



Hong Kong Exchanges and Clearing Limited  
香港交易及結算所有限公司

# 2013 Quarterly Report

For the nine months ended 30 September

Stock Code: 388

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(Financial figures in this Report are expressed in HKD unless otherwise stated)

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# FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2013	Nine months ended 30 Sept 2012	Change	Three months ended 30 Sept 2013	Three months ended 30 Sept 2012	Change
<b>KEY MARKET STATISTICS</b>						
Average daily turnover value on the Stock Exchange (\$bn)	63.8	53.1	20%	55.2	46.4	19%
Average daily number of derivatives contracts traded on the Futures Exchange	289,429	257,973	12%	286,136	243,303	18%
Average daily number of stock options contracts traded on the Stock Exchange	249,781	224,880	11%	217,169	211,479	3%
Average daily volume of metals contracts traded on LME (lots)	680,234	633,702*	7%	642,790	618,311*	4%

\* HKEx completed the acquisition of the LME Group on 6 December 2012.

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m	Change
<b>RESULTS</b>						
Revenue and other income	6,574	5,463	20%	2,134	1,693	26%
Operating expenses	(2,018)	(1,434)	41%	(677)	(458)	48%
EBITDA <sup>1</sup>	4,556	4,029	13%	1,457	1,235	18%
Depreciation and amortisation	(352)	(91)	287%	(119)	(35)	240%
Operating profit	4,204	3,938	7%	1,338	1,200	12%
Costs relating to acquisition of LME Group	-	(128)	(100%)	-	(18)	(100%)
Finance costs	(137)	-	N/A	(45)	-	N/A
Share of loss of a joint venture	(7)	(1)	600%	(3)	(1)	200%
Profit before taxation	4,060	3,809	7%	1,290	1,181	9%
Taxation	(532)	(589)	(10%)	(90)	(177)	(49%)
Profit attributable to shareholders	3,528	3,220	10%	1,200	1,004	20%
Basic earnings per share	\$3.07	\$2.97	3%	\$1.04	\$0.93	12%
Diluted earnings per share	\$3.06	\$2.97	3%	\$1.04	\$0.92	13%

	At 30 Sept 2013	At 31 Dec 2012	Change
<b>KEY ITEMS IN CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
Shareholders' funds (\$m)	19,019	17,764	7%
Total assets <sup>2</sup> (\$m)	74,294	80,837	(8%)
Net assets per share <sup>3</sup> (\$)	16.40	15.48	6%

Notes:

- For the purposes of this Report, 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 venture and non-recurring costs arising from the acquisition of the LME Group.
- The Group's total assets include the Margin Funds and cash collateral received from Participants.
- Based on 1,159,433,538 shares as at 30 September 2013, being 1,161,493,053 shares issued and fully paid less 2,059,515 shares held for the Share Award Scheme (31 December 2012: 1,147,408,233 shares, being 1,149,808,087 shares issued and fully paid less 2,399,854 shares held for the Share Award Scheme)

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# CHAIRMAN'S STATEMENT

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The speculation on the timing of the US Federal Reserve's decision to taper its quantitative easing measures has created uncertainties for the world's financial markets. In the East, Mainland China's economy remains strong and is likely to grow by more than 7 per cent again this year, which has provided some positive momentum. Benefitting from improved activity in our securities and derivatives markets and LME's contribution, the Group's profit attributable to shareholders for the nine months ended 30 September 2013 was \$3.5 billion, an increase of 10 per cent against the corresponding period of 2012.

As the gateway to the Mainland, Hong Kong has always shared the benefits from the progressive opening and steady growth of Mainland China's economy. We welcome the establishment of the Shanghai Free Trade Zone, which signifies another step in economic liberalisation and further opening up of the Mainland. We are committed to working closely with our market participants to reinforce Hong Kong's position as the premier offshore RMB centre.

As a result of the determined effort in pursuing our strategic goals and close collaboration with the regulatory authorities, substantial progress has been made in broadening our client base and expanding our range of products and services. The Chief Executive's Review and Business Review sections cover this area in some detail.

Apart from the pursuit of our strategic goals, the maintenance of quality markets is also a high priority. As a recognised exchange controller in Hong Kong, we have continued to work with various policymakers, and regulatory and industry bodies to deliver orderly, informed and fair markets. Recent examples include the imminent launch of OTC Clear in line with the proposed regulatory framework for the OTC derivatives market, our Joint Policy Statement with the SFC regarding the listing of overseas companies in Hong Kong, and changes in the Listing Rules to support the SFC's new IPO sponsor regulations.

In October, I attended the LME Week in London with my fellow Directors and took the opportunity to meet with base metals professionals from across the globe. We gained valuable insights and new perspectives with respect to the opportunities and challenges facing the metals industry, which will be instrumental in the further development of our commodities business.

This year is approaching its end. We have been working hard towards the goal of placing our exchanges at the forefront of global exchanges in terms of quality products and services and investment returns. I would like to pay tribute to my fellow Directors and all employees within the Group for their dedication at a time of great change and increased responsibilities.

**CHOW Chung Kong**

Chairman

Hong Kong, 6 November 2013

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# CHIEF EXECUTIVE'S REVIEW

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With our goal of transforming HKEx into a leading global vertically-integrated and multi-asset class exchange, we remain on track in executing various strategic initiatives under the 2013-2015 Group Strategic Plan set out in the beginning of the year. I am pleased to provide a review of our business during this period.

## Cash Equity

In the first three quarters of 2013, we had a total of 42 IPOs raising \$59.9 billion, a 34 per cent increase from the same period last year.

This year marks the 20<sup>th</sup> anniversary of H-share listings and we have held a series of events since early August to celebrate the achievements since the first H-share company listed on our market in 1993. These events include a market opening ceremony, promotional roadshows and training seminars in Hong Kong and Mainland China. The celebration will continue into the fourth quarter of this year.

In terms of the performance of our cash equity segment, trading activity continued to improve, with average daily turnover value standing at \$63.8 billion, an increase of 20 per cent from the same period last year.

Our ETF market, in particular, showed a strong surge in the first nine months of this year. The average daily turnover reached \$4.0 billion, more than doubling the figure from the same period last year. Along with the celebration of CESC's 1<sup>st</sup> anniversary and its many achievements since launch, 3 new ETFs linked to the CESC Index Series have also been introduced, namely the ChinaAMC CES China A80 Index ETF, the CSOP CES China A80 ETF and the E Fund CES China 120 Index ETF. They are new key drivers for our ETF market and demonstrate the great potential for further cooperation with Mainland exchanges.

## Equity Derivatives

The average daily turnover of futures and options for the first nine months of the year was 539,210 contracts, an increase of 12 per cent when compared to the same period last year. In the AHFT session, the average daily volume of HSI Futures and H-shares Index Futures remained at about 4 per cent and 3 per cent of that in the day-time session respectively.

On 12 August, we introduced CES 120 Futures as part of our Mainland China-related product expansion. CES 120, together with HSI Volatility Index Futures, have been certified by the Commodity Futures Trading Commission to be directly offered to investors in the US. With these 2 additions, we now have a total of 6 index futures being directly traded by investors in the US.

We also witnessed the development of our stock options business following a revamp in May. Trading volume was up 9 per cent in the first nine months of this year from a year ago, accounting for nearly half (46 per cent) of all futures and options trading during the period. We also introduced 5 new classes of stock options in August, bringing the total to 70 stock options classes as of the end of September 2013.

## Fixed Income and Currency

The average daily turnover of RMB Currency Futures grew by 86 per cent to 539 contracts in the first three quarters of 2013 compared to 2012, and period-end open interest reached a record high of 9,515 contracts (up 159 per cent from the end of 2012).

OTC Clear was granted approval to become a recognised clearing house by the SFC on 25 October 2013, and subsequently completed the founding shareholders programme on 31 October 2013. OTC Clear is planning to start offering its clearing services in November 2013.

## Commodities

The LME's core business in the first nine months of this year remained strong, with the average daily volume up 7 per cent from the same period last year to 680,234 lots. Nickel volume experienced the largest growth, with volume in the first nine months rising 19 per cent, followed by tin (up 16 per cent), copper (up 10 per cent) and aluminium (up 9 per cent).

LME published a consultation paper on 1 July with proposals to tackle the issue of warehouse queues. The 3-month consultation on the proposal ended on 30 September; the LME's board have discussed the results and other ideas that were raised through the consultation process. An announcement of the consultation results will be made in due course.

In the second week of October, we welcomed guests from around the world to LME Week in London. The annual flagship events, the Metals Seminar and Annual Dinner, provided a great forum for participants to obtain insights into all aspects of the ever-changing market including the global economy, market trends and issues facing the metals industry today.

As disclosed in our 2013 Interim Report, a number of class action lawsuits have been filed in the US against LME and LMEH alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. As of the date of this Report, 18 actions have been filed against LME, of which 9 named LMEH as a co-defendant. All the claims are similar in nature. Based on legal advice, an increase in the number of similar class actions filed since the first lawsuit surfaced in August 2013 does not increase the extent of the companies' liability, if any. A petition to consolidate all the actions has been filed with the relevant US judicial panel to facilitate defence and minimise costs. LME management continues to take the view that the lawsuits are without merit and that both companies will contest them vigorously.

I am happy to inform you that Mr Garry Jones officially joined LME on 30 September as the Chief Executive and Director of LME. He succeeds Mr Martin Abbot, whose resignation was announced in June. I would like to thank Martin for his great contributions to LME and wish him every success in the future, while also extending a warm welcome to Garry. I am confident that under Garry's leadership, LME will continue to preserve its core competitiveness while developing new businesses for its long-term growth.

## **Platform and Infrastructure**

We rolled out the first phase of the OMD – part of our HKEx Orion technology initiatives – on 30 September. OMD allows us to disseminate a range of data feed products with different content and other features to meet the varying needs of the market. The next phases of OMD, scheduled for rollout in the first half of 2014, will extend direct distribution of HKEx market data to Mainland China through MMDH and then use OMD for Derivatives Market data.

As another milestone in our Orion technology initiatives, we successfully upgraded the derivatives trading (HKATS) and clearing system (DCASS) to Genium INET in the middle of October. The upgrade equipped HKATS with ultra-low order trade processing latency, improved DCASS' clearing processing, and provided new Central Gateway and other new functionalities for market participants. Not only does it deliver world-class performance, it also paves the way for further development of the Derivatives Market.

Since the extension of Hosting Services to the Derivatives Market in June, the service has performed well. As of the end of September 2013, its participants contributed about 25 per cent of the daily turnover value on the Stock Exchange and about 45 per cent of daily contract volume on the Futures Exchange.

On the development side, as part of our mutual market access strategy, we continued our efforts with Mainland exchanges and authorities.

We are in a transformative moment in which changes are fast and opportunities are great for those that stay alert and are proactive. By focusing on implementing various strategic initiatives, we continue to strive to maintain the competitiveness of HKEx and lay the groundwork for the long-term development of the Hong Kong financial market. I thank you, our staff and market participants for your efforts, and I look forward to your continued support.

**LI Xiaojia, Charles**  
Director and Chief Executive

Hong Kong, 6 November 2013

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# BOARD AND COMMITTEES

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## Board

### Independent Non-executive Directors

CHOW Chung Kong \* (Chairman)  
Ronald Joseph ARCULLI \* <sup>1</sup> GBM, GBS, JP  
CHAN Tze Ching, Ignatius BBS, JP  
Timothy George FRESHWATER \*  
John Barrie HARRISON \* <sup>2</sup>  
HUI Chiu Chung, Stephen \* <sup>2</sup> JP  
KWOK Chi Piu, Bill JP  
LEE Kwan Ho, Vincent Marshall  
LEE Tze Hau, Michael \* <sup>2</sup> JP  
LEUNG KO May Yee, Margaret \* <sup>3</sup> SBS, JP  
John Estmond STRICKLAND <sup>4</sup> GBS, JP  
John Mackay McCulloch WILLIAMSON  
WONG Sai Hung, Oscar <sup>4</sup>

### Executive Director

LI Xiaojia, Charles (Chief Executive)

### Company Secretary

MAU Kam Shing, Joseph

## Committees

### Audit Committee

John Barrie HARRISON <sup>5</sup> (Chairman)  
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)  
CHAN Tze Ching, Ignatius  
KWOK Chi Piu, Bill  
John Mackay McCulloch WILLIAMSON

### Environmental, Social and Governance Committee

CHOW Chung Kong (Chairman)  
Ronald Joseph ARCULLI <sup>1</sup>  
John Barrie HARRISON <sup>5</sup>  
HUI Chiu Chung, Stephen <sup>6</sup>  
LEE Tze Hau, Michael <sup>5</sup>  
LI Xiaojia, Charles

### Executive Committee

CHOW Chung Kong (Chairman)  
Timothy George FRESHWATER <sup>7</sup>  
KWOK Chi Piu, Bill  
LEE Kwan Ho, Vincent Marshall  
LI Xiaojia, Charles  
John Mackay McCulloch WILLIAMSON <sup>8</sup>

## Committees (continued)

### Investment Advisory Committee

John Estmond STRICKLAND <sup>5</sup> (Chairman)  
WONG Sai Hung, Oscar <sup>5</sup> (Deputy Chairman)  
HUI Chiu Chung, Stephen <sup>5</sup>  
LEE Tze Hau, Michael <sup>5</sup>  
LUI Yin Tat, David

### Nomination Committee

CHOW Chung Kong (Chairman)  
CHAN Tze Ching, Ignatius  
Timothy George FRESHWATER  
John Estmond STRICKLAND <sup>1</sup>  
John Mackay McCulloch WILLIAMSON <sup>6</sup>  
WONG Sai Hung, Oscar <sup>5</sup>

### Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)  
KWOK Chi Piu, Bill  
LEE Kwan Ho, Vincent Marshall  
LEE Tze Hau, Michael <sup>5</sup>  
WONG Sai Hung, Oscar <sup>5</sup>

### Remuneration Committee

CHOW Chung Kong (Chairman)  
Ronald Joseph ARCULLI <sup>1</sup>  
Timothy George FRESHWATER <sup>8</sup>  
John Barrie HARRISON <sup>5, 8</sup>  
KWOK Chi Piu, Bill <sup>7</sup>  
LEE Kwan Ho, Vincent Marshall <sup>7</sup>  
LEUNG KO May Yee, Margaret <sup>6</sup>  
John Mackay McCulloch WILLIAMSON

### Risk Management Committee <sup>Δ</sup>

CHOW Chung Kong (Chairman)  
CHAN Ngai Hang <sup>\*\* 9</sup>  
CHAN Tze Ching, Ignatius <sup>7</sup>  
HE Guangbei <sup>\*\*</sup>  
KWOK Chi Piu, Bill <sup>10</sup>  
LAU Ying Pan, Edmond <sup>\*\* 11</sup>  
LEE Tat Chi, Howard <sup>\*\* 12</sup>  
LEE Tze Hau, Michael <sup>5, 8</sup>  
LEUNG KO May Yee, Margaret <sup>6</sup>  
LIU Swee Long, Michael <sup>\*\* 9</sup>  
LUI Kei Kwong, Keith <sup>\*\*</sup>

#### Notes:

\* Government Appointed Director

\*\* Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

<sup>1</sup> Retired on 24 April 2013

<sup>2</sup> Re-appointment effective 24 April 2013

<sup>3</sup> Appointment effective 24 April 2013

<sup>4</sup> Re-elected effective 24 April 2013

<sup>5</sup> Re-appointment effective 25 April 2013

<sup>6</sup> Appointment effective 25 April 2013

<sup>7</sup> Appointment effective 8 May 2013

<sup>8</sup> Appointment no longer effective 8 May 2013

<sup>9</sup> Re-appointment effective 1 July 2013

<sup>10</sup> Appointment no longer effective 25 April 2013

<sup>11</sup> Appointment no longer effective 1 May 2013

<sup>12</sup> Appointment effective 1 May 2013 by virtue of being the Executive Director (Monetary Management) of the Hong Kong Monetary Authority



## Other Changes in Directors' Information

Other changes in Directors' information as notified to HKEx subsequent to the date of the 2013 Interim Report are set out below.

	Appointment (effective)	Cessation of office (effective)
<b>Ignatius Chan</b>		
• Affin Holdings Berhad (listed on Bursa Malaysia) – non-executive director	6 Aug 2013	–
<b>Michael Lee</b>		
• OTC Clear – chairman of Risk Management Committee	31 Oct 2013	–
<b>Vincent Lee</b>		
• Kingway Brewery Holdings Limited, where Mr Lee is an independent non-executive director, changed its name as Guangdong Land Holdings Limited #.	–	–
• Clearing and Settlement Systems Appeals Tribunal – member	4 Nov 2013	–
<b>Margaret Leung</b>		
• QBE Insurance Group Limited (listed on the Australian Securities Exchange) – independent non-executive director	21 Aug 2013	–

# Currently listed on the Stock Exchange

The biographies of Directors are available on the HKEx website.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Main Board Listing Rules.

## **Listing and Regulatory Affairs**

### **Listing**

On 6 September 2013, the Exchange published a guidance letter on long suspended companies which sets out the current practice and rationale for the continued suspension of companies and discusses the criteria for resumption of these long suspended companies. In conjunction with the guidance letter, the Exchange revised its monthly prolonged suspension status report to summarise, for each long suspended company, the conditions imposed by the Exchange for resumption, major developments and outstanding issues.

On 13 September 2013, the Exchange published a new statement on its approach to enforcement of the Listing Rules (Enforcement Statement), and implemented new procedures for disciplinary matters involving breaches of the Listing Rules (New Procedures). The Enforcement Statement and New Procedures are the results of a review conducted by the Exchange with a view towards expediting the resolution of enforcement matters and increasing market transparency.

On 27 September 2013, the Exchange published jointly with the SFC a revised Joint Policy Statement (JPS) regarding the listing of overseas companies on the Exchange to replace the JPS issued in March 2007. The objective of the revised JPS is to promote transparency in the listing process, provide regulatory certainty for overseas companies seeking either primary or secondary listing in Hong Kong, and maintain the quality of Hong Kong's financial market which is recognised for its high standards of regulation, investor protection and corporate governance. The Exchange aims to publish a Country Guide for each acceptable jurisdiction by the end of 2013 setting out, among other things, comprehensive and user friendly guidance on how companies incorporated in the jurisdiction can meet the requirement for equivalent shareholder protection standards in the Listing Rules.

The above documents and other publications in relation to listing are available under the News & Consultations section and the Rules & Regulations (Rules and Guidance on Listing Matters) section of the HKEx website.

The SFC's new sponsor regulations took effect on 1 October 2013. The Exchange organised seminars in August and September 2013 to assist sponsor firms and other market practitioners in understanding the related Listing Rule changes and streamlined regulatory commenting process.

During September and October 2013, the Exchange also organised a series of 12 half-day seminars. Each seminar had 2 sessions: (i) a presentation on the Environmental, Social and Governance Reporting Guide given by an external consultant; and (ii) a listing compliance update. The former session was designed to help issuers better equip themselves for ESG reporting while the latter one focused on recent compliance issues, using case studies and examples.

### **Enterprise Risk Management and Surveillance**

The HKEx Group Risk Report for 2013 was completed based on the results of the HKEx risk assessment conducted in June and July 2013 according to the HKEx Enterprise Risk Management Framework, and the top risks reported by LME in October 2013.

To further improve surveillance efficiency in the Cash and Derivatives Markets, the surveillance systems were enhanced during the third quarter of 2013 to facilitate the monitoring of position limits and reporting of large open position for CES 120 Futures and to align the real-time market monitoring with the implementation of OMD.

## Global Markets

### Cash Trading

In the nine months ended 30 September 2013, 34 companies were newly listed on the Main Board (including 3 transfers from GEM), and 11 on GEM. Total capital raised, including post-listing funds, during the nine-month period was \$191.0 billion. As at 30 September 2013, 1,399 and 186 companies were listed on the Main Board and GEM respectively with a total market capitalisation of \$22,816.5 billion. In addition, there were 4,696 DWs, 1,596 CBBCs, 113 ETFs, 10 REITs, and 367 debt securities listed as at 30 September 2013. The average daily turnover value in the first nine months of 2013 was \$63.5 billion on the Main Board and \$254 million on GEM, an increase of 20 per cent and 93 per cent respectively compared with the corresponding period in 2012.

#### Number of RMB Products Traded on SEHK (as at 30 Sept 2013)

Equity securities <sup>1</sup>	1
Debt securities	73
ETFs <sup>2</sup>	10
DWs	8
REITs	1

#### Notes:

- 1 Traded under the Dual Counter model
- 2 Including 9 ETFs traded under the Dual Counter model

### Derivatives Trading

In the nine months ended 30 September 2013, 98,136,191 contracts were traded in the Derivatives Market, comprising 39,155,477 futures contracts and 58,980,714 options contracts. The average daily volumes were 215,140 contracts for futures and 324,070 contracts for options. The total open interest as of 30 September 2013 was 6,822,588 contracts, comprising 471,505 futures contracts and 6,351,083 options contracts.

#### Record High Volume and Open Interest for Major Derivatives in the Third Quarter of 2013

	Volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
Mini H-shares Index Futures	–	–	23 Sept	6,951
HSCEI Dividend Point Index Futures	–	–	12 Sept	88,987
CES 120 Futures *	26 Aug	2,086	28 Aug	306
USD/CNH Futures	–	–	30 Sept	9,515
H-shares Index Options	–	–	26 Sept	1,395,315
Flexible H-shares Index Options	–	–	18 Sept	27,591

\* Launched on 12 August 2013

As of the end of September, there were 70 stock option classes, including 5 new stock option classes introduced on 5 August 2013. As part of the market education programme, a podcast channel with 8 videos was launched to enable investors to access stock options information on Apple and Android platforms.

At the end of September, a total of 755,447 HSI Futures and H-shares Index Futures contracts had been traded during the AHFT session since its introduction in April 2013. The average daily volume of the 2 products in the AHFT session continued to be about 4 per cent and 3 per cent of that in the day session respectively. HKEx plans to extend block trading from the day session to the AHFT session, subject to the SFC's approval of the proposed rule amendments. HKEx also plans to offer after-hours trading of more of its futures contracts, beginning with Mini-HSI Futures, Mini H-shares Index Futures and USD/CNH Futures in early 2014, and will consider extending AHFT to around midnight because its overlap with US trading hours is reduced by 1 hour from the initial overlap when the US is on Standard Time instead of Daylight Saving Time.

The CES 120 Futures contract commenced trading on HKFE on 12 August 2013. It is the world's first exchange-listed futures contract on a cross-border China stock index. The CES 120 includes both Mainland A shares and shares of Mainland enterprises listed in Hong Kong. The CES 120 Futures received good market response during the initial month of trading, with an average daily volume of 980 contracts (average daily notional value was over \$180 million) and month-end open interest reaching 191 contracts. Four liquidity providers have been appointed to provide continuous two-way liquidity and 40 EPs have participated in this market. The Commodity Futures Trading Commission of the US has certified the CES 120 Futures contract for offering and selling to persons in the US. To increase investor awareness of the product, HKEx and CESC jointly arranged seminars for retail and institutional investors in Hong Kong and Singapore during the third quarter of 2013, and are planning a series of educational and product promotion activities in the Asia region in the fourth quarter of this year.

Following the upgrade of HKATS to the new Genium INET platform on 15 October 2013, the Tailor-Made Combination, a new trading function provided by Genium platform, was introduced for investors to conduct combination trades more efficiently by executing option strategies with multiple legs at one net price.

### **Market Data**

In September 2013, HKEx introduced a new marketing programme in Mainland China, Japan, Korea, Singapore and Taiwan to promote data from the Derivatives Market, in particular USD/CNH Futures, CESC index futures and commodities futures data. As part of the programme, Redistribution Fee and Subscriber Fees for real-time Level 1 have been waived for IVs who provide derivatives data services to clients in these places until the end of 2015.

### **LME**

During the nine months ended 30 September 2013, the average daily volume was 680,234 lots, an increase of 7 per cent from the corresponding period last year. Aluminium and copper, the LME's 2 largest contracts by turnover, grew 9 per cent and 10 per cent respectively year-on-year. The smallest LME contracts by turnover, tin and nickel, experienced the greatest increase, 16 per cent and 19 per cent respectively year-on-year. The zinc contract grew 2 per cent year-on-year. Lead is the only principal contract to experience a decline in turnover, 6 per cent, even though trading increased month-on-month by 21 per cent.

The total futures MOI at the end of September 2013 was 2,505,358 lots, a 7 per cent increase from the MOI reported at the end of 2012. Nickel experienced the strongest growth, with MOI 24 per cent above the level reported at the end of last year. The MOI of tin at the end of September 2013 was down over 7 per cent from the end of last year and MOI of lead was down 15 per cent.

In the nine months ended 30 September 2013, an average of 148,665 lots per day traded across LMEselect (ticker value), up 9 per cent year-on-year. On 24 September 2013, LMEselect experienced a controlled halt for about 3.5 hours due to technical issues and resumed continuous trading in the afternoon. LME collaborated with key system providers and communicated with market participants throughout the incident to ensure that the recovery was controlled and orderly. Telephone and Ring trading were unaffected and operated as normal.

In September 2013, LME visited Mexico, Colombia, Chile, Peru and Brazil to host a series of seminars in partnership with the Center for Copper and Mining Studies, or CESCO. Representatives from LME were joined by industry experts to deliver day-long seminars on key issues facing the Latin American metals and mining industries. The roadshow received positive feedback and similar roadshows are planned to take place in 2014 for India.

LME held its LME Week, which included the Metals Seminar and Annual Dinner for the global metals community, in the second week of October. The event offered a platform for international guests and clients of LME members to exchange information about the metals industry and share their views on different aspects of the ever-changing metals market.

LME has, at the date of this Report, been named as a co-defendant in 18 class action lawsuits filed in 5 US District Courts. LMEH, the direct holding company of LME, is named as a co-defendant in 9 of these actions. The claims are all similar in nature and seek damages and injunctive relief with respect to alleged anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. Based on legal advice, an increase in the number of similar class actions filed since the first lawsuit surfaced in August 2013 does not increase the extent of the companies' liability, if any. A petition to consolidate all the actions has been filed with the relevant US judicial panel to facilitate defence and minimise costs. LME management continues to take the view that the lawsuits are without merit and that both companies will contest them vigorously.

In light of the class action nature of the complaints, it is expected that additional follow-up or “copycat” suits of a similar nature may be filed against LME and LMEH in the US. The Company does not intend to make announcements each time it becomes aware of similar lawsuits unless new information emerges which should be the subject of an announcement. The Company will continue to monitor the situation and update Shareholders and investors on material developments in compliance with the SFO and the Main Board Listing Rules.

## **CESC**

The CES 120 Futures contract commenced trading on HKFE on 12 August 2013, as described in Derivatives Trading above.

The first ETF linked to a CESC index, the ChinaAMC CES China A80 Index ETF, was listed on SEHK on 26 August 2013, and the second one, the CSOP CES China A80 ETF, was listed on 23 September 2013. In addition, the first ETF tracking the cross-border CES 120, the E Fund CES China 120 Index ETF, was listed on SEHK on 21 October 2013.

## **Mainland Development**

Activities to mark the 20<sup>th</sup> anniversary of H-share listings in Hong Kong kicked off on 6 August 2013 with a ceremony which included the former chairmen of the China Securities Regulatory Commission and SEHK, as well as representatives of the 6 H-share companies listed in 1993. There were also the “train-the-trainer” workshops for key officials from 25 provincial and municipal financial services offices in Mainland China to broaden their knowledge of the Hong Kong securities market, and a number of roadshows in Henan and Guangzhou to promote H-share listings. The activities will continue until the end of 2013.

To strengthen the Group's working relationships, Memorandums of Understanding on cooperation and exchange of information were signed with the Financial Services Offices of Hubei and Henan provinces in July and September 2013 respectively.

In August 2013, various LME product and service training programmes were organised in Shanghai for the commodities community in the region.

## Issuer and Client Services

During the third quarter of 2013, HKEx continued to organise activities to promote its products and services, which included 11 seminars and visits by delegations from the Hochiminh Stock Exchange and the Taiwan Stock Exchange. HKEx also participated in the 9<sup>th</sup> Asia-Pacific New Markets Forum, the ETF Asia conference and other events, with the aim of promoting its new business initiatives and gathering market feedback and intelligence.

## Global Clearing

### Cash and Derivatives Clearing

In the past, creation and redemption of ETFs could only be processed by participating dealers who must be Participants of SEHK and CCASS. To further align ETF-related services with third party clearing arrangements, a participating dealer who is not a CCASS Participant, can now appoint a CCASS Participant to access CCASS on its behalf for ETF-related services.

On 12 September 2013, HKSCC applied to the European Securities and Markets Authority (ESMA) to be recognised as a third country central counterparty (CCP) under the European Market Infrastructure Regulation (EMIR) in order to continue to provide clearing services to the CCASS Clearing Participants established in the European Union (EU) in accordance with the transitional provisions. Currently, HKCC and SEOCH do not have any Clearing Participants established in the EU. However, they intend to submit applications to ESMA for recognition as a third country CCP in due course to allow their Clearing Participants which are subsidiaries of EU credit institutions and investment firms to benefit from a lower capital requirement under the upcoming EU Capital Requirements Regulation, or CRR.

### OTC Clear

On 25 October 2013, the SFC approved OTC Clear's application to become a recognised clearing house. All of the system checks and tests with the initial batch of clearing members have been completed. OTC Clear is now preparing for the migration of OCASS to the production environment. It expects to launch its services in November 2013 with clearing of inter-dealer trades involving interest rate swaps and non-deliverable forwards. More information about the launch of OTC Clear is set out in the News Release dated 31 October 2013 under the News & Consultations section of the HKEx website. OTC Clear intends to apply for recognition to ESMA as a third country CCP shortly after the launch.

A Risk Management Committee and a User Committee have been established to deal with risk management matters and to provide advice on products, market development and strategic issues respectively. A Default Management Group will also be established for the purpose of handling the default management process.

In response to the request of the Legislative Council's Bills Committee, HKEx has submitted its comments on the proposed regulatory framework for Hong Kong's OTC derivatives market.

### LME Clear

The establishment of LME Clear is on schedule. LME Clear will be fully compliant with the EMIR. LME Clear is expected to be officially launched in September 2014.

### **Clearing Risk Management**

On 17 September 2013, a multilateral default management drill was held for the first batch of clearing members of OTC Clear and the results were satisfactory.

On 20 September 2013, HKEx's representative participated in the CCP 12 conference in Dubai on developments in clearing and settlement regulations and models around the world.

### **Information Technology**

During the first nine months of 2013, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continued to perform reliably.

The final stage of consolidation of data centres into the Data Centre will take place in the fourth quarter of 2013.

### **HKEx Orion Programme**

The SDNet/2 network upgrade was concluded after completion of the final part of the SDNet/2 rollout (the circuit migration for CCASS and CCMS) in August 2013.

On 30 September 2013, HKEx launched the OMD system for the Cash Market. HKEx aims to introduce the market data system for the Derivatives Market in the second quarter of 2014. On the Mainland, HKEx is working to provide a Cash Market data feed via the MMDH scheduled for launch in the first quarter of 2014.

Simulation tests for the OCG were completed at the end of August 2013 and HKEx has enrolled the first batch of EPs that will use the market access system. The OCG is being prepared for end-to-end testing by EPs. HKEx plans to implement the system for the Cash Market in the second quarter of 2014.

In October 2013, HKEx upgraded HKATS/DCASS to the new Genium INET technology platform which significantly improved latency and transaction capacity for further development of the Derivatives Market.

### **Hosting Services**

Following their launch for the Derivatives Market in June 2013, Hosting Services had stable operations and steady growth in the number of subscribers, including EPs, IVs, buy-side firms, technology vendors, and telecommunication service providers. As at the end of September 2013, there were over 75 companies, mostly SEHK and HKFE Participants, using Hosting Services. The EPs in the group contributed about 25 per cent of daily securities turnover value and about 45 per cent of the daily derivatives trading volume at the end of the third quarter of 2013.

### **Treasury**

The Group's funds available for investment comprise Corporate Funds, Margin Funds and cash collateral and Clearing House Funds, totalling \$55.7 billion on average for the nine months ended 30 September 2013 (nine months ended 30 September 2012: \$44.3 billion).

As compared with 30 June 2013, the overall size of funds available for investment as at 30 September 2013 decreased by 14 per cent or \$7.7 billion to \$48.9 billion (30 June 2013: \$56.6 billion). Details of the asset allocation of the investments as at 30 September 2013 against those as at 30 June 2013 are set out below.

	Investment Fund Size \$bn		Bonds		Cash or Bank Deposits		Global Equities	
	Sept	Jun	Sept	Jun*	Sept	Jun	Sept	Jun
Corporate Funds	9.3	8.9	19%	21%	77%	75%	4%	4%
Margin Funds and cash collateral	36.4	43.2	5%	4%	95%	96%	0%	0%
Clearing House Funds	3.2	4.5	0%	0%	100%	100%	0%	0%
Total	48.9	56.6	7%	6%	92%	93%	1%	1%

\* Including certain principal-guaranteed structured notes

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Margin Funds and cash collateral and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 30 September 2013 and \$0.3 billion as at 30 June 2013), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2013 (\$48.5 billion) and 30 June 2013 (\$56.3 billion) were as follows:

	Investment Fund Size \$bn		Overnight to 3 months		>3 months to 1 year		>1 year to 3 years		>3 years	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	8.9	8.6	80%	79%	5%	5%	7%	8%	8%	8%
Margin Funds and cash collateral	36.4	43.2	86%	84%	11%	12%	1%	2%	2%	2%
Clearing House Funds	3.2	4.5	99%	97%	1%	3%	0%	0%	0%	0%
Total	48.5	56.3	86%	84%	10%	10%	2%	3%	2%	3%

Note: The maturity profiles are based on contractual maturity.

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 30 September 2013, had a weighted average credit rating of Aa3 (30 June 2013: Aa3) and a weighted average maturity of 2.5 years (30 June 2013: 2.7 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during the third quarter of 2013 and the second quarter of 2013 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun	Jul-Sept	Apr-Jun
Corporate Funds	9.2	8.2	10.7	9.2	8.1	6.8
Margin Funds and cash collateral	0.6	0.7	0.8	1.0	0.5	0.5
Clearing House Funds	<0.1	<0.1	<0.1	0.1	<0.1	<0.1

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 6 to the Condensed Consolidated Financial Statements of this Report.



# FINANCIAL REVIEW

## Overall Performance

	Note	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
<b>RESULTS</b>				
Revenue and other income:				
Revenue affected by market turnover	(A)	4,397	3,395	30%
Stock Exchange listing fees	(B)	737	682	8%
Market data fees	(C)	551	423	30%
Other revenue	(D)	448	339	32%
Net investment income	(E)	433	613	(29%)
Sundry income		8	11	(27%)
<hr/>				
Operating expenses	(F)	6,574 (2,018)	5,463 (1,434)	20% 41%
<hr/>				
EBITDA		4,556	4,029	13%
Depreciation and amortisation	(G)	(352)	(91)	287%
<hr/>				
Operating profit		4,204	3,938	7%
Costs relating to acquisition of LME Group	(H)	-	(128)	(100%)
Finance costs	(I)	(137)	-	N/A
Share of loss of a joint venture		(7)	(1)	600%
<hr/>				
Profit before taxation		4,060	3,809	7%
Taxation	(J)	(532)	(589)	(10%)
<hr/>				
Profit attributable to shareholders		3,528	3,220	10%

Profit attributable to shareholders increased by 10 per cent or \$308 million to \$3,528 million in the first nine months of 2013 against \$3,220 million for the same period in 2012. The increase was mainly due to \$318 million of profit contributed by the LME business (2012: \$Nil as the LME Group was acquired in December 2012). Increased trading fees from higher trading volumes on the Stock Exchange and the Futures Exchange were offset by weaker net investment income, higher depreciation and amortisation, and finance costs incurred for funding the acquisition of the LME Group.

The positive investor sentiment and market momentum of the first quarter of 2013 have been undermined by uncertainties created by the possible tapering of quantitative easing by the US Federal Reserve. Nevertheless, in the first nine months of 2013, the average daily turnover value on the Stock Exchange rose by 20 per cent and the average daily number of futures and options contracts traded in the Derivatives Market rose by 12 per cent compared to the same period in 2012. Including LME trading fees of \$645 million (2012: \$Nil), market turnover related revenues increased by 30 per cent, or \$1,002 million, to \$4,397 million.

Net investment income declined by 29 per cent or \$180 million due to lower fair value gains on investments and a drop in interest income from lower bank deposit rates, which were partially offset by a \$106 million fair value gain on investment in LCH.Clearnet shares held by LME.

Operating expenses increased by 41 per cent or \$584 million over the same period last year, to \$2,018 million mainly due to the inclusion of \$535 million of operating expenses of the LME business (2012: \$Nil).

Depreciation and amortisation increased from \$91 million in 2012 to \$352 million in 2013. Of the \$261 million increase, \$104 million was related to the fixed assets and IT systems of the LME business, \$96 million was attributable to amortisation of customer relationship intangibles arising from the acquisition of the LME Group, and the remainder was mainly due to the Data Centre, where phase one of the construction was completed in September 2012.

During the nine months ended 30 September 2013, the Group incurred \$137 million of finance costs for funding the acquisition of the LME Group (2012: \$Nil).

## Revenue and Other Income

### (A) Revenue Affected by Market Turnover

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Trading fees and trading tariff	2,649	1,790	48%
Clearing and settlement fees	1,225	1,045	17%
Depository, custody and nominee services fees	523	560	(7%)
Total	4,397	3,395	30%

The increase in trading fees and trading tariff of \$859 million was mainly attributable to the inclusion of the trading fees of the LME business of \$645 million for the nine months ended 30 September 2013 (2012: \$Nil). The revenue from products traded on the Stock Exchange (excluding stock options) increased by 16 per cent or \$190 million during the period to \$1,367 million (2012: \$1,177 million). The increase was less than the 20 per cent increase in average daily turnover value on the Stock Exchange as the number of trading days was 2 per cent lower than that in the corresponding period in 2012 and there were more exempt ETF trades from market makers. The revenue from derivatives contracts traded on the Futures Exchange and stock options only increased by 4 per cent to \$637 million (2012: \$613 million) compared to a 12 per cent higher average daily number of contracts traded mainly due to a higher proportion of trading in lower fee products such as H-shares Index futures and options during the first nine months of 2013.

Clearing and settlement fees are derived predominantly from Stock Exchange transactions. Compared with the corresponding period in 2012, the 17 per cent increase in clearing and settlement fees was lower than the 20 per cent increase in average daily turnover value on the Stock Exchange due mainly to the number of trading days being 2 per cent lower than the corresponding period in 2012.

Depository, custody and nominee services fees, which mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, and stock withdrawal fees, decreased primarily due to a drop in scrip fees.

Key Market Indicators

	Nine months ended 30 Sept 2013	Nine months ended 30 Sept 2012	Change
Average daily turnover value on the Stock Exchange (\$bn)	63.8	53.1	20%
Average daily number of derivatives contracts traded on the Futures Exchange	289,429	257,973	12%
Average daily number of stock options contracts traded on the Stock Exchange	249,781	224,880	11%
Average daily volume of metals contracts traded on LME (lots)	680,234	633,702*	7%

\* HKEx completed the acquisition of the LME Group on 6 December 2012.

(B) Stock Exchange Listing Fees

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Annual listing fees	355	349	2%
Initial and subsequent issue listing fees	379	330	15%
Others	3	3	0%
Total	737	682	8%

The increase in annual listing fees was attributable to a higher number of listed companies. The rise in initial and subsequent issue listing fees was mainly due to higher numbers of newly listed DWs and CBBCs but was partly offset by fewer IPOs in the first nine months of 2013 compared to the same period in 2012.

Key Drivers for Annual Listing Fees

	At 30 Sept 2013	At 30 Sept 2012	Change
Number of companies listed on Main Board	1,399	1,355	3%
Number of companies listed on GEM	186	178	4%
Total	1,585	1,533	3%

Key Drivers for Initial and Subsequent Issue Listing Fees

	Nine months ended 30 Sept 2013	Nine months ended 30 Sept 2012	Change
Number of newly listed DWs	5,218	4,281	22%
Number of newly listed CBBCs	6,792	4,605	47%
Number of newly listed companies on Main Board *	34	39	(13%)
Number of newly listed companies on GEM	11	10	10%
Total equity funds raised on Main Board			
– IPOs (\$bn)	58.6	43.7	34%
– Post-IPO (\$bn)	127.2	148.9	(15%)
Total equity funds raised on GEM			
– IPOs (\$bn)	1.3	1.0	30%
– Post-IPO (\$bn)	3.9	2.2	77%

\* Including 3 transfers from GEM (2012: 2)

**(C) Market Data Fees**

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Market data fees	<b>551</b>	423	30%

Market data fees increased due to the inclusion of \$131 million of market data fees of the LME business.

**(D) Other Revenue**

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Network, terminal user, dataline and software sub-license fees	<b>194</b>	270	(28%)
Commodities stock levies and warehouse listing fees	<b>93</b>	–	N/A
Hosting services	<b>54</b>	–	N/A
Participants' subscription and application fees	<b>49</b>	27	81%
Trading booth user fees	<b>8</b>	8	0%
Brokerage on direct IPO allotments	<b>6</b>	1	500%
Sales of Trading Rights	<b>6</b>	15	(60%)
Miscellaneous revenue	<b>38</b>	18	111%
Total	<b>448</b>	339	32%

Other revenue increased in the first nine months of 2013 compared to the same period in 2012 mainly due to \$129 million (2012: \$Nil) of revenue generated by the LME business and \$54 million (2012: \$Nil) of Hosting Services revenue that were offset by a decrease in network, terminal user, dataline and software sub-license fees.

Network, terminal user, dataline and software sub-license fees declined mainly due to lower sales of additional throttles and a decrease in Stock Exchange trading network line rental income following the migration of the Group's network services in Hong Kong to SDNet/2 in the second half of 2012. As a result of the migration, EPs can directly contract with accredited vendors for Stock Exchange trading network line rental services instead of HKEx. There was a corresponding drop in Stock Exchange trading network line rental costs consumed by Participants in the same period under IT and computer maintenance expenses in section (F).

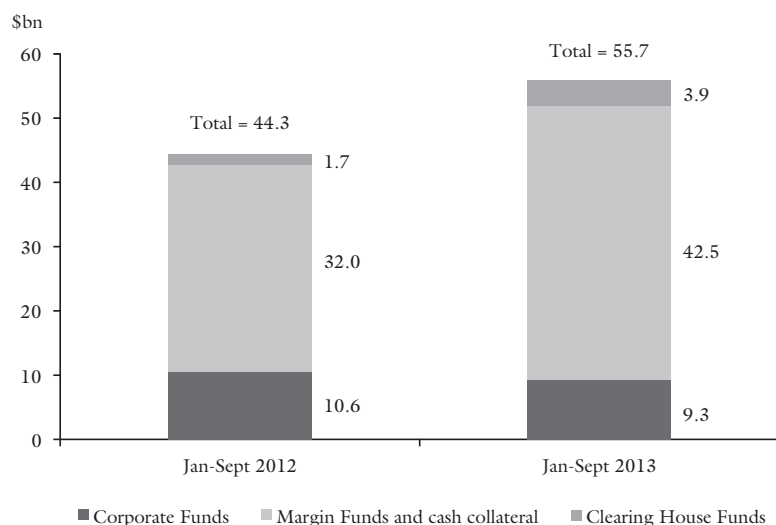
**(E) Net Investment Income**

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Gross investment income	<b>436</b>	615	(29%)
Interest rebates to Participants	<b>(3)</b>	(2)	50%
Net investment income	<b>433</b>	613	(29%)

Net investment income declined overall by 29 per cent due to lower fair value gains on investments, reflecting market movements, and a drop in interest income from lower bank deposit rates. This was partly offset by a \$106 million fair value gain on LME's investment in LCH.Clearnet shares.

The average amount of funds available for investment was as follows:

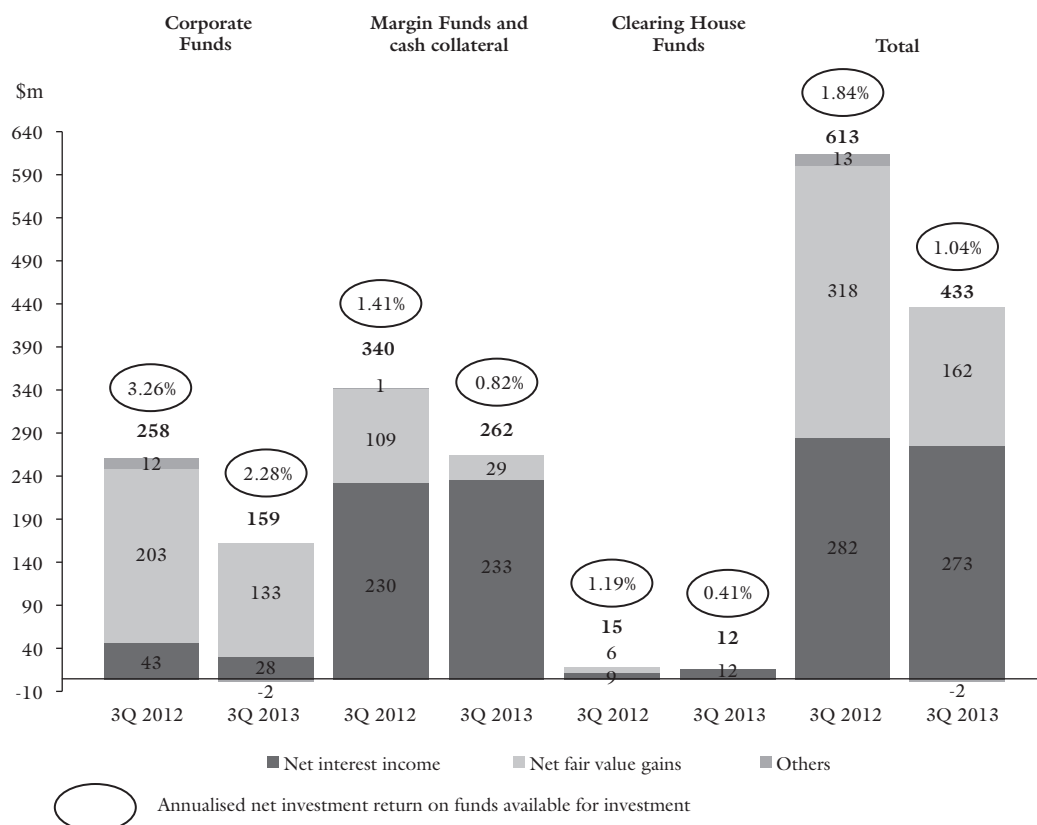
**Average Amount of Funds Available for Investment**



The increase in the average amount of funds available for investment was due to higher margin deposits from Clearing Participants arising from increases in margin rates and open interest as well as an increase in Clearing House Funds following the introduction of a dynamic guarantee fund for HKSCC. The average balance of Corporate Funds has reduced as the acquisition of the LME Group in December 2012 was partly funded by Corporate Funds.

The movements in net investment income by Funds were as follows:

**Net Investment Income by Funds**



The lower net investment income and return on Corporate Funds in 2013 was attributable to lower fair value gains on equities, fixed income and structured investments and a drop in interest income from lower bank deposit rates and reduced fund size. This was partly offset by a fair value gain of \$106 million on LME's investment in LCH.Clearnet shares.

The lower net income on the Margin Funds and cash collateral in 2013 was mainly due to a decrease in net fair value gains on investments (including certain principal-guaranteed structured notes). Despite lower interest rates during the period, interest income was similar to the same period in 2012 due to an increase in the margin funds available for investment.

As the valuation of the investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

Details of the investment portfolio are set out in the Treasury section under the Business Review.

## Expenses, Other Costs and Taxation

### (F) Operating Expenses

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Staff costs and related expenses	1,119	884	27%
IT and computer maintenance expenses	386	219	76%
Premises expenses	224	185	21%
Product marketing and promotion expenses	19	14	36%
Legal and professional fees	96	32	200%
Other operating expenses	174	100	74%
Total	2,018	1,434	41%

Staff costs and related expenses increased by \$235 million to \$1,119 million, of which \$206 million (2012: \$Nil) was attributable to the LME business. The remainder of the increase was mainly due to payroll adjustments to keep up with the market trend.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$54 million (2012: \$105 million), was \$332 million (2012: \$114 million), of which \$206 million (2012: \$Nil) was related to the LME business. The decrease in costs of services and goods directly consumed by the Participants was mainly due to lower Stock Exchange trading network line rental costs following the migration of the Group's network services in Hong Kong to SDNet/2 in the second half of 2012. Following the migration, Participants can directly contract with accredited vendors for the Stock Exchange trading network line rental services instead of HKEx. There was a corresponding drop in Stock Exchange trading network line rental income under Other Revenue in section (D).

Premises expenses rose by \$39 million to \$224 million, of which \$20 million (2012: \$Nil) was attributable to the LME business. The rest of the increase was mainly due to higher rent upon the renewal of certain leases, the lease of additional office premises to accommodate increased headcount and higher utility costs of the Data Centre.

Legal and professional fees increased by \$64 million to \$96 million, of which \$57 million was incurred by the LME business for implementing strategic projects and seeking legal advice (\$4 million) in relation to the class action lawsuits in the US with respect to alleged anti-competitive and monopolistic behaviour in the warehousing market.

Other operating expenses rose by \$74 million to \$174 million. The increase was mainly due to the inclusion of \$41 million of expenses incurred by the LME business in 2013 (2012: \$Nil), operations of the Data Centre, where phase one of the construction was completed in September 2012, and higher bank facility fees. The higher facility fees related to an increase in the amount of committed facilities, from \$4,000 million at 30 September 2012 to \$8,000 million at 30 September 2013, to further enhance the Group's liquidity.

### (G) Depreciation and Amortisation

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Depreciation and amortisation	352	91	287%

Depreciation and amortisation increased by \$261 million to \$352 million mainly due to depreciation of the Data Centre, where phase one of the construction was completed in September 2012, depreciation and amortisation of LME's fixed assets and IT systems of \$104 million (2012: \$Nil), and amortisation of customer relationship intangibles arising from the acquisition of the LME Group of \$96 million (2012: \$Nil).

### (H) Costs relating to Acquisition of LME Group

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Costs relating to acquisition of LME Group	-	128	(100%)

During the first nine months of 2012, the Group incurred legal and professional fees of \$121 million and other costs of \$7 million for the acquisition of the LME Group. No such costs were incurred by the Group in 2013.

**(I) Finance Costs**

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Finance costs	137	–	N/A

The finance costs were related to the convertible bonds issued and bank borrowing used to fund part of the consideration for the acquisition of the LME Group.

**(J) Taxation**

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Change
Taxation	532	589	(10%)

Taxation dropped mainly due to a one-off deferred tax credit arising from a reduction of corporate tax rate in the UK, but was partially offset by a higher profit before taxation and a higher tax rate on LME's profit.

## Comparison of 2013 Third Quarter Performance with 2013 Second Quarter Performance

	Three months ended 30 Sept 2013 \$m	Three months ended 30 Jun 2013 \$m	Change
Revenue and other income:			
Revenue affected by market turnover:			
Trading fees and trading tariff	833	894	(7%)
Clearing and settlement fees	386	408	(5%)
Depository, custody and nominee services fees	178	276	(36%)
	1,397	1,578	(11%)
Stock Exchange listing fees	241	241	0%
Market data fees	181	182	(1%)
Other revenue	151	157	(4%)
Net investment income	161	56	188%
Sundry income	3	4	(25%)
	2,134	2,218	(4%)
Operating expenses	(677)	(672)	1%
EBITDA	1,457	1,546	(6%)
Depreciation and amortisation	(119)	(117)	2%
Operating profit	1,338	1,429	(6%)
Finance costs	(45)	(43)	5%
Share of loss of a joint venture	(3)	(2)	50%
Profit before taxation	1,290	1,384	(7%)
Taxation	(90)	(214)	(58%)
Profit attributable to shareholders	1,200	1,170	3%



Profit attributable to shareholders rose from \$1,170 million in the second quarter of 2013 to \$1,200 million in the third quarter. The increase was mainly driven by higher net investment income and lower taxation charges, which were partly offset by a decline in market turnover related revenues.

Market turnover related revenues dropped by 11 per cent for the third quarter of 2013 compared to the second quarter primarily due to lower turnover in the Cash and Derivatives Markets, a lower number of metals contracts traded on LME, and a decrease in scrip fees due to seasonal fluctuations.

Net investment income rose significantly in the third quarter mainly due to net fair value gains on equities and fixed income investments in the third quarter of 2013 following the US Federal Reserve's announcement that it would delay the tapering of the quantitative easing measures.

#### Key Market Indicators

	Three months ended 30 Sept 2013	Three months ended 30 Jun 2013	Change
Average daily turnover value on the Stock Exchange (\$bn)	55.2	62.3	(11%)
Average daily number of derivatives contracts traded on the Futures Exchange	286,136	307,496	(7%)
Average daily number of stock options contracts traded on the Stock Exchange	217,169	256,162	(15%)
Average daily volume of metals contracts traded on LME (lots)	642,790	732,811	(12%)

Taxation dropped due to a one-off deferred tax credit arising from a reduction of corporate tax rate in the UK and lower profit before taxation.

### Working Capital

Working capital rose by \$1,178 million or 22 per cent to \$6,418 million as of 30 September 2013 (31 December 2012: \$5,240 million). The increase was primarily due to the profit of \$3,528 million generated during the nine months ended 30 September 2013, which was partly offset by the 2012 final dividend and the 2013 interim dividend, net of scrip dividend, of \$2,339 million.

Banking facilities have been put in place for contingency purposes. During the first nine months of 2013, the Group secured additional facilities, bringing the total committed banking facilities to \$8,000 million (31 December 2012: \$7,000 million). The repurchase facilities were reduced to \$7,000 million (31 December 2012: \$9,000 million) as they were in excess of the Group's total bond investments eligible for repurchase transactions and could not therefore be fully utilised.

### Capital Expenditures and Commitments

During the first nine months of 2013, the Group had capital expenditure of \$443 million (2012: \$889 million) which was mainly related to the Data Centre, development of a new market data system, a commodities clearing system, and the upgrade and enhancement of various IT systems.

The Group's capital expenditure commitments at 30 September 2013, including those authorised by the Board but not yet contracted for, amounted to \$997 million (31 December 2012: \$832 million) and were mainly related to the development of IT systems including a new market data system, clearing systems for OTC derivatives and commodities, and the OCG for the Cash Market. The Group has adequate resources to fund its capital expenditure commitments.

## Exposure to Fluctuations in Exchange Rates and Related Hedges

In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates.

Foreign currency margin deposits received by the Group are mainly hedged by investments in the same currencies, but unhedged investments in USD may not exceed 20 per cent of the Margin Funds and cash collateral.

LME is exposed to foreign exchange risk arising from revenues and investments denominated in foreign currencies (mainly USD and Euro). Its risk management policy in the normal course of events is to convert non-GBP currencies into GBP as soon as deemed appropriate. However, some may be held to hedge other GBP/USD exposures within the Group. Forward foreign exchange contracts also may be used to hedge LME's currency exposure resulting from its foreign currency revenues.

In respect of the investment in the LME Group in the UK (including goodwill and other intangible assets arising from its acquisition) totalling HK\$18,112 million as at 30 September 2013 (31 December 2012: HK\$17,499 million), movements in the GBP exchange rate do not impact profit attributable to shareholders but are recorded as movements on the exchange reserve, which is a component of equity.

The remaining aggregate net open foreign currency positions at 30 September 2013 amounted to HK\$1,845 million, of which HK\$571 million was non-USD exposure (31 December 2012: HK\$2,702 million, of which HK\$1,112 million was non-USD exposure) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$1,104 million (31 December 2012: HK\$1,114 million). All forward foreign exchange contracts will mature within 2 months (31 December 2012: 3 months).

## Contingent Liabilities

Details of contingent liabilities are included in note 29 to the Condensed Consolidated Financial Statements of this Report.

## Changes since 31 December 2012

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 2012.

It is the Group's plan to declare a dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter of 2013 (third quarter of 2012: \$Nil). Due to fluctuations in market conditions and changes in the operating environment, certain categories of income and operating expenses may vary substantially from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

## **Review of Financial Statements**

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the nine months ended 30 September 2013 in conjunction with HKEx's external auditor.

The external auditor has carried out certain agreed-upon procedures on the Unaudited Condensed Consolidated Financial Statements for the nine months ended 30 September 2013 in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

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# OPERATIONAL REVIEW

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## Long-term Incentive Schemes

HKEx has adopted the Share Award Scheme to recognise the contributions of certain employees and help retain them for the Group's operations and further development. Prior to the adoption of the Scheme, HKEx had 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which ended on 30 May 2010.

## Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme. The unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the exercise periods.

Movements in the outstanding share options granted under the Post-Listing Scheme during the nine months ended 30 September 2013 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise <sup>2</sup> period
		As at 1 Jan 2013	Issued upon <sup>1</sup> subscription during the nine months ended 30 Sept 2013	Cancelled/ lapsed during the nine months ended 30 Sept 2013	As at 30 Sept 2013	
<b>Employees</b>						
31 Mar 2004	16.96	309,500	21,000	–	288,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	528,600	15,500	–	513,100	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$131.26.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2<sup>nd</sup> anniversary and became fully vested on the 5<sup>th</sup> anniversary of the grant.

## Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The rules and trust deed of the Scheme are available on the HKEx website. Since the Adoption Date, a total of 4,558,505 shares had been awarded under the Scheme up to the date of this Report, representing 0.4 per cent of HKEx shares in issue as at the Adoption Date.

## OPERATIONAL REVIEW

Details of the awards (save for those which had been fully vested or lapsed as of 31 December 2012), including the number of shares which were awarded and vested according to the terms of the Scheme during the nine months ended 30 September 2013, are set out below.

Date of approval by Board	Date of <sup>1</sup> award	Awarded sum \$'000	Number of shares purchased	Number of Awarded Shares	Average <sup>2</sup> fair value per share \$	Number of Awarded Shares vested during the nine months ended 30 Sept 2013	Vesting period <sup>3</sup>
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	29,950 <sup>4</sup>	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054 <sup>5</sup>	123.29	291,524 <sup>4</sup>	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	3,450	10 Jun 2012 – 10 Jun 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039 <sup>5</sup>	176.75	11,415 <sup>4</sup>	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	1,650	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	1,170	6,900	6,900	169.92	3,450	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	700	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	1,650	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	5,900	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	–	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 <sup>5,6</sup>	124.75	33,680 <sup>4</sup>	14 Dec 2013 – 14 Dec 2014
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	–	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	–	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	–	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	–	2 May 2014 – 2 May 2015
14 Dec 2011	5 Sept 2012	975	8,900	8,900	109.00	–	7 Jul 2014 – 7 Jul 2015
3 Dec 2012	31 Dec 2012	102,398	707,200	810,245 <sup>5,6</sup>	126.71	–	3 Dec 2014 – 3 Dec 2015
14 Dec 2011	27 Mar 2013	316	2,200	2,200	139.86	–	1 Jan 2015 – 1 Jan 2016
14 Dec 2011	27 Mar 2013	2,400	17,100	17,100	139.86	–	9 Jan 2015 – 9 Jan 2016

Notes:

- 1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 2 The fair value of the Awarded Shares was based on the average purchase cost per share.  
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
  - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
  - (b) for shares purchased from the market: average cost per share.
- 3 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2<sup>nd</sup> and 3<sup>rd</sup> year after the grant, as opposed to 4 equal tranches from the 2<sup>nd</sup> to 5<sup>th</sup> year, the arrangement prior to the change.
- 4 They included certain Awarded Shares which, according to the terms of the Scheme, became vested in the selected employees who retired prior to the vesting periods.
- 5 The awards included an aggregate of 255,124 shares awarded to HKEx's Chief Executive.
- 6 The Scheme's trustee applied 344,706 shares and 103,116 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy the awards allocated on 30 December 2011 and 31 December 2012 respectively.

As at 30 September 2013, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,059,515 shares held in trust under the Scheme.

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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE HIGHLIGHTS

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Throughout the nine months ended 30 September 2013, 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 Section 77 of the SFO. The term of office of HKEx's Chief Executive in his capacity as a Director is, pursuant to Article 90(4) of HKEx's Articles of Association, coterminous with his employment with HKEx, and he is not subject to retirement by rotation.

In recognition of its commitment to best sustainability practices and disclosure, HKEx continues to be included in the Hang Seng Corporate Sustainability Index Series, the Dow Jones Sustainability Asia Pacific Index, and the STOXX® Global ESG Leaders Indices.

Details of HKEx's ESG principles and practices are set out under the About HKEx (Corporate Governance and Corporate Social Responsibility) section of the HKEx website.

# DISCLOSURE OF INTERESTS

## Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they had complied with the Model Code at all applicable times during the nine months ended 30 September 2013.

## Directors' Interests and Short Positions in Shares and Underlying Shares of HKEx

As at 30 September 2013, the interests and short positions of Directors, including HKEx's Chief Executive, in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code, were as set out below.

### Long Positions in Shares and Underlying Shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of issued <sup>1</sup> share capital
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Margaret Leung	–	5,000 <sup>3</sup>	–	–	5,000	0.00
Charles Li	270,059 <sup>4</sup>	–	–	–	270,059	0.02
John Strickland	18,000 <sup>5</sup>	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,161,493,053 HKEx shares in issue as at 30 September 2013
- 2 Mr Chow was the beneficial owner of those shares.
- 3 Mrs Leung's spouse was the beneficial owner of those shares.
- 4 It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 169,587 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Operational Review section of this Report.
- 5 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 30 September 2013, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

Apart from the Share Award Scheme, at no time during the period under review was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate. Save for the disclosed, during the nine months ended 30 September 2013, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of HKEx or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.



## Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEx

### Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller (ie, a person who either alone or with any associated person or persons is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller) except with the SFC's approval in writing after consultation with the Financial Secretary.

Since 7 September 2007, the Government has been a Minority Controller. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance, the provisions of Section 61 of the SFO requiring a person becoming a Minority Controller to obtain the SFC's approval do not affect the rights of, and are not binding on, the Government.

As at the date of this Report, the SFC had granted approval to 8 entities to be Minority Controllers on the basis that the shares were held by them in custody for their clients. According to the Participant Shareholding Report as at 30 September 2013, the 8 approved Minority Controllers in aggregate held approximately 57 per cent of HKEx's issued share capital.

As at 30 September 2013, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange, were as set out below.

### Long Positions in Shares and Underlying Shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of issued <sup>1</sup> share capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>2</sup>	66,730,300	5.74

Notes:

1 Based on 1,161,493,053 HKEx shares in issue as at 30 September 2013

2 Based on a confirmation to HKEx by the Government in respect of its holding immediately following completion of placing of new HKEx shares as announced on 30 November 2012

Save for those disclosed above, as at 30 September 2013, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

## Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2013, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Scheme, purchased on the Exchange a total of 19,300 HKEx shares at a total consideration of about \$2.7 million.

# CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Nine months ended 30 Sept 2013	Nine months ended 30 Sept 2012	Three months ended 30 Sept 2013	Three months ended 30 Sept 2012
	Note	\$m	\$m	\$m	\$m
Trading fees and trading tariff	3	2,649	1,790	833	551
Stock Exchange listing fees	4	737	682	241	220
Clearing and settlement fees		1,225	1,045	386	322
Depository, custody and nominee services fees		523	560	178	141
Market data fees		551	423	181	137
Other revenue	5	448	339	151	95
<b>REVENUE AND TURNOVER</b>	2	<b>6,133</b>	<b>4,839</b>	<b>1,970</b>	<b>1,466</b>
Investment income		436	615	162	222
Interest rebates to Participants		(3)	(2)	(1)	(1)
Net investment income	6	433	613	161	221
Sundry income		8	11	3	6
<b>REVENUE AND OTHER INCOME</b>		<b>6,574</b>	<b>5,463</b>	<b>2,134</b>	<b>1,693</b>
<b>OPERATING EXPENSES</b>					
Staff costs and related expenses	7	(1,119)	(884)	(364)	(291)
Information technology and computer maintenance expenses	8	(386)	(219)	(136)	(61)
Premises expenses		(224)	(185)	(75)	(65)
Product marketing and promotion expenses		(19)	(14)	(5)	(1)
Legal and professional fees		(96)	(32)	(41)	(9)
Other operating expenses		(174)	(100)	(56)	(31)
		<b>(2,018)</b>	<b>(1,434)</b>	<b>(677)</b>	<b>(458)</b>
<b>EBITDA*</b>		<b>4,556</b>	<b>4,029</b>	<b>1,457</b>	<b>1,235</b>
Depreciation and amortisation		(352)	(91)	(119)	(35)
<b>OPERATING PROFIT</b>		<b>4,204</b>	<b>3,938</b>	<b>1,338</b>	<b>1,200</b>
Costs relating to acquisition of LME Group	9	-	(128)	-	(18)
Finance costs	10	(137)	-	(45)	-
Share of loss of a joint venture		(7)	(1)	(3)	(1)
<b>PROFIT BEFORE TAXATION</b>	2	<b>4,060</b>	<b>3,809</b>	<b>1,290</b>	<b>1,181</b>
<b>TAXATION</b>	11	<b>(532)</b>	<b>(589)</b>	<b>(90)</b>	<b>(177)</b>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>3,528</b>	<b>3,220</b>	<b>1,200</b>	<b>1,004</b>
<b>Basic earnings per share #</b>	12(a)	<b>\$3.07</b>	<b>\$2.97</b>	<b>\$1.04</b>	<b>\$0.93</b>
<b>Diluted earnings per share #</b>	12(b)	<b>\$3.06</b>	<b>\$2.97</b>	<b>\$1.04</b>	<b>\$0.92</b>

\* EBITDA represents earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and non-recurring costs arising from the acquisition of the LME Group. It has been added in 2013 as a new non-HKFRS measure for monitoring business performance.

# Earnings per share have been restated for the effect of the bonus element of the share placement in 2012 (note 12(c)).

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>3,528</b>	<b>3,220</b>	<b>1,200</b>	<b>1,004</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences of foreign subsidiaries recorded in exchange reserve	(28)	–	1,150	–
Fair value gains of cash flow hedges	–	35	–	35
<b>OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(28)</b>	<b>35</b>	<b>1,150</b>	<b>35</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>3,500</b>	<b>3,255</b>	<b>2,350</b>	<b>1,039</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Sept 2013			At 31 Dec 2012		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	14	36,794	–	36,794	34,077	–	34,077
Financial assets measured at fair value							
through profit or loss	15	3,772	138	3,910	4,369	123	4,492
Financial assets measured at amortised cost	16	8,186	62	8,248	8,442	131	8,573
Accounts receivable, prepayments and deposits	17	5,294	7	5,301	13,689	7	13,696
Interest in a joint venture		–	90	90	–	97	97
Goodwill and other intangible assets		–	18,230	18,230	–	18,183	18,183
Fixed assets		–	1,661	1,661	–	1,675	1,675
Lease premium for land		–	23	23	–	24	24
Deferred tax assets		–	37	37	–	20	20
<b>Total assets</b>		<b>54,046</b>	<b>20,248</b>	<b>74,294</b>	<b>60,577</b>	<b>20,260</b>	<b>80,837</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Margin deposits and cash collateral from							
Clearing Participants	19	36,370	–	36,370	36,786	–	36,786
Accounts payable, accruals and other liabilities	20	7,597	19	7,616	15,818	20	15,838
Deferred revenue		277	–	277	530	–	530
Taxation payable		683	–	683	178	–	178
Other financial liabilities		113	–	113	57	–	57
Participants' contributions to							
Clearing House Funds	21	2,540	–	2,540	1,924	–	1,924
Borrowings	22	–	6,692	6,692	–	6,615	6,615
Provisions		48	47	95	44	45	89
Deferred tax liabilities		–	889	889	–	1,056	1,056
<b>Total liabilities</b>		<b>47,628</b>	<b>7,647</b>	<b>55,275</b>	<b>55,337</b>	<b>7,736</b>	<b>63,073</b>
<b>Equity</b>							
Share capital	23			1,161			1,150
Share premium	23			10,162			8,731
Shares held for Share Award Scheme	23			(264)			(305)
Employee share-based compensation reserve	24(a)			156			122
Exchange reserve				161			189
Convertible bond reserve				409			409
Designated reserves	25			585			587
Retained earnings	26			6,649			6,881
<b>Shareholders' funds</b>				<b>19,019</b>			<b>17,764</b>
<b>Total liabilities and equity</b>				<b>74,294</b>			<b>80,837</b>
<b>Net current assets</b>				<b>6,418</b>			<b>5,240</b>
<b>Total assets less current liabilities</b>				<b>26,666</b>			<b>25,500</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital, share premium and shares held for Share Award Scheme (note 23) \$m	Employee share-based compensation reserve (note 24(a)) \$m	Hedging reserve \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves (note 25) \$m	Retained earnings (note 26) \$m	Total equity \$m
At 1 Jan 2013	9,576	122	-	189	409	587	6,881	17,764
Profit attributable to shareholders	-	-	-	-	-	-	3,528	3,528
Other comprehensive income	-	-	-	(28)	-	-	-	(28)
Total comprehensive income	-	-	-	(28)	-	-	3,528	3,500
2012 final dividend at \$1.46 per share	-	-	-	-	-	-	(1,675)	(1,675)
2013 interim dividend at \$1.82 per share	-	-	-	-	-	-	(2,097)	(2,097)
Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	14	14
Shares issued upon exercise of employee share options	1	-	-	-	-	-	-	1
Shares issued in lieu of cash dividends	1,433	-	-	-	-	-	-	1,433
Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	-	(2)
Vesting of shares of Share Award Scheme	51	(47)	-	-	-	-	(4)	-
Employee share-based compensation benefits	-	81	-	-	-	-	-	81
Transfer of reserves	-	-	-	-	-	(2)	2	-
At 30 Sept 2013	11,059	156	-	161	409	585	6,649	19,019

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Hedging reserve \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2012	1,423	106	-	-	-	577	7,053	9,159
Profit attributable to shareholders	-	-	-	-	-	-	3,220	3,220
Other comprehensive income	-	-	35	-	-	-	-	35
Total comprehensive income	-	-	35	-	-	-	3,220	3,255
2011 final dividend at \$2.09 per share	-	-	-	-	-	-	(2,252)	(2,252)
2012 interim dividend at \$1.85 per share	-	-	-	-	-	-	(1,996)	(1,996)
Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	7	7
Shares issued upon exercise of employee share options	2	-	-	-	-	-	-	2
Shares issued in lieu of cash dividends	442	-	-	-	-	-	-	442
Shares purchased for Share Award Scheme	(3)	-	-	-	-	-	-	(3)
Vesting of shares of Share Award Scheme	45	(42)	-	-	-	-	(3)	-
Employee share-based compensation benefits	-	79	-	-	-	-	-	79
Transfer of reserves	-	-	-	-	-	8	(8)	-
At 30 Sept 2012	1,909	143	35	-	-	585	6,021	8,693

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	27	4,312	3,970
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets and intangible assets		(531)	(838)
Payment for investment in a joint venture		–	(100)
Net decrease in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		1,242	1,668
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		24	380
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		282	603
Interest received from financial assets measured at amortised cost (excluding time deposits)		1	13
Interest received from financial assets measured at fair value through profit or loss		21	57
Net cash inflow from investing activities		1,039	1,783
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares upon exercise of employee share options		1	2
Purchases of shares for Share Award Scheme		(2)	(3)
Payments of finance costs		(62)	–
Dividends paid		(2,280)	(3,772)
Net cash outflow from financing activities		(2,343)	(3,773)
<b>Net increase in cash and cash equivalents</b>		<b>3,008</b>	<b>1,980</b>
Cash and cash equivalents at 1 Jan		4,035	2,340
Exchange differences on cash and cash equivalents		19	–
<b>Cash and cash equivalents at 30 Sept</b>		<b>7,062</b>	<b>4,320</b>
<b>Analysis of cash and cash equivalents</b>			
Cash on hand and balances and deposits with banks		7,062	4,320

## 1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (HKAS) 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2012 annual consolidated financial statements. Except as described below and the change in operating segments as described in note 2 to the condensed consolidated financial statements, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2012.

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

In 2013, Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (collectively the Group) have adopted the following new/revised HKFRSs:

Amendments to HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
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### Annual Improvements to HKFRSs 2009 – 2011 Cycle

The amendments to HKFRS 7 require disclosure of financial assets and financial liabilities that are (i) offset in the statement of financial position; or (ii) subject to master netting arrangements or similar arrangements irrespective of whether they are offset. The adoption of amendments to HKFRS 7 only affects disclosures relating to offsetting financial assets and financial liabilities in the Group's condensed consolidated financial statements (note 33).

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. Of these, the following three amendments are pertinent to the Group's operations:

Amendments to HKAS 16	Property, Plant and Equipment
Amendments to HKAS 32	Financial Instruments: Presentation
Amendments to HKAS 34	Interim Financial Reporting

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as fixed assets when they are used for more than one period and as inventory otherwise. The adoption of the amendments to HKAS 16 does not have a material financial impact to the Group as the spare parts and equipment held by the Group are immaterial.

The amendments to HKAS 32 clarify that income tax relating to distributions to holders of equity instrument should be recognised in profit or loss and income tax relating to transaction costs of an equity transaction should be recognised in equity. The adoption of the amendments to HKAS 32 does not have any financial impact to the Group as it currently does not have distributions subject to tax or costs of equity transactions that are tax-deductible.

Following the amendments to HKAS 34, the disclosure of total liabilities for a particular reportable segment is required in the interim financial statements if such information is regularly provided to the chief operating decision-maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The adoption of the amendments to HKAS 34 does not have any impact to the Group as information relating to segment liabilities is not regularly reported to the chief operating decision-maker.

The Group has applied the above new/revised HKFRSs retrospectively.

## 1. Basis of Preparation and Accounting Policies (continued)

### Change in presentation of the condensed consolidated statement of comprehensive income

Prior to the proposed acquisition of LME Holdings Limited and its subsidiaries (LME Group), the Group did not have any other comprehensive income and presented all items of income and expense in a single statement – consolidated statement of comprehensive income. Following this acquisition, more items of other comprehensive income are expected to arise from the Group's enlarged operations and from 2013 onwards, the Group has therefore decided to separately present a consolidated income statement and a consolidated statement of comprehensive income.

Also, from 2013 onwards, an additional subtotal for EBITDA has been included in the consolidated income statement, which is a non-HKFRS measure used by management as a measure for monitoring business performance.

## 2. Operating Segments

The Group determines its operating segments based on the reports that are used to make strategic decisions reviewed by the chief operating decision-maker. Effective from January 2013, the Group's reportable segments have been reorganised as explained below.

In 2012, the Group had five reportable segments:

The **Cash Market** segment mainly referred to the operations of The Stock Exchange of Hong Kong Limited (Stock Exchange), which cover all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). The major sources of revenue of the segment were trading fees, trading tariff and listing fees. Results of the Listing Function were included in the Cash Market.

The **Derivatives Market** segment referred to the derivatives products traded on Hong Kong Futures Exchange Limited (Futures Exchange) and stock options traded on the Stock Exchange. Its revenue and other income mainly comprised trading fees, trading tariff and net investment income on the Margin Funds on derivatives contracts invested.

The **Commodities** segment referred to the operations of the LME Group, which operates an exchange in the United Kingdom (UK) for the trading of base metals futures and options contracts. The major sources of revenue of the segment were trading fees, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment referred to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities of the Cash and Derivatives Markets operated by the Group. Its revenue and other income were derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds and Margin Funds and cash collateral from HKSCC Clearing Participants.

The **Market Data** segment was responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its revenue comprised primarily market data fees of the Cash and Derivatives Markets.



## 2. Operating Segments (continued)

Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provided services to all of the operating segments and other costs not directly related to any of the operating segments) were included as “Corporate Items”. Costs of developing new business initiatives incurred before launch were absorbed as support function costs under “Corporate Items”.

Following the acquisition of the LME Group in December 2012, the Group underwent an internal reorganisation to better align its business activities to its strategic objective of becoming a vertically and horizontally integrated multi-asset class exchange. As a result, the reportable segments have been reorganised. After the reorganisation, effective from January 2013, 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 information technology systems and marketing strategies. The operations in each of the Group’s new reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, sales of Cash Market data and other related activities. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of revenue of the segment are trading fees, trading tariff, listing fees of equity products and Cash Market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on the Futures Exchange and the Stock 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 market data of futures and options. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees of futures and options.

The **Commodities** segment refers to the operations of the LME Group (excluding its clearing operations), which operates an exchange in the UK for the trading of base metals futures and options contracts. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment refers to the operations of the three clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Stock Exchange and the Futures Exchange, and the development and operations of the new clearing houses for clearing over-the-counter derivatives contracts (OTC Clearing Hong Kong Limited (OTC Clear)) and clearing base metals futures and options contracts traded on The London Metal Exchange (LME Clear Limited (LME Clear)). Its revenue and other income are derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Margin Funds and cash collateral and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. The major sources of revenue of the segment are network, terminal user, dataline and software sub-license fees, trading booth user fees and hosting services fees.

Central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provide services to all of the operating segments, finance costs and other costs not directly related to any of the operating segments) are included as “Corporate Items”. Costs of developing new business initiatives before launch (such as OTC Clear and LME Clear) are included under the respective reportable segments.

Comparative figures have been restated to conform to the current period’s presentation.

## 2. Operating Segments (continued)

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA. An analysis of the Group's EBITDA and profit before taxation for the period by operating segment is as follows:

	Nine months ended 30 Sept 2013						
	Equity and Financial		Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group
	Cash	Derivatives					
\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Revenue from external customers	1,804	1,271	905	1,893	256	4	6,133
Net investment income	-	-	-	275	-	158	433
Sundry income	-	-	-	8	-	-	8
Revenue and other income	1,804	1,271	905	2,176	256	162	6,574
Operating expenses	(337)	(322)	(349)	(417)	(97)	(496)	(2,018)
Reportable segment EBITDA	1,467	949	556	1,759	159	(334)	4,556
Depreciation and amortisation	(37)	(33)	(198)	(44)	(28)	(12)	(352)
Finance costs	-	-	-	-	-	(137)	(137)
Share of loss of a joint venture	-	(7)	-	-	-	-	(7)
Reportable segment profit before taxation	1,430	909	358	1,715	131	(483)	4,060

	As restated Nine months ended 30 Sept 2012						
	Equity and Financial		Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group
	Cash	Derivatives					
\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Revenue from external customers	1,628	1,222	-	1,711	278	-	4,839
Net investment income	-	-	-	355	-	258	613
Sundry income	-	-	-	11	-	-	11
Revenue and other income	1,628	1,222	-	2,077	278	258	5,463
Operating expenses	(349)	(302)	-	(301)	(138)	(344)	(1,434)
Reportable segment EBITDA	1,279	920	-	1,776	140	(86)	4,029
Depreciation and amortisation	(27)	(20)	-	(34)	(3)	(7)	(91)
Costs relating to acquisition of LME Group	-	-	-	-	-	(128)	(128)
Share of loss of a joint venture	-	(1)	-	-	-	-	(1)
Reportable segment profit before taxation	1,252	899	-	1,742	137	(221)	3,809

### 3. Trading Fees and Trading Tariff

Trading fees and trading tariff were derived from:

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Securities traded on the Stock Exchange (excluding stock options contracts)	1,367	1,177	417	355
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	637	613	207	196
Base metals futures and options contracts traded on The London Metal Exchange	645	–	209	–
	<b>2,649</b>	<b>1,790</b>	<b>833</b>	<b>551</b>

### 4. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of listing function comprised the following:

	Nine months ended 30 Sept 2013				Nine months ended 30 Sept 2012			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
<b>Stock Exchange listing fees</b>								
Annual listing fees	335	18	2	355	329	18	2	349
Initial and subsequent issue listing fees	46	9	324	379	70	7	253	330
Other listing fees	2	1	–	3	3	–	–	3
<b>Total</b>	<b>383</b>	<b>28</b>	<b>326</b>	<b>737</b>	<b>402</b>	<b>25</b>	<b>255</b>	<b>682</b>
<b>Direct costs of listing function</b>	<b>(209)</b>	<b>(60)</b>	<b>(19)</b>	<b>(288)</b>	<b>(204)</b>	<b>(54)</b>	<b>(15)</b>	<b>(273)</b>
<b>Contribution to profit before taxation</b>	<b>174</b>	<b>(32)</b>	<b>307</b>	<b>449</b>	<b>198</b>	<b>(29)</b>	<b>240</b>	<b>409</b>

#### 4. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2013				Three months ended 30 Sept 2012			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Stock Exchange listing fees</b>								
Annual listing fees	113	6	1	120	111	6	-	117
Initial and subsequent issue listing fees	18	3	99	120	22	2	78	102
Other listing fees	-	1	-	1	1	-	-	1
<b>Total</b>	<b>131</b>	<b>10</b>	<b>100</b>	<b>241</b>	<b>134</b>	<b>8</b>	<b>78</b>	<b>220</b>
<b>Direct costs of listing function</b>	<b>(69)</b>	<b>(21)</b>	<b>(6)</b>	<b>(96)</b>	<b>(64)</b>	<b>(20)</b>	<b>(5)</b>	<b>(89)</b>
<b>Contribution to profit before taxation</b>	<b>62</b>	<b>(11)</b>	<b>94</b>	<b>145</b>	<b>70</b>	<b>(12)</b>	<b>73</b>	<b>131</b>

Listing fees are primarily fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities of being admitted, listed and traded on the Stock Exchange.

The costs listed above are regulatory in nature, which comprise costs of the listing function in vetting initial public offerings, enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and disseminating information relating to listed companies.

#### 5. Other Revenue

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Network, terminal user, dataline and software sub-license fees	194	270	65	72
Commodities stock levies and warehouse listing fees	93	-	33	-
Hosting services	54	-	20	-
Participants' subscription and application fees	49	27	17	9
Trading booth user fees	8	8	2	2
Brokerage on direct IPO allotments	6	1	-	1
Sales of Trading Rights	6	15	2	6
Miscellaneous revenue	38	18	12	5
	<b>448</b>	<b>339</b>	<b>151</b>	<b>95</b>

## 6. Net Investment Income

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Gross interest income	276	284	111	102
Interest rebates to Participants	(3)	(2)	(1)	(1)
Net interest income	273	282	110	101
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	162	318	45	115
Gains on disposal of financial assets measured at amortised costs	-	1	-	1
Others	(2)	12	6	4
Net investment income	433	613	161	221

## 7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Salaries and other short-term employee benefits	958	742	308	246
Employee share-based compensation benefits	81	79	26	24
Termination benefits	10	2	7	-
Retirement benefit costs (note 30(b))	70	61	23	21
	1,119	884	364	291

## 8. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Costs of services and goods:				
– consumed by the Group	332	114	117	37
– directly consumed by Participants	54	105	19	24
	386	219	136	61

## 9. Costs Relating to Acquisition of LME Group

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Legal and professional fees	-	121	-	13
Others	-	7	-	5
	-	128	-	18

## 10. Finance Costs

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Interest expenses on borrowings	135	-	45	-
Net foreign exchange losses on financing activities	2	-	-	-
	137	-	45	-

## 11. Taxation

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

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Current tax – Hong Kong Profits Tax	581	580	180	168
Current tax – Overseas Tax	121	-	21	-
	702	580	201	168
Deferred taxation	(170)	9	(111)	9
	532	589	90	177

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2012: 16.5 per cent) and overseas profits tax at the rates of taxation prevailing in the countries in which the Group operates.

The corporation tax rates applicable to the subsidiaries in the UK are 24 per cent effective from 1 April 2012 and 23 per cent effective from 1 April 2013. Through the enactment of the 2013 Finance Act in July 2013, the UK corporation tax rate will be further reduced to 21 per cent effective from 1 April 2014 and to 20 per cent effective from 1 April 2015. As a result of the reduction in UK corporation tax rates, the Group's net deferred tax liabilities decreased by approximately \$108 million, with a corresponding credit to deferred taxation during the period.

## 12. Earnings per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2013	As restated Nine months ended 30 Sept 2012	Three months ended 30 Sept 2013	As restated Three months ended 30 Sept 2012
Profit attributable to shareholders (\$m)	3,528	3,220	1,200	1,004
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,149,534	1,082,936	1,152,030	1,083,805
Basic earnings per share (\$)	3.07	2.97	1.04	0.93

(b) Diluted earnings per share

	Nine months ended 30 Sept 2013	As restated Nine months ended 30 Sept 2012	Three months ended 30 Sept 2013	As restated Three months ended 30 Sept 2012
Profit attributable to shareholders (\$m)	3,528	3,220	1,200	1,004
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,149,534	1,082,936	1,152,030	1,083,805
Effect of employee share options (in '000)	724	815	704	768
Effect of Awarded Shares (in '000)	2,131	2,008	1,954	1,859
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,152,389	1,085,759	1,154,688	1,086,432
Diluted earnings per share (\$)	3.06	2.97	1.04	0.92

(i) The effects of the outstanding convertible bonds (note 22) were not included in the computation of diluted earnings per share for the nine months and three months ended 30 September 2013 as they were anti-dilutive.

(c) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount. The effects of the bonus element of the share placement have been included within the calculation of basic and diluted earnings per share for the nine months and three months ended 30 September 2012 retrospectively, which increased the weighted average number of ordinary shares for the nine months and three months ended 30 September 2012 by 4,566,000 and 4,570,000 respectively.

### 13. Dividends

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Interim dividend paid of \$1.82 (2012: \$1.85) per share	2,101	2,000	-	-
Less: Dividend for shares held by Share Award Scheme	(4)	(4)	-	-
	<b>2,097</b>	<b>1,996</b>	<b>-</b>	<b>-</b>

### 14. Cash and Cash Equivalents

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Cash and cash equivalents:		
- Clearing House Funds (note 21)	3,080	2,325
- Margin Funds and cash collateral (note 19) (note (a))	26,652	27,717
- Corporate Funds (note 18)	29,732	30,042
	7,062	4,035
	<b>36,794</b>	<b>34,077</b>

- (a) The cash and cash equivalents of Clearing House Funds and Margin Funds and cash collateral are held for specific purposes and cannot be used by the Group to finance other activities. Therefore, they are not included in cash and cash equivalents of the Group for cash flow purposes in the condensed consolidated statement of cash flows.

### 15. Financial Assets Measured at Fair Value through Profit or Loss

	At 30 Sept 2013		
	Margin Funds and cash collateral (note 19) \$m	Corporate Funds (note 18) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
- listed in Hong Kong	-	87	87
- listed outside Hong Kong	-	141	141
- unlisted	-	138	138
	-	366	366
Debt securities:			
- listed in Hong Kong	-	256	256
- listed outside Hong Kong	-	978	978
- unlisted	1,802	506	2,308
	1,802	1,740	3,542
Derivative financial instruments:			
- forward foreign exchange contracts	-	2	2
	<b>1,802</b>	<b>2,108</b>	<b>3,910</b>
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	1,802	1,970	3,772
More than twelve months	-	138	138
	<b>1,802</b>	<b>2,108</b>	<b>3,910</b>



15. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	At 31 Dec 2012		
	Margin Funds and cash collateral (note 19) \$m	Corporate Funds (note 18) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
– listed in Hong Kong	–	111	111
– listed outside Hong Kong	–	105	105
– unlisted	–	292	292
	–	508	508
Debt securities:			
– listed in Hong Kong	–	193	193
– listed outside Hong Kong	–	980	980
– unlisted	2,186	622	2,808
	2,186	1,795	3,981
Derivative financial instruments:			
– forward foreign exchange contracts	–	3	3
	2,186	2,306	4,492
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	2,186	2,183	4,369
More than twelve months	–	123	123
	2,186	2,306	4,492

- (a) Includes financial assets maturing after twelve months of \$897 million (31 December 2012: \$1,796 million) attributable to the Margin Funds and cash collateral that could readily be liquidated to meet liquidity requirements of the Funds.

16. Financial Assets measured at Amortised Cost

	At 30 Sept 2013			
	Clearing	Margin Funds	Corporate	Total
	House	and cash	Funds	
	Funds	collateral	Funds	
(note 21)	(note 19)	(note 18)		
	\$m	\$m	\$m	\$m
Unlisted debt securities	-	-	70	70
Time deposits with original maturities over three months	125	7,912	79	8,116
Other financial assets	-	-	62	62
	125	7,912	211	8,248
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	125	7,912	149	8,186
More than twelve months	-	-	62	62
	125	7,912	211	8,248

	At 31 Dec 2012			
	Clearing	Margin Funds	Corporate	Total
	House	and cash	Funds	
	Funds	collateral	Funds	
(note 21)	(note 19)	(note 18)		
	\$m	\$m	\$m	\$m
Unlisted debt securities	-	-	94	94
Time deposits with original maturities over three months	217	6,880	1,321	8,418
Other financial assets	-	-	61	61
	217	6,880	1,476	8,573
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	217	6,880	1,345	8,442
More than twelve months	-	-	131	131
	217	6,880	1,476	8,573

## 17. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 84 per cent (31 December 2012: 93 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

## 18. Corporate Funds

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 14)	7,062	4,035
Financial assets measured at fair value through profit or loss (note 15)	2,108	2,306
Financial assets measured at amortised cost (note 16)	211	1,476
	<u>9,381</u>	<u>7,817</u>

## 19. Margin Deposits and Cash Collateral from Clearing Participants

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Margin deposits and cash collateral from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	3,963	4,125
HKCC Clearing Participants' margin deposits	30,150	30,237
HKSCC Clearing Participants' margin deposits and cash collateral	2,257	2,424
	<u>36,370</u>	<u>36,786</u>
The margin deposits and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds and cash collateral:		
Cash and cash equivalents (note 14)	26,652	27,717
Financial assets measured at fair value through profit or loss (note 15)	1,802	2,186
Financial assets measured at amortised cost (note 16)	7,912	6,880
Margin receivable from Clearing Participants	4	3
	<u>36,370</u>	<u>36,786</u>

(a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin and cash collateral.

## 20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 59 per cent (31 December 2012: 80 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement 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.

## 21. Clearing House Funds

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
The Clearing House Funds comprised:		
Clearing Participants' contributions (note (a))	2,540	1,924
Designated reserves (note 25)	585	587
	<u>3,125</u>	<u>2,511</u>
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 14)	3,080	2,325
Financial assets measured at amortised cost (note 16)	125	217
	<u>3,205</u>	<u>2,542</u>
Less: Other financial liabilities of Clearing House Funds	(80)	(31)
	<u>3,125</u>	<u>2,511</u>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	1,216	228
SEOCH Reserve Fund	353	414
HKCC Reserve Fund	1,556	1,869
	<u>3,125</u>	<u>2,511</u>

(a) Amounts excluded bank guarantees received and utilised as alternatives to cash contributions.

## 22. Borrowings

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Bank borrowings	3,103	3,100
Convertible bonds	3,589	3,515
	<u>6,692</u>	<u>6,615</u>

During the nine months ended 30 September 2013, there were no repayments of the bank borrowings, and none of the convertible bonds was redeemed or converted.

### 23. Share Capital, Share Premium and Shares held for Share Award Scheme

Authorised:

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
2,000,000,000 shares of \$1 each	<u>2,000</u>	<u>2,000</u>

Issued and fully paid:

	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon placement of shares	65,705	66	7,642	–	7,708
Shares issued upon exercise of employee share options (note (a))	122	–	2	–	2
Shares issued in lieu of cash dividends (note (b))					
– total	4,075	4	447	–	451
– to Share Award Scheme	(71)	–	–	(9)	(9)
	4,004	4	447	(9)	442
Transfer from employee share-based compensation reserve upon exercise of employee share options	–	–	1	–	1
Shares purchased for Share Award Scheme (note (c))	(738)	–	–	(93)	(93)
Vesting of shares of Share Award Scheme (note (d))	645	–	–	93	93
At 31 Dec 2012	<u>1,147,408</u>	<u>1,150</u>	<u>8,731</u>	<u>(305)</u>	<u>9,576</u>
At 1 Jan 2013	<b>1,147,408</b>	<b>1,150</b>	<b>8,731</b>	<b>(305)</b>	<b>9,576</b>
Shares issued upon exercise of employee share options (note (a))	37	–	1	–	1
Shares issued in lieu of cash dividends (note (b))					
– total	11,648	11	1,430	–	1,441
– to Share Award Scheme	(57)	–	–	(8)	(8)
	11,591	11	1,430	(8)	1,433
Shares purchased for Share Award Scheme (note (c))	(19)	–	–	(2)	(2)
Vesting of shares of Share Award Scheme (note (d))	417	–	–	51	51
At 30 Sept 2013	<u>1,159,434</u>	<u>1,161</u>	<u>10,162</u>	<u>(264)</u>	<u>11,059</u>

**23. Share Capital, Share Premium and Shares held for Share Award Scheme (continued)**

- (a) During the nine months ended 30 September 2013, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 36,500 shares (year ended 31 December 2012: 121,500 shares) in HKEx at an average consideration of \$17.93 per share (year ended 31 December 2012: \$17.88 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the nine months ended 30 September 2013, the following shares were issued to shareholders who elected to receive HKEx shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	Nine months ended 30 Sept 2013					
	Number of shares	Scrip price \$	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2012 final scrip dividends:						
– total	4,139,855	130.32	4	536	–	540
– to Share Award Scheme	(26,110)	130.32	–	–	(4)	(4)
Issued as 2013 interim scrip dividends:						
– total	7,508,611	120.06	7	894	–	901
– to Share Award Scheme	(30,846)	120.06	–	–	(4)	(4)
	<b>11,591,510</b>		<b>11</b>	<b>1,430</b>	<b>(8)</b>	<b>1,433</b>
	Year ended 31 Dec 2012					
	Number of shares	Scrip price \$	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2011 final scrip dividends:						
– total	860,935	124.46	1	106	–	107
– to Share Award Scheme	(37,053)	124.46	–	–	(5)	(5)
Issued as 2012 interim scrip dividends:						
– total	3,214,012	106.98	3	341	–	344
– to Share Award Scheme	(33,597)	106.98	–	–	(4)	(4)
	<b>4,004,297</b>		<b>4</b>	<b>447</b>	<b>(9)</b>	<b>442</b>

### 23. Share Capital, Share Premium and Shares held for Share Award Scheme (continued)

- (c) During the nine months ended 30 September 2013, the Share Award Scheme acquired 19,300 HKEx shares (year ended 31 December 2012: 737,800 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$2 million (year ended 31 December 2012: \$93 million).
- (d) During the nine months ended 30 September 2013, the Share Award Scheme transferred 416,595 HKEx shares (year ended 31 December 2012: 644,763 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$51 million (year ended 31 December 2012: \$93 million).

### 24. Employee Share-based Arrangements

- (a) Equity-settled share-based arrangement

The Group operates a share option scheme and a Share Award Scheme for the benefits of its employees. The employee share-based compensation expenses in relation to the options and share awards were charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

No share options were granted during the nine months ended 30 September 2013. Details of Awarded Shares awarded during the nine months ended 30 September 2013 are set out below:

Date of approval by Board	Date of Award	Awarded Sum \$'000	Number of shares purchased	Number of shares awarded	Average fair value per share \$	Vesting period
14 Dec 2011	27 Mar 2013	316	2,200	2,200	139.86	1 Jan 2015 – 1 Jan 2016
14 Dec 2011	27 Mar 2013	2,400	17,100	17,100	139.86	9 Jan 2015 – 9 Jan 2016

- (b) Cash-settled share-based arrangement

The LME Group operated a long-term incentive plan for its employees in the UK. The plan was set up by the LME Group to provide selected employees with an entitlement, in the form of share options, to a receipt of cash when the options are exercised. During the nine months ended 30 September 2013, no share options were granted and all of the options were exercised. Accordingly, the liability of \$279 million at 31 December 2012, which was included in accounts payable, accruals and other liabilities, was fully settled during the period.

## 25. Designated Reserves

Designated reserves are segregated for their respective purposes and comprised the following:

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	125	124
– SEOCH Reserve Fund reserve	108	111
– HKCC Reserve Fund reserve	352	352
	<u>585</u>	<u>587</u>

## 26. Retained Earnings (Including Proposed Dividend)

	2013 \$m	2012 \$m
At 1 Jan	6,881	7,053
Profit attributable to shareholders	3,528	4,084
Transfer from/(to) Clearing House Funds reserves	2	(10)
Dividends:		
2012/2011 final dividend	(1,675)	(2,252)
2013/2012 interim dividend	(2,097)	(1,996)
Unclaimed HKEx dividends forfeited	14	7
Vesting of shares of Share Award Scheme	(4)	(5)
	<u>6,649</u>	<u>6,881</u>
At 30 Sept 2013/31 Dec 2012		
Representing:		
Retained earnings	6,649	5,206
Proposed dividend	–	1,675
	<u>6,649</u>	<u>6,881</u>
At 30 Sept 2013/31 Dec 2012		
	<u>6,649</u>	<u>6,881</u>



27. Notes to the Condensed Consolidated Statement of Cash Flows

Reconciliation of profit before taxation to net cash inflow from operating activities:

	Nine months ended 30 Sept 2013 \$m	As restated Nine months ended 30 Sept 2012 \$m
Profit before taxation	4,060	3,809
Adjustments for:		
Net interest income	(273)	(282)
Dividend income	(7)	(11)
Net fair value gains including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	(162)	(318)
Gains on disposal of financial assets measured at amortised cost of Corporate Funds	–	(1)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(8)	(11)
Finance costs	137	–
Depreciation and amortisation	352	91
Employee share-based compensation benefits	81	79
Gain on disposal of fixed assets	–	(1)
Reversal of provision for impairment losses of trade receivables	–	(1)
Share of loss of a joint venture	7	1
Changes in provisions	4	4
Net decrease/(increase) in financial assets of Margin Funds and cash collateral	424	(557)
Net (decrease)/increase in financial liabilities of Margin Funds and cash collateral	(416)	610
Net increase in Clearing House Fund financial assets	(663)	(455)
Net increase in Clearing House Fund financial liabilities	665	452
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(9)	(30)
Decrease/(increase) in accounts receivable, prepayments and deposits	8,398	(226)
(Decrease)/increase in other current liabilities	(8,399)	687
Net cash inflow from operations	4,191	3,840
Dividends received	6	11
Interest received from bank deposits	275	273
Interest received from financial assets measured at fair value through profit or loss	45	78
Interest paid to Participants	(3)	(2)
Income tax paid	(202)	(230)
Net cash inflow from operating activities	4,312	3,970

## 28. Capital Expenditures and Commitments

During the nine months ended 30 September 2013, the Group incurred capital expenditures of \$443 million (2012: \$889 million) and disposed of fixed assets and intangible assets with net book value of less than \$1 million (2012: \$16 million). The capital expenditures incurred were mainly related to the Data Centre at Tseung Kwan O, development of a new market data system, a commodities clearing system, and the upgrade and enhancement of various information technology systems.

At 30 September 2013, the Group's commitments in respect of capital expenditures were as follows:

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Contracted but not provided for		
– fixed assets	29	78
– intangible assets	181	125
Authorised but not contracted for		
– fixed assets	295	358
– intangible assets	492	271
	997	832

The Group's capital expenditure commitments were mainly related to the development of information technology systems including a new market data system, clearing systems for over-the-counter derivatives and commodities, and a Central Gateway for the Cash Market.

## 29. Contingent Liabilities

At 30 September 2013, 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 Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2012: \$71 million). Up to 30 September 2013, 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 506 trading Participants covered by the indemnity at 30 September 2013 (31 December 2012: 511) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$101 million (31 December 2012: \$102 million).
- (c) HKEx had 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.

**29. Contingent Liabilities (continued)**

- (d) A number of class action lawsuits have been filed in the United States (US) against The London Metal Exchange (LME) and its direct holding company, LME Holdings Limited (LME Holdings), alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. As at the date of approval of these condensed consolidated financial statements, eighteen actions have been filed against LME, of which nine named LME Holdings as a co-defendant. The claims are all similar in nature and seek damages and injunctive relief with respect to alleged anti-competitive and monopolistic behaviour. Based on legal advice, an increase in the number of similar class actions filed since the first lawsuit surfaced in August 2013 does not increase the extent of the companies' liability, if any. A petition to consolidate all the actions has been filed with the relevant US judicial panel to facilitate defence and minimise costs. In light of the class action nature of the complaints, it is expected that additional follow-up or "copycat" suits of a similar nature may be filed against LME and LME Holdings in the US.

Due to the preliminary nature of the proceedings, LME does not currently have sufficient information to estimate the financial effect (if any) relating to the class actions, the timing of the ultimate resolution of the actions, or what the eventual outcomes might be. However, LME management continues to take the view that the suits are without merit, and that both LME and LME Holdings will contest them vigorously. Accordingly, no provision has been made in these condensed consolidated financial statements.

**30. Material Related Party Transactions**

- (a) Key management personnel compensation

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Salaries and other short-term employee benefits	89	60	29	22
Employee share-based compensation benefits	25	23	7	8
Retirement benefit costs	7	5	2	2
	<b>121</b>	<b>88</b>	<b>38</b>	<b>32</b>

- (b) Post-employment benefit plans

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group has also sponsored a defined contribution pension scheme for all employees of the LME Group aged over 25 (LME pension scheme). The retirement benefit costs charged to the condensed consolidated income statement (note 7) represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME pension scheme and related fees. At 30 September 2013, the contributions payable to the post-employment benefit plans were less than \$1 million (31 December 2012: \$1 million).

### 30. Material Related Party Transactions (continued)

(c) Transactions and balances with a joint venture

(i) Transactions with China Exchanges Services Company Limited (CESC)

	Nine months ended 30 Sept 2013 \$m	Nine months ended 30 Sept 2012 \$m	Three months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2012 \$m
Management fee charged to CESC	3	–	1	–
Licence fee payable to CESC	<1	–	<1	–

(ii) Balances with CESC

	At 30 Sept 2013 \$m	At 31 Dec 2012 \$m
Amount due from CESC	1	7
Amount due to CESC	(<1)	–

(d) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

### 31. Change in Group Structure

On 7 February 2013, all of the shares of LME Clear were transferred from LME to HKEx Investment (UK) Limited at a consideration of £1. There is no financial impact to the Group on the share transfer.

### 32. Fair Value of Assets and Liabilities

(a) Assets and liabilities carried at fair value

The following tables present the carrying value of assets and liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each asset and liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

**32. Fair Value of Assets and Liabilities (continued)**

(a) Assets and liabilities carried at fair value (continued)

	At 30 Sept 2013			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
<b>Recurring fair value measurements:</b>				
<b>Assets</b>				
Financial assets measured at fair value				
through profit or loss:				
– equity securities	228	–	138	366
– debt securities	–	3,542	–	3,542
– forward foreign exchange contracts	2	–	–	2
	<b>230</b>	<b>3,542</b>	<b>138</b>	<b>3,910</b>
<b>Recurring fair value measurements:</b>				
<b>Liabilities</b>				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value				
through profit or loss:				
– forward foreign exchange contracts	13	–	–	13
	<b>13</b>	<b>–</b>	<b>–</b>	<b>13</b>
	At 31 Dec 2012			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
<b>Recurring fair value measurements:</b>				
<b>Assets</b>				
Financial assets measured at fair value				
through profit or loss:				
– equity securities	216	–	292	508
– debt securities	–	3,981	–	3,981
– forward foreign exchange contracts	3	–	–	3
	<b>219</b>	<b>3,981</b>	<b>292</b>	<b>4,492</b>
<b>Recurring fair value measurements:</b>				
<b>Liabilities</b>				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value				
through profit or loss:				
– forward foreign exchange contracts	6	–	–	6
	<b>6</b>	<b>–</b>	<b>–</b>	<b>6</b>

### 32. Fair Value of Assets and Liabilities (continued)

(a) Assets and liabilities carried at fair value (continued)

During the nine months ended 30 September 2013, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input is market interest rates.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

At 30 September 2013 and 31 December 2012, no non-financial assets or liabilities were carried at fair value.

Fair value measurements using significant unobservable inputs (Level 3)

	<u>Investment in an unlisted company</u>	
	2013	2012
	\$m	\$m
At 1 Jan	292	–
Addition through acquisition of subsidiaries	–	289
Gains recognised in profit or loss under net investment income	106	–
Disposals	(247)	–
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	(13)	3
At 30 Sept 2013/31 Dec 2012	<u>138</u>	<u>292</u>
Change in unrealised gains for the period included in profit or loss for assets held at 30 Sept 2013/31 Dec 2012, under net investment income	<u>4</u>	–

**32. Fair Value of Assets and Liabilities (continued)**

(a) Assets and liabilities carried at fair value (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					30 Sept 2013 \$m	At 31 Dec 2012 \$m
Investment in shares in an unlisted company	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	+34/-25	+72/-53
Fair value at 30 Sept 2013 was \$138 million (31 Dec 2012: \$292 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-23/+32	-49/+67
	Dilution effect of capital raise to comply with expected changes in regulatory capital	25% to 35%	The higher the dilution, the lower the fair value;	+/-5%	-10/+10	-22/+22
	Discount for value attributable to a minority stake	10% to 20%	The higher the discount, the lower the fair value.	+/-5%	-8/+8	-17/+17

As the unlisted investment is not traded in an active market, its fair value has been determined using discounted cash flow valuation techniques. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimate of weighted average cost of capital (WACC), the effect of expected changes in regulation and an adjustment for the value of the investment attributable to a minority stake.

(b) Fair values of financial assets and financial liabilities not reported at fair value

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the condensed consolidated statement of financial position at their fair values. These assets and liabilities were classified under Level 2 in the fair value hierarchy. The carrying amounts of bank borrowing with floating interest rates, short-term receivables (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

**32. Fair Value of Assets and Liabilities (continued)**

(b) Fair values of financial assets and financial liabilities not reported at fair value (continued)

	At 30 Sept 2013		At 31 Dec 2012	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
<b>Financial assets</b>				
Financial assets measured at amortised cost:				
– debt securities <sup>1</sup>	70	70	94	94
– other financial assets maturing over one year <sup>2</sup>	62	58	61	58
<b>Financial liabilities</b>				
Borrowings:				
– liability component of convertible bonds <sup>3</sup>	3,589	3,675	3,515	3,723
Financial guarantee to the Collector of Stamp Revenue <sup>4</sup>	20	63	20	102

<sup>1</sup> The fair values are provided by the custodian of the investments, a reputable independent third party custodian bank, or by the banks from whom the investments were purchased.

<sup>2</sup> The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.83 per cent to 3.00 per cent at 30 September 2013 (31 December 2012: 0.81 per cent to 1.51 per cent).

<sup>3</sup> The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the convertible bonds. The discount rate used was 2.53 per cent at 30 September 2013 (31 December 2012: 1.88 per cent).

<sup>4</sup> The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 2.02 per cent at 30 September 2013 (31 December 2012: 0.59 per cent).



### 33. Offsetting Financial Assets and Financial Liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's condensed consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the condensed consolidated statement of financial position.

HKSCC currently has a legally enforceable right to set off the Continuous Net Settlement (CNS) money obligations receivable and payable and it intends to settle on a net basis.

For the net amounts of CNS money obligations receivable or payable (ie, after set-off) and other accounts receivables due from customers (including Participants, information vendors and hosting services customers), they do not meet the criteria for offsetting in the condensed consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default of the customers. In addition, the Group does not intend to settle the balances on a net basis.

- (a) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial assets	At 30 Sept 2013						Net amount \$m
	Gross amount of financial liabilities recognised in the condensed statement of financial position \$m	Gross amount of financial liabilities recognised in the condensed statement of financial position \$m	Net amount of financial assets presented in the condensed statement of financial position \$m	Financial liabilities other than cash collateral \$m	Cash collateral received \$m		
CNS money obligations receivable	79,075	(74,606)	4,469	(45)	(1,398)	3,026	
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	260	-	260	-	(74)	186	
<b>Total</b>	<b>79,335</b>	<b>(74,606)</b>	<b>4,729</b>	<b>(45)</b>	<b>(1,472)</b>	<b>3,212</b>	

**33. Offsetting Financial Assets and Financial Liabilities (continued)**

- (a) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

Type of financial assets	At 31 Dec 2012						Net amount \$m
						Related amounts not offset in the condensed consolidated statement of financial position	
	Gross amount of recognised financial liabilities offset in the condensed statement of financial position assets \$m	Net amount of financial assets presented in the condensed statement of financial position \$m	Financial liabilities other than cash collateral received \$m	Cash collateral received \$m			
CNS money obligations receivable	115,501	(102,768)	12,733	(2,694)	(903)	9,136	
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	242	-	242	-	(62)	180	
<b>Total</b>	<b>115,743</b>	<b>(102,768)</b>	<b>12,975</b>	<b>(2,694)</b>	<b>(965)</b>	<b>9,316</b>	

- (b) Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial liabilities	At 30 Sept 2013						Net amount \$m
						Related amounts not offset in the condensed consolidated statement of financial position	
	Gross amount of recognised financial assets offset in the condensed statement of financial liabilities position \$m	Net amount of financial liabilities presented in the condensed statement of financial position \$m	Financial assets other than cash collateral pledged \$m	Cash collateral pledged \$m			
CNS money obligations payable	79,075	(74,606)	4,469	(45)	-	4,424	

**33. Offsetting Financial Assets and Financial Liabilities (continued)**

- (b) Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

Type of financial liabilities	At 31 Dec 2012					
				Related amounts not offset in the condensed consolidated statement of financial position		
	Gross amount of recognised financial assets offset in the condensed statement of financial position	Net amount of financial liabilities presented in the condensed statement of financial position		Financial assets other than cash collateral	Cash collateral pledged	Net amount
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations payable	115,501	(102,768)	12,733	(2,694)	–	10,039

- (c) The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the condensed consolidated statement of financial position”, as set out above, to the “accounts receivables, prepayments and deposits” and “accounts payable, accruals and other liabilities” presented in the condensed consolidated statement of financial position.

	At 30 Sept 2013	At 31 Dec 2012
	\$m	\$m
Net amount of financial assets after offsetting as stated above	4,729	12,975
Financial assets not in scope of offsetting disclosures	494	669
Prepayments	78	52
Total accounts receivables, prepayments and deposits	5,301	13,696
	At 30 Sept 2013	At 31 Dec 2012
	\$m	\$m
Net amount of financial liabilities after offsetting as stated above	4,469	12,733
Financial liabilities not in scope of offsetting disclosures	3,147	3,105
Total accounts payable, accruals and other liabilities	7,616	15,838

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the condensed consolidated statement of financial position that are disclosed in the above tables are measured at amortised cost. The amounts in the above tables that are offset in the condensed consolidated statement of financial position are measured on the same basis.

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# GLOSSARY

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AHFT	After-Hours Futures Trading
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's board of directors
Cash Market	HKEx's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	The Central Clearing and Settlement System
CCMS	The Common Collateral Management System
CES 120	CES China 120 Index
CEC	China Exchanges Services Company Limited
CNH	RMB traded in Hong Kong
Corporate Governance Code	Refers to Appendix 14 to the Main Board Listing Rules
Data Centre	HKEx's data centre in Tseung Kwan O, Hong Kong
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
Dual Counter	Two counters (one RMB counter and one HKD counter) for trading and settlement purposes
DWs	Derivative Warrants
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Euro	The official currency of the Eurozone
Financial Secretary	Financial Secretary of the Hong Kong Special Administrative Region of the People's Republic of China
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	Government of the Hong Kong Special Administrative Region of the People's Republic of China
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKFE or the Futures Exchange	Hong Kong Futures Exchange Limited
HKSCC	Hong Kong Securities Clearing Company Limited
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
LCH.Clearnet	LCH.Clearnet Group Limited
Listing Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

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## GLOSSARY

LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	LMEH and its subsidiaries
LMEH	LME Holdings Limited
LMeselect	The electronic platform for the trading of all LME contracts
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MMDH	Mainland Market Data Hub
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOI	Market open interest
OCASS	OTC clearing and settlement system
OCG	HKEx Orion Central Gateway
OMD	HKEx Orion Market Data Platform
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
REITs	Real Estate Investment Trusts
RMB	Renminbi
SBS	Silver Bauhinia Star
SDNet	The Securities and Derivatives Network
SEHK or the Exchange or the Stock Exchange	The Stock Exchange of Hong Kong Limited
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)
Shareholders	HKEx's shareholders
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 and 13 May 2010
UK	United Kingdom
US	United States of America
USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn	Hong Kong dollar in billion
\$m	Hong Kong dollar in million
£/GBP	Pound sterling

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