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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)

2019 FINAL RESULTS, DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

FINANCIAL AND STRATEGIC HIGHLIGHTS

Charles Li, Chief Executive said: “2019 was a good year for HKEX. Despite a challenging political and economic backdrop, we are reporting record revenue and other income, and profit, for the second consecutive financial year. Very strong Stock Connect revenue, a buoyant IPO market and good returns from investments offset macro-driven softness in trading volumes in the Cash and Derivatives Markets.

As we reach the mid-point of our three-year Strategic Plan 2019-2021, we remain confident that HKEX is very well-placed as both destination market and financial gateway to and from China, that our business is strongly positioned to capitalise on growth opportunities and that we are competitively positioned internationally.”

Financial Highlights

- Revenue and other income for 2019 was up 3 per cent against 2018, driven by record revenue and other income from Stock Connect, and an increase in net investment income, including fair value gains on collective investment schemes and higher interest income; but partly offset by a reduction in trading and clearing fees from lower trading volumes in Cash and Derivatives Markets
- Operating expenses fell 2 per cent against the prior year, attributable to a decrease in premises expenses as a result of adopting the new accounting standard for leases¹. Excluding such impact, operating expenses increased by 6 per cent, due to higher staff and IT costs
- EBITDA² was up 4 per cent against 2018, with EBITDA margin at 75 per cent, 1 per cent higher than 2018
- Profit attributable to shareholders rose by 1 per cent, to a record high of \$9,391 million

Strategic Highlights

- Hong Kong's IPO market again ranked first globally in terms of IPO funds raised in 2019, with several of the world's biggest 2019 listings, including Alibaba and Budweiser APAC
- Stock Connect Northbound ADT saw a record high in 2019, more than double the previous record achieved in 2018, partly attributable to the successful inclusion of China A shares in MSCI, FTSE Russell and S&P Dow Jones indices
- Bond Connect ADT reached RMB10.7 billion, nearly triple that of 2018
- The Closing Auction Session was expanded in October 2019 to cover all equities and funds
- Derivatives Markets trading hours were extended from 1 a.m. to 3 a.m. since June 2019
- Weekly Index Options, Indian Rupee Currency Futures, and USD-denominated London Metal Mini Futures for six base metals were newly launched in 2019
- Inline Warrants were introduced in July 2019, with a total of 922 listed as at 31 December 2019
- Inclusion of eligible companies with weighted voting rights in Southbound Trading of Stock Connect from October 2019
- Upgrade of derivatives platforms and new Orion Trading Platform – China Stock Connect successfully rolled out in May and August respectively
- The LME released a set of Responsible Sourcing requirements for all traded metals and decided to proceed with the warehouse reform proposals in 2019

| | 2019 \$m | 2018 \$m | Change |
|-------------------------------------|---------------|-------------|--------|
| Revenue and other income | 16,311 | 15,867 | 3% |
| Operating expenses | 4,048 | 4,110 | (2%) |
| EBITDA | 12,263 | 11,757 | 4% |
| Profit attributable to shareholders | 9,391 | 9,312 | 1% |
| Basic earnings per share | \$7.49 | \$7.50 | (0%) |
| First interim dividend per share | \$3.72 | \$3.64 | 2% |
| Second interim dividend per share | \$2.99 | \$3.07 | (3%) |
| | \$6.71 | \$6.71 | 0% |
| Dividend payout ratio | 90% | 90% | - |

| | 2019 | 2018 | Change |
|---|--------------|-------|--------|
| KEY MARKET STATISTICS | | | |
| ADT of equity products traded on the Stock Exchange (\$bn) | 69.2 | 84.2 | (18%) |
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn) | 18.0 | 23.2 | (22%) |
| ADT traded on the Stock Exchange (Headline ADT) (\$bn) | 87.2 | 107.4 | (19%) |
| ADV of derivatives contracts traded on the Futures Exchange ('000 contracts) | 626 | 687 | (9%) |
| ADV of stock options contracts traded on the Stock Exchange ('000 contracts) | 442 | 517 | (15%) |
| Chargeable ADV ³ of metals contracts traded on the LME ('000 lots) | 617 | 627 | (2%) |
| ADT of Bond Connect (RMBbn) | 10.7* | 3.6 | 197% |

* New record high in 2019

- As a result of the adoption of HKFRS 16: Leases, operating lease rentals are no longer recognised under operating expenses. Please refer to note 1 to the Consolidated Financial Statements for further details.
- For the purposes of this announcement, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint ventures and other non-recurring costs arising from the proposed combination with LSEG.
- Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades. Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II.

CHAIRMAN'S STATEMENT

Our focus on our Strategic Plan 2019-2021 and our vision to be the global markets leader in the Asian time zone has sustained and enhanced our competitiveness throughout 2019. This has been achieved despite broad global political and economic uncertainties and market instability, aggravated further by local social unrest. Against this challenging macroeconomic backdrop, our solid performance reflects the resilience and strength of our business. Our expectation is that the year ahead will prove no less demanding, but we are confident that we have the right governance, structure and strategy, coupled with the requisite experience and skills, to underpin our future success.

Our Performance

Total revenue and other income for the year ended 31 December 2019 was \$16.3 billion, up 3 per cent from 2018, resulting in record-high profit attributable to shareholders of \$9,391 million, up 1 per cent.

The macro environment dampened investor confidence, impacting volumes and trading which fell from their record highs of 2018. New trading records, however, were set across various individual derivatives market products. Northbound Trading through Stock Connect, continued setting new highs, following successful inclusion of A shares into various major international stock indices. Bond Connect also celebrated record levels in trading volume and number of investors. Hong Kong's IPO market was again the world's largest in 2019, the seventh time in 11 years.

In the UK, the LME had a solid year with chargeable average daily volume of metals contracts traded on the LME broadly in line with 2018.

Dividend

The Board declared payment of a second interim dividend of \$2.99 per share which, together with the first interim dividend of \$3.72 per share paid in September 2019, results in our full-year dividend remaining at last year's record high of \$6.71 per share.

Strategic Update

We made strong progress on our strategic priorities in 2019. Our commitment to strengthen our global competitiveness will remain a core focus for us in the years ahead. Further enhancements were made to Stock Connect to include Hong Kong-listed eligible companies with weighted voting rights (WVR) in Southbound Trading for the first time in October. We also continued our effort to drive product innovation across assets classes in Hong Kong and London.

Throughout the year, technological transformation remained core to our strategy, helping to drive business growth and capture new opportunities. In support of our strategy to elevate our technological capabilities and develop strong alliances with technology partners, we acquired a majority stake in BayConnect Technology Company Limited (formerly known as Shenzhen Ronghui Tongjin Technology Co., Ltd.), a Shenzhen-based financial markets technology firm; and invested in a minority interest in Fusion Bank Limited, a licensed virtual bank in Hong Kong.

Market Quality

As Asia's premier exchange group, we are responsible for ensuring market efficiency and promoting the quality of our markets for the long-term sustainable benefit of all.

During 2019, we undertook a series of market microstructure enhancements to boost overall market liquidity and competitiveness, by extending the After-Hours Trading Session by two hours to 3 a.m., and expanding the Closing Auction Session to cover all equities and funds in the securities market.

On the regulatory front, the Exchange implemented various Listing Rule amendments to address backdoor listings and shell activities and to safeguard market quality. As part of our focus on sustainability, we announced in December 2019 consultation conclusions and amendments to the ESG Reporting Guide to further improve issuers' governance and disclosure of ESG activities.

In the UK, in October 2019 the LME announced its "Responsible Sourcing" requirements for all its listed brands, following extensive market engagement and a formal market-wide consultation with the aim of building stronger, sustainable global metal supply chains. As part of its ongoing effort to optimise its warehouse network, the LME announced in November 2019 its decision to proceed with the warehouse reform proposals following the July 2019 market consultation. These efforts help reinforce the LME's leadership role in the metals industry.

Specific details of the Group's performance, achievements, and market initiatives in 2019 are set out in the Chief Executive's Review and Business Review sections of this announcement.

Corporate Responsibility

At HKEX, we believe strong corporate governance is key to good corporate citizenship and business success. As both a regulator and market operator, it is both our responsibility and privilege to promote sustainability, leading by example in embracing best-in-class governance standards and CSR practices.

With this in mind, we established an International Advisory Council in February 2019 to provide the HKEX Board with insight and expertise from around the world, on business, economics, finance and technology.

To provide opportunities for further improvement of our boards' effective functioning, we engaged an independent external consultant to evaluate the performance of the boards of HKEX and of its two UK subsidiaries in 2019. The evaluation concluded that all three boards are effective, highlighting in particular that the HKEX Board operates effectively and has made material progress since the prior independent evaluation in 2017.

Following the rollout of our CSR Strategy and Plan for 2019-2021 in February 2019, we continued to expand our CSR efforts and commitment, underpinned by our purpose, "to promote and progress our financial markets and the communities they support for the prosperity of all". During the year, we launched and consolidated a large number of CSR initiatives and programmes focusing on strong governance, diversity and financial literacy. We were in particular proud to be recognised for the \$1 billion we have raised for The Community Chest of Hong Kong in the last 20 years. We launched the HKEX Foundation, contributed over 3,000 hours of volunteering services to our communities, and hosted a wealth of internal and external events to drive our sustainability agenda. Details can be found in our 2019 CSR Report, which will be available on the HKEX Group website together with the 2019 Annual Report.

Outlook

Global stock markets in early 2020 have been adversely affected by concerns over the COVID-19 outbreak and this, together with the ongoing Sino-US trade tensions, the upcoming US presidential election and the impact of Brexit, will undoubtedly shape the performance of capital markets in 2020.

Our focus as a business, will remain on the successful execution of our strategic plan and working together with our regulators and other stakeholders to support the prosperity and sustainability of our markets and communities. We are confident that the efforts we are making will position us strongly for the next phase of our journey. Our relevance and unique role in many ways is perhaps more important than it has ever been, and we remain optimistic about the opportunities that this will present.

During the year we were deeply saddened to lose a member on the HKEX Board, the late Mary Ma, and our sincere condolences go to her family.

On behalf of the Board, I would like to express our gratitude to members of the International Advisory Council for their invaluable advice and guidance. I would also thank my fellow Board members for their support and contributions throughout 2019. Importantly, this year the staff of HKEX have gone “above and beyond” on many occasions and on behalf of the Board I would like to thank them for their dedication and commitment, during what has been, at times, an incredibly challenging period.

Finally, I would like to extend my utmost appreciation to our Shareholders and other valued stakeholders for their continued confidence and support. We will continue to work hard to deliver the ongoing and future success of HKEX.

Laura M CHA
Chairman

CHIEF EXECUTIVE'S REVIEW

2019 was a very busy year for the Group. The macroeconomic environment was characterised by notable volatility; internationally, Sino-US trade disputes and the ongoing uncertainty of Brexit added to global economic and market unpredictability. Despite the heightened geopolitical uncertainties, trade tensions and local social unrest, Hong Kong's financial markets have been resilient, fulfilling their pivotal role as East-West Connector and celebrating their leadership once again as the world's largest IPO capital market for the seventh time in 11 years. 2019 also marked the first year in the delivery of our latest three-year Strategic Plan and we are pleased to report good progress in implementing our strategic initiatives against the plan's three pillars: China Anchored; Globally Connected; and Technology Empowered. With strong foundations built up over previous years and our increasing relevance as an international financial centre, I am confident that HKEX and Hong Kong will prosper as we step into a new decade.

Outstanding Market Performance

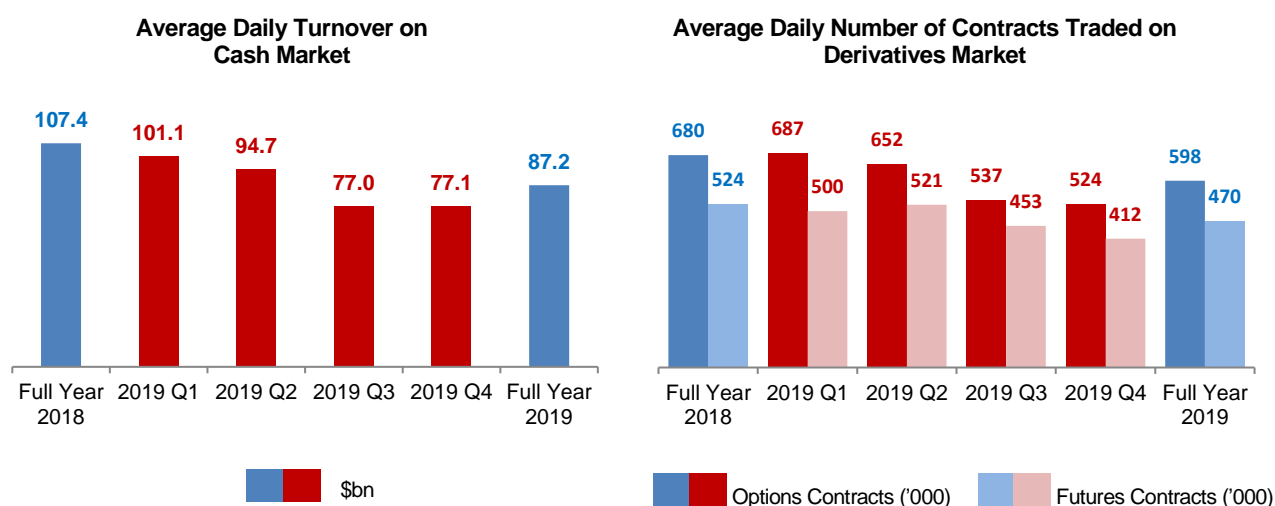
| Market highlights in 2019 |
|--|
| <ul style="list-style-type: none">• Our IPO market in Hong Kong again ranked first globally, with total IPO funds reaching \$314.2 billion.• Stock Connect Northbound ADT reached a new record of RMB41.7 billion, increasing 104 per cent from 2018.• Bond Connect trading volumes also saw record-high with ADT reaching RMB10.7 billion, increasing 197 per cent from 2018.• Turnover of securitised derivatives (DWs, CBBCs and Inline Warrants) remained the world's highest for the 13th consecutive year.• Turnover of RMB Currency Futures – USD/CNH Futures reached another milestone at 1,938,891 contracts. |

Despite volatile sentiment, our primary market had another excellent year. Hong Kong topped the world's IPO fundraising league table in 2019: a total of 183 company listings raised \$314.2 billion in total, a 9 per cent increase over 2018 and the highest amount raised in a single year since 2010. Hong Kong has also become the second largest biotech fundraising centre in the world, less than two years after we launched the most significant listing reforms in a quarter century. We were pleased to welcome 10 Weighted Voting Rights (WVR) and/or biotech companies last year under the New Chapters⁴, with IPO funds raised of \$117.3 billion – compared with seven listings raising \$94.2 billion in 2018. The Group also welcomed some of the world's biggest IPOs of the year, including Alibaba's \$101 billion secondary listing in November; and Budweiser APAC's \$45 billion IPO in September. The Alibaba offering marked the first wholly electronic public offering in Hong Kong, signalling further progress on IPO settlement cycle-shortening, with trading commencing in T+4 business days compared with the traditional minimum of T+5. Our existing listed companies raised \$140.0 billion, a decrease of 45 per cent over 2018. Total funds raised in the year reached \$454.2 billion, a decrease of 17 per cent over 2018.

On the regulatory front, HKEX implemented a number of Listing Rule amendments to enhance the quality and reputation of the Hong Kong markets, including, but not limited to, changes related to improving the quality and reliability of financial information, backdoor listing, continuing listing criteria and other rule amendments. Early in 2020, we have also launched a market consultation on proposals to allow corporate entities as WVR beneficiaries. Our belief that ESG considerations are fundamental to any business' success has been further anchored through significant enhancements to the ESG governance and disclosure framework for listed companies, which we were pleased to publish in our consultation conclusions in December 2019.

⁴ Refers to the Main Board Listing Rules Chapters 8A, 18A and 19C

Our secondary markets continued to demonstrate resilience and strength in 2019, performing well against a challenging macroeconomic backdrop. The full-year 2019 ADT for the Cash Market reached \$87.2 billion, a decrease of 19 per cent compared with 2018, while total equity turnover reached \$15,597.9 billion, a 20 per cent decrease from 2018. The market capitalisation of the securities market reached \$38,165.0 billion at the end of December 2019, setting a new daily record on 30 December and marking an increase of 28 per cent compared with end of December 2018. Hong Kong has again taken the crown as the world's largest structured products market, for the 13th consecutive year, with total securitised derivatives (DWs, CBCBs and Inline Warrants) turnover of \$4,413.7 billion, though down 23 per cent on 2018. Derivatives turnover in the year was 262,885,798 contracts, with 115,759,091 and 147,126,707 contracts for futures and options respectively. Our mini HSI and mini HSCEI Options have again set new open interest records during the year, surpassing records set in 2018. Open interest of total futures and options at 2019 year-end was 9,698,551 contracts, down from 10,594,737 at the previous year-end.



Strategic Development Review

China Anchored

As China's capital markets continue to internationalise, our role in driving flows of global liquidity into China-underlying, both onshore and offshore, has become increasingly significant.

We celebrated the 5th anniversary of Shanghai-Hong Kong Stock Connect and the 3rd anniversary of Shenzhen-Hong Kong Stock Connect last year, both of which have fundamentally changed and enhanced regional capital markets in the relatively short time that they have been established. With the successful inclusion of A shares into international benchmark indices such as MSCI, FTSE Russell and S&P Dow Jones indices, Stock Connect volumes saw several record-breaking days throughout the year. Total Northbound turnover reached RMB9,757 billion, an increase of 109 per cent, breaking the previous record set in 2018, while Southbound turnover reached \$2,481 billion. Having reached consensus with the two Mainland exchanges on the arrangements for the inclusion of eligible companies with WVR, we added two eligible WVR companies to Southbound Trading in October. This reflects the commitment by the three exchanges to refine and enhance our mutual market access programme between Mainland China and Hong Kong, promoting the long-term sustainable development of Asia's capital markets. As of the end of 2019, net capital inflows since launch into the Mainland and into Hong Kong reached RMB993.5 billion and \$1,058.3 billion respectively.

Bond Connect gained significant momentum during 2019, with daily and monthly trading volumes setting multiple new records throughout the year. Total full year trading volume and ADT rose to RMB2,633.3 billion and RMB10.7 billion respectively, representing a 198 per cent and 197 per cent increase compared with 2018. With Bloomberg added as a second trading platform in January 2019, Bloomberg Barclays Index inclusion of onshore China bonds in April 2019 and in anticipation of other inclusions, market participation in Bond Connect has expanded significantly: as at the end of 2019, 1,601 global investors across 31 jurisdictions had been on-boarded, more than tripling that in 2018.

On the product front, RMB Currency Futures volumes continued to grow significantly, setting new record USD/CNH futures volume of 1,938,891 contracts, a 10 per cent growth compared with 2018.

Globally Connected

In September, we made a proposal to the Board of London Stock Exchange Group plc to combine our two companies to create a global market infrastructure leader. After detailed analysis and extensive discussions with shareholders, advisors and other stakeholders, we decided in October not to proceed further with the proposed offer. The decision was made with the best interest of our shareholders and stakeholders in mind: we remain firmly focused on delivering the key initiatives in our Strategic Plan, including our commitment to the Globally Connected pillar.

We have been actively expanding our product ecosystem across different asset classes to further enhance the attractiveness of Hong Kong's market as the venue of choice for global investors. In terms of structured products, the first Two-Time Inverse Product, the first actively-managed ETF and the first Inline Warrant were listed in May, June and July respectively. Weekly Index Options (including Weekly Hang Seng Index Options and Weekly Hang Seng China Enterprises Index Options) and Indian Rupee Currency Futures were also launched in September and November respectively. In the commodities space, we launched six HKEX Gold Futures Indices and six USD-denominated London Metal Mini Futures in June and August respectively.

Separately, we introduced a number of market microstructure enhancements in the year, focusing on meeting the diverse trading needs of global investors. We further extended the After-Hours Trading Session in our derivatives market to 3 a.m. (June) and further expanded the Closing Auction Session (CAS) to cover all equities and funds (October). Enhancement plans to the Pre-opening Session (POS) and Volatility Control Mechanism (VCM) were released in December with the goal of boosting market liquidity. As we celebrated 20 years of ETF trading in Hong Kong, a number of market structure reforms were introduced to help enhance market liquidity. Through these initiatives, we aim to enhance liquidity, cost effectiveness of and accessibility to our cash and derivatives markets and remain competitive amidst a growing trend of global investors adopting algorithmic- and quantitative-driven trading strategies. We will continue to streamline the client on-boarding process and provide new product support.

In London, the LME launched seven new cash-settled metal futures in March, including two hot-rolled coil, two aluminium premiums, alumina, cobalt and molybdenum, to reflect global metals markets' needs to reduce losses and protect against price volatility. In October, a set of "Responsible Sourcing" requirements for all traded metals was published, following a market-wide consultation. The LME further released measures aimed at optimising its warehousing network, providing greater transparency to global inventory levels. In the Mainland, the QME launched four products in 2019 – copper rod, copper cathode, aluminium ingot and billet – and continued to steadily expand its warehouse network in China.

Volume cleared by OTC Clear reached a record high with a total of US\$198.3 billion of notional amount cleared, 65 per cent higher than 2018.

Technology Empowered

Over the course of last year, we rolled out a number of key initiatives and programmes on the technology front to upgrade our core infrastructure, enhance our competitiveness, and embrace emerging technologies. Client Connect, a key component of the Next Generation Post Trade Programme, was launched to promote more secured and efficient client access. We further upgraded our Derivatives Market platform and rolled out Orion Trading Platform – China Stock Connect (OTP-CSC), a new Stock Connect trading system, to provide greater flexibility to support new functionalities and increased trading capacity requirements. We also continued to make progress on the delivery of Robotic Process Automation across the business to increase operational efficiency. The HKEX Innovation Lab, set up in August 2018, continued to explore, accelerate and deploy new technologies to promote the Group's core operations.

Aside from modernising our internal capabilities, we have sought to capture the benefits of the accelerating technology evolution in our industry by investing in a number of projects and organisations. In June we completed our acquisition of a majority equity interest in BayConnect (formerly known as Ronghui Tongjin), a specialist financial markets technology firm. BayConnect will reduce HKEX's reliance on third-party vendors, help manage development costs and reduce implementation risks. In January this year, we became a minority shareholder in Huakong TsingJiao

Information Science (Beijing) Limited, a Beijing-based data technology company, to create a partnership that seeks to help the Group realise our vision of building a data marketplace. HKEX also became a shareholder of Fusion Bank Limited, one of the eight virtual banks that obtained licenses from the Hong Kong Monetary Authority.

Strategic Outlook

As we enter 2020 and a new decade, both our regional and global markets will unquestionably remain sensitive to geopolitical and macroeconomic uncertainties, as well as the epidemic situation of COVID-19. Our focus will be on maintaining operational resilience in times of unpredictability and challenges: I am confident that the success of the Group will continue to be underpinned by long-term growth in China, the continuous strength of Hong Kong as a vibrant international financial centre and our focus on embracing technology. It is also our top priority to further build, strengthen and diversify our capabilities in market connectivity, to develop our talent pipeline and to reinforce Hong Kong's relevance to both the East and West as the decade unfolds. In doing so we will realise our vision of being the "Global Markets Leader in the Asian Time Zone."

Remaining competitive and forward-thinking, skilfully executing on our strategy, we must have the courage to explore new opportunities, to experiment, and to move steadily and boldly towards greater success. Our relevance and our prosperity will be pinned to it.

Appreciation

2019 was a year when the Group demonstrated extraordinary resilience. This would not have been possible without the hard work, diligence and professionalism of our HKEX Group staff. I would also like to take this opportunity to express my most sincere gratitude to the senior executives who have recently left the Company, including David Graham (Former Head of Listing) and Roland Chai (Former Head of Post Trade), as well as Joseph Mau (Group Company Secretary) who will retire on 31 March 2020, for their contribution and service throughout the years. The new members to our management, together with the existing team, will continue to add to the Group's strength and diversity with their collective institutional experience and market insight.

I would also like to thank the SFC, the Hong Kong Monetary Authority, market participants, our partners and stakeholders for their ongoing support of our initiatives. I look forward to working with you closely in the future, particularly in the continued successful implementation of the HKEX Strategic Plan 2019-2021.

Finally, I am grateful to my fellow members of the Board for their unconditional trust and support. I am confident that with our conviction, our commercial focus and our resilience, we are well-placed to meet future challenges head on, and that we are strongly positioned to take advantages of the opportunities presented to us.

LI Xiaojia, Charles

Director and Chief Executive

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

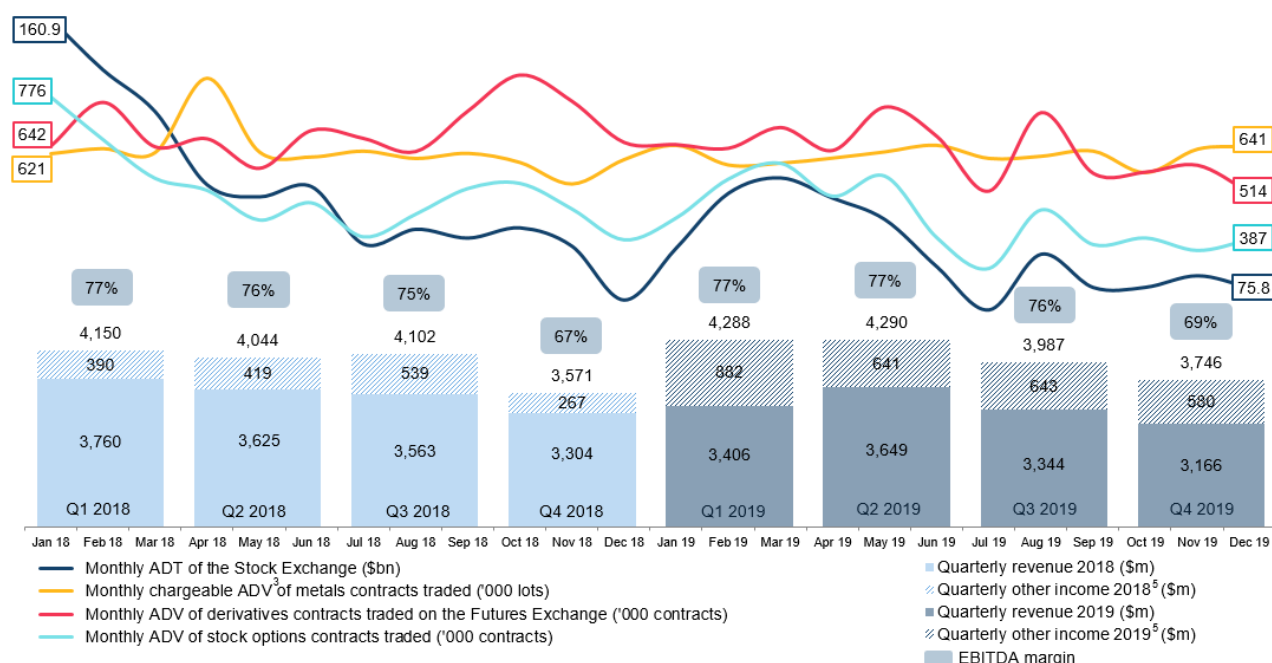


Fig. 1 – Market activity and Group's revenue and other income

HKEX's business performed well in 2019, reporting the highest ever revenue and other income and profit, despite subdued market sentiment driven by trade tensions between China and the US, social unrest in Hong Kong, a weakening economic outlook and uncertainties over Brexit. Stock Connect saw record revenue and other income, at a level of \$1 billion. Furthermore, HKEX topped the global exchanges for IPO funds raised, for the seventh time in 11 years, welcoming a number of the world's biggest 2019 listings including Alibaba.

Revenue and other income in 2019 reached a record of \$16.3 billion, 3 per cent higher than 2018, driven by higher net interest income from Corporate Funds and Margin Funds, an increase in net investment income from fair value gains on collective investment schemes, and record income generated from Stock Connect. This was partly offset by the reduction in trading and clearing fees from a 19 per cent drop in Cash Market headline ADT⁶ and moderate declines in trading volumes in the Derivatives and Commodities Markets.

Operating expenses in 2019 decreased by 2 per cent compared with 2018, due to lower premises expenses as a result of adopting the new accounting standard for leases¹. Excluding the impact of this accounting change, operating expenses increased by 6 per cent against 2018, attributable to increased headcount and annual payroll adjustments, and higher maintenance expenses for new IT systems and upgraded networks.

With a phase one trade deal between China and the US, there are signs of recovery in investor confidence, although the current COVID-19 outbreak brings renewed uncertainty. The Group will continue to manage costs prudently whilst pursuing key strategic initiatives for future growth.

⁵ Includes net investment income and sundry income

⁶ ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange

As set out in the Group's Strategic Plan 2019-2021, our vision is to be ***the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World***. To support this vision, HKEX has focused on the 3 pillars of China Anchored, Globally Connected, and Technology Empowered.

Progress made up to the date of this announcement is set out in the table below and further elaborated upon in the Business Update sections in each of the operating segments:

China Anchored

- **Enhance Stock Connect:** Inclusion of eligible companies with WVR in Southbound Trading; launch of the investor identification regime for Southbound Trading
 - **Enhance Bond Connect:** Enhancements to connectivity, market infrastructure and investor admission processes, including addition of Bloomberg as a second trading platform, introduction of Primary Market Information Platform as the first English language portal, launch of Negotiable Certificate of Deposit primary subscription service, offering of T+3 settlement cycle and launch of E-Filing System for investor admission
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Globally Connected

- **Improve our market microstructure:** Further expansion of Closing Auction Session; extension of After-Hours Trading in Derivatives Market to 3 a.m.; the introduction of buy-in exemption for Exchange Traded Products (ETPs); enhancement of the Third Party Clearing arrangement allowing a Non-Clearing Participant to appoint different General Clearing Participants for clearing and settling trades; extension of trading hours and contract offerings for RMB currency derivatives products and kerb trading extension for the LME's six main contracts; introduction of new membership category for Registered Intermediating Brokers and Membership Incentive Programme at the LME
 - **Enhance our product ecosystem across asset classes:** Launch of the International Central Securities Depository settlement model for ETPs; launch of Inline Warrants, Weekly Index Options, Indian Rupee Currency Futures, six gold futures indices and USD-denominated London Metal Mini Futures for six base metals in Hong Kong; seven new cash-settled metals futures contracts on the LME; and four new base metals products on the QME
 - **Develop a listing and capital raising hub for major global and regional companies:** Listing of several of the world's biggest listings in 2019, including Alibaba and Budweiser APAC; introduction of the respective derivatives products; launch of a market consultation on a proposal to allow corporate entities as WVR beneficiaries
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Technology Empowered

- **Modernise our core systems:** Upgrade of Derivatives Market platform; launch of Client Connect; and launch of Orion Trading Platform – China Stock Connect
 - **Leverage new technology:** Continued development of HKEX Innovation Lab
 - **Expand our technology resources:** Completed acquisition of a 51 per cent equity interest in BayConnect; invested in a minority interest in Huakong TsingJiao Information Science (Beijing) Limited with the vision of developing a scalable data marketplace platform
 - **Unlock new growth opportunities:** Signed a MOU with Ping An Insurance (Group) Company of China Limited to explore cooperation and collaboration in Fintech and data analytics
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Cash Segment

Key Market Indicators

| | 2019 | 2018 | Change |
|--|---------------------------|--------|--------|
| ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn) | 69.2 | 84.2 | (18%) |
| ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect ² (RMBbn) | 21.3⁵ | 11.6 | 84% |
| ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect ² (RMBbn) | 20.4⁵ | 8.8 | 132% |
| ADT of Bond Connect (RMBbn) | 10.7^{4,5} | 3.6 | 197% |
| Average daily number of trades of equity products traded on the Stock Exchange ^{1,2} ('000) | 1,157 | 1,225 | (6%) |
| Number of newly listed companies on Main Board ³ | 168⁵ | 143 | 17% |
| Number of newly listed companies on GEM | 15 | 75 | (80%) |
| Number of companies listed on Main Board at 31 Dec | 2,071 | 1,926 | 8% |
| Number of companies listed on GEM at 31 Dec | 378 | 389 | (3%) |
| Total | 2,449 | 2,315 | 6% |
| Market capitalisation of companies listed on Main Board at 31 Dec (\$bn) | 38,058 | 29,723 | 28% |
| Market capitalisation of companies listed on GEM at 31 Dec (\$bn) | 107 | 186 | (42%) |

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes \$6.8 billion (2018: \$8.2 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$4.0 billion (2018: \$4.5 billion) under Shenzhen-Hong Kong Stock Connect

2 Includes buy and sell trades under Stock Connect

3 Includes 20 transfers from GEM (2018: 10)

4 Excludes the special trading days of 29 September 2019 (Sunday) and 12 October 2019 (Saturday), which are trading days for China but holidays for global investors

5 New record highs in 2019

| | 2019 \$bn | 2018 \$bn | Change |
|---|--------------|--------------|--------|
| Total equity funds raised on Main Board | | | |
| – IPOs | 313.2 | 282.9 | 11% |
| – Post-IPO | 136.7 | 250.3 | (45%) |
| Total equity funds raised on GEM | | | |
| – IPOs | 1.0 | 5.1 | (80%) |
| – Post-IPO | 3.3 | 5.8 | (43%) |
| Total | 454.2 | 544.1 | (17%) |

Stock Connect – New Record Highs in 2019

| | 2019 | 2018 | Change |
|---|--------------|-------|--------|
| Northbound Trading value (RMBbn) | 9,757 | 4,674 | 109% |
| Total revenue and other income ¹ (\$m) | 1,009 | 678 | 49% |

1 \$699 million of which arose from trading and clearing activities (2018: \$418 million)

Analysis of Results

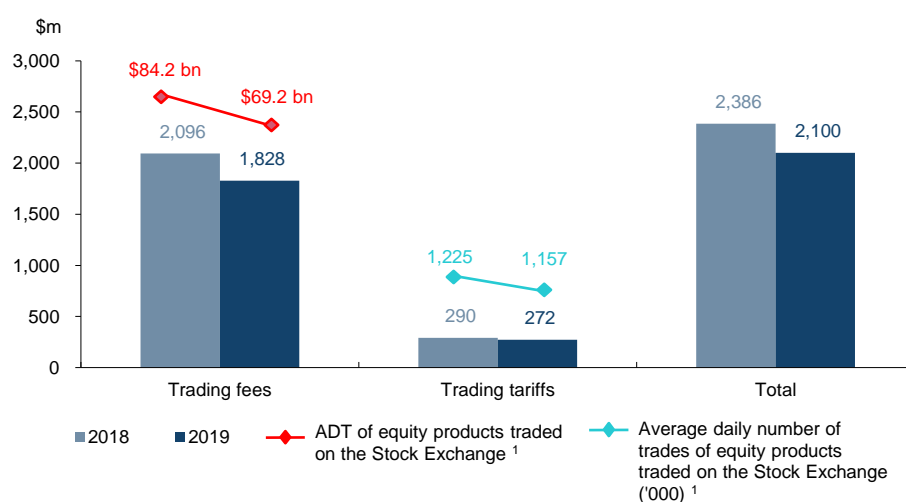
Summary

| | 2019 \$m | 2018 \$m | Change |
|---|-------------|-------------|--------|
| Trading fees and trading tariffs ¹ | 2,100 | 2,386 | (12%) |
| Stock Exchange listing fees ¹ | 954 | 899 | 6% |
| Market data fees ¹ | 508 | 496 | 2% |
| Other revenue | 84 | 74 | 14% |
| Total revenue | 3,646 | 3,855 | (5%) |
| Operating expenses ² | (603) | (584) | 3% |
| EBITDA | 3,043 | 3,271 | (7%) |
| EBITDA margin | 83% | 85% | (2%) |

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

2 Includes Listing Division costs relating to equity products traded on the Stock Exchange

Trading Fees and Trading Tariffs

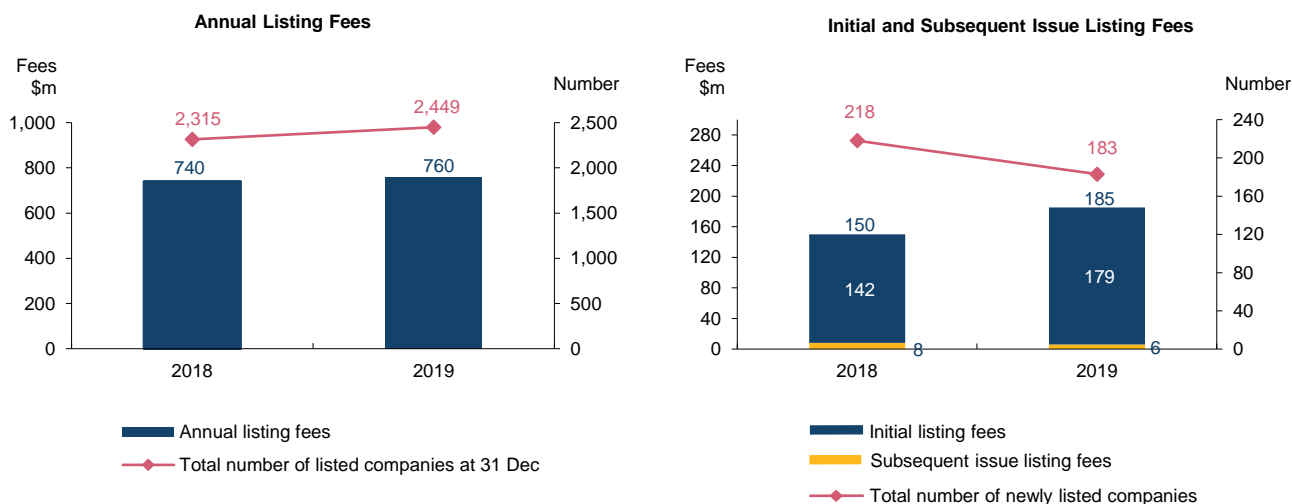


Trading fees dropped by \$268 million (13 per cent), less than the 18 per cent decrease in equity products ADT. This was primarily due to record high fees from Northbound Trading of Stock Connect. Trading tariffs dropped by 6 per cent, in line with the decrease in number of trades of equity products.

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

Stock Exchange Listing Fees

| | 2019 \$m | 2018 \$m | Change |
|---|-------------|-------------|--------|
| Annual listing fees | 760 | 740 | 3% |
| Initial and subsequent issue listing fees | 185 | 150 | 23% |
| Others | 9 | 9 | 0% |
| Total | 954 | 899 | 6% |



Annual listing fees increased by 3 per cent, less than the increase in total number of listed companies, as there were more newly listed companies in 2H 2019.

Initial and subsequent issue listing fees increased by 23 per cent mainly due to an increase in forfeitures.

EBITDA

Operating expenses increased by \$19 million, or 3 per cent, due to additional headcount for strategic projects and annual payroll adjustments, increased IT maintenance expenses for Stock Connect, partly offset by lower premises expenses (\$47 million) as a result of adopting the new accounting standard for leases¹. EBITDA margin dropped from 85 per cent to 83 per cent due to the decrease in revenue and the increase in operating expenses.

Business Update

The Hong Kong Cash Market showed resilient performance in 2019. The benchmark HSI closed at 28,189.75 on 31 December 2019, up 9 per cent from 31 December 2018. On 30 December 2019, market capitalisation reached a record high of \$38,362 billion. Market sentiment and trading activities were relatively strong in Q1 2019 with headline ADT at \$101.1 billion, which moderated to \$77.1 billion in Q4. Annual headline ADT was at \$87.2 billion, 19 per cent down from 2018 which saw a record high headline ADT of \$107.4 billion.

Stock Connect

Stock Connect celebrated its fifth anniversary in 2019, with Northbound Trading achieving record turnover for the third consecutive year. Headline ADT (buy+sell) was RMB41.7 billion, a 104 per cent increase from 2018. Southbound Trading was also active with ADT (buy+sell) of \$10.8 billion in 2019. As a result, Stock Connect generated record high revenue and other income for the third consecutive year, at a level of \$1 billion in 2019.

Northbound Trading operated smoothly during the three inclusion processes of China A shares in MSCI Indexes, the two inclusion processes in FTSE Russell Indexes and the inclusion process in S&P Dow Jones Indices. On 26 November 2019, during the last tranche of the three inclusion processes of the MSCI Indexes, Northbound Trading turnover (buy+sell) reached a daily record high of RMB124.3 billion.

In March 2019, the SFC clarified that the Institutional Professional Investor requirement for trading ChiNext shares under Northbound Trading of Stock Connect would apply only to a corporation licensed for Type 9 regulated activity, not to its underlying funds, accounts or customers. The clarification further covered asset management companies regulated overseas in November 2019. The clarification improved ChiNext accessibility and was widely welcomed by market participants.

On 28 October 2019, the market welcomed the inclusion of eligible companies with WVR in Southbound Trading of Stock Connect. Two WVR stocks, namely Meituan Dianping and Xiaomi Corporation, have been actively traded by Southbound investors since the inclusion.

In December 2019, the China Securities Regulatory Commission and the SFC jointly announced the launch of the investor identification regime for Southbound Trading, which came into effect on 13 January 2020. This is expected to further facilitate Stock Connect's orderly operations.

Market Structure Development

HKEX continues its focus on improving market microstructure. Effective 8 October 2019, Closing Auction Session was expanded to cover all equities and funds. Market participants welcomed this mechanism, and benefited from its utilisation in particular on index rebalancing days.

A consultation on Volatility Control Mechanism (VCM) and Pre-opening Session (POS) enhancements, and the possibility of a market-wide circuit breaker (CB), was released on 16 August 2019, with consultation conclusion issued on 13 December 2019. In view of majority support for the proposed enhancements to VCM and POS, HKEX plans to implement both enhancements in 2020. The market views for a CB, however, were divided, hence HKEX will not proceed with its implementation at this current time.

Issuer Business

Hong Kong topped the world's IPO fundraising tables in 2019 – the seventh time in the last 11 years⁷, welcoming 183⁸ listed companies and raising a total of \$314.2 billion. HKEX also welcomed several of the world's biggest listings in 2019⁷, including the secondary listing of Alibaba. Alibaba also became the first IPO in Hong Kong that was successfully launched without any physical forms or printed prospectus, with all the subscription payments to Share Registrar being made electronically. The issuer also has an arrangement in place to shorten the conversion of American Depositary Receipt to Ordinary Share (and vice versa) from up to 14 business days to as short as two business days.

The momentum for biotech listing continued to be strong in 2019 following the introduction of the Biotech Companies chapter (Chapter 18A of the Main Board Listing Rules) in April 2018. The Stock Exchange welcomed 16 biotech and healthcare companies (including 9 biotech companies listed under Chapter 18A) in 2019, raising a total of \$39.1 billion. In May 2019, HKEX organised "HKEX Biotech Week 2019", which attracted over 1,000 scientists, biotech entrepreneurs, investors, technology experts and policymakers, to share industry insights and trends on the biotech industry and capital markets.

With a view to further strengthening Hong Kong's status as a leading IPO and fund raising centre, HKEX focused on expanding its reach and engagement overseas, particularly in Southeast Asia during the year. Looking forward, HKEX will continue to focus on promoting Hong Kong as a premier listing platform for high growth and innovative companies across the globe.

ETF Market Development

During 2019, HKEX introduced a series of market structure enhancements for Exchange Traded Products (ETPs) (which comprise ETFs and Leveraged and Inverse Products (L&I Products)), including the Designated Specialist programme, the International Central Securities Depository settlement model and a new buy-in exemption for ETP market makers. In addition, the first two-time Inverse Product and the first actively-managed ETF were listed on the Stock Exchange on 28 May 2019 and 18 June 2019, respectively.

On 12 November 2019, HKEX celebrated the 20th anniversary of the launch of ETFs on HKEX. The market capitalisation of Hong Kong's ETP market was \$679 billion as of 31 December 2019 and the ADT of ETPs was \$5.0 billion in 2019.

⁷ Source: Dealogic

⁸ Includes transfers of listing from GEM to the Main Board

Bond Connect

Trading through Bond Connect gained significant momentum during 2019, with monthly trading volumes reaching new records seven times during the year, the latest being RMB376 billion in November 2019. Single-day trading volume also recorded an all-time high of RMB30.3 billion on 21 October 2019. Overall, ADT of Bond Connect rose to RMB10.7 billion in 2019, nearly triple that of 2018.

Market participation in Bond Connect expanded significantly in 2019, amid the inclusion of Chinese RMB-denominated bonds in the Bloomberg Barclays Global Aggregate Indices from April 2019. As of 31 December 2019, a total of 1,601 institutional investors from 31 jurisdictions globally were admitted to Bond Connect, up 218 per cent from 503 institutional investors as of 31 December 2018.

In 2019, the following enhancements to Bond Connect's connectivity, market infrastructure as well as investor admission processes were achieved:

- (i) Bloomberg was welcomed as a second trading platform on 17 January 2019;
- (ii) Primary Market Information Platform (PMIP), the first English language portal for the dissemination of Chinese primary bond market information, was launched in February 2019. As of 31 December 2019, PMIP had disclosed pre- and post-issuance information of over 1,200 new issues;
- (iii) Negotiable Certificate of Deposit primary subscription service was launched in April 2019;
- (iv) T+3 settlement cycle was made available starting from August 2019, enabling global investors to choose from T+0, T+1, T+2, or T+3 settlement for Bond Connect trades. The offering of longer settlement cycle provides greater flexibility for investors' settlement needs; and
- (v) E-Filing System was launched in December 2019 to enhance transparency and efficiency in the investor onboarding process.

Chinese bonds gained sizable representation in global benchmark bond indices in 2019, and such representation is expected to further expand in 2020. Chinese RMB-denominated bonds were added to the Bloomberg Barclays Global Aggregate Indices from 1 April 2019, phased over a 20-month period. In September 2019, JPMorgan Chase & Co. announced that Chinese government bonds will be included in its Government Bond Index-Emerging Markets global diversified and narrow diversified indices starting from 28 February 2020.

Listed Bond Market Development

In 2019, there were 420 new listings of debt securities on the Stock Exchange, with total funds raised of \$1,402 billion, surpassing the previous record set in 2017. As part of HKEX's continuing efforts to develop its fixed-income markets, a concurrent bond offering issued by Agricultural Development Bank of China to both retail and institutional investors was successfully completed in May 2019. HKEX continues its efforts in 2019 in promoting green investments and actively participated in a number of green finance initiatives, including signing up to the "Green Investment Principles for the Belt and Road" to promote green investment in the Belt & Road region in April 2019, and participating as the supporting organisation of Task Force on Climate-related Financial Disclosures in June 2019. In September 2019, HKEX supported the Hong Kong Green Finance Association in publishing the Green Bonds Guide, which laid out the core principles and provides guidance on the listing of green bonds in Hong Kong. Later in October 2019, HKEX supported the United Nations World Green Organisation Climate Finance & Sustainable Investing Conference to help promote Hong Kong as an international hub for green finance.

Listing Regulation

In 2019, the Stock Exchange issued various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2019 as well as the proposals under review in 2020 will be set out in the 2019 Listing Committee Report.

Key Proposals and Conclusions in 2019

| | Consultation paper ^{1,2} | Consultation conclusions ¹ | Effective date of changes (if any) |
|--|-----------------------------------|---------------------------------------|------------------------------------|
| <ul style="list-style-type: none"> Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments | Nov 2017 | Feb 2019 | 1 Mar 2019 |
| <ul style="list-style-type: none"> Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments | Jun 2018 | Jul 2019 | 1 Oct 2019 |
| <ul style="list-style-type: none"> Review Structure in relation to Listing Committee Decisions | Aug 2018 | Jan 2019 | 6 Jul 2019 |
| <ul style="list-style-type: none"> Proposal relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements | Sep 2018 | May 2019 | 1 Sep 2019 |
| <ul style="list-style-type: none"> Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules | May 2019 | Dec 2019 | 1 Jul 2020 |
| <ul style="list-style-type: none"> Codification of General Waivers and Principles relating to IPOs and Listed Issuers and Minor Rule Amendments | Aug 2019 | 1H 2020 (tentative) | - |
| <ul style="list-style-type: none"> Review of Chapter 37 – Debt Issues to Professional Investors only | Dec 2019 | 1H 2020 (tentative) | - |

1 All the consultation papers and conclusions are available under the News (Market Consultations) section of the HKEX Market website.

2 In January 2020, the Stock Exchange published a consultation paper on Corporate WVR Beneficiaries to seek public feedback on a proposal to allow corporate entities to benefit from WVR, subject to additional conditions and investor safeguards.

Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules

- Issued series of listing decisions on interpretation of the Listing Rules, including reverse takeover transactions and reasons for rejection of listing applications in 2018
- Published reports on review of listed issuers' annual report disclosure and Environmental, Social and Governance disclosures
- Published the inaugural issue of the semi-annual Listed Issuer Regulation Newsletter which provides insights and observations on listed companies' compliance, as well as highlights matters that may assist listed companies in compliance
- Published new guidance materials on (i) sanctions risks; (ii) competition between the businesses of a new applicant and its controlling shareholder; (iii) accounting policies and stock-taking procedures performed by the reporting accountants; (iv) presentation of the non-GAAP financial measures in a listing document; (v) application of the reverse takeover Rules; (vi) large scale issues of securities; and (vii) sufficiency of operations
- Updated various guides on the Stock Exchange's practices and procedures for handling listing-related matters to assist listed issuers in meeting their listing obligation

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Stock Exchange's IPO Work

| | 2019 | 2018 |
|---|------|------|
| • Number of listing applications vetted ¹ | 467 | 511 |
| • Number of applications brought to the Listing Committees (or their delegates) for decisions ² | 221 | 250 |
| – within 120 calendar days | 117 | 85 |
| – between 121 to 180 calendar days | 67 | 71 |
| – after more than 180 calendar days | 37 | 94 |
| • Number of applications for which approval was granted in principle ³ | 209 | 245 |
| • Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters | 127 | 238 |
| – Average response time (in business days) | 10 | 10 |
| • Number of listing applications for transfer of listing from GEM to Main Board accepted | 27 | 21 |
| • Applications listed ⁴ | 197 | 234 |
| • New listing applications rejected ⁵ | 26 | 25 |
| • New listing applications withdrawn | 21 | 14 |
| • New listing applications returned | 4 | - |
| • Application in process at year-end | 126 | 167 |

1 Comprises 300 (2018: 372) new applications and 167 (2018: 139) existing applications brought forward from previous year

2 Refers to listing applications heard by the Listing Committees (or their delegates) for the first time and excludes Chapter 20 listing applications

3 At the end of 2019, 33 (2018: 35) approved applications had not yet been listed, and 5 (2018: 7) approved applications had lapsed during the year.

4 Includes 14 investment vehicles listed on Main Board and deemed new listings (2018: 16)

5 Includes seven rejection decisions (2018: nil) in 2019 which were subsequently reversed upon review. One rejection decision is currently under review.

Number of Compliance and Monitoring Actions

| | 2019 | 2018 |
|---|--------|--------|
| • Announcements of issuers vetted | 62,977 | 59,861 |
| • Circulars of issuers vetted | 2,350 | 2,083 |
| • Share price and trading volume monitoring actions undertaken ¹ | 7,939 | 7,945 |
| • Complaints handled | 438 | 404 |
| • Cases (including complaints) referred to Listing Enforcement Team for investigation | 74 | 81 |

1 In 2019, monitoring actions undertaken included 677 enquiries (2018: 794) on unusual share price and trading volume movements, and the actions undertaken led to 29 resumption announcements (2018: 24) on trading suspensions.

Long Suspension

| Status of Long Suspended Companies | Main Board | | GEM | |
|--|------------|------|------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Resumption of trading of securities during the year | 22 | 10 | 4 | 2 |
| Cancellation of listing after expiry of prescribed remedial periods during the year | 7 | - | 2 | - |
| Cancellation of listing under grandfathered provisions during the year (Main Board Rule 6.01A(2)(a) or (c) or GEM Rule 9.14A(2)(b)) | 6 | 4 | 4 | - |
| Voluntary withdrawal of listing during the year | 1 | - | - | - |
| Companies suspended for 3 months or more at year-end | 68 | 71 | 15 | 11 |

Updates of the work on listed companies' compliance and insights and observations that may assist listed companies in compliance can be found at the semi-annual "Listed Issuer Regulation Newsletter".

Listing Enforcement

The enforcement statistics set out below represent a high-level overview of the enforcement work undertaken in 2019 by the Stock Exchange.

Further details and information relating to enforcement work (including the Stock Exchange's general approach, disciplinary procedures and recent cases) can be found at the HKEX Market website and the bi-annual "Enforcement Newsletter", and will be set out in the 2019 Listing Committee Report.

Enforcement Statistics

| | 2019 | 2018 |
|--|------|------|
| Investigations ^{1, 2, 3} | 112 | 111 |
| Public sanctions ⁴ | 13 | 21 |
| Warning / caution letters ⁵ | 15 | 14 |

1 Figures cover all cases which were investigated in 2019 (both concluded cases and ongoing investigations at year-end).

2 At the end of 2019, there were 28 ongoing investigations (2018: 35).

3 In 2019, 4 enforcement cases (2018: 3) originating from complaints were subject to enforcement investigation.

4 The number of investigation cases that resulted in a public sanction. Actions taken at a lower level in the same case, ie, private reprimand, are not included. Included in the 2018 figure was a number of public sanctions against directors for their failure to co-operate with the Stock Exchange's investigation.

5 The warning and caution letters were issued in circumstances where disciplinary proceedings before the Listing Committee were not considered appropriate. These are recorded as part of the compliance history for the relevant party.

Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments in proportion to the listing fee income of the two segments.

Equity and Financial Derivatives Segment

Key Market Indicators

| | 2019 | 2018 | Change |
|---|--------|--------|--------|
| ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn) | 18.0 | 23.2 | (22%) |
| Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000) | 296 | 372 | (20%) |
| ADV of derivatives contracts traded on the Futures Exchange ¹ ('000 contracts) | 624 | 685 | (9%) |
| ADV of stock options contracts traded on the Stock Exchange ('000 contracts) | 442 | 517 | (15%) |
| Number of newly listed DWs | 8,939 | 11,794 | (24%) |
| Number of newly listed CBBCs | 24,732 | 26,678 | (7%) |
| ADV of contracts traded during After-Hours Trading ¹ ('000 contracts) | 82 | 89 | (8%) |

| | At 31 Dec 2019 | At 31 Dec 2018 | Change |
|--|-------------------|-------------------|--------|
| Open interest of futures and options ¹ ('000 contracts) | 9,695 | 10,593 | (8%) |

¹ Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

Analysis of Results

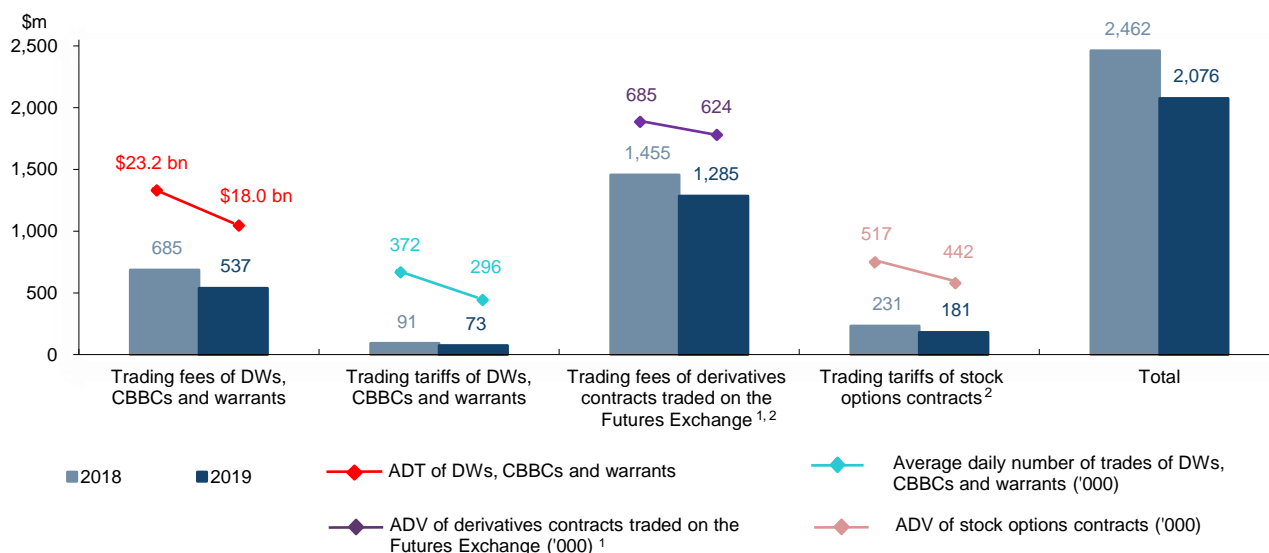
Summary

| | 2019 \$m | 2018 \$m | Change |
|---|-------------|-------------|--------|
| Trading fees and trading tariffs ¹ | 2,076 | 2,462 | (16%) |
| Stock Exchange listing fees | 679 | 822 | (17%) |
| Market data fees ¹ | 218 | 210 | 4% |
| Other revenue | 15 | 9 | 67% |
| Total revenue | 2,988 | 3,503 | (15%) |
| Operating expenses ² | (551) | (573) | (4%) |
| EBITDA | 2,437 | 2,930 | (17%) |
| EBITDA margin | 82% | 84% | (2%) |

¹ Excludes cash equities (which are included under the Cash segment)

² Includes Listing Division costs apportioned to DWs, CBBCs and warrants traded on the Stock Exchange

Trading Fees and Trading Tariffs



1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

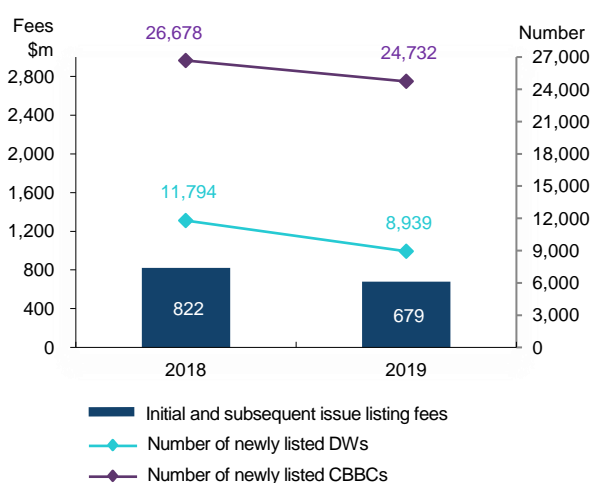
2 Excludes trading fees and trading tariffs allocated to the Post Trade segment (Derivatives contracts traded on the Futures Exchange – 2019: \$308 million; 2018: \$338 million; stock options contracts – 2019: \$72 million; 2018: \$84 million)

Trading fees and trading tariffs for the segment are generated from the trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariffs for futures and options contracts is allocated to the Post Trade segment as the trading and clearing fees of these products are bundled together in the form of trading fees and tariffs.

Trading fees and trading tariffs from DWs, CBBCs and warrants dropped by \$166 million or 21 per cent, reflecting the 22 per cent decrease in ADT.

Driven by decreased volatility in 2019, ADV of derivatives contracts traded on the Futures Exchange and stock options contracts both dropped from the record highs in 2018. As a result, derivatives trading fees of the Futures Exchange and trading tariffs for stock options contracts dropped by 12 per cent and 22 per cent respectively compared with 2018.

Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees decreased by \$143 million or 17 per cent, reflecting the decrease of newly listed DWs and CBBCs compared with the record highs in 2018.

EBITDA

Operating expenses decreased by 4 per cent due to lower premises expenses (\$41 million) as a result of adopting the new accounting standard for leases¹, partly offset by an increase in IT costs and staff costs due to annual payroll adjustments. EBITDA margin dropped from 84 per cent to 82 per cent due to the decrease in revenue but partly offset by the decrease in operating expenses.

Business Update

Despite a challenging environment, the Hong Kong Derivatives Market showed resilient performance in 2019. The total number of futures and options contracts traded in 2019 was 262,227,110⁹, 11 per cent down from the previous record of 2018. A number of futures and options contracts reached new record highs (see below).

New Record Highs – Full Year Trading Volume

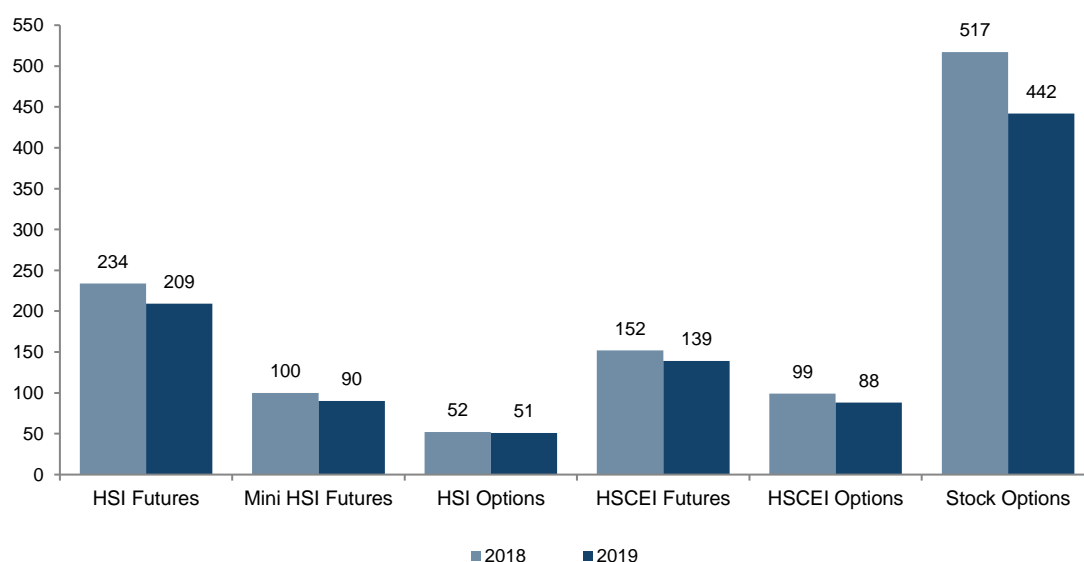
| | 2019 Number of contracts | Pre-2019 record Number of contracts |
|---|-----------------------------|--|
| Mini HSI Options | 3,343,429 | 2,461,296 (2018) |
| Stock Futures | 917,358 | 863,027 (2018) |
| RMB Currency Futures - USD/CNH Futures | 1,938,891 | 1,755,130 (2018) |
| MSCI AC Asia ex Japan NTR ¹⁰ Index Futures | 237,533 | 5,545 (2018) |

New Record Highs – Single-day Trading Volume and Open Interest

| | Single-day Trading Volume | | Open interest | |
|--|---------------------------|------------------------|----------------|------------------------|
| | Date (2019) | Number of contracts | Date (2019) | Number of contracts |
| HSCEI Futures | 25 Feb | 477,061 | N/A | N/A |
| HSI Options | 26 Aug | 133,419 | N/A | N/A |
| Mini HSI Options | 26 Aug | 36,928 | 28 Aug | 66,588 |
| Mini HSCEI Options | N/A | N/A | 26 Sep | 34,635 |
| MSCI AC Asia ex Japan NTR ¹⁰ Index Futures | 16 Dec | 56,378 | 17 Sep | 46,698 |
| RMB Currency Futures - USD/CNH Futures | 5 Aug | 24,345 | N/A | N/A |

Average Daily Volume of Major Futures and Options Contracts

Number of
contracts
'000



⁹ Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts which are included under the Commodities segment

¹⁰ MSCI All Country Asia ex Japan Net Total Return

After-Hours Trading Extension

On 17 June 2019, HKEX extended trading hours to 3 a.m. for 27 products including equity index futures and options, currency futures, and commodity futures. Trading volume in the After-Hours Trading (T+1) Session reached daily record high of 248,853⁹ contracts on 13 August 2019, and the percentage of volume traded in the T+1 Session over the T Session also reached a daily record high on 23 August 2019 at 49.4 per cent. Furthermore, ADV for equity index options traded in the T+1 Session grew 59 per cent year-on-year with ADV of over 10,000 contracts in 2019.

Equity Futures and Options Market Development

HKEX introduced Weekly HSI Options and Weekly HSCEI Options (Weekly Index Options) on 16 September 2019. As of 31 December 2019, ADV of Weekly Index Options since launch was 4,670 contracts.

In 2019, HKEX introduced futures and options of Alibaba and Budweiser APAC, allowed issuers to list DWs of the two companies, and designated the shares of the two companies as securities eligible for short selling, all of which provided more investment options and risk management tools for investors.

Fixed Income and Currency (FIC) Development

RMB currency derivatives market attained record trading volume in 2019, with 1.9 million contracts of USD/CNH Futures contracts traded, a 10 per cent increase compared with the previous record set in 2018. The contract also attained a new record daily turnover of 24,345 contracts on 5 August 2019.

HKEX further expanded its fixed income and currency product coverage to address evolving risk management needs of market participants. The Indian Rupee (INR) Currency Futures, which include INR/USD Futures and INR/CNH Futures contracts, were launched on 4 November 2019, with the latter being the first listed futures of the INR/CNH pair globally.

Enhancements on trading hours and contract offerings were made to the RMB currency derivatives products. The opening time for trading USD/CNH Options contracts was changed from 9:00 a.m. to 8:30 a.m. starting from 18 November 2019, allowing market participants to benefit from efficient cross-product trading. Two additional calendar quarter months (ie, the 5th and 6th calendar quarter months) were introduced to USD/CNH Options and cash-settled CNH/USD Futures contracts since 19 November 2019 to facilitate market participants in managing their long-term RMB exposure.

The sixth annual HKEX RMB FIC Pan-Asian Conference was hosted in Hong Kong and Singapore in April 2019, attracting over 1,200 industry experts and professionals across Asia. Key regulatory and business issues were discussed, including the development of the bond market in China and the bond issuance business in Hong Kong.

Structured Products

Hong Kong is the world's most actively-traded market for structured products¹¹. ADT of CBBCs, DWs and warrants was \$18.0 billion, accounting for 21 per cent of total market turnover. In particular, ADT of CBBCs reached a record high of \$8.1 billion in 2019, up 9 per cent from 2018. A new product type being the first in Asia, Inline Warrants, was launched in July 2019. Inline Warrants complement HKEX's Strategic Plan in developing Hong Kong into a trading hub for structured products in the Asia Pacific time zone and offer an alternative investment product to serve different trading strategies. As at 31 December 2019, 922 Inline Warrants were listed.

11 Source: World Federation of Exchanges

Commodities Segment

Key Market Indicators

| | 2019 | 2018 | Change |
|--|------|------|--------|
| ADV of metals contracts traded on the LME ('000 lots) | | | |
| Aluminium | 236 | 234 | 1% |
| Copper | 131 | 137 | (4%) |
| Zinc | 109 | 117 | (7%) |
| Nickel | 89 | 83 | 7% |
| Lead | 42 | 45 | (7%) |
| Ferrous | 2 | 2 | 0% |
| Precious | 1 | 3 | (67%) |
| Others | 7 | 6 | 17% |
| Total chargeable ADV excluding Admin Trades ¹ | 617 | 627 | (2%) |
| Chargeable Admin Trades ¹ | 46 | - | N/A |
| Non-chargeable Admin Trades ¹ and other non-chargeable trades | 34 | 103 | (67%) |
| Total ADV | 697 | 730 | (5%) |

¹ Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II. These trades were not chargeable prior to 1 May 2019, but became chargeable at US\$0.04 per contract thereafter.

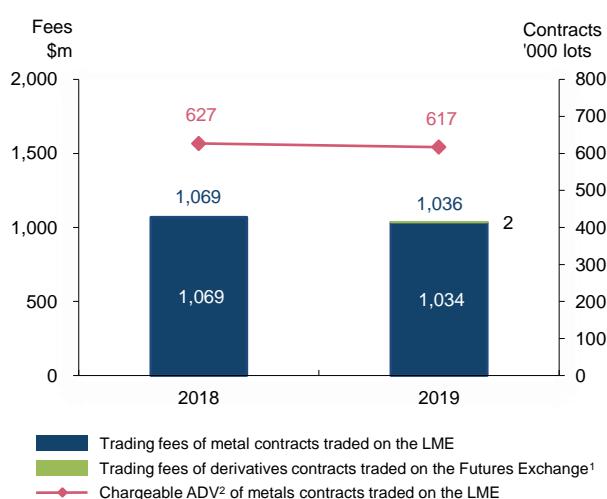
| | At 31 Dec 2019 | At 31 Dec 2018 | Change |
|--|-------------------|-------------------|--------|
| Total futures market open interest ('000 lots) | 2,170 | 1,998 | 9% |

Analysis of Results

Summary

| | 2019 \$m | 2018 \$m | Change |
|---|-------------|-------------|--------|
| Trading fees and trading tariffs | 1,036 | 1,069 | (3%) |
| Market data fees | 193 | 193 | 0% |
| Other revenue: | | | |
| Commodities stock levies and warehouse listing fees | 63 | 66 | (5%) |
| Financial OTC booking fees | 45 | 27 | 67% |
| Others | 62 | 60 | 3% |
| Total revenue and other income | 1,399 | 1,415 | (1%) |
| Operating expenses | (668) | (717) | (7%) |
| EBITDA | 731 | 698 | 5% |
| EBITDA margin | 52% | 49% | 3% |

Trading Fees and Trading Tariffs



Chargeable ADV of metal contracts traded on the LME dropped only by 2 per cent despite slowing global economic growth momentum and geopolitical tensions. As a result, LME trading fees dropped by \$35 million (3 per cent).

1 Includes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts

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.

EBITDA

Operating expenses dropped by \$49 million or 7 per cent, mainly attributable to lower premises expenses (\$32 million) as a result of adopting the new accounting standard for leases¹, and lower professional fees incurred for strategic initiatives. As the percentage decrease in operating expenses more than offset the percentage decrease in revenue, EBITDA margin rose from 49 per cent in 2018 to 52 per cent in 2019.

Business Update

LME

Since the launch of seven new cash-settled products in Q1 2019, LME Steel Hot-Rolled Coil (HRC) Free On Board (FOB) China contracts in particular have seen strong growth in trading activity, with ADV of over 600 lots in December 2019. Further product launches are planned in 2020 across the aluminium and ferrous product suites. In addition, the LME's intended introduction of a lithium contract has been advanced with the formation of the LME Lithium Committee (first meeting in October 2019), which includes representation from leading participants across the value chain.

To support the liquidity of new products, the LME introduced (i) a new membership category for Registered Intermediating Brokers (RIB) in Q1 2019 (8 members approved as of 31 December 2019); and (ii) a Member Incentive Programme on 1 November 2019.

In 1H 2019, the LME successfully trialed deriving the 3-month Nickel Closing Price electronically via its trading platform, LMEselect, complemented by the introduction of trade-at-settlement functionality for the same contract. Following a successful trial on zinc, the LME extended the kerb trading period on the Ring from 5 minutes to 10 minutes and rolled it out across all the LME's six main contracts in September. The LME has also continued to support liquidity with the roll-out of implied pricing which was well received by the market.

Following two years of market engagement, including a formal market-wide consultation, the LME announced in October 2019 its Responsible Sourcing requirements underpinned by OECD Due Diligence Guidance for responsible supply chains, which will apply to all its listed brands. This marks the first time that the LME has applied ethical standards to its listed brands and represents a significant step forward for the efforts of the LME and the metals market to promote inclusive, sustainable and responsible global metal supply chains.

The LME continued to work closely with its Warehousing Committee to put together a warehouse reform proposal designed to ensure that the LME's physical network continues to remain relevant and attractive to users and represents best practice, and to this end, published both a discussion paper and consultation during 2019. The results of the consultation were published in November 2019, and the LME will proceed with its proposed package of measures aimed at optimising its warehousing network for the benefit of the global metals industry.

HKFE Commodities Product Development

In Hong Kong, research and market consultations are in progress for the enhancement of the Gold Futures and Iron Ore Futures contracts and for the potential launch of other metals derivatives products and metals indices. Six gold futures indices (Gold Futures Excess Return Index, Total Return Index and Spot Price Index in both USD and CNH) were launched on 24 June 2019, offering independent, transparent and timely benchmarks for gold price changes in the Hong Kong market. USD-denominated London Aluminium/Copper/Zinc/Lead/Tin/Nickel Mini Futures contracts were also launched on 5 August 2019 to complement the existing CNH-denominated London Metal Mini Futures.

In 2019, a total of 81,768 contracts of CNH Gold Futures and 491,405 contracts of USD Gold Futures were traded, with 299 kilograms of gold bars physically delivered against the contracts. In addition, 29,334 contracts of USD-denominated London Metal Mini Futures and 55,944 contracts of Iron Ore Futures were traded.

QME

QME launched four new products in base metals (aluminium ingot, aluminium billet, copper rod and copper cathode) in 2019. The overall trading volume increased in 2019, primarily due to growth of client base, expansion of spot trading models, along with smooth physical delivery and financing. QME's warehouse warrants have proved to be a valid means for financial institutions to provide affordable financing to the industry. QME also started building its price benchmarking capabilities through indexation and initiated the application of new technology to upgrade the warehouse ecosystem.

Post Trade Segment

Key Market Indicators

| | 2019 | 2018 | Change |
|---|-----------|-----------|--------|
| ADT on the Stock Exchange (\$bn) | 87.2 | 107.4 | (19%) |
| Average daily number of Stock Exchange trades ('000) | 1,453 | 1,597 | (9%) |
| Average value per trade (\$) | 59,988 | 67,266 | (11%) |
| Average daily value of Settlement Instructions (SIs) settled by CCASS (\$bn) | 238.4 | 266.2 | (10%) |
| Average daily number of SIs | 94,951 | 103,033 | (8%) |
| Average value per SI (\$) | 2,510,576 | 2,584,067 | (3%) |
| Chargeable ADV ¹ of metals contracts traded on the LME ('000 lots) | 617 | 627 | (2%) |

¹ Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US\$0.02 per contract) and other non-chargeable trades.

Analysis of Results

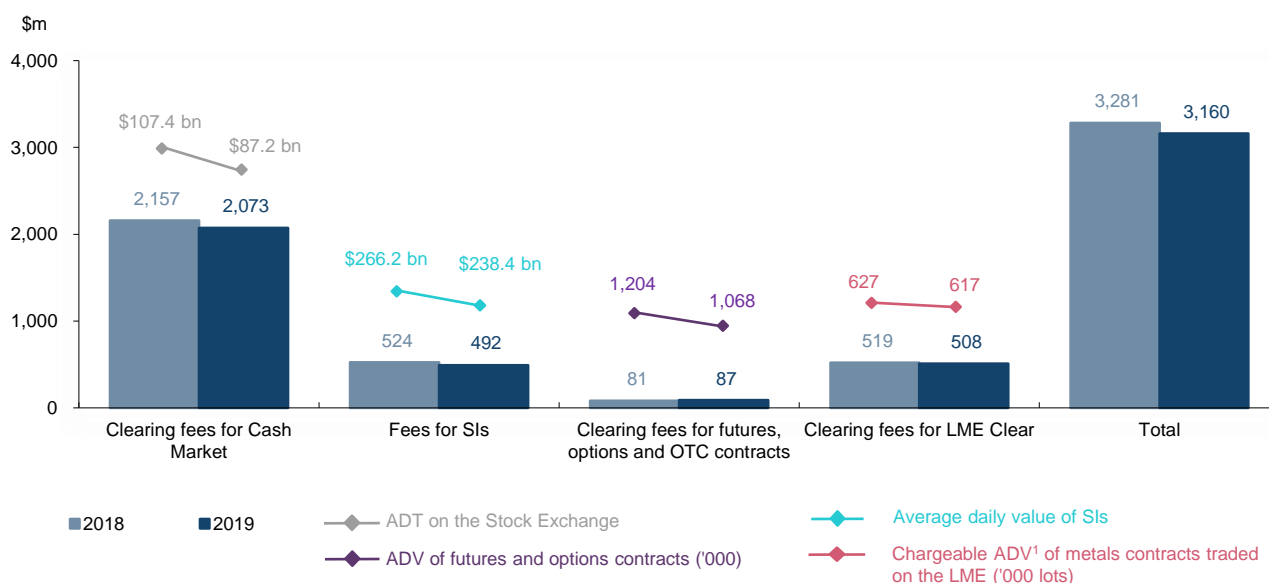
Summary

| | 2019 \$m | 2018 \$m | Change |
|--|-------------|-------------|--------|
| Trading fees and trading tariffs – allocated from Equity and Financial Derivatives segment | 380 | 422 | (10%) |
| Clearing and settlement fees | 3,160 | 3,281 | (4%) |
| Depository, custody and nominee services fees | 1,052 | 979 | 7% |
| Other revenue and sundry income | 138 | 109 | 27% |
| | 4,730 | 4,791 | (1%) |
| Net investment income | 1,496 | 1,377 | 9% |
| Total revenue and other income | 6,226 | 6,168 | 1% |
| Operating expenses | (824) | (812) | 1% |
| EBITDA | 5,402 | 5,356 | 1% |
| EBITDA margin | 87% | 87% | - |

Trading Fees and Trading Tariffs

Trading fees and trading tariffs allocated from Equity and Financial Derivatives segment for clearing derivatives products dropped by 10 per cent, due to a 9 per cent decrease in ADV of derivatives contracts traded on the Futures Exchange and a 15 per cent decrease in ADV of stock options traded (see commentary in the Equity and Financial Derivatives segment).

Clearing and Settlement Fees



¹ Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US\$0.02 per contract) and other non-chargeable trades.

Clearing and settlement fees for Cash Market and SIs decreased by 4 per cent and 6 per cent respectively compared with 2018. The decreases were primarily driven by a lower number of transactions, but was partly offset by a 6 per cent and a 2 per cent higher average fee per Cash Market trade, and per SI transaction respectively.

Clearing fees for LME Clear dropped by \$11 million or 2 per cent, in line with the decrease in chargeable ADV³ of metals contracts traded.

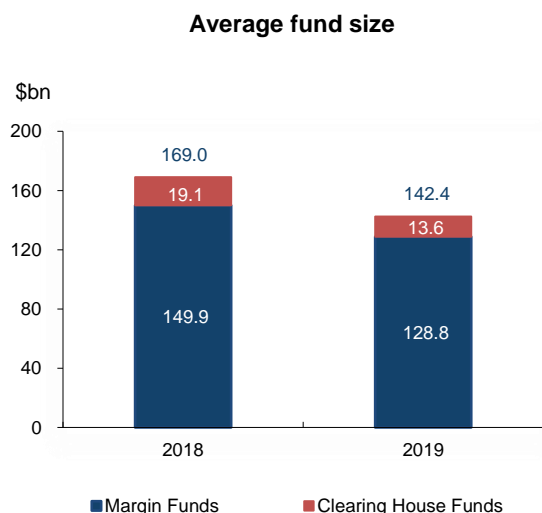
Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees are not directly impacted by changes in market activity. They rose by \$73 million or 7 per cent due to higher Stock Connect portfolio fees, scrip fees and stock withdrawal fees.

Other Revenue and Sundry Income

Other revenue increased by \$29 million mainly due to an increase in accommodation income¹² arising from CPs placing more negative interest currencies as collateral.

Net Investment Income



The decrease in the average size of Margin Funds during the year was attributable to lower average Margin Fund sizes of LME Clear, HKCC and SEOCH due to lower margin requirements per contract, reflecting reduced volatility.

The decrease in the average size of Clearing House Funds during the year was attributable to lower average fund size of LME Clear due to changes in risk exposures.

The analysis of net investment income is as follows:

| | 2019 | | | 2018 | | |
|------------------------------------|---------------------|-----------------------------|--------------|---------------------|-----------------------------|--------------|
| | Margin Funds \$m | Clearing House Funds \$m | Total \$m | Margin Funds \$m | Clearing House Funds \$m | Total \$m |
| Net investment income from: | | | | | | |
| - Cash and bank deposits | 1,296 | 109 | 1,405 | 1,257 | 58 | 1,315 |
| - Debt securities | 97 | - | 97 | 60 | - | 60 |
| - Exchange (losses)/gains | (6) | - | (6) | 2 | - | 2 |
| Total net investment income | 1,387 | 109 | 1,496 | 1,319 | 58 | 1,377 |
| Net investment return | 1.08% | 0.80% | 1.05% | 0.88% | 0.31% | 0.81% |

The higher net investment income on Margin Funds in 2019 arose from higher interest income on cash and bank deposits, due to rising interest rates in Hong Kong, partly offset by lower average fund size.

To lower the funding costs of CPs and to facilitate a more efficient market in Hong Kong, effective from 2 September 2019, HKCC and SEOCH have increased the interest rebate for HKD margins collateral from prevailing bank savings rate to a rate calculated with reference to 1 month Hong Kong Interbank Offered Rate.

¹² Accommodation income mainly comprises income from CPs on depositing securities as alternatives to cash deposits of Margin Funds, or depositing currencies whose relevant bank deposit rates are negative, and interest shortfall collected from LME Clear CPs on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

EBITDA

Operating expenses rose by \$12 million or 1 per cent over 2018, as a result of higher staff costs for strategic projects, annual payroll adjustments, and higher IT support and maintenance costs, partly offset by lower premises expenses (\$58 million) as a result of adopting the new accounting standard for leases¹. EBITDA margin remained stable at 87 per cent in both 2019 and 2018.

Business Update

Cash and Derivatives Clearing

Driven by the further weighting increase of China A Shares in MSCI Indexes and the inclusion of China A shares in FTSE Russel Indexes this year, there was a strong increase in demand for Stock Connect clearing facilities:

- (i) a 4.2 times increase in the average daily value of Northbound SIs settled through the Real-time Delivery versus Payment arrangement in 2019 as compared with 2018;
- (ii) the number of Special Segregated Accounts increased by 35 per cent (9,564 accounts as of 31 December 2019 compared with 7,062 as of 31 December 2018); and
- (iii) both Northbound and Southbound portfolio values of Stock Connect reached record highs in December 2019, with Northbound portfolio value increased by 114 per cent to RMB1,429 billion as of 31 December 2019 (31 December 2018: RMB668 billion) and Southbound portfolio value increased by 44 per cent to \$1,138 billion as of 31 December 2019 (31 December 2018: \$789 billion).

On 11 November 2019, HKSCC enhanced the Third Party Clearing (TPC) arrangement to allow a Non-Clearing Participant (NCP) to appoint different General Clearing Participants (GCPs) for clearing and settling Exchange Trades and China Connect Securities Trades. HKSCC will further enhance the TPC arrangement in Q1 2020 to allow a CCASS Clearing Participant (either a Direct Clearing Participant or GCP) to continue to self-clear its Exchange Trades, while appointing a GCP for clearing its China Connect Securities Trades.

Registered Institutions (RI) are allowed to be admitted directly as HKCC and SEOCH CPs starting from October 2019. This enables RIs to utilise their capital more efficiently by not requiring capital to be allocated to their local affiliates who shall at all times set aside capital to meet the Financial Resources Rules requirements.

HKEX completed the 2019 Annual Attestation and Inspection Programme, with focus on three areas:

- (i) position limits and large open position reporting; (ii) risk management; and (iii) China Connect rules.
- The results and findings were announced to the market in February 2020.

OTC Clear

Total notional amount cleared by OTC Clear in 2019 reached a record high of US\$198.3 billion, up 65 per cent compared with 2018. Clearing volume of HKD Interest Rate Swaps more than doubled compared with 2018 and Cross Currency Swaps clearing volume rose by 45 per cent.

In December 2019, OTC Clear received a license from the Financial Services Agency of Japan to become a Foreign Financial Instruments Clearing Organisation, allowing it to offer clearing services to Japanese banks.

LME Clear

Throughout the year, LME Clear has worked with its members to develop a more effective LME-specific margin methodology and has received regulatory approval for plans to introduce Value-at-Risk (VaR) margining. VaR margining is expected to launch in Q3 2021, and LME Clear has proceeded with educating the market on this change and the system work required for its implementation.

Technology Segment

Analysis of Results

Summary

| | 2019 \$m | 2018 \$m | Change |
|---|-------------|-------------|--------|
| Network, terminal user, data line and software sub-license fees | 575 | 515 | 12% |
| Hosting services fees | 188 | 162 | 16% |
| BayConnect sales and service revenue and other income | 33 | - | N/A |
| Others | - | 1 | (100%) |
| Total revenue and other income | 796 | 678 | 17% |
| Operating expenses | (245) | (170) | 44% |
| EBITDA | 551 | 508 | 8% |
| EBITDA margin | 69% | 75% | (6%) |

Network, Terminal User, Data Line and Software Sub-license Fees

Network fees rose by \$60 million (12 per cent) due to increased usage of the Orion Central Gateway by new and existing EPs, and additional fees arising from throttle usage fees, and increased China Connect Central Gateway fees.

Hosting Services Fees

Hosting services fees increased due to organic growth from both new customer subscriptions and increased usage by existing customers. At the end of December 2019, 119 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 52 per cent of the Cash Market turnover and 59 per cent of the trading volume of the Derivatives Market in 2019.

EBITDA

Operating expenses increased due to inclusion of costs of Innovation Lab (which were included in Corporate Items in 2018) and operating expenses of BayConnect, a 51 per cent subsidiary acquired in June 2019. EBITDA margin dropped from 75 per cent in 2018 to 69 per cent in 2019 as a result of the higher operating expenses; however overall EBITDA increased by 8 per cent year-on-year.

Business Update

During 2019, all major trading, clearing, settlement, and market data dissemination systems performed robustly, excepting the two minor incidents that occurred on the LME's platform on 15 May and 19 July 2019, and a temporary suspension of Derivatives Market in Hong Kong on 5 September 2019. An external consultant has been engaged for conducting comprehensive review of the Derivatives Market system to further strengthen the entire system's stability and robustness.

The upgrade of the derivatives platforms, the Hong Kong Futures Automated Trading System (HKATS) and the Derivatives Clearing and Settlement System (DCASS), was successfully rolled out in May 2019 to enhance the stability and reliability of infrastructure, enable swift adaptation to future market developments, and reduce hardware footprint required at participants' premises. HKEX rolled out, along with the upgrade, a new web-based front-end (HKATS Online) which included a block trade reporting function and a new optional self-match prevention tool.

The pilot run for Client Connect, the first phase of the Next Generation Post Trade programme, was launched in May 2019. Client Connect aims to provide a single platform to unify all client access to

HKEX services. Starting from January 2020, Client Connect has become the mandatory channel for participants to submit digitalised requests. Response from participants has been positive, and both user-error and in-house complications have been reduced substantially while also reducing paper usage.

Following the launch of the Orion Trading Platform – Securities Market (OTP-C) in February 2018, the Orion Trading Platform – China Stock Connect (OTP-CSC) was successfully rolled out on 5 August 2019 to replace the legacy proprietary platform supporting the Northbound Trading of Stock Connect. OTP-CSC offers a scalable, flexible and high performance order routing platform based on open system technology to meet the evolving business needs and future growth of Northbound Trading volume.

In 2019, the LME began a programme to replace its core trading infrastructure using HKEX's Orion Trading Platform architecture, which will underpin the LME's new trading platform in the coming years.

In June 2019, HKEX completed the acquisition of a 51 per cent equity interest in BayConnect, a Shenzhen-based financial markets technology firm that specialises in financial exchanges, regulation technologies and data applications. The acquisition is expected to support HKEX's strategy to further build its financial markets technological capabilities and spearhead its future IT projects and initiatives.

In December 2019, HKEX entered into a subscription agreement to become a minority shareholder in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao). TsingJiao specialises in the research and development of Multi-party Computation (MPC) technologies, a subfield of cryptography that seeks to allow collaborative data analysis without revealing private data during the computation and analysis process. HKEX believes that partnering with TsingJiao is one of the building blocks to realise the Company's vision of building a data marketplace. In January 2020, HKEX closed the first stage investment in TsingJiao.

Under the "Technology Empowered" pillar of the Group's Strategic Plan 2019-2021, the HKEX Innovation Lab has been dedicated to exploring, accelerating and applying new technologies that support the growth of HKEX's business and maintain its position as the global market leader in the Asian time zone. In 2019, using both in-house development capabilities and external partnerships, a number of new technology projects were incubated in the HKEX Innovation Lab and deployed in the Group's business. These include an Artificial intelligence (AI) powered corporate actions management platform, the scale-up of HKEX's robotic process automation programme, a behavioural analysis of algorithmic trading in collaboration with The University of Hong Kong, and new knowledge graph systems for risk management and regulatory surveillance. These initiatives have been delivering steady efficiencies to the Group's operations.

Corporate Items

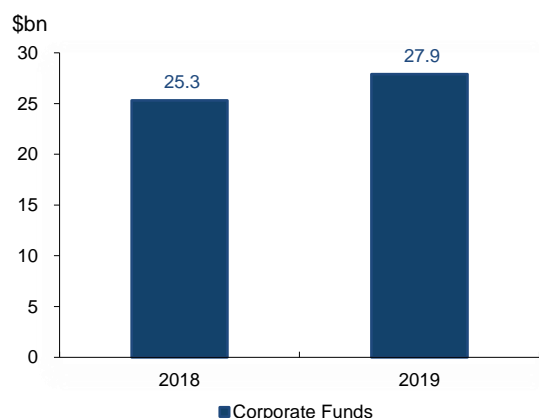
"Corporate Items" is not a business segment but comprises central income (including net investment income of the Corporate Funds), the costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments.

Summary

| | 2019 \$m | 2018 \$m | Change |
|--------------------------------|-------------|-------------|--------|
| Net investment income | 1,233 | 207 | 496% |
| Others | 23 | 41 | (44%) |
| Total revenue and other income | 1,256 | 248 | 406% |
| Operating expenses | 1,157 | 1,254 | (8%) |

Net Investment Income

Average fund size



Average fund size increased principally due to cash generated and retained by the business after payment of cash dividends and the increase in fair values of collective investment scheme investments.

The analysis of net investment income is as follows:

| | 2019 \$m | 2018 \$m |
|------------------------------------|-------------|-------------|
| Net investment income/(loss) from: | | |
| Cash and bank deposits | 437 | 328 |
| Collective investment schemes | 789 | (106) |
| Debt securities | 6 | 1 |
| Exchange gains/(losses) | 1 | (16) |
| Total net investment income | 1,233 | 207 |
| Net investment return | 4.42% | 0.82% |

Net investment income of Corporate Funds increased by \$1,026 million compared with 2018 principally due to fair value gains on collective investment schemes held under the external portfolio, as opposed to the fair value losses in 2018, and higher interest income earned on cash and bank deposits from increased fund size and higher deposit rates.

The increase in fair value gains on collective investment schemes principally came from funds invested in the public equities asset class (\$532 million) and multi-sector fixed income asset class (\$145 million). As the valuation of external portfolio reflects movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold.

Business Update

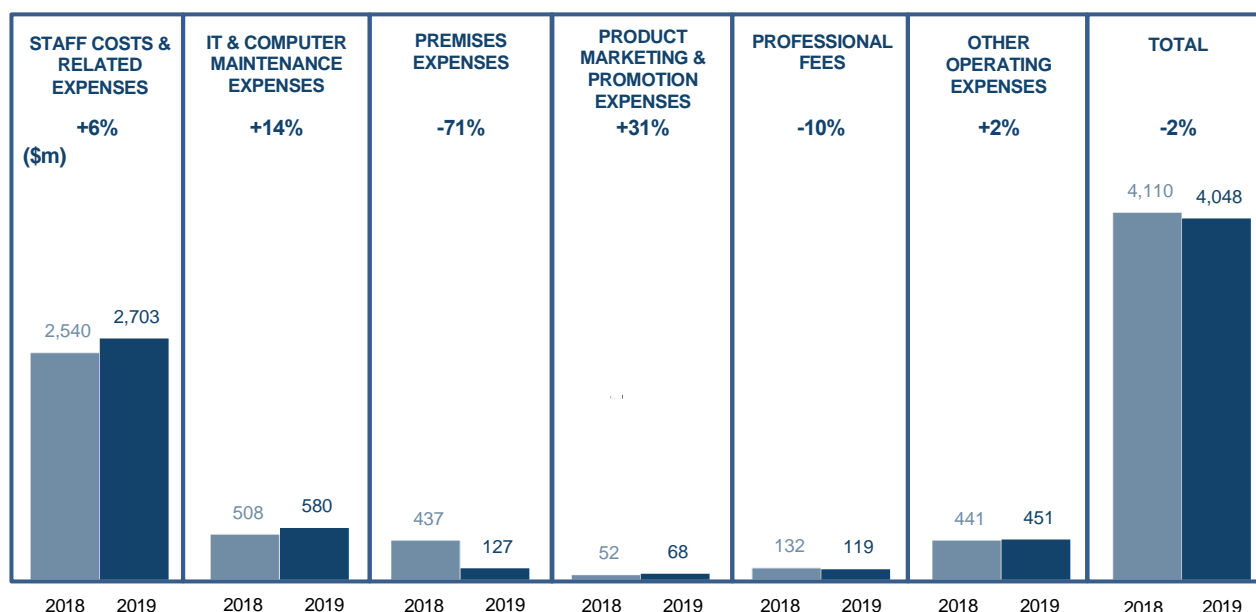
In 2019, HKEX became a minority shareholder in Fusion Bank Limited (formerly known as Infinium Limited), which was granted a virtual banking licence by the Hong Kong Monetary Authority in May 2019. Fusion Bank Limited aims to leverage its advanced technology and new applications of Fintech to promote financial inclusion in Hong Kong and to bring customers a brand-new, efficient and secure virtual banking experience, enabling them to enjoy better and more convenient financial services.

In September 2019, HKEX entered into a MOU with Ping An Insurance (Group) Company of China Limited (Ping An) to explore possible areas of cooperation and collaboration in Fintech and data analytics to enhance the region's financial market ecosystem. HKEX and Ping An are working together to identify areas of collaboration, including Fintech solutions across different asset classes, as well as the application of data and AI technology to support the mutual connectivity of the Mainland Chinese, Hong Kong and international markets.

In 2019, HKEX carried out a detailed analysis on the proposed combination with LSEG, but decided not to proceed with making a firm offer, as HKEX was unable to engage with the management of LSEG in realising its vision, and continuation would not be in the best interests of shareholders.

Expenses, Other Costs and Taxation

Operating Expenses



Staff costs and related expenses increased by \$163 million or 6 per cent mainly due to annual payroll adjustments, and increased headcount for strategic initiatives.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by participants of \$93 million (2018: \$88 million), were \$487 million (2018: \$420 million). The increase was mainly attributable to higher maintenance expenses for new IT systems and upgraded networks.

Premises expenses dropped by \$310 million or 71 per cent as office rental of around \$300 million was no longer recognised as premises expenses under the new accounting standard for leases¹.

Depreciation and Amortisation

| | 2019 \$m | 2018 \$m | Change |
|-------------------------------|-------------|-------------|--------|
| Depreciation and amortisation | 1,044 | 762 | 37% |

The “right-of-use assets” recognised under the new accounting standard for leases¹ adopted in 2019 gave rise to depreciation and amortisation of \$271 million. Excluding such impact, depreciation and amortisation increased by \$11 million or 1 per cent, due to depreciation of new IT systems.

Finance Costs

| | 2019 \$m | 2018 \$m | Change |
|---------------|-------------|-------------|--------|
| Finance costs | 177 | 114 | 55% |

Finance costs increased due to the recognition of interest expense on lease liabilities of \$89 million under the new accounting standard for leases¹, partly offset by lower interest charge due to the maturity of fixed rate notes in December 2018 and January 2019.

Costs relating to proposed combination with LSEG

In 2019, HKEX carried out a detailed analysis on the proposed combination with LSEG, but decided not to proceed with making a firm offer. Costs incurred for the proposed combination with LSEG amounted to \$123 million.

Taxation

| | 2019 \$m | 2018 \$m | Change |
|----------|-------------|-------------|--------|
| Taxation | 1,561 | 1,592 | (2%) |

Taxation dropped by 2 per cent as compared with 2018. Excluding the one-off \$52 million tax refund from the UK tax authority in 2018, taxation decreased by 5 per cent due to higher non-taxable income.

FINANCIAL REVIEW

Changes to Key Items in Consolidated Statement of Financial Position

(A) Financial Assets and Financial Liabilities

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m | Change |
|--|--------------------------|--------------------------|-----------|
| Financial assets | | | |
| Cash and cash equivalents | 128,152 | 121,196 | 6% |
| Financial assets measured at fair value through profit or loss | 57,401 | 61,004 | (6%) |
| Financial assets measured at fair value through other comprehensive income | 4,569 | 3,755 | 22% |
| Financial assets measured at amortised cost | 40,672 | 31,885 | 28% |
| Total | 230,794 | 217,840 | 6% |

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base, ferrous, and precious metals derivatives contracts, and cash prepayments and collateral for A shares traded under Stock Connect, as follows:

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m | Change |
|--|--------------------------|--------------------------|-----------|
| Financial assets | | | |
| Corporate Funds ¹ | 29,138 | 24,833 | 17% |
| Margin Funds ² | 137,012 | 120,573 | 14% |
| Clearing House Funds | 15,176 | 15,505 | (2%) |
| Base, ferrous, and precious metals derivatives contracts cleared through LME Clear | 48,008 | 53,915 | (11%) |
| Cash prepayments and collateral for A shares | 1,460 | 3,014 | (52%) |
| Total | 230,794 | 217,840 | 6% |

1 Includes \$818 million (31 December 2018: \$724 million) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$5,524 million (31 December 2018: \$3,155 million), which are included in accounts receivable, prepayments and other deposits

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m | Change |
|--|--------------------------|--------------------------|--------|
| Financial liabilities | | | |
| Base, ferrous, and precious metals derivatives contracts cleared through LME Clear | 48,008 | 53,915 | (11%) |
| Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs | 142,536 | 123,728 | 15% |
| CPs' contributions to Clearing House Funds | 14,394 | 14,787 | (3%) |
| Total | 204,938 | 192,430 | 7% |

The increase in financial assets and financial liabilities of Margin Funds at 31 December 2019 against those at 31 December 2018 was mainly attributable to increased contributions from members of LME Clear due to an increase in open positions, and increased contributions from HKCC CPs due to higher surplus collateral posted by CPs.

Financial assets of Corporate Funds at 31 December 2019 increased by \$4,305 million as compared to those at 31 December 2018 due to the retention of cash generated by the business over the past year partly offset by the cash paid for the 2018 second interim dividend and 2019 first interim dividend, and the increase in fair values of collective investment scheme investments.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. At 31 December 2019, the fair value of the Group's collective investment schemes by strategy employed was as follows:

| Strategy | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m | Change |
|--|--------------------------|--------------------------|--------|
| Public Equities | 2,440 | 2,021 | 21% |
| Absolute Return | 1,604 | 1,312 | 22% |
| Multi-Sector Fixed Income | 2,583 | 2,108 | 23% |
| US Government Bonds and Mortgage-backed Securities | 2,716 | 1,648 | 65% |
| Total | 9,343 | 7,089 | 32% |

(B) Fixed Assets, Intangible Assets, Right-of-use Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets rose by \$323 million from \$19,644 million at 31 December 2018 to \$19,967 million at 31 December 2019. The increase was mainly due to additions of fixed and intangible assets of \$1,068 million, and goodwill and intangible assets arising from the acquisition of BayConnect of \$149 million, but was partly offset by depreciation and amortisation of \$773 million, and exchange differences arising from depreciation of USD and RMB of \$84 million. Additions during the year were mainly related to the development and upgrade of various trading and clearing systems.

As a result of the adoption of HKFRS 16, the Group's operating leases are recognised as right-of-use assets and lease liabilities in the consolidated statement of financial position. At 31 December 2019, right-of-use assets amounted to \$2,366 million and were mainly related to leases of office premises.

The Group's capital expenditure¹³ commitments at 31 December 2019, including those authorised by the Board but not yet contracted for, amounted to \$1,217 million (31 December 2018: \$935 million). These related mainly to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems, and the set up of the new secondary data centre.

¹³ Excludes right-of-use assets recognised due to the adoption of HKFRS 16: Leases.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

On 28 June 2019, the Group completed the acquisition of a 51 per cent equity interest of BayConnect for a total cash consideration of RMB233 million (HK\$262 million) through capital injection into BayConnect. In addition, the Group subscribed for a minority equity interest in Fusion Bank Limited (formerly known as Infinium Limited) for a cash consideration of \$50 million in 2019, and will further provide additional capital of \$50 million to Fusion Bank Limited in 1H 2020.

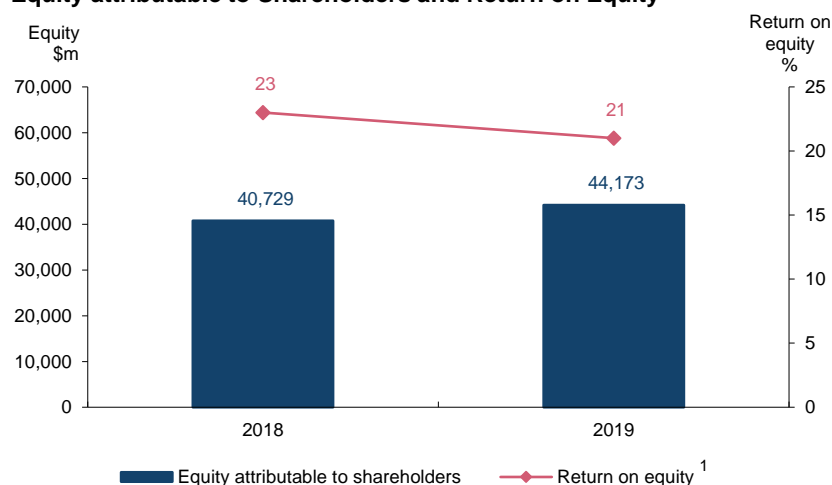
In December 2019, the Group entered into a subscription agreement to become a minority shareholder in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao) for a total consideration of up to RMB100 million. In January 2020, the Group closed the first stage investment in TsingJiao.

Save for those disclosed in this announcement, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this announcement, there were no material investments or additions of capital assets authorised by the Board at the date of this announcement.

(D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by \$3,444 million to \$44,173 million at 31 December 2019 (31 December 2018: \$40,729 million). This arose principally from the \$2,673 million of shares issued in lieu of cash dividends and an increase in retained earnings (excluding transfers to designated reserves) of \$889 million mainly attributable to profit for the year less dividends declared or paid.

Equity attributable to Shareholders and Return on Equity



Return on equity dropped by 2 per cent due to an increase in equity attributable to shareholders from 31 December 2018 to 31 December 2019.

¹ Based on equity attributable to shareholders at year-end

Liquidity, Financial Resources and Gearing

Working capital rose by \$2,056 million to \$24,258 million at 31 December 2019 (31 December 2018: \$22,202 million). The increase was mainly due to profit attributable to shareholders of \$9,391 million, partly offset by the payment of 2018 second interim dividend and 2019 first interim dividend (net of scrip dividends) of \$5,825 million, net increase in fixed assets, intangible assets, and non-current financial assets of \$1,315 million, and recognition of lease liabilities of \$272 million under current liabilities following the adoption of HKFRS 16.

At 31 December 2019, the Group had the following outstanding borrowings:

| | At 31 Dec 2019 | | At 31 Dec 2018 | |
|---|-----------------------|----------|-----------------------|----------|
| | Carrying value \$m | Maturity | Carrying value \$m | Maturity |
| USD fixed rate notes with coupon of 2.85 per cent | - | N/A | 753 | Jan 2019 |
| Written put options to non-controlling interests | 418 | N/A | 413 | N/A |
| | 418 | | 1,166 | |

At 31 December 2019, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 1 per cent (31 December 2018: 3 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2018: zero per cent). For this purpose, gross debt is defined as total borrowings (excluding lease liabilities) and net debt¹⁴ is defined as total borrowings less cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds), and adjusted capital as all components of equity attributable to shareholders of HKEX other than designated reserves.

At 31 December 2019, the Group's total available banking facilities for its daily operations amounted to \$21,246 million (31 December 2018: \$20,024 million), which included \$14,745 million (31 December 2018: \$13,523 million) of committed banking facilities and \$6,500 million (31 December 2018: \$6,500 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2019, the total amount of the facilities was RMB21,500 million (31 December 2018: RMB21,500 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2018: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect.

At 31 December 2019, 74 per cent (31 December 2018: 83 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Pledges of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margins posted by its CPs. The total fair value of this collateral was US\$1,872 million (HK\$14,586 million) at 31 December 2019 (31 December 2018: US\$1,490 million (HK\$11,666 million)). LME Clear is obliged to return this non-cash collateral upon request when the CPs' 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\$8,904 million (HK\$69,378 million) at 31 December 2019 (31 December 2018: US\$7,650 million (HK\$59,895 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 consolidated statement of financial position of the Group at 31 December 2019. Such non-cash collateral, together with certain financial assets amounting to US\$474 million (HK\$3,692 million) at 31 December 2019 (31 December 2018: US\$420 million (HK\$3,288 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.

¹⁴ Net debt is zero when the amount of cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds) is higher than gross debt.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The functional currency of the Hong Kong and PRC entities are either HKD or RMB and the functional currency of the LME entities is USD. Foreign exchange risks arise mainly from the Group's investments and bank deposits in currencies other than HKD and USD and its GBP expenditure for the LME entities.

Forward foreign exchange contracts and foreign currency bank deposits may be used to hedge the currency exposure of the Group's non-HKD and non-USD assets and liabilities and highly probable forecast transactions to mitigate risks arising from fluctuations in exchange rates.

Foreign currency margin deposits received by the Group in Hong Kong are mainly hedged by investments in the same currencies, and unhedged investments in USD may not exceed 20 per cent of the Margin Funds. For LME Clear, investments of Margin Fund and Default Fund will generally be in the currency in which cash was received.

The aggregate net open foreign currency positions (excluding collective investment schemes) at 31 December 2019 amounted to \$1,744 million, of which \$150 million were non-USD exposures (31 December 2018: \$3,235 million, of which \$584 million were non-USD exposures).

Contingent Liabilities

At 31 December 2019, 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 SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2018: \$71 million). Up to 31 December 2019, 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 658 trading Participants (31 December 2018: 640) covered by the indemnity at 31 December 2019 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$132 million (31 December 2018: \$128 million).
- (c) HKEX has 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.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

| | Note | 2019 \$m | 2018 \$m |
|--|------|----------------|----------------|
| Trading fees and trading tariffs | | 5,592 | 6,339 |
| Stock Exchange listing fees | | 1,633 | 1,721 |
| Clearing and settlement fees | | 3,160 | 3,281 |
| Depository, custody and nominee services fees | | 1,052 | 979 |
| Market data fees | | 919 | 899 |
| Other revenue | 3 | 1,209 | 1,033 |
| REVENUE | | 13,565 | 14,252 |
| Investment income | | 3,977 | 2,655 |
| Interest rebates to Participants | | (1,248) | (1,071) |
| Net investment income | 4 | 2,729 | 1,584 |
| Sundry income | | 17 | 31 |
| REVENUE AND OTHER INCOME | | 16,311 | 15,867 |
| OPERATING EXPENSES | | | |
| Staff costs and related expenses | | (2,703) | (2,540) |
| Information technology and computer maintenance expenses | | (580) | (508) |
| Premises expenses | | (127) | (437) |
| Product marketing and promotion expenses | | (68) | (52) |
| Professional fees | | (119) | (132) |
| Other operating expenses | 5 | (451) | (441) |
| | | (4,048) | (4,110) |
| EBITDA | | 12,263 | 11,757 |
| Depreciation and amortisation | | (1,044) | (762) |
| OPERATING PROFIT | | 11,219 | 10,995 |
| Costs relating to proposed combination with LSEG | 6 | (123) | - |
| Finance costs | 7 | (177) | (114) |
| Share of profits less losses of joint ventures | | 32 | 2 |
| PROFIT BEFORE TAXATION | | 10,951 | 10,883 |
| TAXATION | 8 | (1,561) | (1,592) |
| PROFIT FOR THE YEAR | | 9,390 | 9,291 |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | |
| Shareholders of HKEX | | 9,391 | 9,312 |
| Non-controlling interests | | (1) | (21) |
| PROFIT FOR THE YEAR | | 9,390 | 9,291 |
| Basic earnings per share | 9(a) | \$7.49 | \$7.50 |
| Diluted earnings per share | 9(b) | \$7.47 | \$7.48 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| | 2019 \$m | 2018 \$m |
|--|--------------|--------------|
| PROFIT FOR THE YEAR | 9,390 | 9,291 |
| OTHER COMPREHENSIVE INCOME | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences of foreign subsidiaries | (96) | 21 |
| Cash flow hedges | 6 | (1) |
| Changes in fair value of financial assets measured at fair value through other comprehensive income | 3 | (2) |
| OTHER COMPREHENSIVE INCOME | (87) | 18 |
| TOTAL COMPREHENSIVE INCOME | 9,303 | 9,309 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | |
| Shareholders of HKEX | 9,303 | 9,329 |
| Non-controlling interests | - | (20) |
| TOTAL COMPREHENSIVE INCOME | 9,303 | 9,309 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **AT 31 DECEMBER 2019**

| | | At 31 Dec 2019 | | | At 31 Dec 2018 | | |
|--|------|----------------|--------------------|----------------|----------------|--------------------|----------------|
| | Note | Current \$m | Non-current \$m | Total \$m | Current \$m | Non-current \$m | Total \$m |
| ASSETS | | | | | | | |
| Cash and cash equivalents | 11 | 128,152 | - | 128,152 | 121,196 | - | 121,196 |
| Financial assets measured at fair value through profit or loss | 11 | 56,729 | 672 | 57,401 | 61,004 | - | 61,004 |
| Financial assets measured at fair value through other comprehensive income | 11 | 4,569 | - | 4,569 | 3,755 | - | 3,755 |
| Financial assets measured at amortised cost | 11 | 39,954 | 718 | 40,672 | 31,487 | 398 | 31,885 |
| Accounts receivable, prepayments and deposits | 12 | 25,791 | 21 | 25,812 | 18,341 | 21 | 18,362 |
| Interests in joint ventures | | - | 95 | 95 | - | 63 | 63 |
| Goodwill and other intangible assets | | - | 18,378 | 18,378 | - | 18,019 | 18,019 |
| Fixed assets | | - | 1,589 | 1,589 | - | 1,625 | 1,625 |
| Right-of-use assets | | - | 2,366 | 2,366 | - | - | - |
| Lease premium for land | | - | - | - | - | 20 | 20 |
| Deferred tax assets | | - | 17 | 17 | - | 19 | 19 |
| Total assets | | 255,195 | 23,856 | 279,051 | 235,783 | 20,165 | 255,948 |
| LIABILITIES AND EQUITY | | | | | | | |
| Liabilities | | | | | | | |
| Financial liabilities at fair value through profit or loss | | 48,008 | - | 48,008 | 53,915 | - | 53,915 |
| Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs | | 142,536 | - | 142,536 | 123,728 | - | 123,728 |
| Accounts payable, accruals and other liabilities | 13 | 22,447 | - | 22,447 | 18,316 | 53 | 18,369 |
| Deferred revenue | | 1,033 | 403 | 1,436 | 1,000 | 418 | 1,418 |
| Taxation payable | | 1,760 | - | 1,760 | 678 | - | 678 |
| Other financial liabilities | | 59 | - | 59 | 59 | - | 59 |
| CPs' contributions to Clearing House Funds | | 14,394 | - | 14,394 | 14,787 | - | 14,787 |
| Lease liabilities | | 272 | 2,234 | 2,506 | - | - | - |
| Borrowings | 14 | 338 | 80 | 418 | 1,005 | 161 | 1,166 |
| Provisions | | 90 | 104 | 194 | 93 | 89 | 182 |
| Deferred tax liabilities | | - | 792 | 792 | - | 743 | 743 |
| Total liabilities | | 230,937 | 3,613 | 234,550 | 213,581 | 1,464 | 215,045 |
| Equity | | | | | | | |
| Share capital | | | | 30,449 | | | 27,750 |
| Shares held for Share Award Scheme | | | | (770) | | | (682) |
| Employee share-based compensation reserve | | | | 250 | | | 218 |
| Hedging and revaluation reserves | | | | 3 | | | (6) |
| Exchange reserve | | | | (181) | | | (84) |
| Designated reserves | | | | 587 | | | 523 |
| Reserve relating to written put options to non-controlling interests | | | | (369) | | | (369) |
| Retained earnings | 15 | | | 14,204 | | | 13,379 |
| Equity attributable to shareholders of HKEX | | | | 44,173 | | | 40,729 |
| Non-controlling interests | | | | 328 | | | 174 |
| Total equity | | | | 44,501 | | | 40,903 |
| Total liabilities and equity | | | | 279,051 | | | 255,948 |
| Net current assets | | | | 24,258 | | | 22,202 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA.

The financial information relating to the years ended 31 December 2019 and 2018 included in this preliminary announcement of annual results 2019 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2019 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

(a) Adoption of new/revised HKFRSs

In 2019, the Group has adopted the following new standard and interpretation to HKFRSs which are pertinent to the Group's operations and effective for accounting periods beginning on or after 1 January 2019:

| | |
|-----------------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC) Interpretation 23 | Uncertainty over Income Tax Treatments |

(i) Adoption of HKFRS 16

HKFRS 16 affects the accounting for the Group's operating leases.

Prior to the adoption of HKFRS 16, leases where substantially all the rewards and risks of ownership of assets remained with the lessor were accounted for as operating leases. Operating lease rentals were recognised under operating expenses in the consolidated income statement on a straight-line basis over the lease term. Commitments under operating leases for future periods were not recognised as liabilities.

Upon adoption of HKFRS 16, the majority of operating leases (except for short-term leases with lease terms of less than 12 months) are recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets.

The Group has applied HKFRS 16 from 1 January 2019. As permitted by the transitional provision of HKFRS 16, comparatives for 2018 were not restated. The Group recognised right-of-use assets of \$2,419 million and current and non-current lease liabilities amounting to \$235 million and \$2,277 million respectively, and de-recognised provision for lease incentives included under current and non-current liabilities of \$32 million and \$53 million respectively, with the net difference of \$8 million being recognised as a reduction in retained earnings. In addition, restatement costs of \$36 million, which were previously included under fixed assets, and lease premium for land of \$20 million, were reclassified to right-of-use assets.

The following table shows the impact on each individual line item of the consolidated income statement for the year ended 31 December 2019 following the adoption of HKFRS 16. Line items that were not affected by the changes have not been included; therefore, the line items disclosed do not add up to the subtotals and totals below.

| Consolidated income statement (extracts) | Year ended 31 Dec 2019 | | |
|--|---------------------------------|--------------------------------------|-----------------|
| | Before adoption of HKFRS 16 \$m | Impact from adoption of HKFRS 16 \$m | As reported \$m |
| REVENUE AND OTHER INCOME | | | |
| Net investment income | 2,737 | (8) | 2,729 |
| OPERATING EXPENSES | | | |
| Information technology and computer maintenance expenses | (588) | 8 | (580) |
| Premises expenses | (427) | 300 | (127) |
| Other operating expenses | (457) | 6 | (451) |
| EBITDA | 11,957 | 306 | 12,263 |
| Depreciation and amortisation | (773) | (271) | (1,044) |
| OPERATING PROFIT | 11,184 | 35 | 11,219 |
| Finance costs | (88) | (89) | (177) |
| PROFIT BEFORE TAXATION | 11,005 | (54) | 10,951 |
| TAXATION | (1,581) | 20 | (1,561) |
| PROFIT FOR THE YEAR | 9,424 | (34) | 9,390 |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF HKEX | 9,425 | (34) | 9,391 |
| Basic earnings per share (\$) | 7.52 | (0.03) | 7.49 |

(ii) Adoption of HK(IFRIC) Interpretation 23

The Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12: Income Taxes when there is uncertainty over income tax treatments. The adoption did not have any financial impact on the Group.

(b) New/revised HKFRSs issued before 31 December 2019 but not yet effective and not early adopted

The Group has not applied the following amendments to HKFRSs which were issued before 31 December 2019 and are pertinent to its operations but not yet effective:

| | |
|---------------------------------|---|
| Amendments to HKAS 1 and HKAS 8 | Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material ¹ |
| Amendments to HKFRS 3 | Business Combination: Definition of a Business ¹ |

¹ Effective for accounting periods beginning on or after 1 January 2020

The adoption of the amendments would not have any financial impact on the Group.

There are no other new/revised HKFRSs not yet effective that are expected to have any impact on the Group.

2. Operating Segments

The Group determines its operating segments in a manner consistent with internal management reports that are used to make strategic decisions provided to 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 IT systems and marketing strategies.

To optimise resources to successfully deliver the initiatives set out in the Group's Strategic Plan 2019-2021, the Group's operating segments have been fine-tuned. As a result, since April 2019, the "Clearing segment" has been renamed the "Post Trade segment", and the "Platform and Infrastructure segment" has been renamed the "Technology segment".

The operations in each of the Group's reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, the Shanghai Stock Exchange and the Shenzhen Stock Exchange through Stock Connect, sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariffs, listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on the Stock Exchange and Futures Exchange 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, DWs, CBBCs and warrants, and sales of related market data. The major sources of revenue are trading fees, trading tariffs, listing fees of derivatives products and market data fees.

The **Commodities** segment refers to the operations of the LME, which operates an exchange in the UK for the trading of base, ferrous and precious metals futures and options contracts, and the operations of QME, the commodity trading platform in the Mainland. It also covers the London metal mini futures and gold and iron ore futures contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees of commodity products, commodity market data fees and fees from ancillary operations.

The **Post Trade** segment refers to the operations of the five clearing houses, which are responsible for clearing, settlement and custodian activities of the exchanges of the Group and Northbound trades under Stock Connect, 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 the Margin Funds and Clearing House Funds.

The **Technology** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group, and services provided by the Group's newly acquired subsidiary, BayConnect. Its major sources of revenue are network, terminal user, data line 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 operating segments and other costs not directly related to any operating segment) 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, profit before taxation and other selected financial information (including analysis of revenue by timing of revenue recognition) for the year, is set out as follows:

| | 2019 | | | | | | |
|--|-------------|---|--------------------|----------------------|-------------------|---------------------------|--------------|
| | Cash \$m | Equity and Financial Derivatives \$m | Commodities \$m | Post Trade \$m | Technology \$m | Corporate Items \$m | Group \$m |
| Timing of revenue recognition: | | | | | | | |
| Point in time | 2,151 | 2,092 | 1,126 | 4,318 | 66 | 11 | 9,764 |
| Over time | 1,495 | 896 | 270 | 403 | 727 | 10 | 3,801 |
| Revenue from external customers | 3,646 | 2,988 | 1,396 | 4,721 | 793 | 21 | 13,565 |
| Net investment income | - | - | - | 1,496 | - | 1,233 | 2,729 |
| Sundry income | - | - | 3 | 9 | 3 | 2 | 17 |
| Revenue and other income | 3,646 | 2,988 | 1,399 | 6,226 | 796 | 1,256 | 16,311 |
| Operating expenses | (603) | (551) | (668) | (824) | (245) | (1,157) | (4,048) |
| Reportable segment EBITDA | 3,043 | 2,437 | 731 | 5,402 | 551 | 99 | 12,263 |
| Depreciation and amortisation | (128) | (94) | (327) | (237) | (39) | (219) | (1,044) |
| Costs relating to proposed combination with LSEG | - | - | - | - | - | (123) | (123) |
| Finance costs | (15) | (12) | (8) | (82) | (1) | (59) | (177) |
| Share of profits less losses of joint ventures | 38 | (6) | - | - | - | - | 32 |
| Reportable segment profit before taxation | 2,938 | 2,325 | 396 | 5,083 | 511 | (302) | 10,951 |

| | 2018 | | | | | | |
|--|-------------|---|--------------------|----------------------|-------------------|---------------------------|--------------|
| | Cash \$m | Equity and Financial Derivatives \$m | Commodities \$m | Post Trade \$m | Technology \$m | Corporate Items \$m | Group \$m |
| Timing of revenue recognition: | | | | | | | |
| Point in time | 2,423 | 2,470 | 1,144 | 4,446 | 62 | 11 | 10,556 |
| Over time | 1,432 | 1,033 | 271 | 335 | 616 | 9 | 3,696 |
| Revenue from external customers | 3,855 | 3,503 | 1,415 | 4,781 | 678 | 20 | 14,252 |
| Net investment income | - | - | - | 1,377 | - | 207 | 1,584 |
| Sundry income | - | - | - | 10 | - | 21 | 31 |
| Revenue and other income | 3,855 | 3,503 | 1,415 | 6,168 | 678 | 248 | 15,867 |
| Operating expenses | (584) | (573) | (717) | (812) | (170) | (1,254) | (4,110) |
| Reportable segment EBITDA | 3,271 | 2,930 | 698 | 5,356 | 508 | (1,006) | 11,757 |
| Depreciation and amortisation | (82) | (71) | (298) | (193) | (37) | (81) | (762) |
| Finance costs | - | - | - | (38) | - | (76) | (114) |
| Share of profits less losses of joint ventures | 10 | (8) | - | - | - | - | 2 |
| Reportable segment profit before taxation | 3,199 | 2,851 | 400 | 5,125 | 471 | (1,163) | 10,883 |

(a) Geographical information

The Group's revenue from external customers is derived from its operations in Hong Kong, the UK and Mainland China. Such information and the Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

| | Revenue | | Non-current assets | |
|-------------------------------|-------------|-------------|--------------------------|--------------------------|
| | 2019 \$m | 2018 \$m | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m |
| Hong Kong (place of domicile) | 11,543 | 12,241 | 5,037 | 2,438 |
| United Kingdom | 1,991 | 2,011 | 17,126 | 17,232 |
| Mainland China | 31 | - | 286 | 78 |
| | 13,565 | 14,252 | 22,449 | 19,748 |

(b) Information about major customers

In 2019 and 2018, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

3. Other Revenue

| | 2019 \$m | 2018 \$m |
|---|-------------|-------------|
| Network, terminal user, data line and software sub-license fees | 575 | 515 |
| Hosting services fees | 188 | 162 |
| Commodities stock levies and warehouse listing fees | 63 | 66 |
| Participants' subscription and application fees | 94 | 90 |
| Accommodation income (note (a)) | 79 | 59 |
| Sales of Trading Rights | 22 | 20 |
| LME financial over-the-counter booking fee | 45 | 27 |
| BayConnect sales and service revenue | 30 | - |
| Brokerage on IPO direct allotments | 23 | 12 |
| Miscellaneous revenue | 90 | 82 |
| | 1,209 | 1,033 |

- (a) Accommodation income mainly comprises income from CPs on securities deposited as alternatives to cash deposits of Margin Funds, or depositing currencies whose relevant bank deposit rates are negative, and interest shortfall collected from LME Clear CPs on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

4. Net Investment Income

| | 2019 \$m | 2018 \$m |
|---|-------------|-------------|
| Gross interest income from financial assets measured at amortised cost | 3,096 | 2,715 |
| Gross interest income from financial assets measured at fair value through other comprehensive income | 97 | 60 |
| Interest rebates to Participants | (1,248) | (1,071) |
| Net interest income | 1,945 | 1,704 |
| Net gains/(losses) 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 | 789 | (106) |
| Others | (5) | (14) |
| Net investment income | 2,729 | 1,584 |

5. Other Operating Expenses

| | 2019 \$m | 2018 \$m |
|---|-------------|-------------|
| Bank charges | 24 | 25 |
| Communication expenses | 15 | 16 |
| Contribution to Financial Reporting Council | 8 | 8 |
| Custodian and fund management related fees | 22 | 27 |
| Financial data subscription fees | 39 | 38 |
| Insurance | 14 | 12 |
| License fees | 41 | 44 |
| Office demolition and relocation expenses | 12 | 30 |
| Repairs and maintenance expenses | 67 | 62 |
| Security expenses | 23 | 19 |
| Travel expenses | 49 | 44 |
| Other miscellaneous expenses | 137 | 116 |
| | 451 | 441 |

6. Costs Relating to Proposed Combination with LSEG

| | 2019 \$m | 2018 \$m |
|-------------------|-------------|-------------|
| Professional fees | 120 | - |
| Others | 3 | - |
| | 123 | - |

In 2019, HKEX carried out a detailed analysis on the proposed combination with LSEG, but decided not to proceed with making a firm offer.

7. Finance Costs

| | 2019 \$m | 2018 \$m |
|---|-------------|-------------|
| Interest on borrowings | 7 | 52 |
| Interest on lease liabilities | 89 | - |
| Banking facility commitment fees | 52 | 45 |
| Negative interest on Euro and Japanese Yen deposits | 29 | 17 |
| | 177 | 114 |

8. Taxation

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

| | 2019 \$m | 2018 \$m |
|--|-------------|-------------|
| Current tax - Hong Kong Profits Tax | | |
| - Provision for the year | 1,314 | 1,421 |
| Current tax - Overseas Tax | | |
| - Provision for the year | 200 | 182 |
| - Over provision in respect of prior years | (1) | (52) |
| | 199 | 130 |
| Total current tax (note (a)) | 1,513 | 1,551 |
| Deferred tax | | |
| - Provision for temporary differences | 48 | 41 |
| Taxation charge | 1,561 | 1,592 |

- (a) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2018: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rates applicable to the subsidiaries in the UK being 19 per cent (2018: 19 per cent).

9. Earnings Per Share

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

- (a) Basic earnings per share

| | 2019 | 2018 |
|--|-----------|-----------|
| Profit attributable to shareholders (\$m) | 9,391 | 9,312 |
| Weighted average number of shares in issue less shares held for Share Award Scheme (in '000) | 1,253,730 | 1,242,059 |
| Basic earnings per share (\$) | 7.49 | 7.50 |

- (b) Diluted earnings per share

| | 2019 | 2018 |
|---|-----------|-----------|
| Profit attributable to shareholders (\$m) | 9,391 | 9,312 |
| Weighted average number of shares in issue less shares held for Share Award Scheme (in '000) | 1,253,730 | 1,242,059 |
| Effect of Awarded Shares (in '000) | 2,971 | 2,759 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000) | 1,256,701 | 1,244,818 |
| Diluted earnings per share (\$) | 7.47 | 7.48 |

10. Dividends

| | 2019 \$m | 2018 \$m |
|---|-------------|-------------|
| First interim dividend paid: | | |
| \$3.72 (2018: \$3.64) per share | 4,680 | 4,537 |
| Less: Dividend for shares held by Share Award Scheme (note (a)) | (12) | (10) |
| | 4,668 | 4,527 |
| Second interim dividend declared (notes (b) and (c)): | | |
| \$2.99 (2018: \$3.07) per share based on issued share capital at 31 Dec | 3,771 | 3,839 |
| Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a)) | (10) | (9) |
| | 3,761 | 3,830 |
| | 8,429 | 8,357 |

- (a) The results and net assets of the Share Award Scheme are included in HKEX's financial statements. Therefore, dividends for shares held by the Share Award Scheme were deducted from the total dividends.
- (b) The second interim dividend declared after 31 December was not recognised as a liability at 31 December as it had not been approved by the Board.
- (c) The 2019 second interim dividend will be payable in cash with a scrip dividend alternative subject to the permission of the SFC of the listing of and permission to deal in the new shares to be issued.

11. Financial Assets

The Group classifies the financial assets into the following categories:

Cash for A shares includes:

- (a) RMB cash prepayments received by HKSCC from its CPs for releasing their allocated A shares on the trade day. Such prepayments will be used to settle HKSCC's CNS obligations payable on the next business day; and
- (b) HKD/USD cash collateral received by HKSCC from its CPs for releasing their allocated A shares on the trade day. Such collateral will be refunded to the CPs when they settle their RMB CNS obligations on the next business day.

Margin Funds - the Margin Funds are established by cash received or receivable from CPs in respect of margin deposits, Mainland security and settlement deposits, and cash collateral of the five clearing houses to cover their open positions. Part of the Mainland security and settlement deposits is used by HKSCC to satisfy its obligations as a clearing participant of ChinaClear in respect of trades transacted through Stock Connect. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Clearing House Funds - the Clearing House Funds, or default funds, are established under the Clearing House Rules. Assets contributed by the CPs and the Group are held by the respective clearing houses (together with the accumulated income less related expenses for the clearing houses in Hong Kong) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the CPs fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge its liabilities and obligations if defaulting CPs deposit defective securities into CCASS. The amounts earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear and its accumulated investment income was also included in Clearing House Funds for presentation purpose. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities. Contributions by HKSCC, HKCC and SEOCH to their respective default funds (Skin-in-the-Game) are set at 10 per cent of the size of the respective funds, and such contributions, together with default fund credits granted to HKSCC and HKCC Participants, are included in Corporate Funds.

Metals derivatives contracts represent the fair value of the outstanding base, ferrous and precious metals futures and options contracts cleared through 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.

Financial assets held by the Group which are funded by share capital and funds generated from operations are classified as Corporate Funds (ie, other than financial assets of Cash for A shares, Margin Funds, Clearing House Funds and metals derivatives contracts).

The financial assets are invested into the cash and cash equivalents, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, and financial assets measured at amortised cost, details of which are as follows:

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m |
|--|--------------------------|--------------------------|
| Cash and cash equivalents | 128,152 | 121,196 |
| Financial assets measured at fair value through profit or loss | 57,401 | 61,004 |
| Financial assets measured at fair value through other comprehensive income | 4,569 | 3,755 |
| Financial assets measured at amortised cost | 40,672 | 31,885 |
| | 230,794 | 217,840 |

The Group's financial assets comprised financial assets of Cash for A shares, Margin Funds, Clearing House Funds, metals derivatives contracts and Corporate Funds as follows:

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m |
|--|--------------------------|--------------------------|
| <u>Cash for A shares</u> | | |
| Cash and cash equivalents | 1,460 | 3,014 |
| <u>Margin Funds¹</u> | | |
| Cash and cash equivalents | 100,095 | 90,773 |
| Financial assets measured at fair value through other comprehensive income | 4,569 | 3,755 |
| Financial assets measured at amortised cost | 32,348 | 26,045 |
| | 137,012 | 120,573 |
| <u>Clearing House Funds</u> | | |
| Cash and cash equivalents | 15,176 | 15,505 |
| <u>Metals derivatives contracts</u> | | |
| Financial assets measured at fair value through profit or loss | 48,008 | 53,915 |
| <u>Corporate Funds</u> | | |
| Cash and cash equivalents (note (a)) | 11,421 | 11,904 |
| Financial assets measured at fair value through profit or loss | 9,393 | 7,089 |
| Financial assets measured at amortised cost | 8,324 | 5,840 |
| | 29,138 | 24,833 |
| | 230,794 | 217,840 |

1 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$5,524 million (31 December 2018: \$3,155 million), which are included in accounts receivable, prepayments and other deposits. If such amounts are included, total Margin Funds would be \$142,536 million (31 December 2018: \$123,728 million).

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

| | At 31 Dec 2019 | | | | | | At 31 Dec 2018 | | | | | |
|------------------|----------------------|-----------------|----------------------------|------------------------------------|--------------------|----------------|----------------------|-----------------|----------------------------|------------------------------------|--------------------|----------------|
| | Cash for A shares | Margin Funds | Clearing House Funds | Metals derivatives contracts | Corporate Funds | Total | Cash for A shares | Margin Funds | Clearing House Funds | Metals derivatives contracts | Corporate Funds | Total |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Within 12 months | 1,460 | 137,012 | 15,176 | 48,008 | 27,748 | 229,404 | 3,014 | 120,573 | 15,505 | 53,915 | 24,435 | 217,442 |
| Over 12 months | - | - | - | - | 1,390 | 1,390 | - | - | - | - | 398 | 398 |
| | 1,460 | 137,012 | 15,176 | 48,008 | 29,138 | 230,794 | 3,014 | 120,573 | 15,505 | 53,915 | 24,833 | 217,840 |

(a) At 31 December 2019, cash and cash equivalents of Corporate Funds of \$818 million (31 December 2018: \$724 million) were solely used to support Skin-in-the-Game and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund.

12. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's CNS money obligations receivable, which accounted for 73 per cent (31 December 2018: 73 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

13. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's CNS money obligations payable, which accounted for 89 per cent (31 December 2018: 89 per cent) of the total accounts payable, accruals and other liabilities. CNS 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.

14. Borrowings

| | At 31 Dec 2019 \$m | At 31 Dec 2018 \$m |
|---|--------------------------|--------------------------|
| Notes (note (a)) | - | 753 |
| Written put options to non-controlling interests (note (b)) | 418 | 413 |
| Total borrowings | 418 | 1,166 |
| Analysed as: | | |
| Non-current liabilities | 80 | 161 |
| Current liabilities | 338 | 1,005 |
| | 418 | 1,166 |

(a) Notes

In January 2014, HKEX issued US\$95 million (HK\$737 million) of fixed rate senior notes which matured and were fully repaid in January 2019. The average effective interest rate of the senior notes prior to its repayment was 2.9 per cent (2018: 2.9 per cent) per annum.

(b) Written put options to non-controlling interests

Prior to 2018, OTC Clear issued 1,620 non-voting ordinary shares to certain third party shareholders at a total consideration of \$340 million. In October 2018, a further 1,921 non-voting ordinary shares of OTC Clear were issued at a consideration of \$93 million. As part of the arrangement, put options were written by HKEX to the non-controlling interests to sell part or all of their non-voting ordinary shares in OTC Clear to HKEX at the initial subscription prices less accumulated dividends received by the non-controlling interests. The put options are exercisable by the non-controlling interests at any time following the date falling five years after the shares were issued if the non-controlling interests can demonstrate to HKEX that they have used reasonable endeavours for at least three months to find a suitable purchaser for their shares at a price equal to or more than their fair market values. The carrying amount of written put options represents the present value of the amount payable by HKEX to acquire the shares held by non-controlling interests at the date at which the written put options first become exercisable.

\$252 million of the written put options became exercisable in October 2018, and \$86 million and \$80 million of the options will become exercisable in August 2020 and October 2023 respectively.

The effective interest rate of the liabilities was 3.0 per cent (2018: 3.0 per cent) per annum.

15. Retained Earnings

| | 2019 \$m | 2018 \$m |
|--|-------------|-------------|
| At 1 Jan, as previously reported | 13,379 | 11,813 |
| Effect of adoption of HKFRS 16 | (8) | - |
| At 1 Jan, as restated | 13,371 | 11,813 |
| Profit attributable to shareholders | 9,391 | 9,312 |
| Transfer (to)/from Clearing House Funds reserves | (64) | 299 |
| Dividends: | | |
| 2017 final dividend | - | (3,525) |
| 2018 second interim dividend | (3,830) | - |
| 2019/2018 first interim dividend | (4,668) | (4,527) |
| Unclaimed HKEX dividends forfeited | 19 | 23 |
| Vesting of shares of Share Award Scheme | (15) | (16) |
| Tax relating to Share Award Scheme | - | (1) |
| Changes in ownership interests in a subsidiary | - | 1 |
| At 31 Dec | 14,204 | 13,379 |

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS HONG KONG

The financial figures in this announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's external auditor, PricewaterhouseCoopers Hong Kong (PwC), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by PwC on this announcement.

REVIEW OF 2019 CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee (AC) reviewed the 2019 Consolidated Financial Statements in conjunction with HKEX's external auditor. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019.

DISTRIBUTABLE RESERVES

As at 31 December 2019, HKEX's distributable reserves, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to \$7.0 billion (31 December 2018: \$7.6 billion).

DIVIDEND

The Board has declared a second interim dividend of \$2.99 per share for 2019 (2018 second interim dividend: \$3.07 per share) to Shareholders whose names appear on HKEX's Register of Members on 16 March 2020. A scrip dividend alternative will continue to be offered to allow Shareholders to elect to receive the second interim dividend wholly or partly in the form of new fully paid shares in lieu of cash.

Including the first interim dividend, the total dividends for 2019 amount to \$6.71 per share (2018: \$6.71 per share), which represents a payout ratio of 90 per cent (2018: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2019. Dividends for shares held in trust under the Share Award Scheme amount to \$22 million (2018: \$19 million).

SCRIP DIVIDEND ALTERNATIVE

The second interim dividend for 2019 will be payable in cash with a scrip alternative where a 3 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, together with an election form, is expected to be despatched to Shareholders on or about Friday, 20 March 2020. The scrip share subscription price for calculating the number of new shares to be allotted will be announced on or about Thursday, 26 March 2020. Definitive share certificates in respect of the scrip dividend and dividend warrants are expected to be despatched to Shareholders on Wednesday, 15 April 2020.

CLOSURE OF HKEX'S REGISTER OF MEMBERS

For the purposes of determining Shareholders' eligibility to attend and vote at the 2020 AGM, and entitlement to the 2019 second interim dividend, HKEX's Register of Members will be closed as set out below:

- (i) For determining eligibility to attend and vote at the 2020 AGM:
 - Latest time to lodge transfer documents for registration with HKEX's registrar At 4:30 pm on 29 April 2020
 - Closure of HKEX's Register of Members 4 May 2020 to 7 May 2020
(both dates inclusive)
 - Record date 7 May 2020
- (ii) For determining entitlement to the 2019 second interim dividend:
 - Ex-dividend date 11 March 2020
 - Latest time to lodge transfer documents for registration with HKEX's registrar At 4:30 pm on 12 March 2020
 - Closure of HKEX's Register of Members 13 March 2020 to 16 March 2020
(both dates inclusive)
 - Record date 16 March 2020

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the 2020 AGM, and to qualify for the 2019 second interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEX's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than the aforementioned latest time.

ANNUAL GENERAL MEETING

The 2020 AGM will be held on Thursday, 7 May 2020 at 4:30 pm at the HKEX Connect Hall on the 1st Floor, One and Two Exchange Square, Central, Hong Kong. The Notice of the 2020 AGM, which constitutes part of a circular to Shareholders, will be sent together with the 2019 Annual Report. The Notice, the circular which sets out details of the business to be conducted at the 2020 AGM, and the proxy form will be available under the Investor Relations section of the HKEX Group website. The results of the voting on the proposed resolutions will be published on the HKEX Group website shortly after the 2020 AGM is held.

All Shareholders are encouraged to attend the 2020 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior executives.

ELECTION OF DIRECTORS

The service term of C H Cheah and Hugo Leung (Elected Directors) will expire at the conclusion of the 2020 AGM. On 25 February 2020, the Nomination and Governance Committee (NGC) nominated Messrs Cheah and Leung to the Board for it to recommend to Shareholders for re-election at the 2020 AGM. The nominations were made in accordance with the Nomination Policy and took into account the selection criteria for Non-executive Director candidates which have been approved by the Board. These include, among others, the candidates' market knowledge and experience, reputation for integrity, and the diversity aspects (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out in the Board Diversity Policy. The NGC took into consideration Mr Cheah's in-depth knowledge of the fund management industry and Mr Leung's extensive experience in global markets business, as well as their respective contributions to the Board and firm commitments to their roles. The NGC was satisfied with the independence of Messrs Cheah and Leung with reference to the criteria laid down in the Main Board Listing Rules. Mr Cheah, who is a member of the NGC, abstained from voting at the Committee meeting when his own nomination was being considered.

On 26 February 2020, the Board accepted the nomination by the NGC and recommended Messrs Cheah and Leung to stand for re-election at the 2020 AGM. Each of Messrs Cheah and Leung does not hold any cross-directorships or have any significant links with other Directors through involvement in other companies or bodies. Messrs Cheah and Leung do not have any service contracts with any member of the Group that are not determinable by the Group within one year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year 2019, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 (re-election of non-executive directors) and A.4.2 (retirement by rotation of directors).

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by the SFO. HKEX's Chief Executive in his capacity as a Director is not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles of Association.

HKEX has applied the principles of the Corporate Governance Code to its corporate governance structure and practices in the manner as described in the Corporate Governance Report contained in the 2019 Annual Report and on the HKEX Group website.

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

During 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of HKEX shares, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,115,300 HKEX shares at a total consideration of \$285 million.

PUBLICATION OF 2019 FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the HKEXnews website at www.hkexnews.hk and the HKEX Group website at www.hkexgroup.com/Investor-Relations/Regulatory-Disclosure/Announcements/2020. The 2019 Annual Report will be available on the HKEXnews and HKEX Group websites and despatched to Shareholders on or about Wednesday, 18 March 2020.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Joseph Mau
Group Company Secretary

Hong Kong, 26 February 2020

As at the date of this announcement, the Board comprises 11 Independent Non-executive Directors, namely Mrs Laura May-Lung CHA (Chairman), Mr Apurv BAGRI, Mr CHAN Tze Ching, Ignatius, Mr CHEAH Cheng Hye, Ms FUNG Yuen Mei, Anita, Mr Rafael GIL-TIENDA, Dr HU Zuli, Fred, Mr HUNG Pi Cheng, Benjamin, 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.

GLOSSARY

| | |
|----------------------------------|--|
| 2020 AGM | HKEX's annual general meeting to be held on 7 May 2020 |
| ADT | Average daily turnover value |
| ADV | Average daily volume (in number of contracts/lots) |
| Alibaba | Alibaba Group Holding Limited |
| Awarded Shares | Shares awarded under the Share Award Scheme |
| BayConnect | BayConnect Technology Company Limited (formerly known as Shenzhen Ronghui Tongjin Technology Co., Ltd. (Ronghui Tongjin)) |
| Board | HKEX's board of directors |
| Bond Connect | A mutual bond market access programme between Hong Kong and Mainland China, under which Northbound trading enables overseas investors to invest in the China Interbank Bond Market, and Southbound trading will be explored at a later stage |
| Budweiser APAC | Budweiser Brewing Company APAC Limited |
| Cash Market | HKEX's securities related business excluding stock options |
| CBBCs | Callable Bull/Bear Contracts |
| CCASS | Central Clearing and Settlement System |
| ChinaClear | China Securities Depository and Clearing Corporation Limited |
| CNH | Offshore RMB traded outside Mainland China |
| CNS | Continuous Net Settlement |
| Corporate Governance Code | Refer to Appendix 14 to the Main Board Listing Rules |
| CPs | Clearing Participants |
| CSR | Corporate Social Responsibility |
| Derivatives Market | HKEX's derivatives related business including stock options |
| Director(s) | HKEX's director(s) |
| DWs | Derivative warrants |
| Elected Director(s) | Director(s) elected by the Shareholders at general meetings |
| EPs | Exchange Participants |
| ESG | Environmental, Social and Governance |
| ESG Reporting Guide | Appendix 27 to the Main Board Listing Rules |
| ETF(s) | Exchange Traded Fund(s) |
| Euro | The official currency of the Eurozone |
| Exchange or Stock Exchange | The Stock Exchange of Hong Kong Limited |
| FIC | Fixed income and currency |
| Fintech | Financial technology |
| Futures Exchange or HKFE | Hong Kong Futures Exchange Limited |
| GEM Listing Rules | Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited |
| Government Appointed Director(s) | Director(s) appointed by the Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China pursuant to Section 77 of the SFO |
| Group or HKEX Group | HKEX and its subsidiaries |
| HKCC | HKFE Clearing Corporation Limited |
| HKEX or the Company | Hong Kong Exchanges and Clearing Limited |
| HKFRS(s) | Hong Kong Financial Reporting Standard(s) |
| HKICPA | Hong Kong Institute of Certified Public Accountants |
| HKSCC | Hong Kong Securities Clearing Company Limited |
| HSCEI | Hang Seng China Enterprises Index |
| HSI | Hang Seng Index |
| IPO(s) | Initial Public Offering(s) |
| Iron Ore Futures | TSI Iron Ore Fines 62 per cent Fe CFR China Futures |
| IT | Information Technology |
| Listing Committee | Listing Committee of the Main Board and GEM |
| Listing Rule(s) | Main Board Listing Rules and GEM Listing Rules |

| | |
|----------------------------------|--|
| LME | The London Metal Exchange |
| LME Clear | LME Clear Limited |
| LME Group | HKEX Investment (UK) Limited, LME Holdings Limited, the LME and LME Clear |
| London Metal Mini Futures | London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures |
| LSEG | London Stock Exchange Group plc |
| Main Board Listing Rules | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| MiFID II | Markets in Financial Instruments Directive II |
| MOU | Memorandum of Understanding |
| MSCI | MSCI Inc. |
| Northbound Trading | Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through Stock Connect |
| OECD | Organisation for Economic Co-operation and Development |
| OTC | Over-the-counter |
| OTC Clear | OTC Clearing Hong Kong Limited |
| PRC | The People's Republic of China |
| QME | Qianhai Mercantile Exchange Co., Ltd. |
| RMB | Renminbi |
| SEOCH | The SEHK Options Clearing House Limited |
| SFC | Securities and Futures Commission |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Shanghai-Hong Kong Stock Connect | A mutual market access programme that links the stock markets in Shanghai and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market |
| Shareholder(s) | HKEX's shareholder(s) |
| Share Award Scheme or the Scheme | The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015 |
| Shenzhen-Hong Kong Stock Connect | A mutual market access programme that links the stock markets in Shenzhen and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market |
| Southbound Trading | Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connect |
| Stock Connect | Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect |
| UK | United Kingdom |
| US | United States of America |
| US\$/USD | United States dollar |
| \$/HK\$/HKD | Hong Kong dollar |
| \$bn/bn | Hong Kong dollar in billion/billion |
| \$m | Hong Kong dollar in million |
| £/GBP | Pound sterling |
| Q1, Q2, Q3, Q4, 1H, 2H | First quarter, second quarter, third quarter, fourth quarter, first half, second half |