

2 March 2016

2015 ANNUAL RESULTS  
ANNOUNCEMENT

**HKEX**  
香港交易所

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

## Disclaimer

The information contained in this presentation is for general informational purposes only and does not constitute an offer, solicitation, invitation or recommendation to subscribe for or purchase any securities or other products or to provide any investment advice of any kind. This presentation is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited (“HKEX”) to any registration requirement within such jurisdiction or country.

This presentation contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs and assumptions of HKEX about the businesses and the markets in which it and its subsidiaries operate or aspires to operate in. These forward-looking statements are not guarantees of future performance and are subject to market risk, uncertainties and factors beyond the control of HKEX. Therefore, actual outcomes and returns may differ materially from the assumptions made and the statements contained in this presentation. The implementation of these initiatives is subject to a number of external factors, including government policy, regulatory approval, the behaviour of market participants, competitive developments and, where relevant, the identification of and successful entry into agreements with potential business partners. As such, there is no guarantee that the initiatives described herein will be implemented, or that they will be implemented in the form and timeframe described herein.

Although the information contained in this presentation is obtained or compiled from sources believed to be reliable, HKEX does not guarantee the accuracy, validity, timeliness or completeness of the information or data for any particular purpose, and shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this presentation is provided on an “as is” and “as available” basis and may be amended or changed. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. HKEX shall not be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this presentation.



# Agenda

**1** **Highlights**

**2** **HKEX Group Financial Review**

**3** **HKEX Strategic Plan 2016-18**

---

**4** **Appendix**



# Agenda

**1** Highlights

2 HKEX Group Financial Review

3 HKEX Strategic Plan 2016-18

---

4 Appendix



## 2015 – Key Achievements

**Record breaking revenue and PAT, up respectively 36% and 54% y-o-y**

**Record full year ADT and ADV in cash and derivatives markets driven by market sentiment and supported by Stock Connect enhancements**

**Globally #1 in IPO funds raised, up 13% y-o-y;  
2015 record fundraising year**

**Successfully commercialised LME trading fees;  
Full year LME Clear operations**

**Preparations for launch of further China Connect programmes underway**

**Announced 2016-18 Strategic Plan and rebranding on 21 January 2016**



# Agenda

1 Highlights

**2 HKEX Group Financial Review**

3 HKEX Strategic Plan 2016-18

---

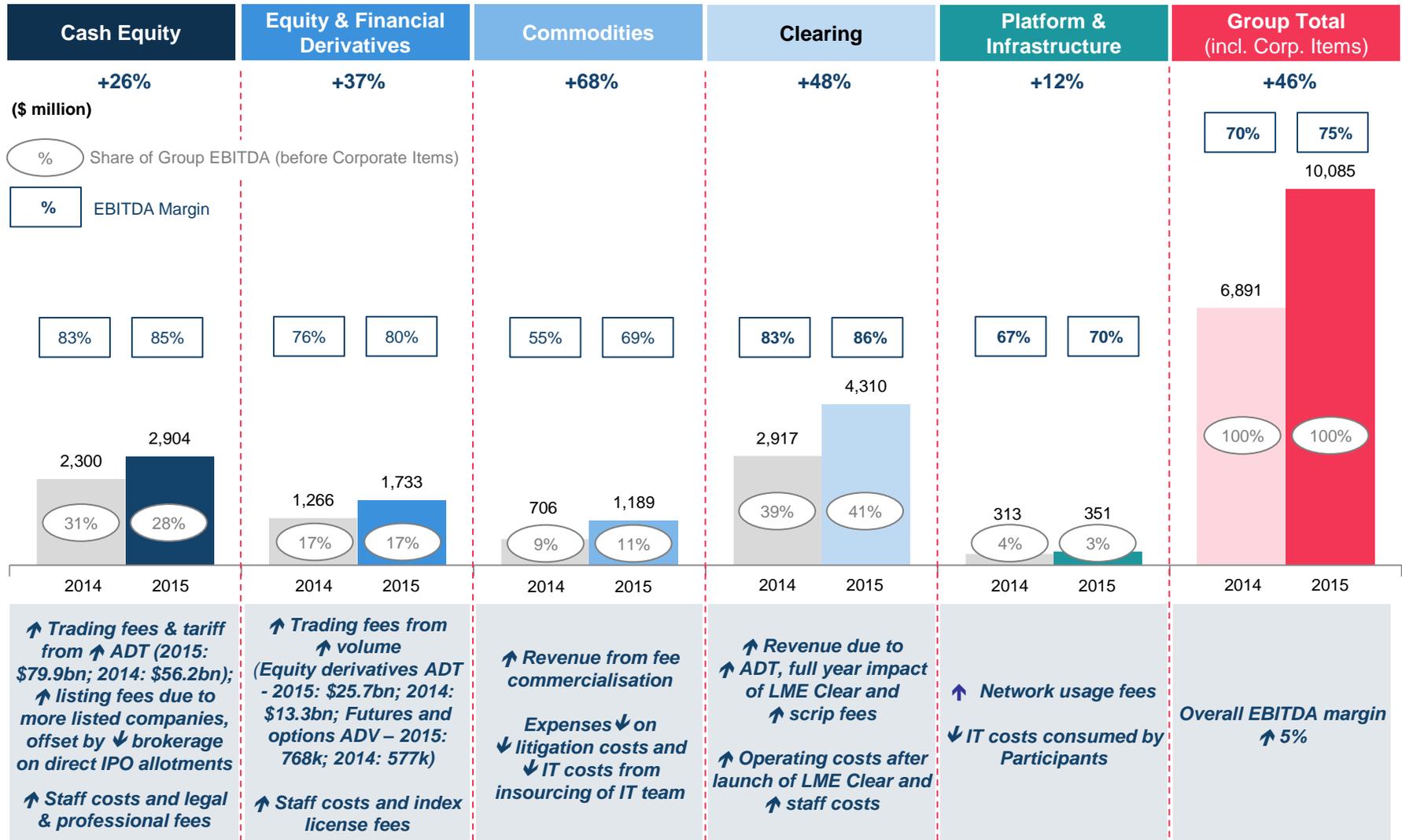
4 Appendix





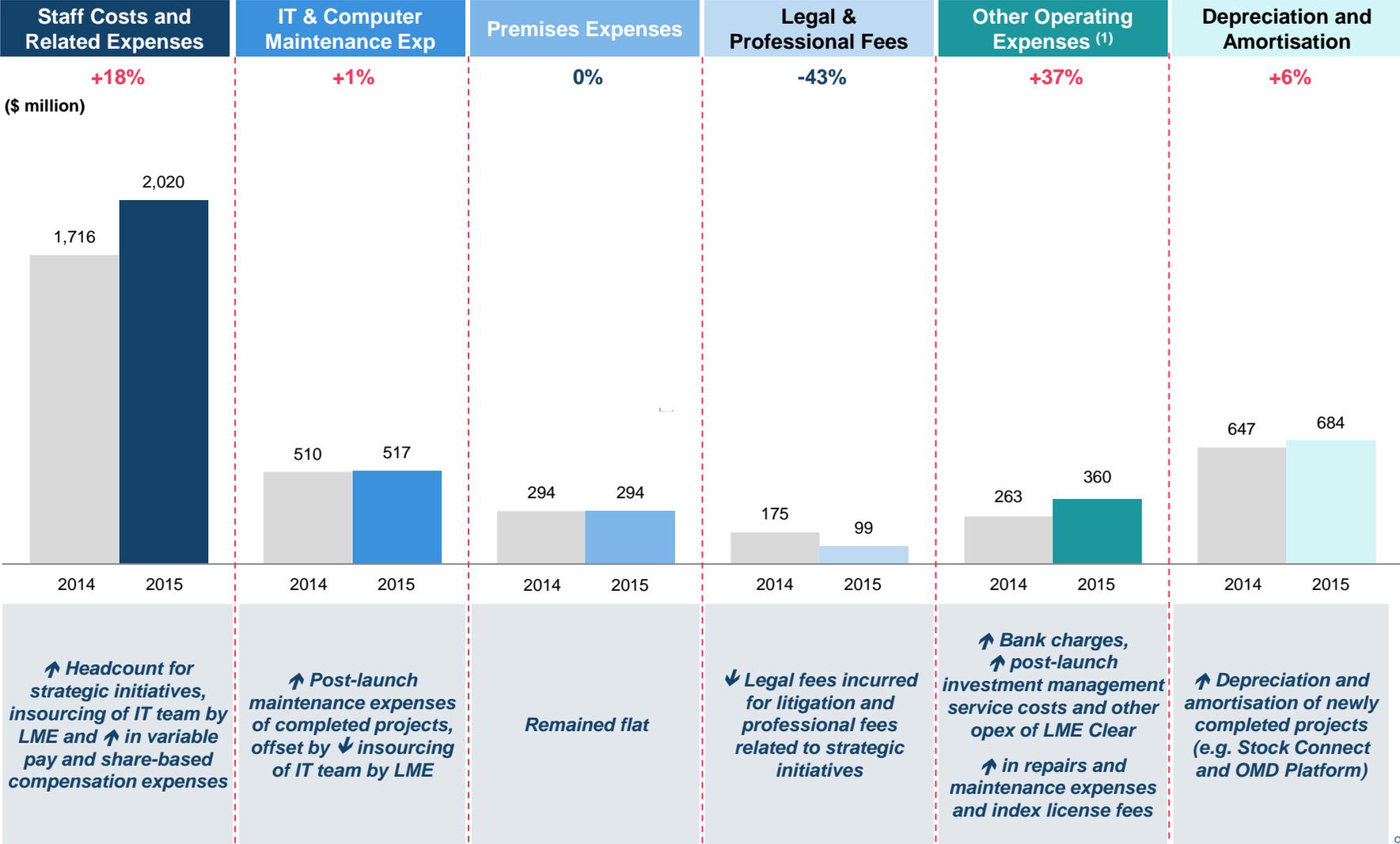
# Performance by Operating Segment

## EBITDA



Exceptional EBITDA margin of 75% – increases across all operating segments

# Operating Expenses and Depreciation & Amortisation



(1) Includes product marketing and promotion expenses

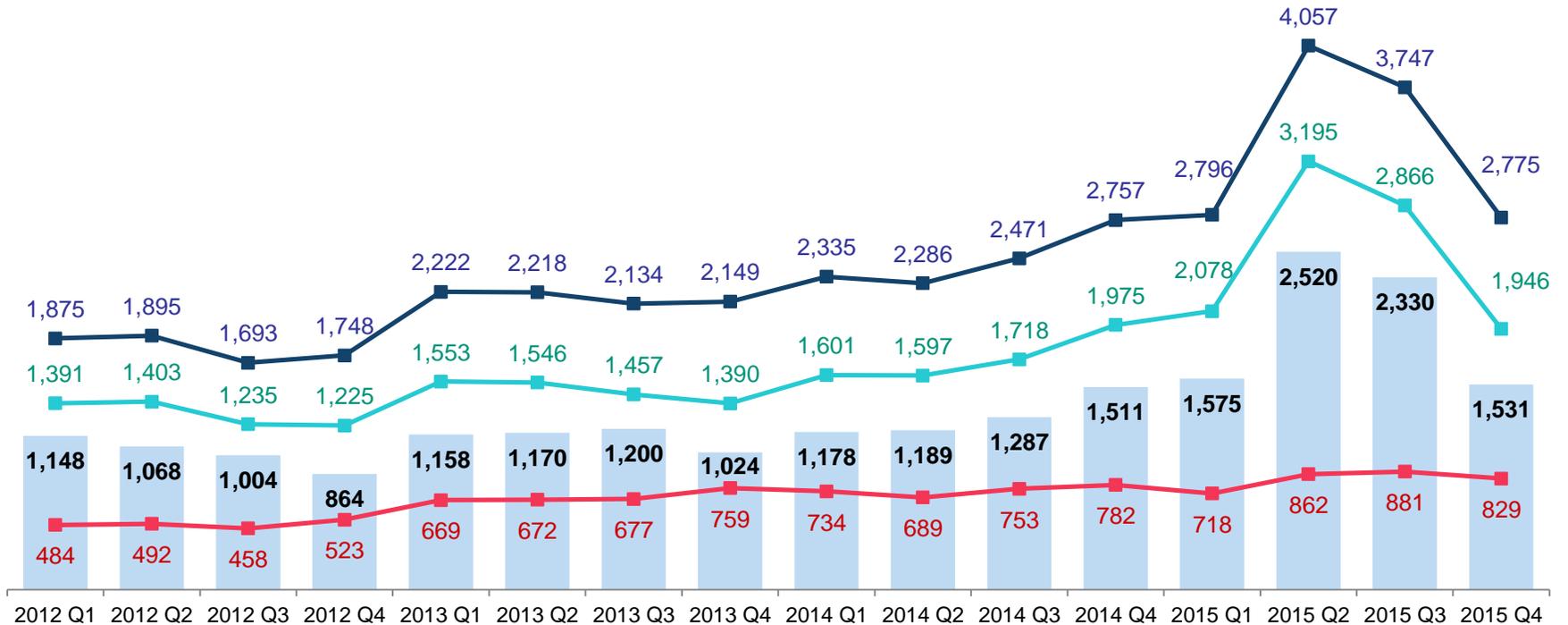


# Quarterly Trend

## Key Performance Indicators by Quarter

(\$ million)

Profit Attributable to Shareholders Revenue and Other Income Operating Expenses <sup>(1)</sup> EBITDA



**Exceptional revenue in 2015 driven by Mainland influenced bull market.  
Increased by the commercialisation of LME's trading fees, launch of LME Clear and Stock Connect**

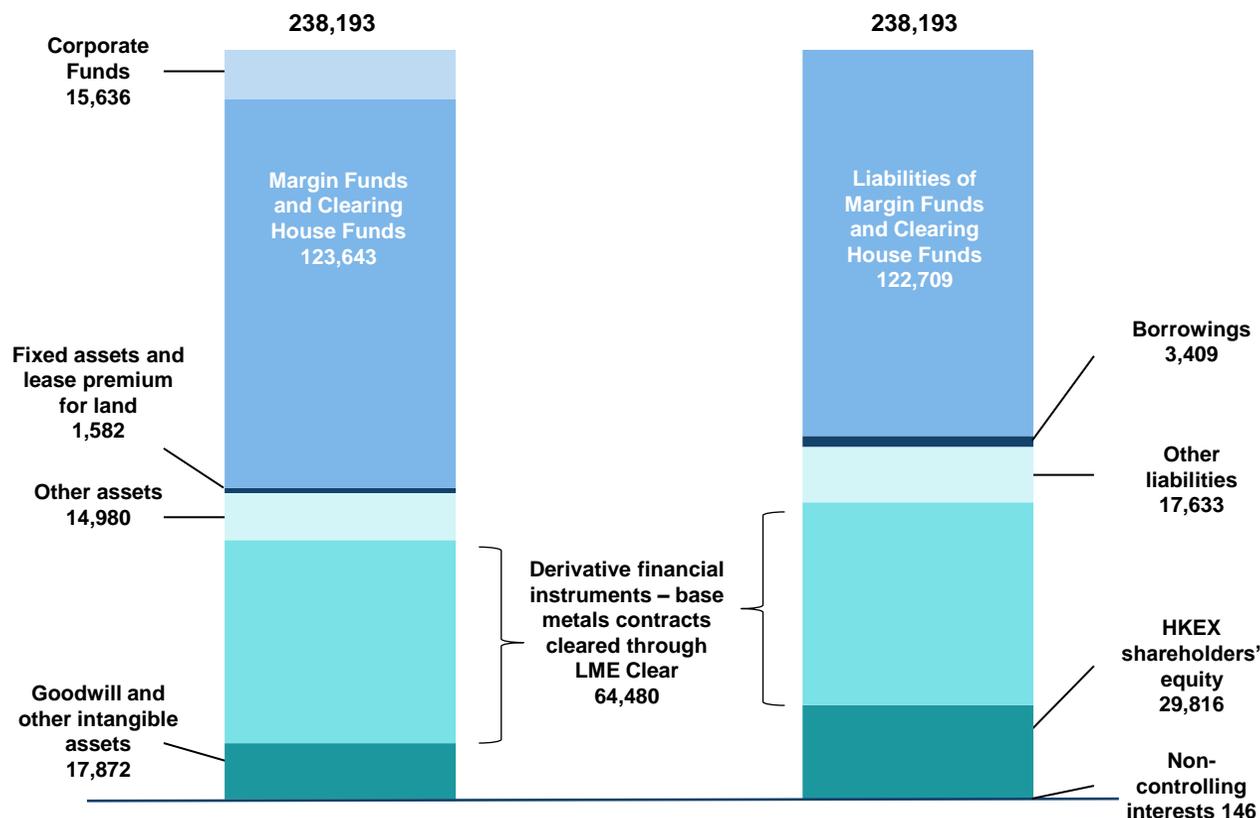


(1) Excludes depreciation and amortisation, costs relating to the acquisition of the LME Group, fair value loss on derivative component of convertible bonds, finance costs, and share of results of a joint venture

# Highlights – Balance Sheet

As of 31 December 2015

(\$ million, except %)



Leverage Ratios	
Total Debt	3,409
Net Debt <sup>(1)</sup>	-
Total Debt / Equity <sup>(2)</sup>	12%
Total Debt / EBITDA	0.3x
Net Debt / Equity	N/A

**Stronger balance sheet – reduced debt and increased equity and Corporate Funds**



(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 exclude non-controlling interests and designated reserves

# Agenda

1 Highlights

2 HKEX Group Financial Review

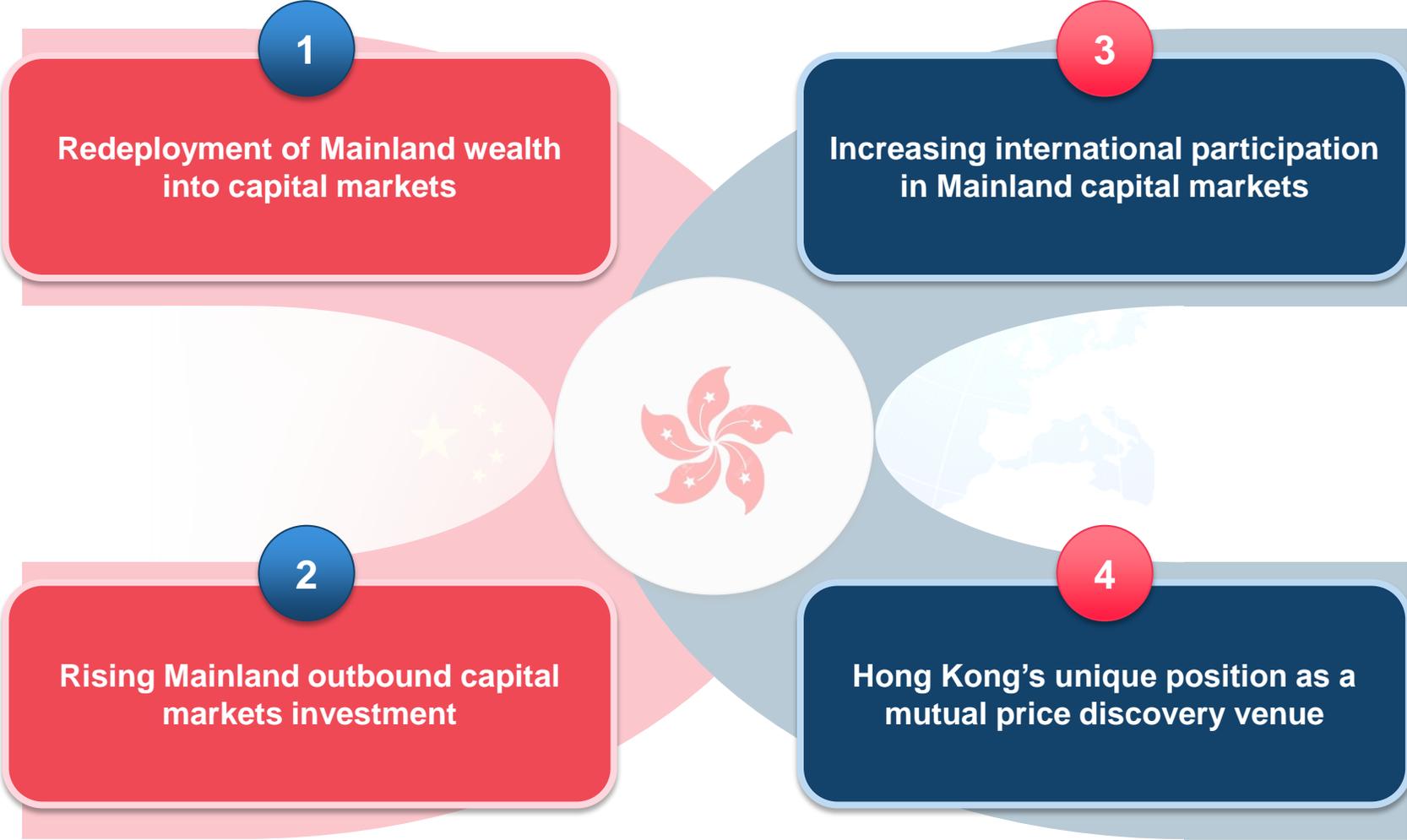
**3 HKEX Strategic Plan 2016-18**

---

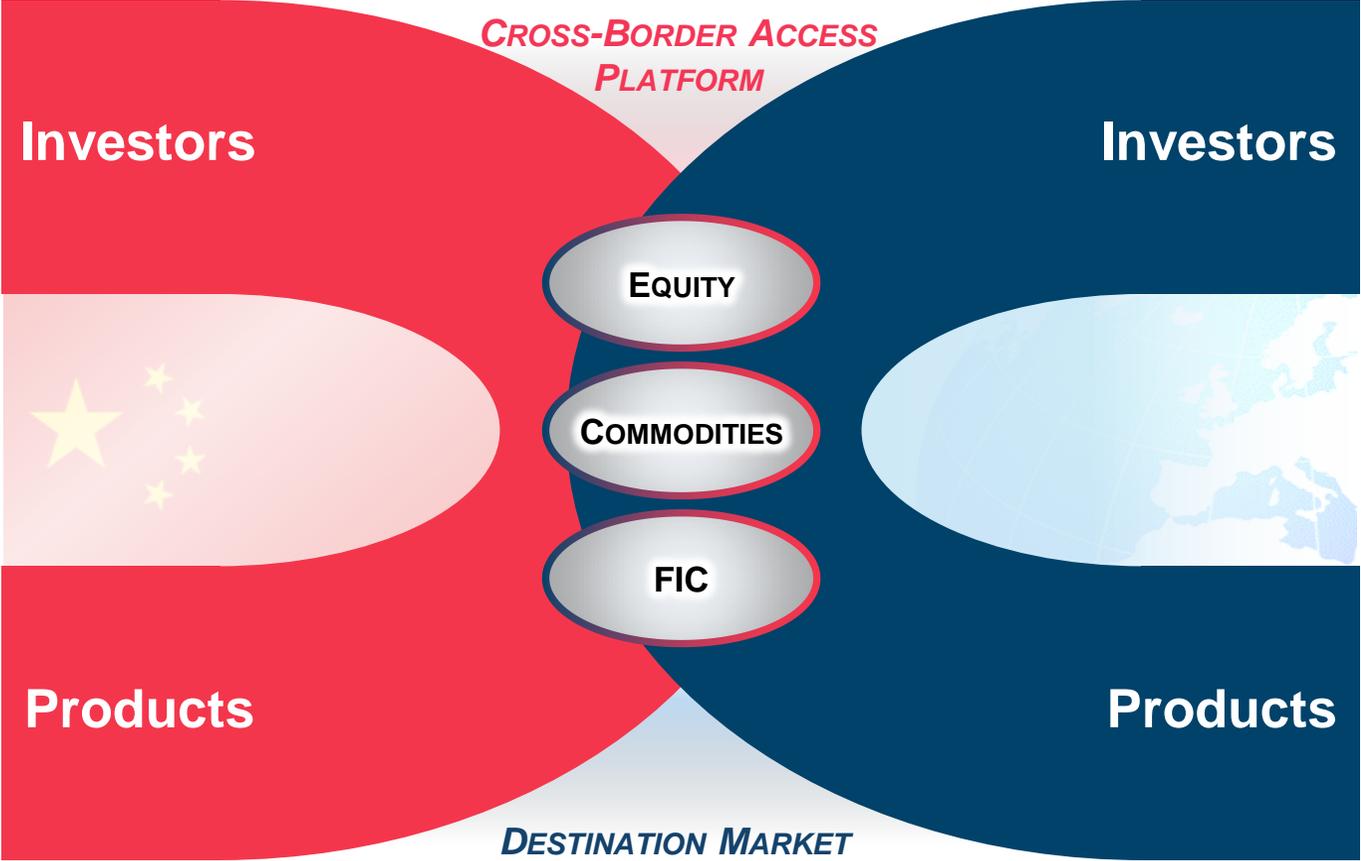
4 Appendix



# Key Drivers of Our 2016-18 Strategic Plan



# Our Value Proposition in the Mutual Market Era



**HKEX**

The most effective cross-border market access platform...

...and a unique destination market for products with both Chinese and international relevance...

...across three major asset classes



1

## Grow core listing franchise

- Venue of choice for Mainland and Hong Kong issuers
- Enhance listed company regulations
- GEM / Third Board?

2

## Extend mutual connectivity

- Add Shenzhen Connect
- Add ETFs and listed bonds
- “Primary Equity Connect”: catalyst for cross-border fundraising by international issuers

3

## Expand our derivatives suite

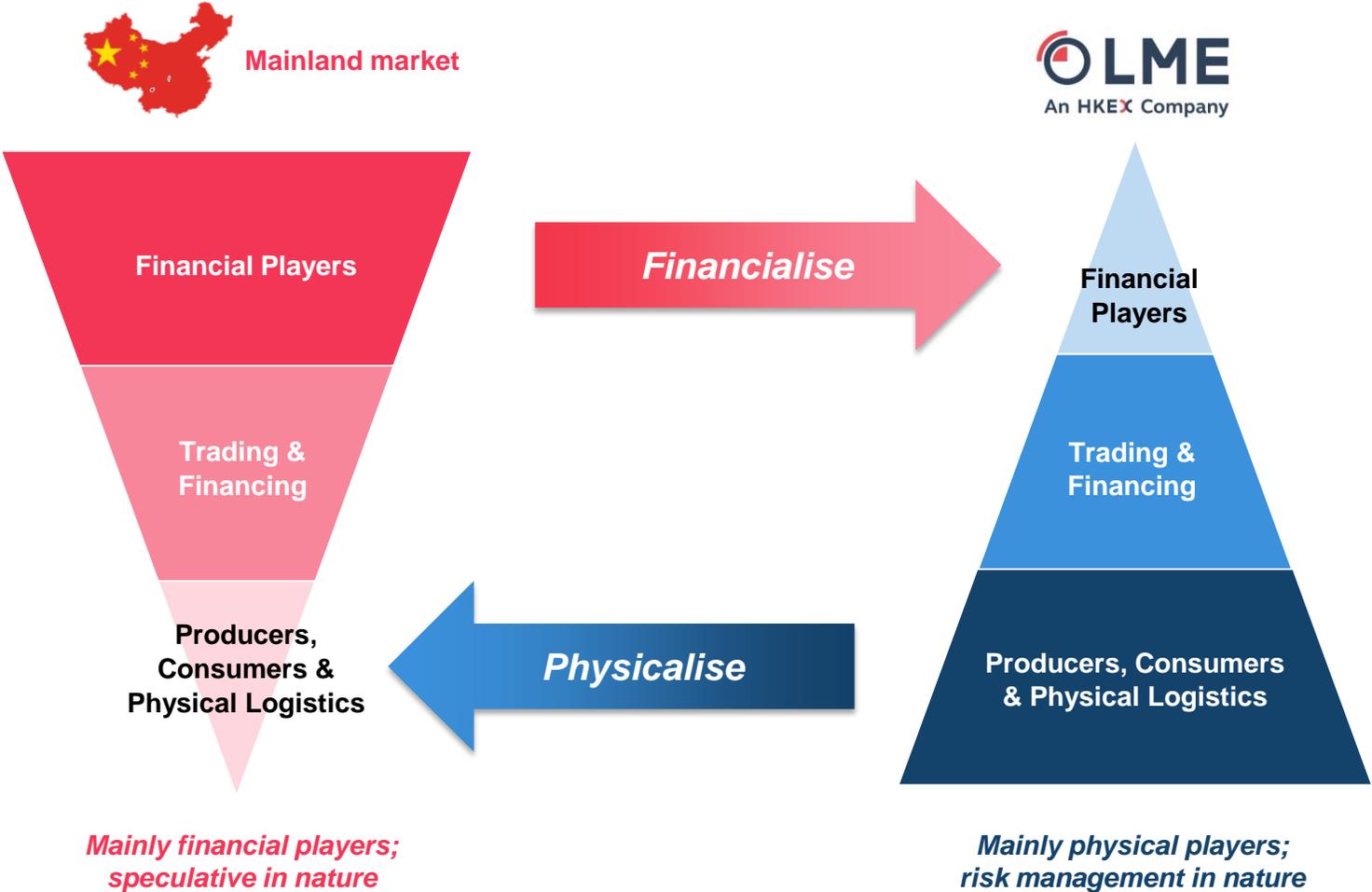
- A-share index futures and options
- A-H premium products
- Sector index products
- International benchmarks

*Build a more complete product ecosystem around Stock Connect, while extending its reach and scope*



# Commodities

Bringing the Mainland and international markets closer together



1

## Extend product complex

- Precious metals
- Ferrous and steel complex
- Trading on LME & HKFE

2

## London-Hong Kong Connect

- Bring greater Asian participation into LME
- Trading and clearing links through Hong Kong
- Initial focus on QDII-2 / “Westbound” investors

3

## Mainland spot commodity platform

- Huge unmet need in Mainland China
- LME’s physical market expertise
- HKEX is well placed to fill this gap in the market

4

## Connect with onshore exchanges

- Cross-listing of commodities contracts
- Internationalisation of Mainland benchmarks
- Ultimate goal of mutual market access

*“Physicalise” the Hong Kong & Mainland markets while “Financialising” the LME*



1

## New benchmark RMB derivatives

- Additional RMB currency pairs
- MOF T-Bond futures
- RMB interest rate products

2

## New OTC Clear products

- Cross-currency swaps
- FX deliverable forwards & swaps
- OTC FX options

3

## Bond Connect

- Institutional market
- Electronic trading
- Centralised settlement

*Vision to develop Hong Kong as a FIC risk management venue, catalysed by cross-border bond investment*



# Market Structure and Platform Initiatives

Market enhancements for 2016-18 to keep our markets modern, safe and compliant



# Q & A



# Agenda

1 Highlights

2 HKEX Group Financial Review

3 HKEX Strategic Plan 2016-18

---

4 Appendix



## Financial Highlights – Income Statement

<i>(\$ million, unless stated otherwise)</i>	FY 2015	% of Revenue & Other Income	FY 2014	% of Revenue & Other Income	Y-o-Y Change
<b>Results</b>					
Revenue and other income	13,375	100%	9,849	100%	36%
Operating expenses	(3,290)	(25%)	(2,958)	(30%)	11%
<b>EBITDA</b>	<b>10,085</b>	<b>75%</b>	<b>6,891</b>	<b>70%</b>	<b>46%</b>
Depreciation and amortisation	(684)	(5%)	(647)	(7%)	6%
<b>Operating profit</b>	<b>9,401</b>	<b>70%</b>	<b>6,244</b>	<b>63%</b>	<b>51%</b>
Finance costs and share of loss in a joint venture	(123)	(1%)	(206)	(2%)	(40%)
<b>Profit before taxation</b>	<b>9,278</b>	<b>69%</b>	<b>6,038</b>	<b>61%</b>	<b>54%</b>
Taxation	(1,347)	(10%)	(900)	(9%)	50%
Loss attributable to non-controlling interests	25	0%	27	0%	(7%)
<b>Profit attributable to HKEX shareholders</b>	<b>7,956</b>	<b>59%</b>	<b>5,165</b>	<b>52%</b>	<b>54%</b>
Basic earnings per share	\$6.70		\$4.44		51%
Diluted earnings per share	\$6.67		\$4.43		51%
<b>Average daily turnover on the Stock Exchange</b>	<b>\$105.6 bn</b>		<b>\$69.5 bn</b>		<b>52%</b>
<b>Capex</b>	<b>\$682 m</b>		<b>\$512 m</b>		<b>33%</b>



## Performance by Operating Segment – 2015

\$ million	Cash Equity	Equity & Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group FY 2015	Group FY 2014
<b>Revenue and other income</b>	<b>3,435</b>	<b>2,179</b>	<b>1,735</b>	<b>5,002</b>	<b>499</b>	<b>525</b>	<b>13,375</b>	<b>9,849</b>
<i>% of Group Total</i>	<i>26%</i>	<i>16%</i>	<i>13%</i>	<i>37%</i>	<i>4%</i>	<i>4%</i>	<b>100%</b>	<b>100%</b>
<b>Operating expenses</b>	<b>(531)</b>	<b>(446)</b>	<b>(546)</b>	<b>(692)</b>	<b>(148)</b>	<b>(927)</b>	<b>(3,290)</b>	<b>(2,958)</b>
<b>EBITDA</b>	<b>2,904</b>	<b>1,733</b>	<b>1,189</b>	<b>4,310</b>	<b>351</b>	<b>(402)</b>	<b>10,085</b>	<b>6,891</b>
<i>% of Group Total <sup>(1)</sup></i>	<i>29%</i>	<i>17%</i>	<i>12%</i>	<i>43%</i>	<i>3%</i>	<i>-4%</i>	<b>100%</b>	<b>100%</b>
<i>EBITDA margin</i>	<i>85%</i>	<i>80%</i>	<i>69%</i>	<i>86%</i>	<i>70%</i>	<i>N/A</i>	<b>75%</b>	<b>70%</b>
Depreciation and amortisation	(85)	(87)	(275)	(148)	(43)	(46)	(684)	(647)
Finance costs	-	-	-	-	-	(114)	(114)	(196)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)	(10)
<b>Profit before taxation</b>	<b>2,819</b>	<b>1,637</b>	<b>914</b>	<b>4,162</b>	<b>308</b>	<b>(562)</b>	<b>9,278</b>	<b>6,038</b>

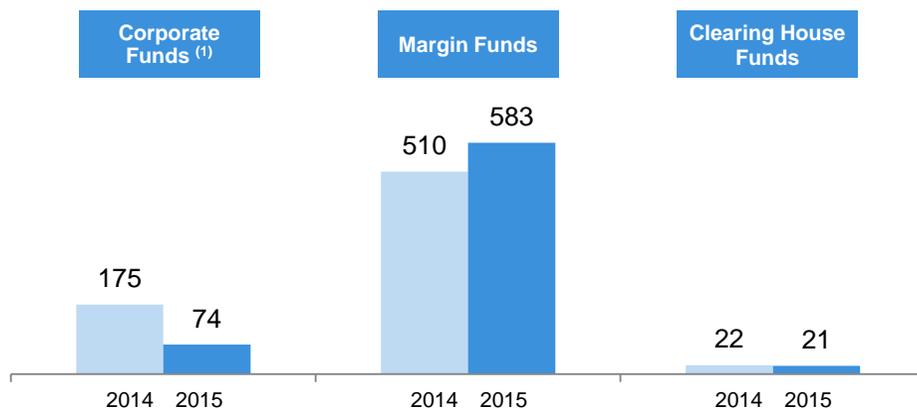
(1) % Share of Group EBITDA (including Corporate Items)



# Net Investment Income

2015: Total \$678m; 2014: Total \$707m

## Net Investment Income by Funds



## Net Investment Income by Sources



- Overall, investment income for 2015 declined by 4% versus 2014
- Investment returns fell in 2015 due to lower returns on Corporate Funds but partly offset by an increase in Margin Fund investment income
  - Corporate Funds  
Higher foreign exchange losses were incurred on GBP held to cover LME Group's operating costs (FX losses offset by lower USD operating costs of LME Group); Smaller mark-to-market gains for the year as equity investments suffered losses during the second half of 2015
  - Margin Funds  
Investment income was higher in 2015 versus 2014 due to larger average fund size on increased turnover and full-year operation of LME Clear. However, deposit yields have been declining in Hong Kong due to overabundance of HKD liquidity in the market, thus reducing the full earning potential of the larger investment fund size. Investment returns for LME Clear improved due to minor extension of Margin duration



(1) Includes \$31 million gain on sale of LCH (2014: fair value gain of LCH of \$23 million)

# Revenue by Operating Segment

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

## Cash segment:

- Trading tariff varies with number of transactions (not ADT)
- Increase in ADT for ETFs will lead to more trading fee exemptions for market makers (approx 50% of current volumes are exempt trades)
- Listing fees do not vary directly with ADT:
  - Initial listing fees from IPOs driven by overall equity funds raised as well as the number of IPOs
  - Annual listing fees vary with the number of companies listed on the Stock Exchange
- Market data fees do not vary directly with ADT
- Brokerage fees on IPO allotment and eIPO income are affected by IPO funds raised

## Equity & Financial Derivatives segment:

- Trading tariff varies with number of transactions (not ADT)
- Mix of products is significant
- Increases in ADV for futures and options may include a different proportion of lower fee HHI trades
- Fees charged for stock options are lower than other futures and options
- Listing fee income driven by the number of newly listed DWs and CBBCs
- Market data fees do not vary directly with ADT

## Commodities segment:

- Driven by ADV of metals contracts traded, and for 2015 vs. 2014, by fee commercialisation

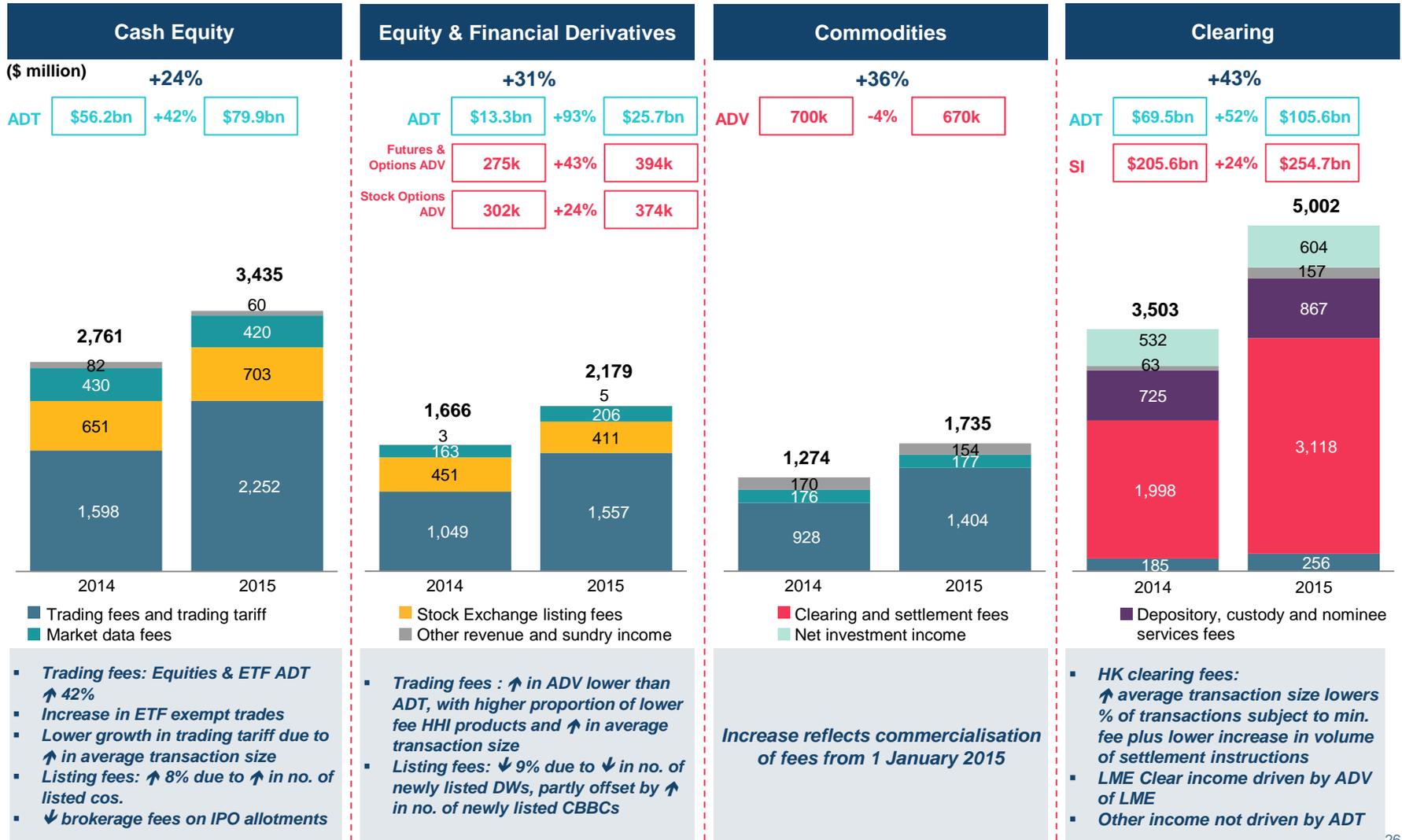
## Clearing segment:

- Clearing fees are directly related to ADT and the volume of settlement instructions. But, they are also impacted by the average transaction size which impacts the minimum, ad valorem and maximum fees charged.
- Higher average trade size generally indicates less transactions subject to the minimum fee, leading to lower average income per trade
- Depository, custody and nominee services fees are subject to seasonal fluctuations – Q1 being the lowest and Q2 the highest
- Investment income is driven by average margin fund size and short-term interest rates
- LME Clear clearing fees are driven by ADV of metals contracts traded



# Drivers of Revenue

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



# Thank you

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

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

