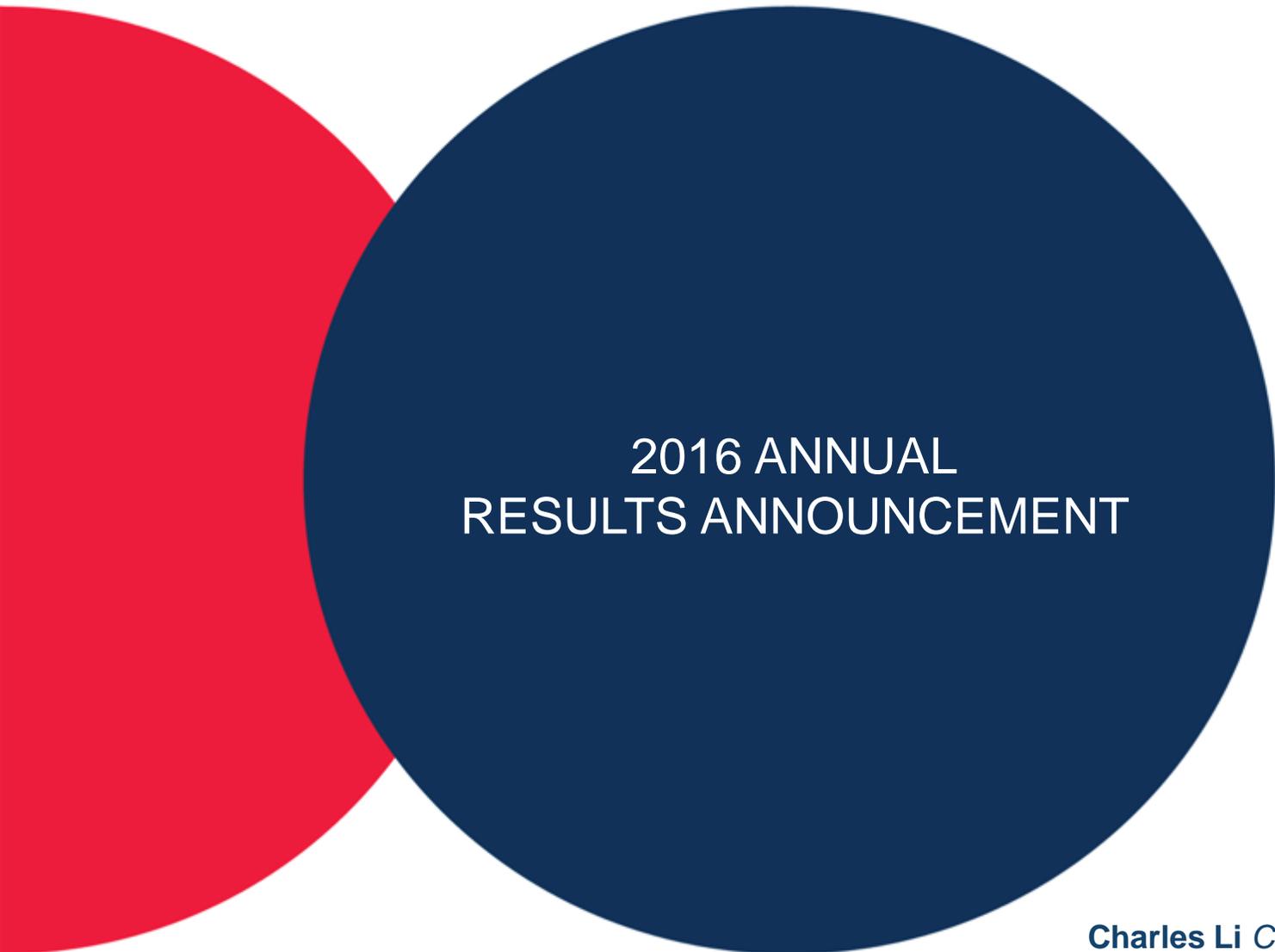


27 February 2017



2016 ANNUAL  
RESULTS ANNOUNCEMENT

**HKEX**  
香港交易所

*Charles Li Chief Executive, HKEX Group*  
*Paul Kennedy Chief Financial Officer, HKEX Group*

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Where this document refers to Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (together, the “Stock Connect” programs), please note that currently, access to northbound trading is only available to intermediaries licensed or regulated in Hong Kong; southbound trading is only available to intermediaries licensed or regulated in Mainland China. Direct access to the Stock Connect is not available outside Hong Kong and Mainland China.

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# Agenda

**1** Highlights

**2** HKEX Group Financial Review

**3** Business and Strategic Update

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**4** Appendix



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4 Appendix



## 2016 – Key Highlights

Political and economic uncertainties continue to impact investment sentiment

Increase in futures volumes and strict cost control lessened impact of fall in HK cash market's activity

Excluding 2015 one-off gains, PAT down 22% compared to exceptional results in 2015

Globally #1 in IPO funds raised, despite lower total proceeds

Shenzhen – Hong Kong Stock Connect launched on 5 December 2016



Source: HKEX

# Agenda

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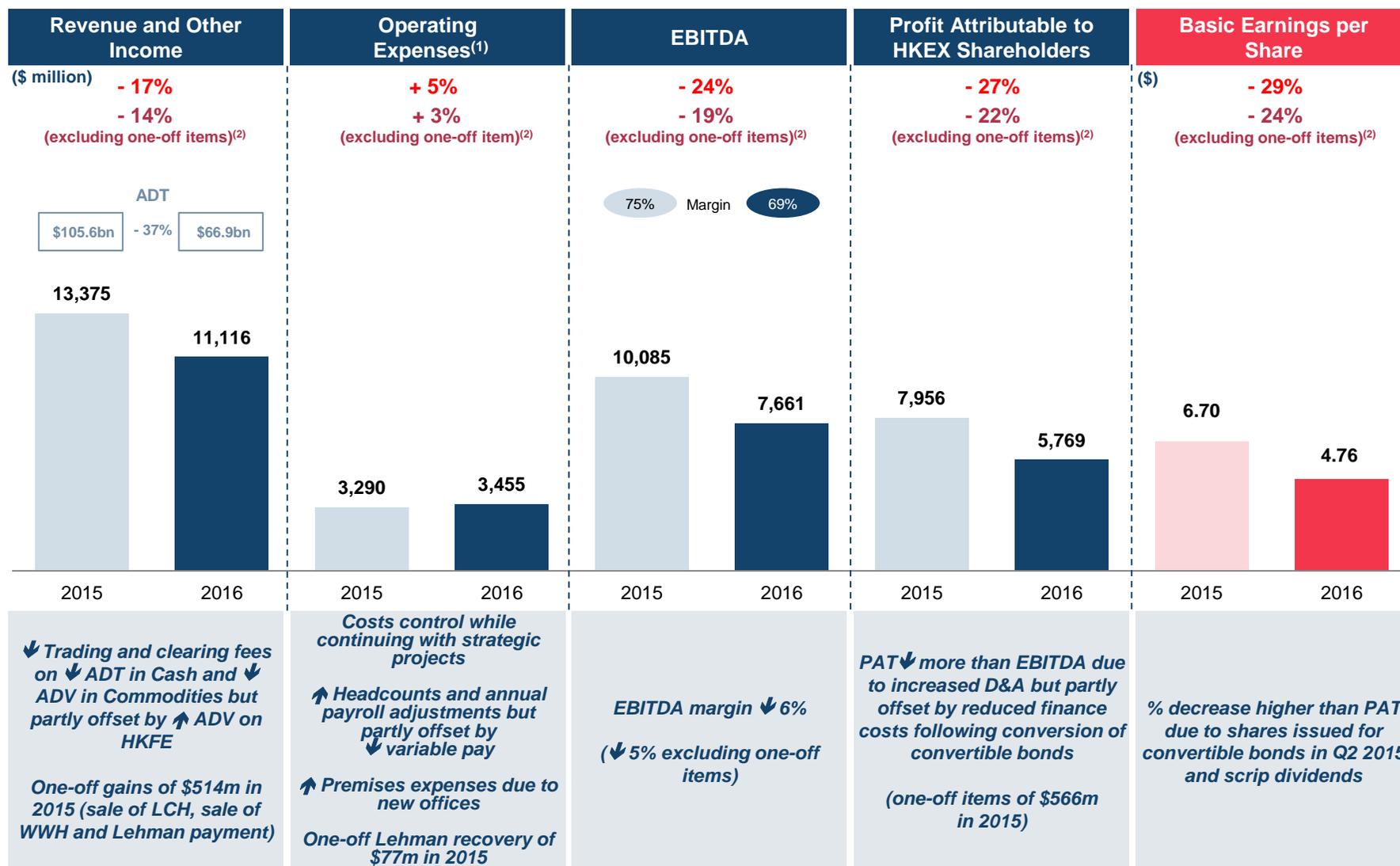
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4 Appendix



# Highlights – 2016 Annual Results

## Prior year comparison



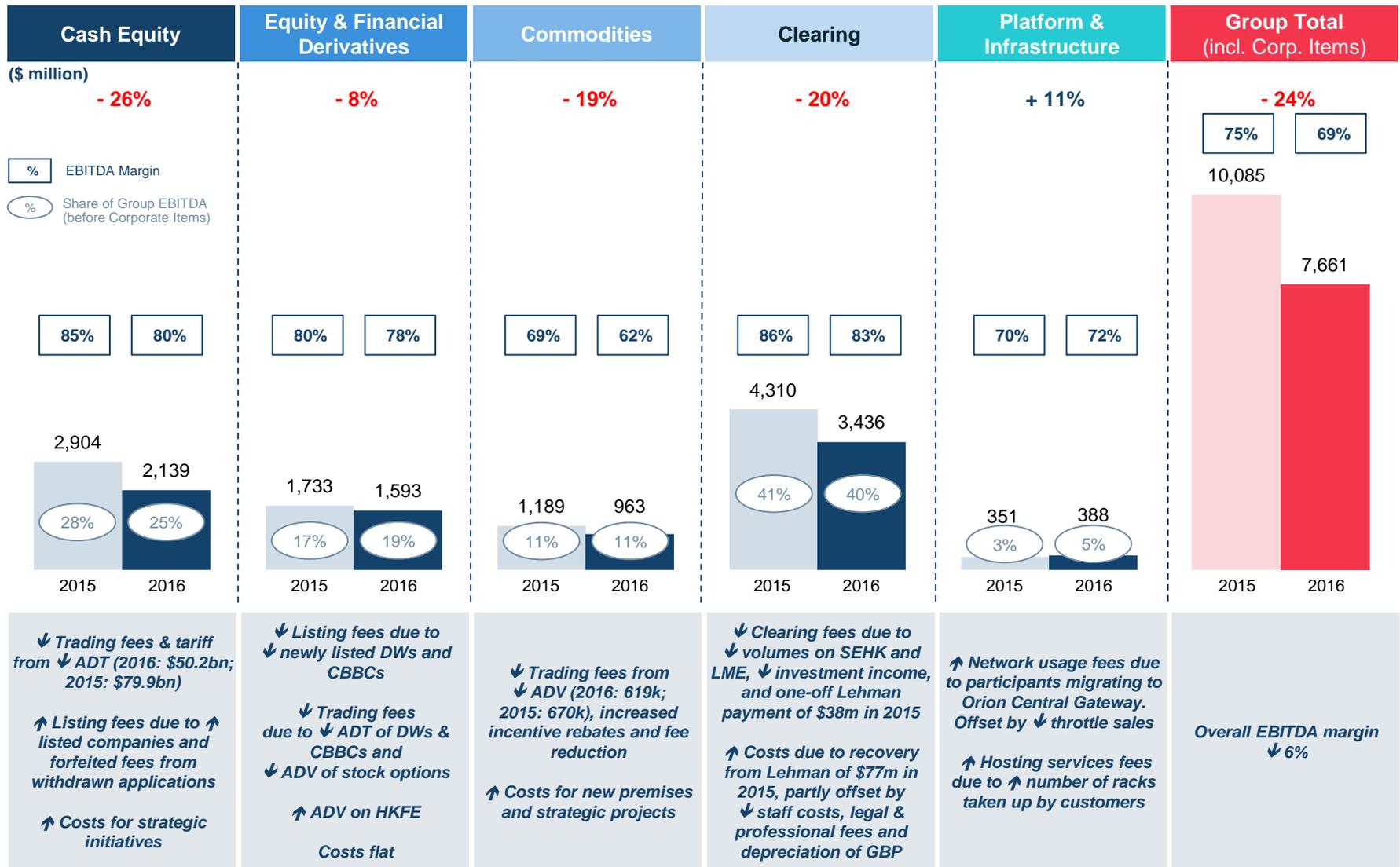
(1) Excludes depreciation and amortisation, finance costs, and share of loss of a joint venture

(2) One-off items in 2015: LCH: An exceptional gain on the sale of investment in shares of LCH.Clearnet Group Limited of \$31m; WWH: A one-off gain on sale of Worldwide House property of \$445m; Lehman payment: A one-off post liquidation interest from liquidators of Lehman Brothers Securities Asia Limited (Lehman) of \$38m; Lehman recovery: A one-off recovery from the liquidators of Lehman of \$77m, reducing opex in that period

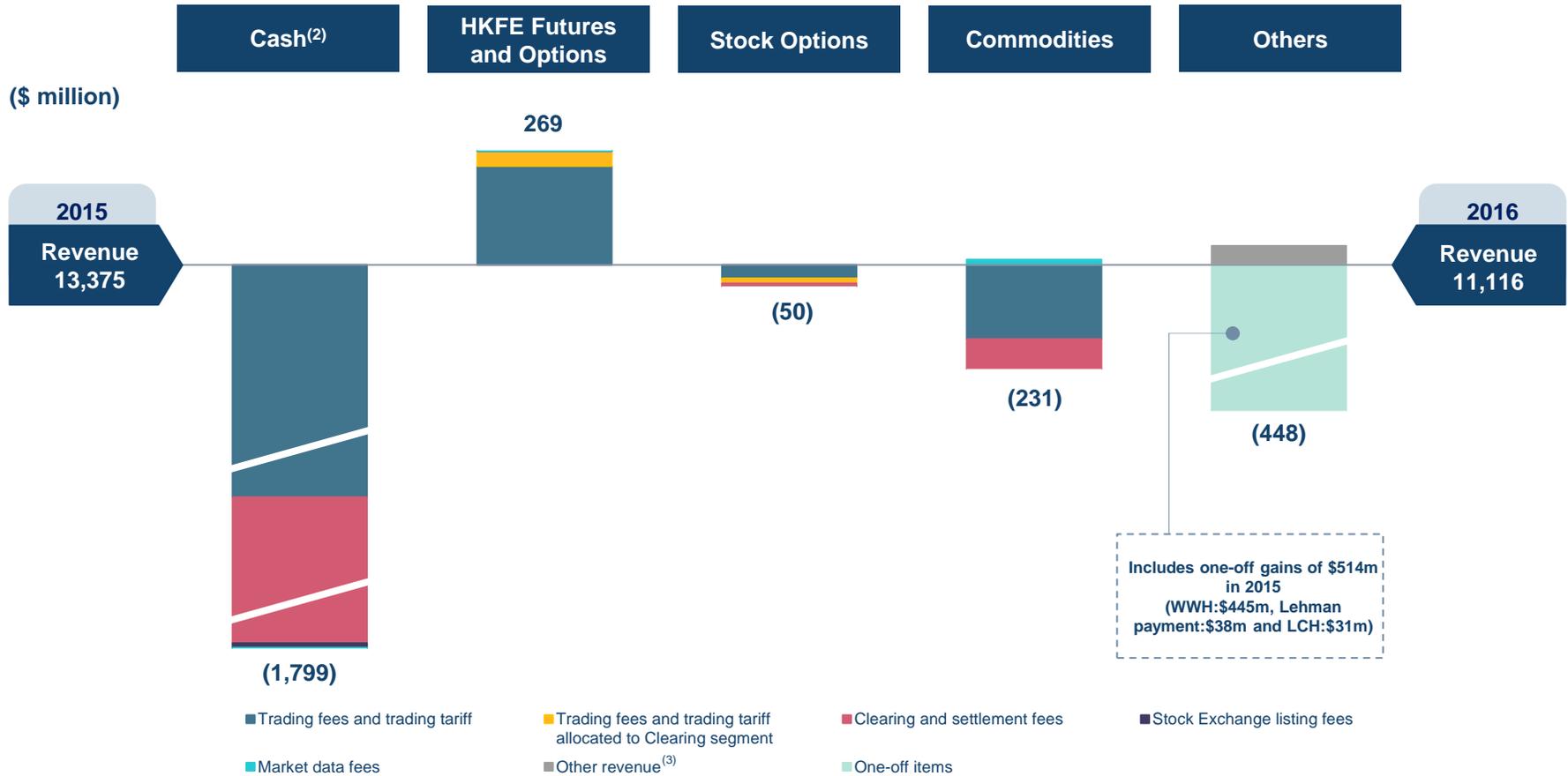


# Performance by Operating Segment

## EBITDA



# Revenue Movement by Market<sup>(1)</sup>

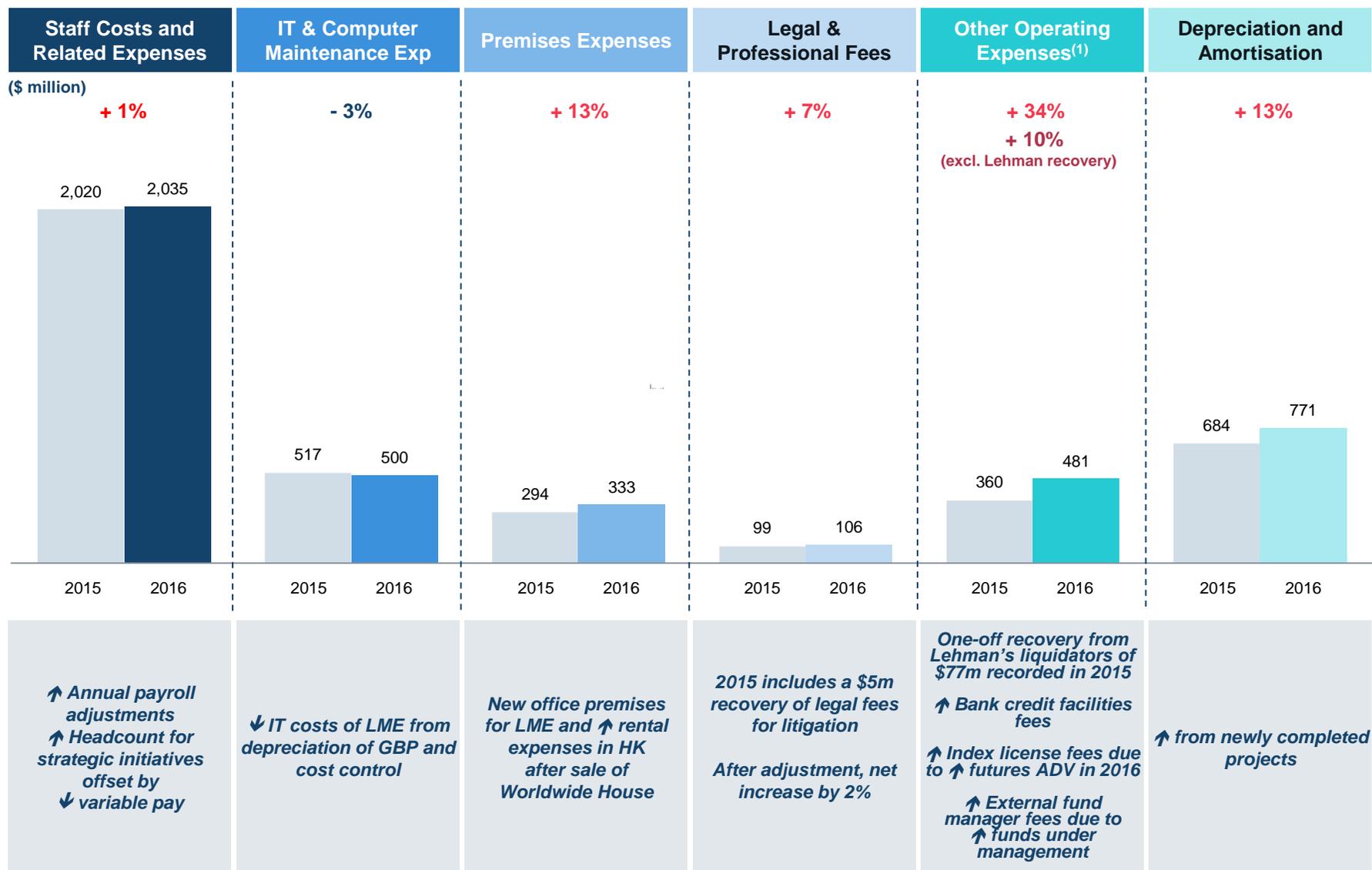


**Drop in Cash and Commodities partially offset by increase in Futures.**  
**Demand for risk management products reflects continued volatility as well as increasing Mainland participation**

(1) Data shown in this slide has been regrouped into five categories based on the 2016 consolidated financial statements  
 (2) Includes all products traded on the Stock Exchange (ie, equity products, DWs, CBBCs and warrants)  
 (3) Includes depository, custody and nominee services fees, net investment income, other revenue and sundry income but excludes one-off items above



# Operating Expenses and Depreciation & Amortisation

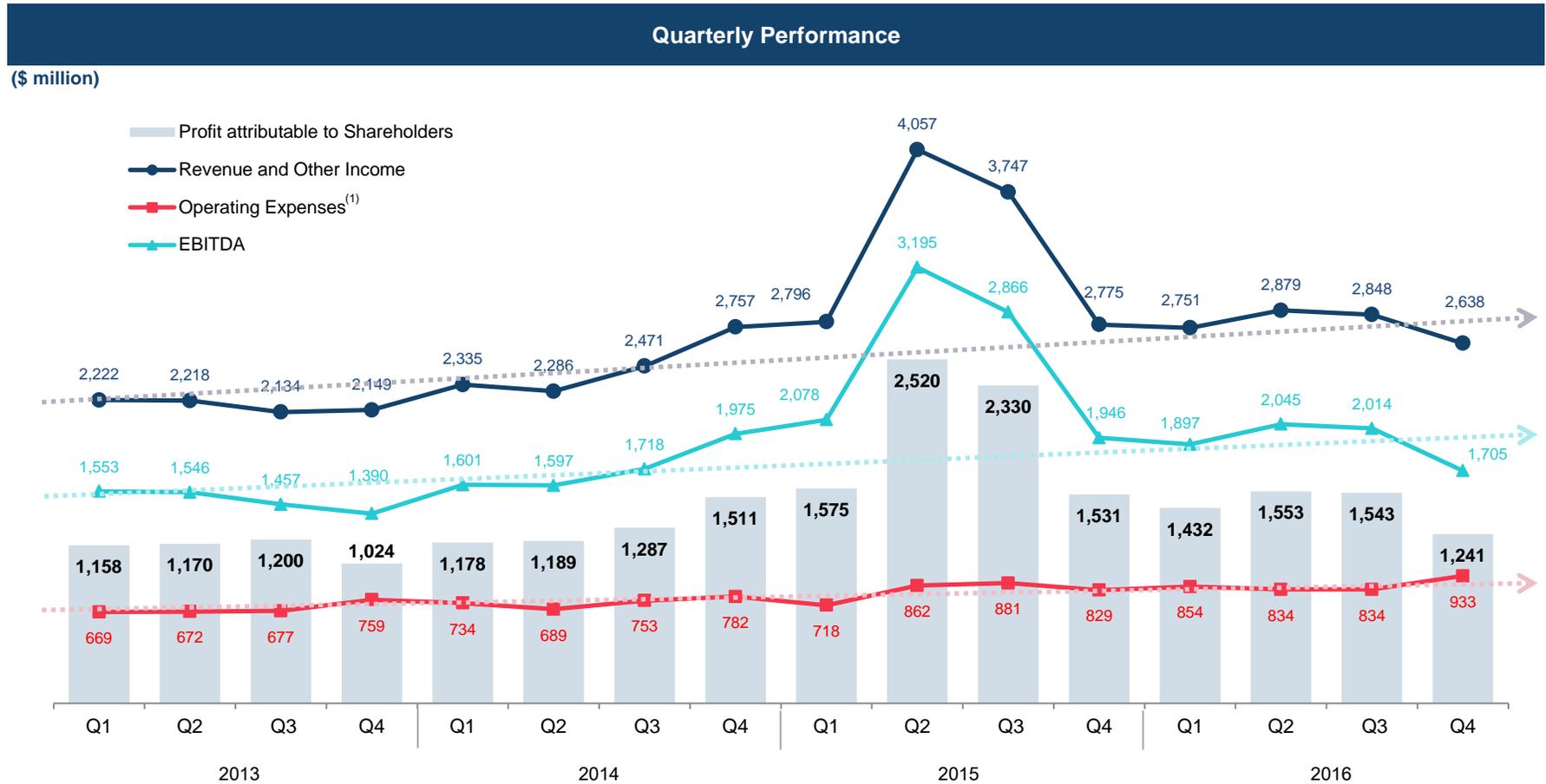


(1) Includes product marketing and promotion expenses



# Quarterly Trend

Results in line with historical trend



**Record 2015 performance distorts view of current results  
2016 has returned to the historical trend line and is higher than 2014**



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

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

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# Business Update

2016 – 2017 YTD <sup>(1)</sup>	
Equities	<ul style="list-style-type: none"><li>✓ <b>Successfully launched Shenzhen-Hong Kong Stock Connect</b><ul style="list-style-type: none"><li>➢ <b>Abolished Aggregate Quota of Stock Connect</b></li></ul></li><li>✓ <b>Launched new products:</b><ul style="list-style-type: none"><li>➢ <b>Sector Index Futures</b></li><li>➢ <b>Leveraged &amp; Inverse Products</b></li><li>➢ <b>Mini H-shares Index (HHI) Options</b></li><li>➢ <b>Fourth calendar month contract for HSI and HHI Options</b></li></ul></li></ul>
FIC	<ul style="list-style-type: none"><li>✓ <b>Launched additional RMB Currency Futures</b></li><li>✓ <b>Co-branded RMB Index Series with Thomson Reuters</b></li><li>✓ <b>Launched USD/CNH Cross Currency Swaps in OTC Clear</b></li><li>✓ <b>Plan to launch new USD/CNH Currency Options in March 2017</b></li></ul>
Commodities	<ul style="list-style-type: none"><li>✓ <b>Completed LME's warehouse consultation</b></li><li>✓ <b>Launched LMEshield</b></li><li>✓ <b>Announced package of measures to enhance LME market structure</b></li><li>✓ <b>Plan to launch LMEprecious in 1H2017</b></li><li>✓ <b>Setting up Commodities Trading Platform in Qianhai</b></li></ul>
Market Structures & Platforms	<ul style="list-style-type: none"><li>✓ <b>Rolled out SPSA Model for Stock Connect enhancement</b></li><li>✓ <b>Launched Closing Auction Session in Securities Market</b></li><li>✓ <b>Launched Volatility Control Mechanism in Securities and Derivatives Markets</b></li><li>✓ <b>Launched Pre-Trade Risk Management System in Derivatives Market</b></li><li>✓ <b>Launched SMARTS Derivatives Surveillance System</b></li></ul>



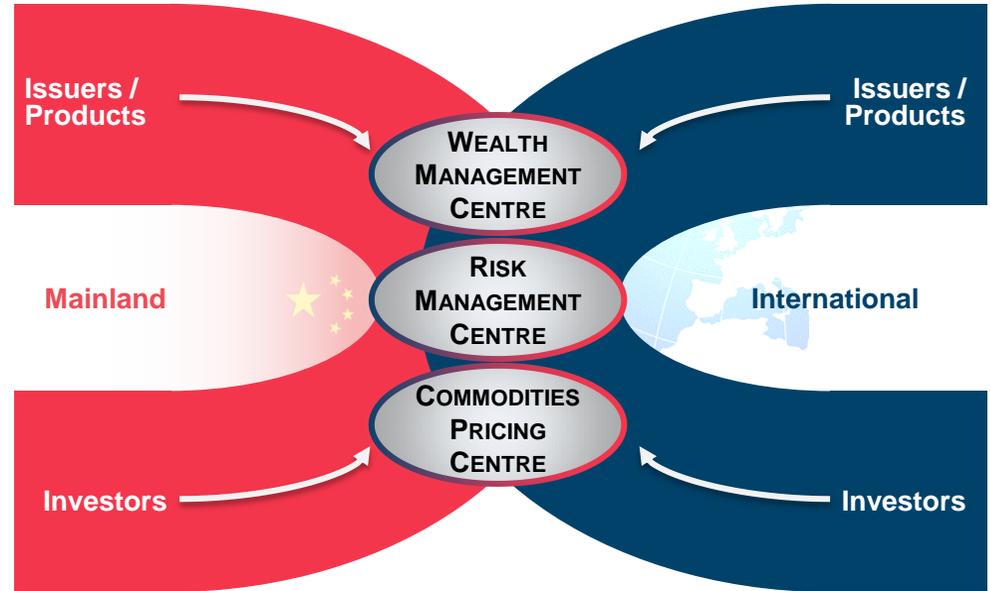
(1) YTD as of 24 February 2017

# HKEX's Strategic Vision

## What have we achieved so far?

- 1 Expanded our asset class reach
- 2 Created mutual market access channels
- 3 Enhanced market microstructure and efficiency
- 4 Continued to build and upgrade systems and platforms

## What is our long-term aspiration?



### Need to bring:

- Mainland Investors
- International issuers
- Commodities capability
- Risk management / derivatives



## Key Focus of 2017

### Continue to Enhance Our Listing Regime

- Listing Consultation
- GEM Review
- New Board
- Market Quality

### Continue to Extend and Expand the Connect Model

- ETFs, Listed Bonds
- Enhancements: Holiday Trading, SBL, etc.
- Bond Connect
- Primary Connect
- Commodities Connect

### Continue to Develop New Products Across Asset Classes

- Leveraged & Inverse Product Scope Expansion
- A-shares Futures, subject to regulatory approvals
- FICC: RMB T-bond Futures, Gold Futures and Iron Ore Futures, Precious and Ferrous Products

### Continue to Upgrade Infrastructure and Explore New Opportunities

- Orion Trading Platform – Securities Market
- Private Market
- Commodities Trading Platform in Qianhai
- Next Generation Clearing Platform



# Q & A



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## Financial Highlights – Income Statement

(\$ million, unless stated otherwise)	2016	% of Revenue & Other Income	2015	% of Revenue & Other Income	Y-o-Y Change
<b>Results</b>					
Revenue and other income	11,116	100%	13,375	100%	(17%)
Operating expenses	(3,455)	(31%)	(3,290)	(25%)	5%
<b>EBITDA</b>	<b>7,661</b>	<b>69%</b>	<b>10,085</b>	<b>75%</b>	<b>(24%)</b>
Depreciation and amortisation	(771)	(7%)	(684)	(5%)	13%
<b>Operating profit</b>	<b>6,890</b>	<b>62%</b>	<b>9,401</b>	<b>70%</b>	<b>(27%)</b>
Finance costs and share of loss in a joint venture	(91)	(1%)	(123)	(1%)	(26%)
<b>Profit before taxation</b>	<b>6,799</b>	<b>61%</b>	<b>9,278</b>	<b>69%</b>	<b>(27%)</b>
Taxation	(1,058)	(9%)	(1,347)	(10%)	(21%)
Loss attributable to non-controlling interests	28	0%	25	0%	12%
<b>Profit attributable to HKEX shareholders</b>	<b>5,769</b>	<b>52%</b>	<b>7,956</b>	<b>59%</b>	<b>(27%)</b>
Basic earnings per share	\$4.76		\$6.70		(29%)
Diluted earnings per share	\$4.75		\$6.67		(29%)
<b>Average daily turnover on the Stock Exchange</b>	<b>\$66.9 bn</b>		<b>\$105.6 bn</b>		<b>(37%)</b>
<b>Capex</b>	<b>\$646 m</b>		<b>\$682 m</b>		<b>(5%)</b>



## Performance by Operating Segment – 2016 Full Year

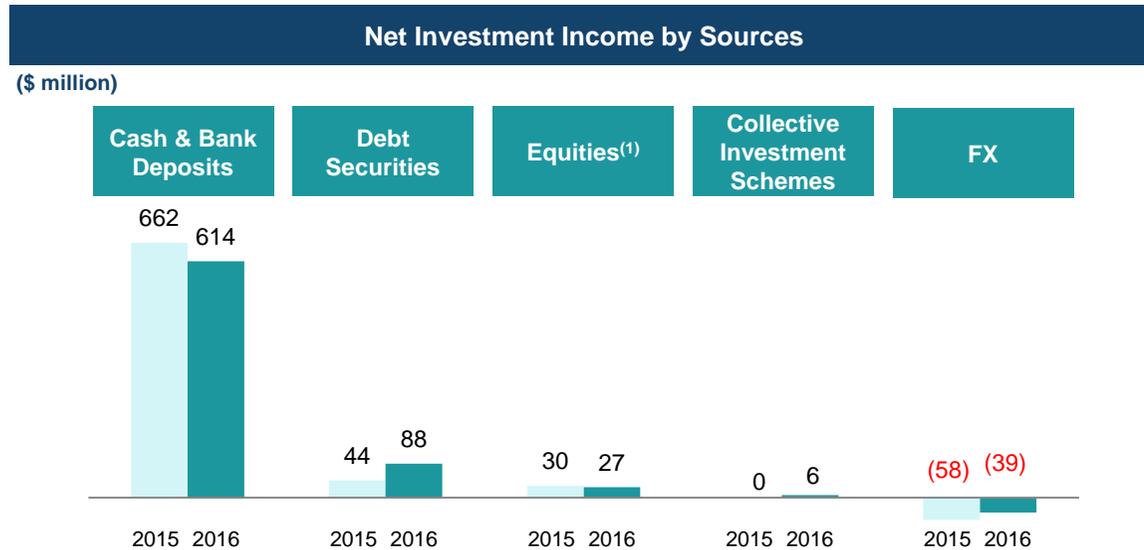
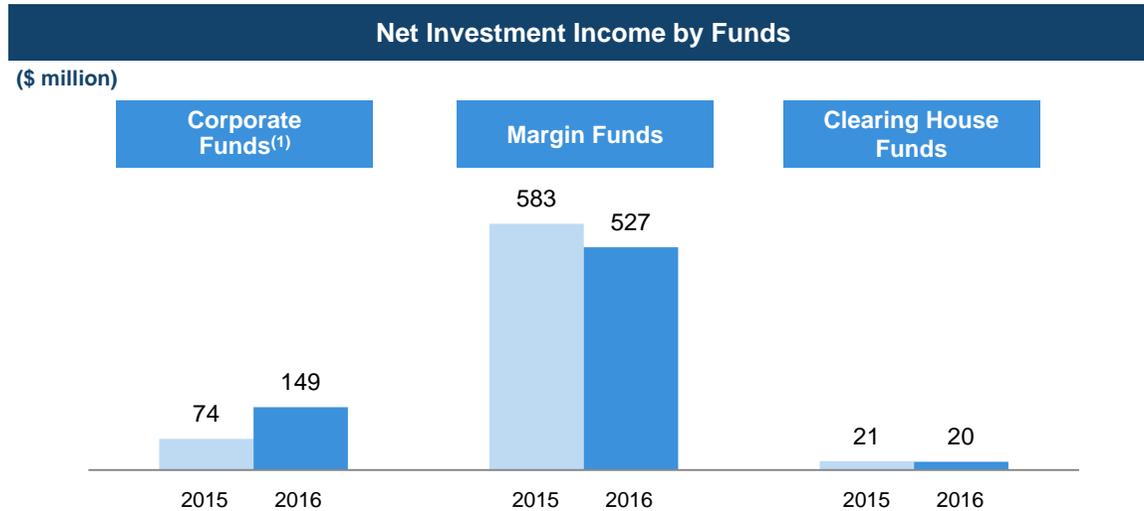
\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group 2016	Group 2015
<b>Revenue and other income</b>	<b>2,683</b>	<b>2,034</b>	<b>1,560</b>	<b>4,138</b>	<b>540</b>	<b>161</b>	<b>11,116</b>	<b>13,375</b>
<i>% of Group Total</i>	<i>24%</i>	<i>18%</i>	<i>14%</i>	<i>37%</i>	<i>5%</i>	<i>2%</i>	<i>100%</i>	<i>100%</i>
<b>Operating expenses</b>	<b>(544)</b>	<b>(441)</b>	<b>(597)</b>	<b>(702)</b>	<b>(152)</b>	<b>(1,019)</b>	<b>(3,455)</b>	<b>(3,290)</b>
<b>EBITDA</b>	<b>2,139</b>	<b>1,593</b>	<b>963</b>	<b>3,436</b>	<b>388</b>	<b>(858)</b>	<b>7,661</b>	<b>10,085</b>
<i>% of Group Total<sup>(1)</sup></i>	<i>28%</i>	<i>21%</i>	<i>12%</i>	<i>45%</i>	<i>5%</i>	<i>(11%)</i>	<i>100%</i>	<i>100%</i>
<i>EBITDA margin</i>	<i>80%</i>	<i>78%</i>	<i>62%</i>	<i>83%</i>	<i>72%</i>	<i>N/A</i>	<i>69%</i>	<i>75%</i>
Depreciation and amortisation	(88)	(86)	(298)	(179)	(44)	(76)	(771)	(684)
Finance costs	-	-	-	-	-	(82)	(82)	(114)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)	(9)
<b>Profit before taxation</b>	<b>2,051</b>	<b>1,498</b>	<b>665</b>	<b>3,257</b>	<b>344</b>	<b>(1,016)</b>	<b>6,799</b>	<b>9,278</b>

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



# Net Investment Income

2016: Total \$696m; 2015: Total \$678m<sup>(1)</sup>



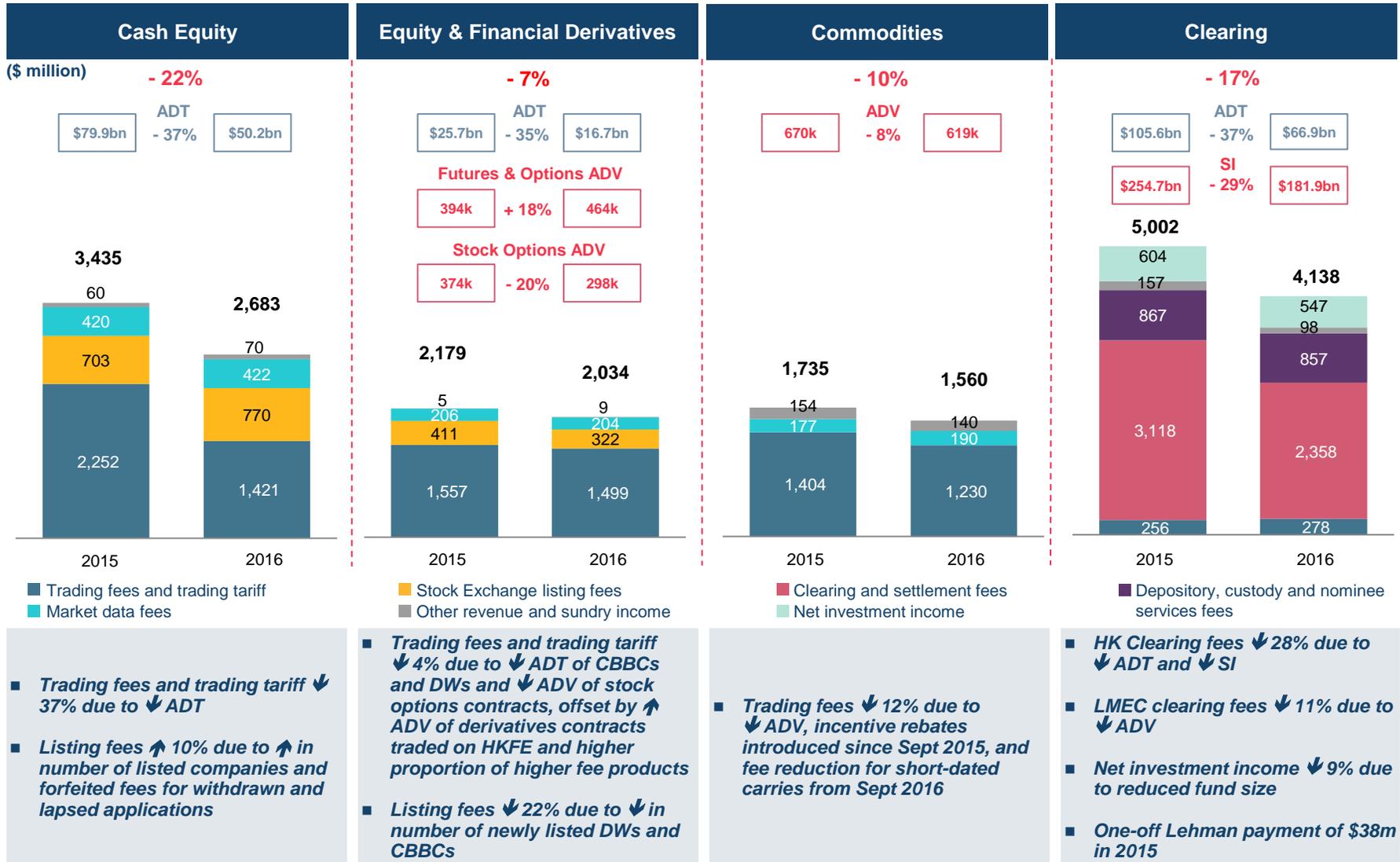
- **Investment income for 2016 increased by 3% year-on year mainly due to an increase in gains on Corporate Funds in 2016, partly offset by a decrease in Margin Fund income**
  - Corporate Funds  
Investment income increased due to higher fund size, increased gains from both fixed income and equity investments and lower FX losses, partly offset by a non-recurring gain from the sale of LCH in 2015
  - Margin Funds  
Lower average fund size in 2016 resulted in decline in investment income but partly offset by better yield



(1) Includes \$31 million gain on sale of LCH recorded in 2015

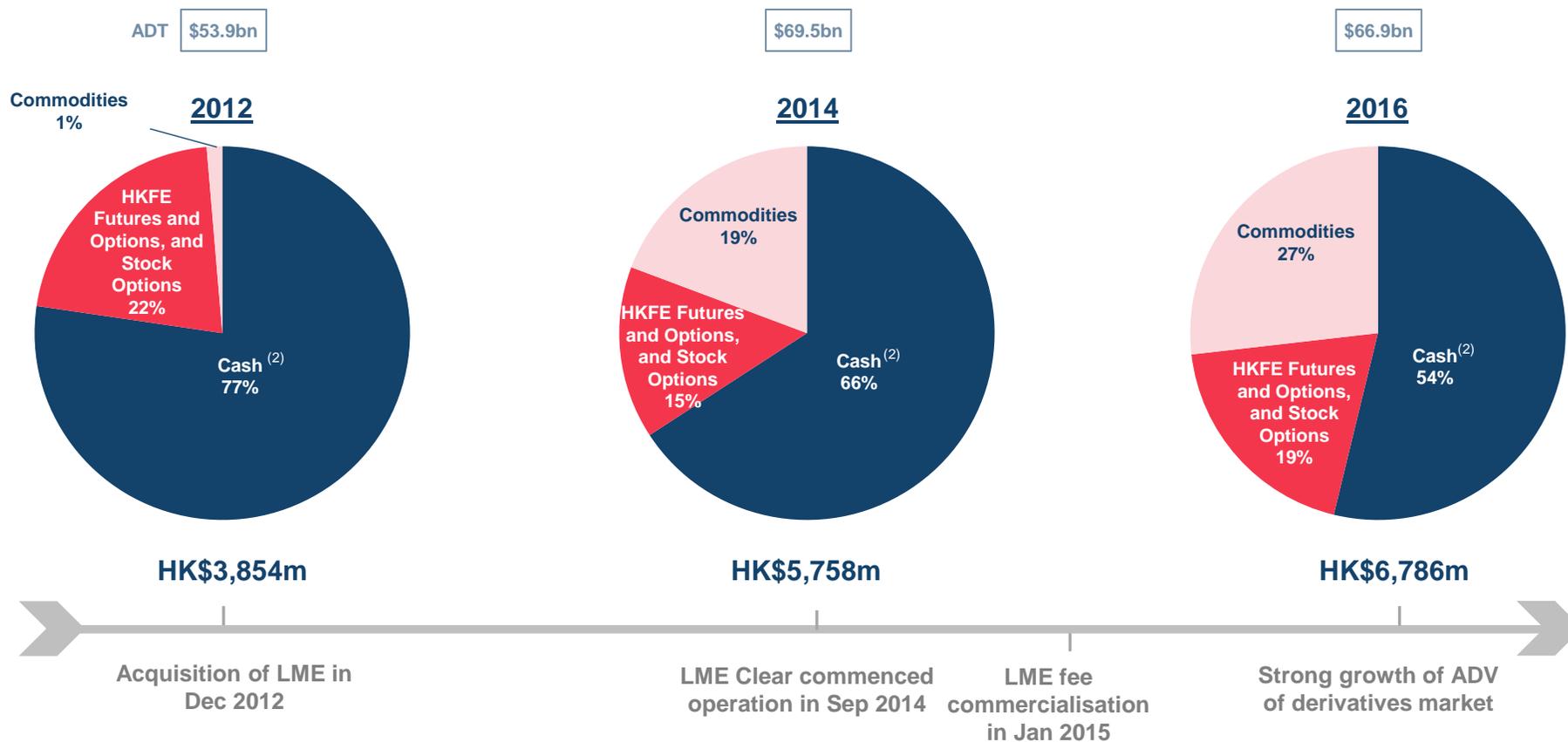
# Drivers of Revenue

Relationship of headline ADT to overall trading and clearing income is not linear



# Trading and Clearing Revenue by Product<sup>(1)</sup>

Increasing proportion of derivatives income



**Fee diversification strategies successfully executed following acquisition of LME and strong growth of ADV of derivatives market**



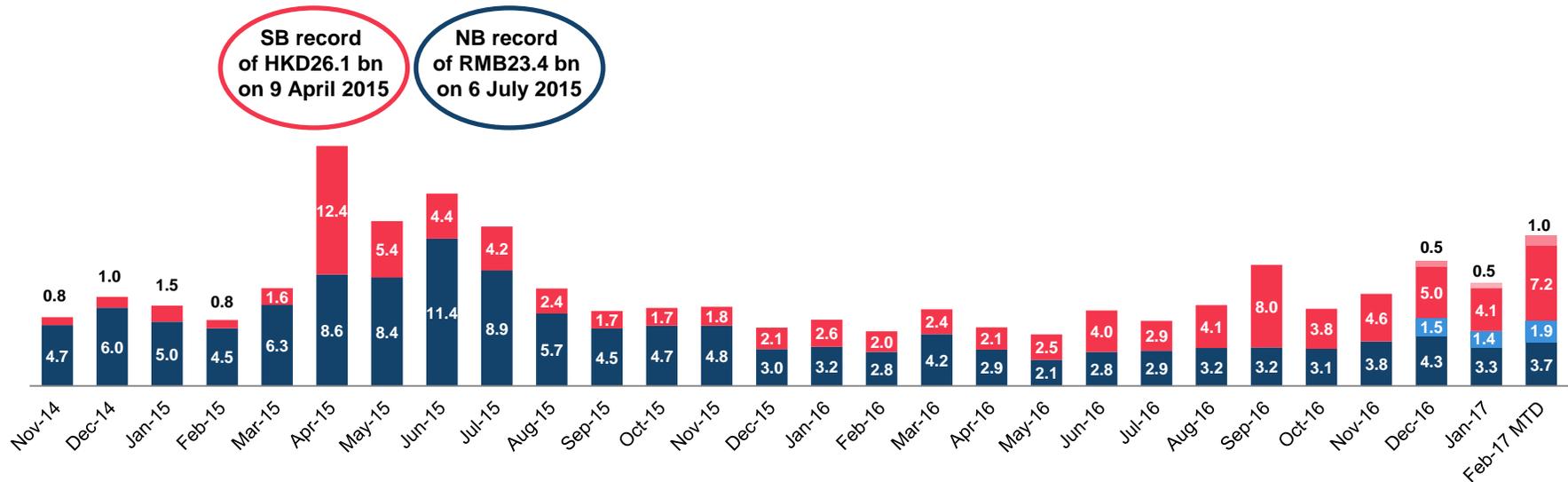
(1) Data shown in this slide has been regrouped into three categories based on the 2012, 2014 and 2016 consolidated financial statements

(2) Includes all products traded on the Stock Exchange (ie, equity products, DWs, CBBCs and warrants)

# Stock Connect – Trading Trends

## Stock Connect Average Daily Trading Volume

- Shenzhen Southbound (HKD bn)
- Shanghai Southbound (HKD bn)
- Shenzhen Northbound (RMB bn)
- Shanghai Northbound (RMB bn)



- Northbound turnover exceeded Southbound at the initial stage
- Southbound turnover picked up after the announcement of Shenzhen-Hong Kong Stock Connect<sup>(1)</sup> and the approval of onshore insurance funds to trade through Shanghai-Hong Kong Stock Connect<sup>(2)</sup>

**Aggregate quota removed since 16 August 2016; Shenzhen Connect launched on 5 December 2016**



Source: HKEX data as of 24 Feb 2017

(1) CSRC and SFC jointly announced the approval of Shenzhen-Hong Kong Stock Connect on 16 August 2016

(2) China Insurance Regulatory Commission (CIRC) published the notice on 8 September 2016

# Thank you

HKEX Group Website: [www.hkexgroup.com](http://www.hkexgroup.com)

HKEXnews Website: [www.hkexnews.hk](http://www.hkexnews.hk)

