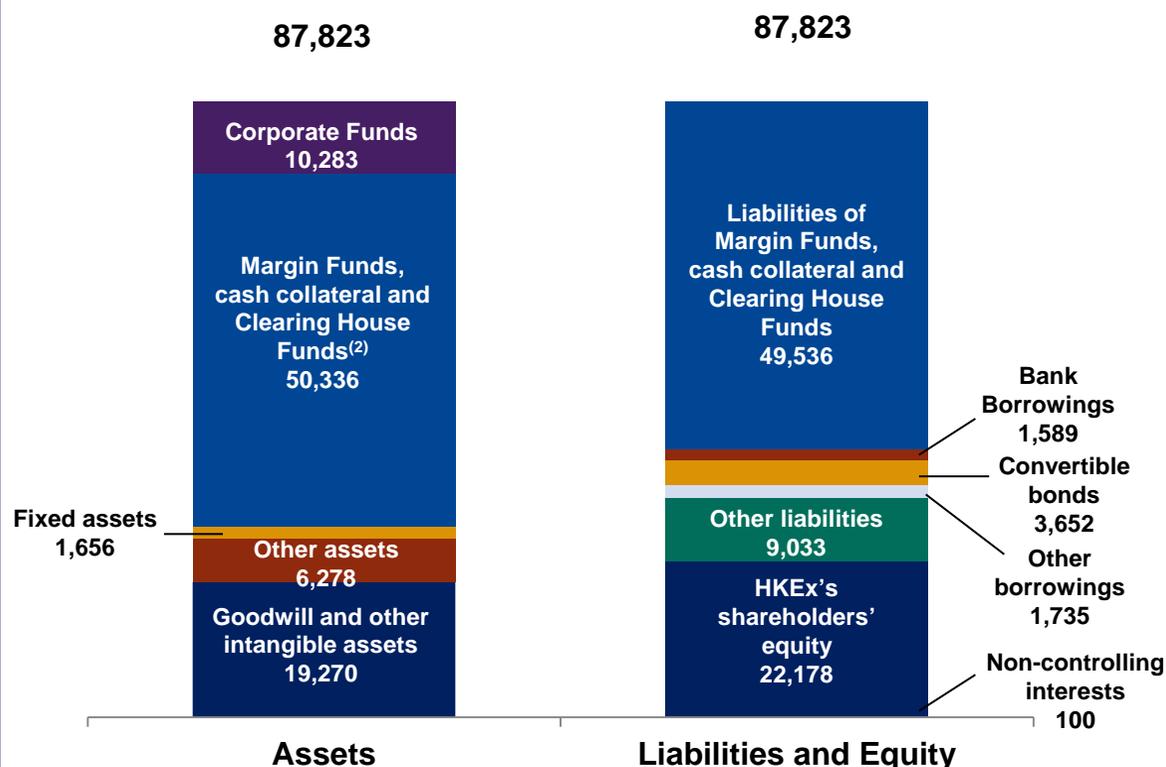


(\$ million, unless stated otherwise)	2014 1H	% of revenue & other income	2013 1H	% of revenue & other income	Y-o-Y change
Results					
Revenue and other income	4,621	100%	4,440	100%	4%
Operating expenses	(1,423)	(31%)	(1,341)	(30%)	6%
EBITDA	3,198	69%	3,099	70%	3%
Depreciation and amortisation	(324)	(7%)	(233)	(5%)	39%
Operating profit	2,874	62%	2,866	65%	0%
Finance costs and share of loss a joint venture	(103)	(2%)	(96)	(3%)	7%
Profit before taxation	2,771	60%	2,770	62%	0%
Taxation	(417)	(9%)	(442)	(10%)	(6%)
Non-controlling interests	13	0%	-	-	N/A
Profit attributable to shareholders	2,367	51%	2,328	52%	2%
Basic earnings per share	\$2.04		\$2.03		0%
Diluted earnings per share	\$2.04		\$2.02		1%
Average daily turnover on the Stock Exchange	\$62.9 billion		\$68.3 billion		(8%)
Capex	231		277		(17%)

Financial Highlights – Balance Sheet



(\$ million, except %)



Leverage Ratios	
Total Debt	6,976
Net Debt ⁽¹⁾	-
Total Debt / Assets	8%
Total Debt / Equity	31%
Total Debt / annualised EBITDA	1.1x
Net Debt / Equity	-

Leverage ratios well within targeted ranges

(1) Net Debt equals total borrowings minus cash and cash equivalents of Corporate Funds. It is zero since cash and cash equivalents of Corporate Funds is greater than total borrowings

(2) Amounts included \$157 million for contribution to the Rates and FX Guarantee Resources of OTC Clear