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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)

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

HIGHLIGHTS

Financial Highlights

- Revenue and other income rose by 2 per cent compared with YTD Q3¹ 2018, driven by:
 - An increase in net investment income, including fair value gains on collective investment schemes and higher interest income, and record revenue and other income from Stock Connect;
 - Partly offset by a reduction in trading and clearing fees from lower Cash Market, Derivatives Market and Commodities Market trading volumes
- Operating expenses fell 1 per cent against YTD Q3 2018 due to lower premises expenses as a result of adopting the new accounting standard for leases². Excluding such impact, operating expenses increased by 6 per cent, attributable to higher staff and IT costs
- EBITDA³ was up 3 per cent against YTD Q3 2018, and EBITDA margin was 77 per cent, 1 per cent and 3 per cent higher than YTD Q3 2018 and the full 2018 fiscal year respectively
- Profit attributable to shareholders was 1 per cent lower than YTD Q3 2018, at \$7,412 million

Strategic Highlights

- Stock Connect Northbound ADT saw a record nine-month high for YTD Q3 2019, more than double the previous record achieved in YTD Q3 2018. This reflects the successful inclusion of China A shares in MSCI, FTSE Russell and S&P Dow Jones indexes
- Bond Connect ADT grew significantly to RMB8.8 billion, more than double YTD Q3 2018
- The Closing Auction Session (CAS) was successfully expanded in October 2019 to cover all equities and funds
- Inline Warrants were introduced in July 2019, with 412 Inline Warrants listed as of 30 September 2019
- HKEX confirmed its decision on 8 October 2019 not to make an offer for London Stock Exchange Group plc (LSEG)
- Inclusion of eligible companies with weighted voting rights (WVR) in Southbound Trading of Stock Connect, effective from 28 October 2019

Charles Li, Chief Executive said:

“Set against a challenging broad geopolitical backdrop, HKEX has had a good first nine months of 2019. Record Stock Connect revenue, recent resurgence in the IPO market and good returns from investment income offset some macro-driven softness in Cash Market volumes. We were disappointed not to proceed with a firm offer for LSEG, but we remain resolutely focused on the successful execution of our 3-year strategic plan, maintaining good cost discipline and capturing future growth opportunities.”

Key Financials

	YTD Q3 2019 \$m	YTD Q3 2018 \$m	Change
Revenue and other income	12,565	12,296	2%
Operating expenses	2,902	2,943	(1%)
EBITDA	9,663	9,353	3%
Profit attributable to shareholders	7,412	7,484	(1%)
Basic earnings per share	\$5.92	\$6.03	(2%)

Key Market Statistics

	YTD Q3 2019	YTD Q3 2018	Change
ADT of equity products traded on the Stock Exchange (\$bn)	70.8	91.2	(22%)
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.7	23.5	(16%)
ADT of the Stock Exchange (Headline ADT) (\$bn)	90.5	114.7	(21%)
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	649	664	(2%)
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	464	534	(13%)
Chargeable ADV ⁴ of metals contracts traded on the LME ('000 lots)	618	644	(4%)

1 Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, 1H = first half, 2H = second half, YTD Q3 = nine months ended 30 September, YTD Q3 2018 or the prior period = nine months ended 30 September 2018, YTD Q3 2019 or the period = nine months ended 30 September 2019

2 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 condensed consolidated financial statements for further details.

3 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.

4 Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades. Admin Trades were introduced in 2017 to meet requirements resulting from Markets in Financial Instruments Directive (MiFID) II.

BUSINESS REVIEW

Overview

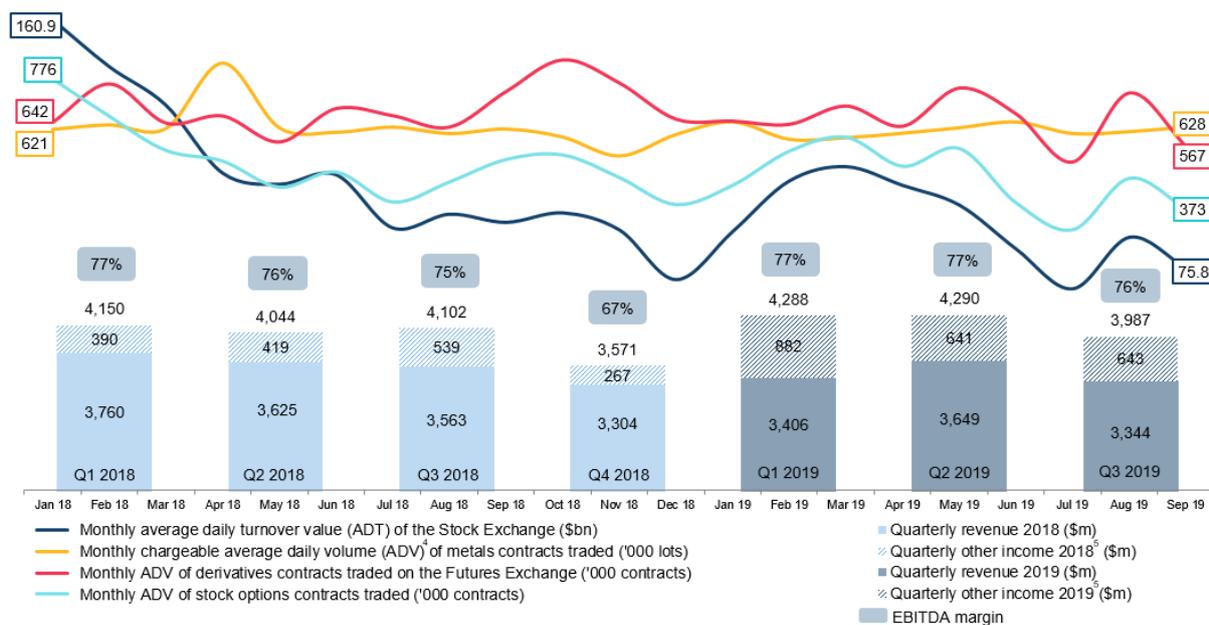


Fig. 1 – Market activity and Group's⁶ revenue and other income

HKEX's business continued to perform well despite weakening market sentiment driven by the prolonged trade tensions between China and the US, social unrest in Hong Kong and uncertainty over Brexit. Revenue and other income for YTD Q3 2019 rose by 2 per cent against YTD Q3 2018 and reached a nine-month record of \$12.6 billion. Despite a 21 per cent drop in Cash Market headline ADT and modest declines in trading volumes in the Derivatives and Commodities Markets, the reduction in trading and clearing fees was more than offset by an increase in net investment income from fair value gains on collective investment schemes and higher net interest income from Corporate Funds and Margin Funds, and increased Northbound Stock Connect Trading.

Operating expenses for YTD Q3 2019 decreased by 1 per cent against YTD Q3 2018, due to lower premises expenses as a result of adopting the new accounting standard for leases². Excluding the impact of this accounting change, operating expenses increased by 6 per cent against YTD Q3 2018, attributable to increased headcount and annual payroll adjustments, and higher maintenance expenses for new IT systems and upgraded networks.

For Q3 2019, revenue and other income was 7 per cent lower than Q2 2019. This was mainly due to seasonal decreases in depository, custody and nominee services fees, and lower trading and clearing revenue. Although headline ADT⁷ dropped to \$77.0 billion, 19 per cent below Q2 2019 and 16 per cent below Q3 2018, Northbound Stock Connect ADT continued to maintain its momentum and reached the second highest quarterly ADT of RMB38.5 billion⁸. This was boosted by the further inclusion of China A shares in MSCI, FTSE Russell and S&P Dow Jones indexes.

On 11 September 2019, HKEX announced its intention to make a possible offer for LSEG. HKEX believed that a combination of LSEG and HKEX was strategically compelling and would create a world-leading market infrastructure group. Despite a significant amount of work involving discussions with a broad set of regulators, extensive shareholders discussion, and detailed financial analysis, HKEX announced on 8 October 2019 that it would not proceed to make a firm offer for LSEG, as it has been unable to engage with the management of LSEG in realising its vision and continuation would not be in the best interests of shareholders.

⁵ Includes net investment income and sundry income

⁶ HKEX and its subsidiaries, which include The Stock Exchange of Hong Kong Limited (SEHK or the Stock Exchange), Hong Kong Futures Exchange Limited (HKFE or the Futures Exchange), Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC), The SEHK Options Clearing House Limited (SECH), OTC Clearing Hong Kong Limited (OTC Clear), The London Metal Exchange (LME), LME Clear Limited (LME Clear) and other subsidiaries

⁷ ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange

⁸ Includes buy and sell trades under Stock Connect

Business Update and Analysis of Results by Operating Segment

	YTD Q3 2019		YTD Q3 2018	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m
Results by segment:				
Cash	2,750	2,306	3,033	2,609
Equity and Financial Derivatives	2,348	1,930	2,591	2,171
Commodities	1,046	565	1,077	559
Post Trade	4,846	4,236	4,741	4,136
Technology	576	406	507	382
Corporate Items	999	220	347	(504)
	12,565	9,663	12,296	9,353

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 reorganised. 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".

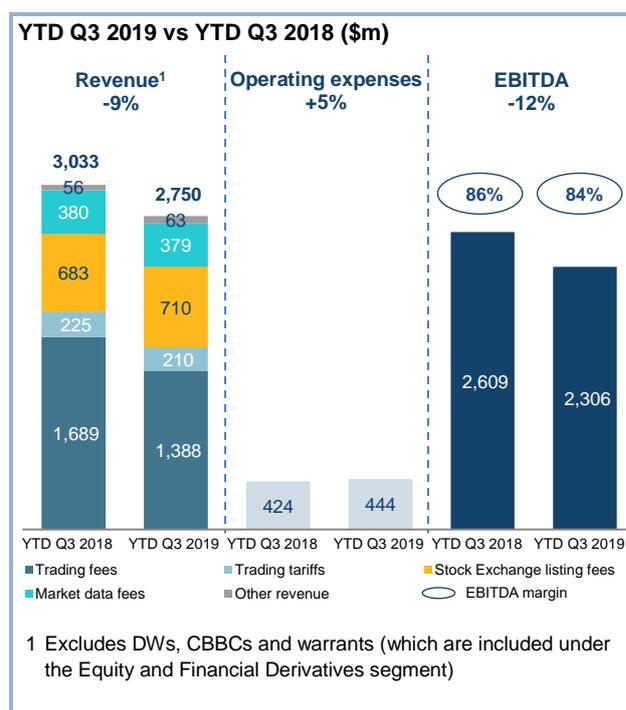
Cash Segment

Analysis of Results

Trading fees decreased by 18 per cent compared with YTD Q3 2018. This was lower than the 22 per cent drop in equity products ADT, primarily due to record fees from Northbound Trading of Stock Connect. Trading tariffs fell by 7 per cent, in line with the decrease in number of traded equity products.

Stock Exchange listing fees rose by \$27 million, attributable to a \$15 million increase in annual listing fees from a higher overall number of listed companies on the Stock Exchange, and a \$12 million increase in initial listing fees, due mainly to more forfeitures.

Operating expenses rose by 5 per cent due to additional headcount for strategic projects and annual payroll adjustments, partly offset by lower premises expenses (\$34 million) as a result of adopting the new accounting standard for leases².



Business Update

Market sentiment was impacted by uncertainties over the local economy and the Hong Kong Cash Market experienced reduced trading volume in Q3 2019, with headline ADT decreasing by 19 per cent as compared to Q2 2019.

Stock Connect generated record nine-month revenue and other income of \$758 million in YTD Q3 2019 (YTD Q3 2018: \$521 million), of which \$529 million (YTD Q3 2018: \$319 million) arose from trading and clearing activities. The second tranche of the three-step inclusion process announced by MSCI to further increase the weightings of China A shares in MSCI Indexes was completed on 27 August 2019, with Northbound Trading turnover reaching a record high of RMB84.3 billion on that day. On 20 September 2019, FTSE Russell and S&P Dow Jones Indices completed rebalancing the indexes, recording the second highest daily turnover of RMB78.5 billion. These and other planned inclusions are expected to further stimulate Northbound Trading, and solidify Stock Connect's position as the preferred channel for global investors to access the China A-share market.

On 28 October 2019, HKEX welcomed the successful inclusion of eligible companies with weighted voting rights (WVR) in Southbound Trading of Stock Connect. This followed the

announcement in August that HKEX, Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) had reached consensus on the criteria for inclusion of Hong Kong-listed WVR companies in Stock Connect. The latest development underscores the commitment by the three exchanges to refine and enhance their mutual market access programme between Mainland China and Hong Kong, helping promote the continued long-term sustainable development of the Mainland and Hong Kong capital markets.

On 16 August 2019, HKEX published a consultation paper on proposed enhancements to the Pre-opening Session (POS) and Volatility Control Mechanism (VCM) in the Hong Kong Cash Market. The consultation focused on further boosting market liquidity and enhancing the global competitiveness of the Hong Kong market. The proposed enhancements to POS will help improve price discovery, and increase trading liquidity before the market opens, while the proposed VCM enhancements will help reduce risks caused by extreme price volatility in individual stocks, and reflect changes in international practice and regulatory guidance. The consultation conclusions are expected to be published by the end of 2019.

The Closing Auction Session (CAS) was successfully expanded to cover all equities (including depository receipts, investment companies, preference shares and stapled securities) and funds (including Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs)) from 8 October 2019. The same CAS model (including price limits of 5 per cent of the reference price during CAS) has been applied to the newly included securities. The expansion of CAS standardises closing hours for all equities, improves trading liquidity at market close, and simplifies trading operations for market participants.

Key Market Indicators	YTD Q3	
	2019	2018
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	70.8	91.2
ADT of Northbound Trading ² – Shanghai-Hong Kong Stock Connect (RMBbn)	22.0⁴	11.1
ADT of Northbound Trading ² – Shenzhen-Hong Kong Stock Connect (RMBbn)	20.0⁴	8.5
ADT of Bond Connect (RMBbn)	8.8⁴	3.7
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2} ('000)	1,193	1,273
Number of newly listed companies on the Main Board ³	100⁴	99
Number of newly listed companies on GEM	8	67
Total equity funds raised		
- IPOs (\$bn)	133.9	243.1
- Post-IPOs (\$bn)	102.2	204.2
Number of companies listed on the Main Board at 30 Sept	2,013	1,885
Number of companies listed on GEM at 30 Sept	382	383
Number of trading days	184	184
<p>1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes \$6.8 billion (YTD Q3 2018: \$9.1 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and \$3.9 billion (YTD Q3 2018: \$5.0 billion) under Shenzhen-Hong Kong Stock Connect</p> <p>2 Includes buy and sell trades under Stock Connect</p> <p>3 Includes 10 transfers from GEM (YTD Q3 2018: 8)</p> <p>4 New record high for YTD Q3</p>		

Hong Kong's role as a leading IPO fund raising centre has been upheld with 108 companies newly listed in Hong Kong in YTD Q3 2019 raising total funds of HK\$133.9 billion. In particular, the listing of Budweiser Brewing Company APAC Limited (Budweiser) was the largest IPO in Asia and the world's second largest IPO in YTD Q3 2019⁹.

The positive impact of introducing the HKEX Biotech Companies chapter (Chapter 18A of the Main Board Listing Rules) continued in the quarter. In Q3 2019, the Stock Exchange welcomed two new biotech and healthcare companies (including one biotech company listed under Chapter 18A), together raising a total of HK\$4.2 billion.

Bond Connect saw record trading volume and numbers of investors in Q3 2019, supported by sustained growth in trading demand for Chinese bonds following their increasing representation in global fixed-income benchmarks. ADT rose to RMB12.9 billion¹⁰ in Q3 2019, an increase of 215 per cent from Q3 2018, with record monthly turnover for two consecutive months in July (RMB201.0 billion) and August 2019 (RMB338.6 billion), and a new daily record turnover of RMB23.8 billion on 29 August 2019. As of 30 September 2019, Bond Connect had expanded its coverage to 31 jurisdictions globally, with a total of 1,311 institutional investors, up 161 per cent from 503 as of 31 December 2018.

A summit to mark the second anniversary of Bond Connect was held in July 2019, attracting over 600 industry experts and professionals. The summit covered recent progress in the opening up of China's financial markets, further enhancements in onboarding foreign institutions to the market, product scope in the Bond Connect scheme and new opportunities created by the Guangdong-Hong Kong-Macao Greater Bay Area.

As part of the strategic focus to improve access to the Hong Kong markets and to facilitate the application process, the Stock Exchange enhanced guidance for overseas companies seeking to list in Hong Kong, including (a) publication of alternative procedures for US "Domestic Issuers"¹¹ with an offering of a security subject to Regulation S; (b) publication of a standardised template for issuers from a jurisdiction new to listing in Hong Kong; and (c) simplification of Central Clearing and Settlement System (CCASS) information materials and introduction of Frequently Asked Questions on HKEX website.

The Stock Exchange amended the GEM Listing Rules on 18 October 2019 to reflect the unwinding of the authority delegated to the Listing Department by the GEM Listing Committee to approve GEM listing applications. This follows the consultation conclusions on "The Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules" published on 15 December 2017. The amended GEM Listing Rules will become effective on 1 January 2020 and new GEM listing applications (including any renewed applications) that are submitted on or after this date will be processed under the amended Rules.

Following the publication of the consultation conclusions on "Backdoor Listing, Continuing Listing Criteria and other Rule Amendments" and with the Rule changes becoming effective on 1 October 2019, the Stock Exchange published related guidance materials including (a) three new guidance letters on application of the reverse takeover Rules, large scale issues of securities and sufficiency of operations; (b) Frequently Asked Questions on the notifiable transaction requirements relating to securities transactions; and (c) updated guide on practices and procedures for post-vetting announcements of listed issuers and handling matters involving trading arrangements prior to publication of announcements.

Subsequent to the amendments to the Financial Reporting Council Ordinance becoming effective on 1 October 2019 and the revision of the "Code of Practice in Times of Typhoons and Rainstorms" issued by the Labour Department in June 2019, the Stock Exchange published Frequently Asked Questions on (a) recognition of overseas audit firms in relation to the amendments to the Financial Reporting Council Ordinance and (b) book closure and emergency share registration arrangements in event of "extreme conditions" caused by super typhoons.

⁹ Source: Dealogic

¹⁰ Excluding the special trading day of 29 September 2019 (Sunday), which is a trading day for China but holiday for global investors

¹¹ "Domestic Issuers" that are not "Reporting Issuers" within the meaning of Regulation S under United States Securities Act of 1933 (Regulation S)

Equity and Financial Derivatives Segment

Analysis of Results

Derivatives trading fees of the Futures Exchange dropped by 4 per cent compared with YTD Q3 2018, due to a 2 per cent decrease in ADV of derivatives contracts traded.

Trading fees and trading tariffs of DWs, CBBCs and warrants dropped by 15 per cent compared with YTD Q3 2018, reflecting the 16 per cent decrease in ADT.

Stock Exchange listing fees declined by 15 per cent, with fewer newly listed DWs and CBBCs compared with YTD Q3 2018.

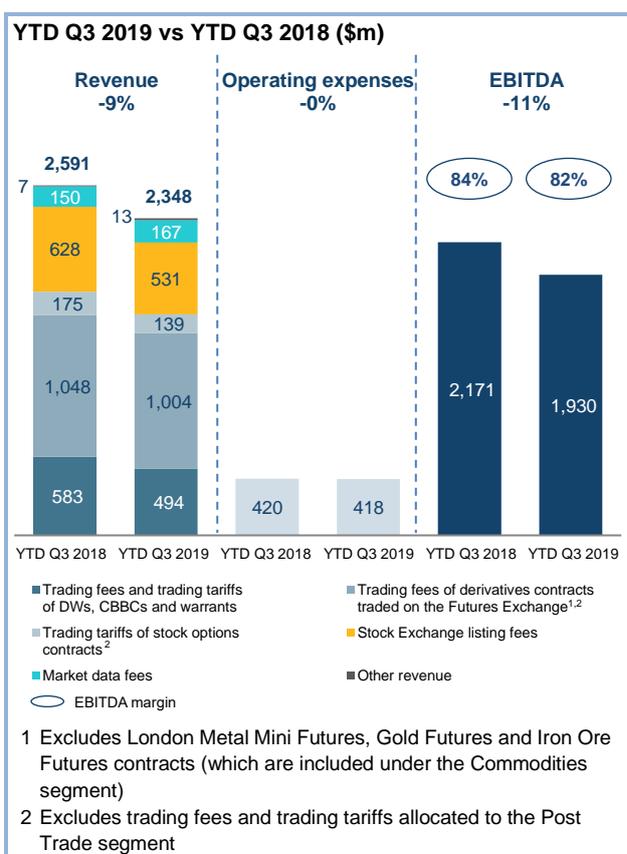
Operating expenses were flat against YTD Q3 2018, as lower premises expenses (\$30 million) as a result of adopting the new accounting standard for leases² was mostly offset by higher staff costs due to additional headcount for strategic projects and annual payroll adjustments.

Business Update

The extension of trading hours from 1 a.m. to 3 a.m. launched on 17 June 2019 provided investors the opportunity to trade and risk manage their positions during the extended hours. Trading volume in the After-Hours Trading (T+1) Session reached a daily record high of 248,853 contracts¹² 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.

HKEX introduced Weekly Hang Seng Index Options and Weekly Hang Seng China Enterprises Index Options (Weekly Index Options) on 16 September 2019 with four market makers providing liquidity. As at 30 September 2019, the ADV of the Weekly Index Options was 1,087 contracts and the Open Interest at 30 September 2019 was 4,038 contracts.

On 30 September 2019, the listing date of Budweiser, HKEX introduced Budweiser futures and options, allowed issuers to list Budweiser Derivative Warrants, and designated Budweiser shares as securities



Key Market Indicators

	YTD Q3	
	2019	2018
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	19.7	23.5
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000)	321	375
ADV of derivatives contracts traded on the Futures Exchange ¹ ('000 contracts)	646	662
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	464	534
Number of newly listed DWs	6,999	9,133
Number of newly listed CBBCs	19,031	19,520
ADV of contracts traded during After-Hours Trading ¹ ('000 contracts)	87 ²	80
Number of trading days	184	184
	At 30 Sept 2019	At 30 Sept 2018
Open interest of futures and options contracts ¹ ('000 contracts)	11,280	12,521

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

2 New record high for YTD Q3

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

eligible for short selling, all of which provided more investment options and risk management tools for investors.

RMB¹³ currency derivatives volumes have expanded steadily throughout 2019, with over 1.5 million USD¹³/CNH¹³ Futures contracts traded during YTD Q3 2019, a 16 per cent increase compared with YTD Q3 2018. The contract also attained a new record daily turnover of 24,345 contracts on 5 August 2019.

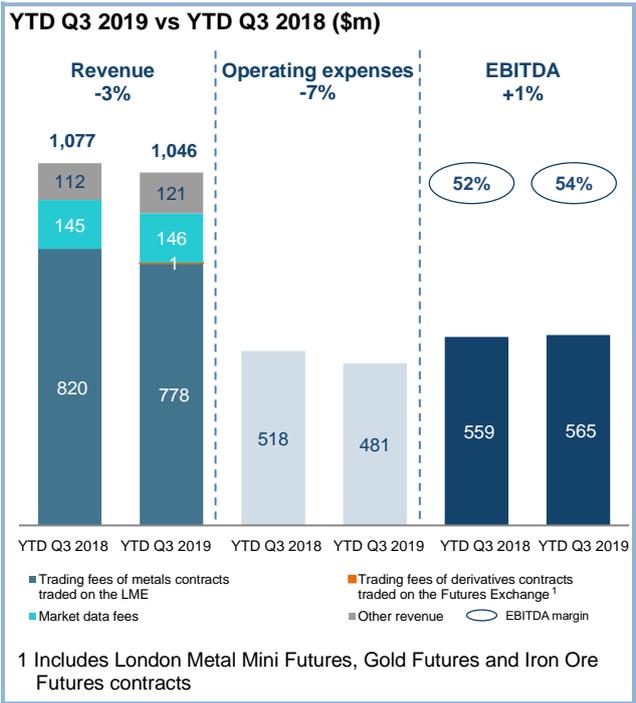
HKEX further expanded its fixed income and currency product coverage, with the launch of Indian Rupee (INR) Currency Futures on 4 November 2019. The INR Currency Futures entail two contracts, namely the INR/USD Futures and the INR/CNH Futures. The INR/CNH Futures is the first listed futures of the INR/CNH pair globally, and its launch will help to strengthen Hong Kong’s role as the region’s premier forex (FX) centre.

Hong Kong is one of the world’s leading structured products markets and on 18 July 2019, HKEX introduced Inline Warrants to further enhance Hong Kong’s offering. Inline Warrants were initially issued on the Hang Seng Index and the five most actively-traded stocks on the Stock Exchange. 412 Inline Warrants have been listed on the Stock Exchange as of 30 September 2019.

Commodities Segment

Analysis of Results

Despite a 4 per cent decline in chargeable ADV¹⁴ of metals contracts traded compared with YTD Q3 2018, driven by weaker sentiment affecting base metal prices and trading activity, EBITDA was up 1 per cent due to lower operating expenses. This was mainly due to lower premises expenses (\$25 million) as a result of adopting the new accounting standard for leases² and lower costs at Qianhai Mercantile Exchange (QME).



13 RMB = Renminbi, USD = United States dollar, CNH = Offshore RMB traded outside Mainland China
 14 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower fee rate of US\$0.04 per contract) and other non-chargeable trades.

Business Update

Since the launch of the LME's seven new cash-settled futures contracts in March 2019, there has been a promising trend of increasing trading activity, with the two new ferrous hot-rolled coil (HRC) contracts achieving record volumes in September 2019 – HRC Free On Board (FOB) China contracts at 6,854 lots and HRC North America at 5,241 lots.

In July 2019, the LME launched a market-wide consultation on its proposals set out in the warehouse reform discussion paper released in March 2019. Included in this consultation was feedback received on the discussion paper, and outline reform proposals, which the LME believes will be positive for its warehouse network. The consultation closed on 12 September 2019. On 1 November 2019, the LME published a feedback analysis report which evaluated the responses received in respect of the consultation and confirmed that the LME would be proceeding to implementation on the reform proposals.

Subsequent to the three-month electronic closing price trial for LME Nickel in 1H 2019, the LME has published data analysis on activities throughout the trial and is seeking feedback from market participants. The LME has also completed a three-month trial extending LME Zinc kerb trading period on the Ring from 5 minutes to 10 minutes in 1H 2019. Following the successful trial, the kerb trading extension was rolled out across all the LME's six main contracts in September.

To comply with the pre-trade transparency (PTT) requirements set out by the European Securities and Markets Authority (ESMA), the LME is working extensively with members and relevant regulators to introduce a market-wide compliant solution.

In Hong Kong, USD-denominated London Aluminium/Copper/Zinc/Lead/Tin/Nickel Mini Futures were launched on 5 August 2019, to complement the existing CNH-denominated London Metal Mini Futures. As at 30 September 2019, 16,417 contracts of USD-denominated London Metal Mini Futures had been traded.

QME saw encouraging trading volume growth in Q3, partly as a result of newly-launched copper rod as a trading product. With the implementation of various business initiatives such as the expansion of the warehouse network, cooperation with insurance partners, and an initial launch of financing solutions, QME is making progress in building a more comprehensive range of services to a wider group of clients in the China commodities market.

Key Market Indicators	YTD Q3	
	2019	2018
ADV of metals contracts traded on the LME ('000 lots)		
Aluminium	235	242
Copper	133	139
Zinc	111	122
Nickel	87	84
Lead	42	46
Ferrous	2	2
Precious	2	4
Others	6	5
Total chargeable ADV excluding Admin Trades ¹	618	644
Chargeable Admin Trades ¹	45	-
Non-chargeable Admin Trades ¹ and other non-chargeable trades	45	105
Total ADV	708	749
Number of trading days	189	189
	At 30 Sept 2019	At 30 Sept 2018
Total futures Market Open Interest ('000 lots)	2,217	2,130
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.		

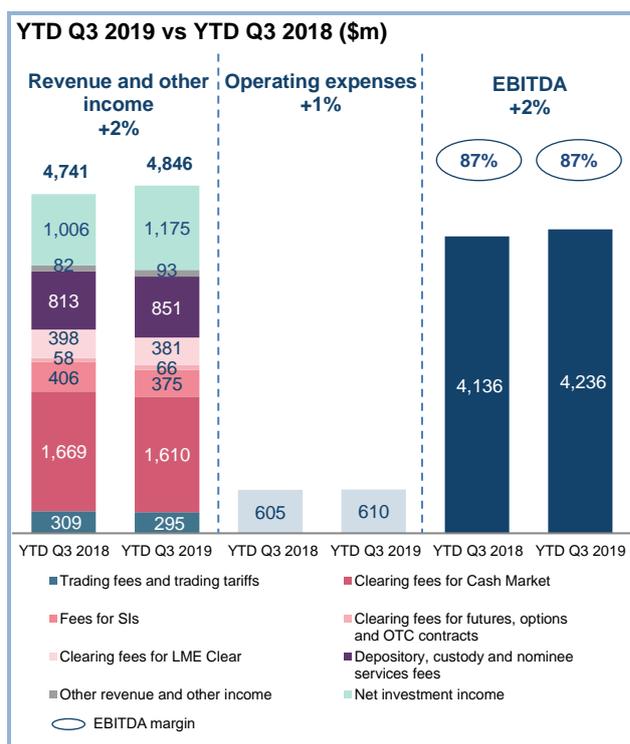
Post Trade Segment

Analysis of Results

Revenue and other income, and EBITDA were both up 2 per cent compared with YTD Q3 2018.

Clearing and settlement fees for Cash Market and Settlement Instructions (SIs) decreased by 4 per cent and 8 per cent respectively, primarily due to a lower number of transactions.

Depository, custody and nominee services fees rose by \$38 million due to higher Stock Connect portfolio fees, scrip fees and stock withdrawal fees, partly offset by lower e-IPO service fees.



Net investment income increased by \$169 million or 17 per cent, attributable to an increase in Margin Fund investment income, as follows:

	YTD Q3 2019			YTD Q3 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	1,028	76	1,104	916	41	957
- Debt securities	71	-	71	48	-	48
- Exchange gains	-	-	-	1	-	1
Total net investment income	1,099	76	1,175	965	41	1,006
Average fund size (\$bn)	129.6	13.0	142.6	155.9	20.2	176.1
Annualised net investment return	1.13%	0.78%	1.10%	0.83%	0.27%	0.76%

The increase in net investment income of Margin Funds arose from higher interest income from rising interest rates, partly offset by lower average Margin Fund size of HKCC and SEOCH, due in turn to lower margin requirements per contract reflecting reduced volatility.

Operating expenses rose by 1 per cent reflecting increases in staff costs for strategic projects and annual payroll adjustments, almost wholly offset by lower premises expenses (\$42 million) as a result of adopting the new accounting standard for leases².

Business Update

Stock Connect Northbound portfolio value of A Shares reached a record high of RMB1,160 billion as at 30 September 2019, up 74 per cent from RMB668 billion at 31 December 2018. Usage of a number of Stock Connect enhancements, including Real Time Delivery versus payment (DVP) and non-CNH collateral services, also reached a record high in Q3 2019 in terms of transaction volume and sizes. The number of Special Segregated Accounts increased by 27 per cent (8,947 accounts as at 30 September 2019 compared with 7,062 as at 31 December 2018).

Key Market Indicators	YTD Q3	
	2019	2018
ADT of the Stock Exchange (\$bn)	90.5	114.7
Average daily number of Stock Exchange trades ('000)	1,514	1,648
Average daily value of SIs (\$bn)	241.0	279.4
Average daily number of SIs ('000)	96	104

Weekly Index Options were introduced on 16 September 2019 to meet trading and risk management needs of investors who wish to manage their positions in response to short-term or specific events. To allow for a smooth introduction of this product, extensive internal and external readiness and engagement work were conducted. The Large Open Position (LOP) surveillance system was also enhanced to support position limit monitoring of this new product.

In Q3 2019, a total of US\$50 billion notional amount was cleared by OTC Clear, 25 per cent higher than Q3 2018. Although the total clearing volume dropped 7 per cent from Q2 to Q3 2019, the total Cross Currency Swaps (CCS) volume cleared reached a record quarterly high, with a total notional amount of US\$20.2 billion cleared in Q3 2019, up 30 per cent compared with Q2 2019. In July, OTC Clear implemented Bulk Settlement Run for notional exchange settlements for cleared Cross Currency Swaps (CCS) and Deliverable Foreign Exchange (DFX) in collaboration with Hong Kong Interbank Clearing Limited (HKICL) to improve settlement efficiency.

On 21 June 2019, the Hong Kong Monetary Authority (HKMA) issued a circular on “Currency Conversion Arrangement Involving Onshore RMB under Northbound Stock Connect” to enable overseas investors to obtain RMB and conduct the related foreign exchange hedging based on the onshore exchange rate for the purpose of Northbound Stock Connect investment, which is expected to increase the convenience and attractiveness of the Stock Connect scheme for international investors.

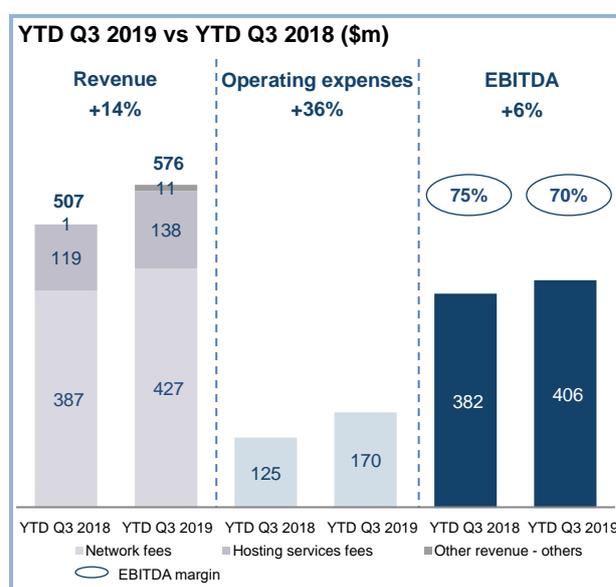
Technology Segment

Analysis of Results

Network fee income rose by 10 per cent due to increased usage of the Orion Central Gateway by new and existing Exchange Participants, additional fees arising from the newly introduced monthly throttle usage fees, and increased China Connect Central Gateway (CCCG) fees.

Hosting services fees increased by 16 per cent due to new customer subscriptions and increased usage by existing customers.

Operating expenses increased due to the inclusion of costs of the Innovation Lab (which were included in Corporate Items in 2018), and the operating expenses of BayConnect Technology Company Limited (BayConnect) (formerly known as Shenzhen Ronghui Tongjin Technology Co., Ltd.), a 51 per cent subsidiary acquired in June 2019.



Business Update

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 performing order-routing platform based on open system technology to meet the evolving business needs and future growth of Northbound Trading volume.

On 5 September 2019, the Derivatives Market experienced trading platform technology issues resulting in trading being temporarily suspended from 2 p.m., including the After-Hours Trading Session. The suspension was caused by a software issue in the vendor supplied trading system. The trading of the Derivatives Market resumed on 6 September 2019 following the identification and isolation of the technology issue. Excepting this, all other major trading, clearing, settlement, and market data dissemination systems for the Cash and Derivatives Markets in Hong Kong performed robustly during Q3 2019.

The HKEX Innovation Lab continues to explore, accelerate and deploy new technologies into the Group's operations under the "Technology Empowered" theme of the Group's 2019-2021 Strategic Plan. Solutions recently deployed include a knowledge graph system for risk management, an Artificial Intelligence (AI)-powered corporate actions management platform, and the continued scale-up of HKEX's robotic process automation programme which have been delivering steady gains in operational efficiency. The HKEX Innovation Lab is currently incubating several other technology solutions, including a client-facing chatbot, a new application program interface (API) service for regulatory announcements, and a number of opportunities utilising blockchain technology.

Corporate Items

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

Analysis of Results

	YTD Q3 2019 \$m	YTD Q3 2018 \$m
Revenue and other income		
Net investment income	981	328
Others	18	19
Total	999	347
Operating expenses	779	851

The analysis of net investment income of Corporate Funds is as follows:

	YTD Q3 2019 \$m	YTD Q3 2018 \$m
Net investment income from:		
- Collective investment schemes	643	122
- Cash and bank deposits	320	227
- Debt securities	6	-
- Exchange gains/(losses)	12	(21)
Total net investment income	981	328
Average fund size (\$bn)	27.8	25.2
Annualised net investment return	4.71%	1.73%

Net investment income from Corporate Funds increased by \$653 million compared with YTD Q3 2018, due to higher fair value gains on collective investment schemes held under the external portfolio (principally from funds invested in the public equities asset class (\$210 million) and funds invested in the US government bonds and mortgage-backed securities asset class (\$163 million)), and higher interest income earned on cash and bank deposits from increased fund size and higher deposit rates.

At 30 September 2019, the fair value of the Group's collective investment schemes by asset class was as follows:

	At 30 Sept 2019 \$m	At 31 Dec 2018 \$m	Change
Public Equities	2,301	2,021	14%
Absolute Return	1,599	1,312	22%
Multi-Sector Fixed Income	2,551	2,108	21%
US Government Bonds and Mortgage-backed Securities	2,746	1,648	67%
Total	9,197	7,089	30%

Operating expenses decreased by \$72 million against YTD Q3 2018 due to lower premises expenses as a result of adopting the new accounting standard for leases², partly offset by higher maintenance expenses for new IT systems and upgraded networks.

Business Update

In September 2019, HKEX entered into a memorandum of understanding (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 will work together to identify areas of collaboration, including Fintech solutions across different asset classes, as well as the application of data and Artificial Intelligence technology to support the mutual connectivity of the Mainland Chinese, Hong Kong and international markets.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities of Margin Funds and Clearing House Funds

Margin Fund deposits of \$129.2 billion at 30 September 2019 were \$5.5 billion higher than at 31 December 2018 (\$123.7 billion). This was due to an increase in Mainland security and settlement deposits from HKSCC Clearing Participants (CPs) attributable to the increase in Northbound Stock Connect Trading, increased contributions required from HKCC CPs in response to higher margin requirements per contract, and higher contributions from OTC Clear members for increased clearing activities. Clearing House Fund contributions rose from \$14.8 billion at 31 December 2018 to \$15.4 billion at 30 September 2019 due to higher contributions required from HKSCC CPs offset by lower contributions required from members of LME Clear in response to changes in risk exposures. Funds received were invested in cash and cash equivalents and financial assets.

Borrowings

In YTD Q3 2019, the Group fully repaid the fixed rate notes due in January 2019, totalling US\$95 million.

Capital Expenditure and Commitments

During YTD Q3 2019, the Group incurred capital expenditure¹⁵ of \$622 million (YTD Q3 2018: \$551 million) related to the development and upgrade of various trading and clearing systems. The Group's capital expenditure commitments at 30 September 2019, including those authorised by the Board but not yet contracted for, amounted to \$956 million (31 December 2018: \$935 million). They were mainly related to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems.

Contingent Liabilities

At 30 September 2019, there were no significant changes in the Group's contingent liabilities compared with 31 December 2018.

Pledges of Assets

Securities, gold bullion and warrants were held by LME Clear as non-cash collateral for margins posted by its CPs and collateral in respect of its interest in overnight triparty reverse repurchase agreements, which together amounted to \$76,128 million at 30 September 2019 (31 December 2018: \$71,561 million). This non-cash collateral, which was not recorded on the condensed consolidated statement of financial position of the Group, together with certain financial assets amounting to \$3,653 million at 30 September 2019 (31 December 2018: \$3,288 million) have been re-pledged 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 first floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

Changes since 31 December 2018

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2018.

It is the Group's practice to declare a dividend only at the half-year and year-end and no dividend will be proposed for Q3 2019 (Q3 2018: \$Nil).

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for YTD Q3 2019.

¹⁵ Capital expenditure excludes right-of-use assets recognised due to the adoption of HKFRS 16: Leases.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Nine months ended 30 Sept 2019 \$m	Nine months ended 30 Sept 2018 \$m	Three months ended 30 Sept 2019 \$m	Three months ended 30 Sept 2018 \$m
Trading fees and trading tariffs	4,309	4,849	1,369	1,515
Stock Exchange listing fees	1,241	1,311	394	456
Clearing and settlement fees	2,432	2,531	777	784
Depository, custody and nominee services fees	851	813	276	295
Market data fees	692	675	231	232
Other revenue	874	769	297	281
REVENUE	10,399	10,948	3,344	3,563
Net investment income and sundry income	2,166	1,348	643	539
REVENUE AND OTHER INCOME	12,565	12,296	3,987	4,102
OPERATING EXPENSES				
Staff costs and related expenses	(1,977)	(1,845)	(649)	(640)
IT and computer maintenance expenses	(422)	(378)	(144)	(137)
Premises expenses	(96)	(320)	(32)	(118)
Product marketing and promotion expenses	(40)	(34)	(11)	(12)
Professional fees	(58)	(67)	(21)	(25)
Other operating expenses	(309)	(299)	(92)	(93)
	(2,902)	(2,943)	(949)	(1,025)
EBITDA	9,663	9,353	3,038	3,077
Depreciation and amortisation	(766)	(576)	(271)	(198)
OPERATING PROFIT	8,897	8,777	2,767	2,879
Costs relating to proposed combination with LSEG ¹⁶	(130)	-	(130)	-
Finance costs	(129)	(86)	(43)	(31)
Share of profits less losses of joint ventures	17	3	11	(1)
PROFIT BEFORE TAXATION	8,655	8,694	2,605	2,847
TAXATION	(1,247)	(1,231)	(400)	(409)
PROFIT FOR THE PERIOD	7,408	7,463	2,205	2,438
PROFIT/(LOSS) ATTRIBUTABLE TO:				
- Shareholders of HKEX	7,412	7,484	2,207	2,443
- Non-controlling interests	(4)	(21)	(2)	(5)
PROFIT FOR THE PERIOD	7,408	7,463	2,205	2,438
Basic earnings per share	\$5.92	\$6.03	\$1.76	\$1.96
Diluted earnings per share	\$5.91	\$6.02	\$1.75	\$1.96

¹⁶ The amounts represented costs incurred for the proposed combination with LSEG. They mainly comprised fees payable to professional advisors of \$128 million and other costs of \$2 million.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine months ended 30 Sept 2019 \$m	Nine months ended 30 Sept 2018 \$m	Three months ended 30 Sept 2019 \$m	Three months ended 30 Sept 2018 \$m
PROFIT FOR THE PERIOD	7,408	7,463	2,205	2,438
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences of foreign subsidiaries	12	11	47	(56)
Cash flow hedges	(3)	(3)	(1)	-
Changes in fair value of financial assets measured at fair value through other comprehensive income	7	(2)	4	1
OTHER COMPREHENSIVE INCOME	16	6	50	(55)
TOTAL COMPREHENSIVE INCOME	7,424	7,469	2,255	2,383
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
- Shareholders of HKEX	7,430	7,488	2,262	2,388
- Non-controlling interests	(6)	(19)	(7)	(5)
TOTAL COMPREHENSIVE INCOME	7,424	7,469	2,255	2,383

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	At 30 Sept 2019			At 31 Dec 2018		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS						
Cash and cash equivalents	119,205	-	119,205	121,196	-	121,196
Financial assets measured at fair value through profit or loss	64,537	497	65,034	61,004	-	61,004
Financial assets measured at fair value through other comprehensive income	4,565	-	4,565	3,755	-	3,755
Financial assets measured at amortised cost	38,277	100	38,377	31,487	398	31,885
Accounts receivable, prepayments and deposits	11,594	21	11,615	18,341	21	18,362
Interests in joint ventures	-	80	80	-	63	63
Goodwill and other intangible assets	-	18,311	18,311	-	18,019	18,019
Fixed assets	-	1,495	1,495	-	1,625	1,625
Right-of-use assets	-	2,314	2,314	-	-	-
Lease premium for land	-	19	19	-	20	20
Deferred tax assets	-	22	22	-	19	19
Total assets	238,178	22,859	261,037	235,783	20,165	255,948
LIABILITIES AND EQUITY						
Liabilities						
Financial liabilities at fair value through profit or loss	55,786	-	55,786	53,915	-	53,915
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	129,151	-	129,151	123,728	-	123,728
Accounts payable, accruals and other liabilities	11,627	-	11,627	18,316	53	18,369
Deferred revenue	458	418	876	1,000	418	1,418
Taxation payable	1,554	-	1,554	678	-	678
Other financial liabilities	65	-	65	59	-	59
CPs' contributions to Clearing House Funds	15,385	-	15,385	14,787	-	14,787
Lease liabilities	219	2,200	2,419	-	-	-
Borrowings	338	79	417	1,005	161	1,166
Provisions	97	103	200	93	89	182
Deferred tax liabilities	-	742	742	-	743	743
Total liabilities	214,680	3,542	218,222	213,581	1,464	215,045
Equity						
Share capital			30,446			27,750
Shares held for Share Award Scheme			(689)			(682)
Employee share-based compensation reserve			366			218
Hedging and revaluation reserves			(2)			(6)
Exchange reserve			(70)			(84)
Designated reserves			567			523
Reserve relating to written put options to non-controlling interests			(369)			(369)
Retained earnings			12,260			13,379
Equity attributable to shareholders of HKEX			42,509			40,729
Non-controlling interests			306			174
Total equity			42,815			40,903
Total liabilities and equity			261,037			255,948
Net current assets			23,498			22,202

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Preparation and Accounting Policies

Except as described below, the accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2018.

Adoption of new/revised Hong Kong Financial Reporting Standards (HKFRSs)

In 2019, the Group has adopted the following new standard and interpretation 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

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 condensed 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 condensed consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities are measured at the present value of the remaining lease payments and are subsequently measured at amortised cost. The right-of-use assets are measured at cost (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received) and depreciated on a straight-line basis during the lease term. For short-term leases, lease rentals are recognised under operating expenses in the condensed consolidated income statement on a straight-line basis over the lease terms.

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. Upon adoption of HKFRS 16 on 1 January 2019, 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, reinstatement costs of \$36 million, which were previously included under fixed assets, were reclassified to right-of-use assets. As a result, the Group's net current assets and its shareholders' equity decreased by \$203 million and \$8 million respectively.

The following table shows the impact on each individual line item of the condensed consolidated income statement for the nine months ended 30 September 2019 following the adoption of HKFRS 16. Line items that were not affected by the changes have not been included and, therefore the line items disclosed do not add up to the sub-totals and totals below.

Condensed consolidated income statement (extracts)	Before adoption of HKFRS 16 \$m	Impact from adoption of HKFRS 16 \$m	As reported \$m
OPERATING EXPENSES			
IT and computer maintenance expenses	(428)	6	(422)
Premises expenses	(317)	221	(96)
Other operating expenses	(313)	4	(309)
EBITDA	9,432	231	9,663
Depreciation and amortisation	(571)	(195)	(766)
OPERATING PROFIT	8,861	36	8,897
Finance costs	(63)	(66)	(129)
PROFIT BEFORE TAXATION	8,685	(30)	8,655
TAXATION	(1,247)	-	(1,247)
PROFIT FOR THE PERIOD	7,438	(30)	7,408
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF HKEX	7,442	(30)	7,412
Basic earnings per share (\$)	5.94	(0.02)	5.92

The adoption of HK(IFRIC) Interpretation 23 did not have any financial impact on the Group.

The financial information relating to the year ended 31 December 2018 that is included in this Quarterly Results Announcement as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated 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 Hong Kong Companies Ordinance (Chapter 622).

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

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

Hong Kong, 6 November 2019

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.