



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

2014 Interim Report

CONTENTS

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

	Page
Financial Highlights	2
Chairman's Statement	3
Management Discussion and Analysis	
– Business Review	4
– Financial Review	14
Corporate Governance and Other Information	17
Information for Shareholders	24
Auditor's Independent Review Report	25
Condensed Consolidated Financial Statements (Unaudited)	
– Condensed Consolidated Income Statement (Unaudited)	26
– Condensed Consolidated Statement of Comprehensive Income (Unaudited)	27
– Condensed Consolidated Statement of Financial Position (Unaudited)	28
– Condensed Consolidated Statement of Changes in Equity (Unaudited)	29
– Condensed Consolidated Statement of Cash Flows (Unaudited)	31
– Notes to the Condensed Consolidated Financial Statements (Unaudited)	32
Glossary	51

FINANCIAL HIGHLIGHTS

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Change
KEY MARKET STATISTICS			
ADT of equity products on the Stock Exchange (\$bn)	51.6	53.9	(4%)
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	11.3	14.4	(22%)
ADT on the Stock Exchange (\$bn)	62.9	68.3	(8%)
Average daily number of derivatives contracts traded on the Futures Exchange	262,653	291,171	(10%)
Average daily number of stock options contracts traded on the Stock Exchange	263,163	267,047	(1%)
Average daily volume of metals contracts traded on LME (lots)	719,435	699,863	3%

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Change
	\$m	\$m	
Revenue and other income	4,621	4,440	4%
Operating expenses	1,423	1,341	6%
EBITDA *	3,198	3,099	3%
Profit attributable to shareholders	2,367	2,328	2%
Basic earnings per share	\$2.04	\$2.03	0%
Interim dividend per share	\$1.83	\$1.82	1%

- For the six months ended 30 June 2014 (1H 2014), compared with the same period in 2013 (1H 2013), revenue and other income increased by 4 per cent or \$181 million to reach \$4,621 million.
- The overall growth in revenue and other income reflects increases in non-trading income, in particular listing related fees, hosting fees and investment income, which have more than offset the decline in trading fees following an 8 per cent reduction in ADT and the one-off gain of \$108 million recorded in 1H 2013 on the investment in LCH.Clearnet Group Limited.
- Operating expenses increased by 6 per cent against 1H 2013 due mainly to higher staff costs attributable to increased headcount of the LME Group and higher legal fees for defending litigation in the UK and US, but partly offset by a reversal of provision for impairment losses following a distribution from the liquidators of LBSA.
- EBITDA increased by 3 per cent compared to 1H 2013. The overall EBITDA margin remained stable at 69 per cent, consistent with the EBITDA margin of 68 per cent achieved for the year ended 31 December 2013.
- Profit attributable to shareholders increased by 2 per cent or \$39 million to \$2,367 million as the higher EBITDA was partly offset by an increase in depreciation and amortisation. This was principally attributable to higher depreciation of the Hong Kong data centre at Tseung Kwan O and the roll-out of various new technology systems and upgrades.
- Profit attributable to shareholders for the three months ended 30 June 2014 (Q2 2014) was marginally better than the immediately previous quarter (Q1 2014) by 1 per cent. The increase in scrip fee income in Q2 2014, due to seasonal fluctuations and the distribution from the liquidators of LBSA were mostly offset by the drop in trading revenue, reflecting weaker market activity.

* For the purposes of this Interim 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.

CHAIRMAN'S STATEMENT

In the first half of 2014, there were signs of renewed optimism in the capital markets. We saw companies return to the IPO market to raise funds. Amongst 4 of the 20 largest IPOs on the Asian exchanges, 3 were in Hong Kong. As a result, IPO funds raised on the Stock Exchange during the first half of 2014 doubled the amount raised in the same period last year. We will continue to provide support to companies wishing to list in Hong Kong to raise funds for further growth and development.

The improving IPO market sentiment, however, did not provide momentum for strong turnover in our secondary market during the period under review. Trading in our securities and derivatives markets dropped 8 per cent and 6 per cent respectively in the first six months of this year against the same period last year. Trading at LME, benefiting from the revived market demand for commodities, continued to grow during the period and recorded a 10 per cent increase in volume compared with the second half of 2013.

For the six months ended 30 June 2014, the Group's consolidated revenue and other income rose 4 per cent against the corresponding period of 2013, resulting in an increase of 2 per cent in the profit attributable to shareholders. The Board declared an interim dividend of \$1.83 per share, which is 90 per cent of the profit attributable to shareholders.

We continued to make progress in various initiatives under our strategic plan for 2013 to 2015. The status of our initiatives is set out in the Business Review section of this Interim Report.

Looking forward, the launch of Shanghai-Hong Kong Stock Connect is one of the main strategic initiatives to be accomplished in the second half of this year. We welcome the Central Government's endorsement of mutual stock market access between Shanghai and Hong Kong. With this unprecedented project, we have turned an important new page in the further development of the country's capital markets.

Another key initiative for the second half is the migration of clearing for LME from LCH.Clearnet Limited to the new clearing house developed by LME Clear, an indirect wholly-owned subsidiary of HKEx. Subject to regulatory approval, we aim to commence our clearing services in London in September 2014. LME Clear will give us a new revenue stream as well as much more flexibility when introducing new products at LME.

The anticipated exit from unconventional monetary policy in the US might increase global capital market volatility and reduce liquidity in the latter part of this year or in 2015. We believe Hong Kong's role as a leading international financial centre and the Stock Exchange's China dimension give us a firm foundation that will help us overcome any challenges. We will continue striving to reinforce our core business and diversify our asset classes, particularly through RMB-denominated products, to capture the opportunities arising from the opening up of China's capital markets.

We never lose sight of our responsibilities as an exchange controller, a regulator as well as a listed company. Therefore, we will continue to review our regulatory regime with a view towards upholding market quality, and we will explore further collaboration with our stakeholders to drive sustainable performance in the economic, social and environmental dimensions of our industry.

CHOW Chung Kong
Chairman

Hong Kong, 6 August 2014

BUSINESS REVIEW

Business Update and Analysis of Results by Operating Segment

	Six months ended 30 Jun 2014		Six months ended 30 Jun 2013		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
	Results by segment:					
Cash	1,316	1,093	1,233	1,006	7%	9%
Equity and Financial Derivatives	788	589	870	648	(9%)	(9%)
Commodities	645	317	608	384	6%	(17%)
Clearing	1,586	1,338	1,446	1,169	10%	14%
Platform and Infrastructure	196	123	168	105	17%	17%
Corporate Items	90	(262)	115	(213)	(22%)	23%
	4,621	3,198	4,440	3,099	4%	3%

Cash Segment

Business Update

1H 2014 saw an increase in primary market activity, with total equity funds raised of \$217.9 billion (1H 2013: \$137.0 billion). IPOs raised \$82.1 billion, an increase of 107 per cent when compared with 1H 2013. As at 30 June 2014, the total market capitalisation of companies listed on the Main Board and the GEM was \$23.9 trillion.

The ADT of equity products in 1H 2014 was \$50.8 billion on the Main Board and \$0.8 billion on the GEM, a decline of 5 per cent for the Main Board and an increase of 226 per cent for the GEM compared with the same period in 2013.

8 ETFs were newly listed during 1H 2014, including the first RQFII ETF tracking the Mainland's bond market, as well as the first RQFII sector ETFs. As at 30 June 2014, there were 124 ETFs, 11 REITs and 531 debt securities listed on the Stock Exchange.

To prepare for market participants' readiness for northbound trading through the Shanghai-Hong Kong Stock Connect, seminars and briefings to EPs, IVs and investors were conducted in the second quarter. As at 30 June 2014, over 200 EPs had indicated interest and about 100 EPs had submitted registration forms for commencement of northbound trading upon its launch. There has also been extensive outreach to brokers and investors in the Mainland to give them more information on southbound trading.

HKEx continues to promote listing in Hong Kong and has a series of new initiatives targeting technology, media, telecommunications, consumer goods and retail sectors in the Mainland. Sector-focused events were jointly organised with the local governments in Beijing, Guangzhou and Xi'an in March and May 2014 with favourable responses. As part of the ongoing effort to strengthen cooperation with the Mainland authorities, HKEx organised training on market development and regulatory requirements for the Shenzhen Stock Exchange.

On 1 April 2014, the new publication requirement under the new sponsor regime came into effect. From 1 April to 30 June, 21 application proofs were posted on the HKExnews website and 1 listing application was returned.

BUSINESS REVIEW

During the period, the Stock Exchange published a guidance letter which consolidates and reflects its current approach in applying the reverse takeover rules in the Listing Rules and a consultation paper to seek views on proposed changes to the section of its Corporate Governance Code and Corporate Governance Report relating to internal controls (the consultation will end on 31 August 2014). The Stock Exchange also sent a questionnaire to all issuers to ascertain how they have adopted ESG reporting to prepare for the forthcoming ESG consultation paper.

As part of the market outreach effort, the Stock Exchange organised 11 half-day seminars in Hong Kong and 2 full-day seminars in Beijing and Shanghai and posted a series of 8 ESG training webcasts on the HKEx website to provide more in-depth and practical insights on how to do ESG reporting.

Analysis of Results

Revenue

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Trading fees and trading tariff #	733	729	1%
Stock Exchange listing fees #	313	276	13%
Market data fees #	215	199	8%
Other revenue	55	29	90%
Total	1,316	1,233	7%

Excluding DWs, CBBCs and warrants which are included in the Equity and Financial Derivatives segment

Trading fees and trading tariff rose by \$4 million or 1 per cent compared to 1H 2013 despite a 4 per cent drop in ADT of equity products. This was due to an increase in the number of trading days (2 per cent), higher revenue from more equity funds raised and a rise in trading tariff earned on an increased number of transactions as the average transaction size was lower in 1H 2014.

Stock Exchange listing fees rose by \$37 million or 13 per cent due to more IPOs and an increase in the total number of listed companies at 30 June 2014 compared with 30 June 2013.

Market data fees increased by \$16 million or 8 per cent compared with 1H 2013 due to the introduction of new datafeeds with the launch of OMD in the second half of 2013 (2H 2013) together with greater demand for non-display data services.

Other revenue increased by \$26 million or 90 per cent arising from higher brokerage fees on direct IPO allotments.

Key Market Indicators

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Change
ADT of equity products on the Stock Exchange (\$bn)	51.6	53.9	(4%)
Number of newly listed companies on Main Board ^	46	17	171%
Number of newly listed companies on GEM	6	6	0%
Number of companies listed on Main Board at 30 Jun	1,495	1,384	8%
Number of companies listed on GEM at 30 Jun	194	183	6%
Total	1,689	1,567	8%

^ Including 4 transfers from GEM (2013: 1)

BUSINESS REVIEW

EBITDA

Operating expenses decreased by 2 per cent mainly due to lower premises costs upon renewal of certain leases, and more staff being redeployed to strategic capital projects. As a result, the EBITDA margin increased from 82 per cent in 1H 2013 to 83 per cent.

Equity and Financial Derivatives Segment

Business Update

The average daily number of futures and options contracts traded on the Futures Exchange decreased by 10 per cent to 262,653 contracts and the average daily number of stock options contracts traded on the Stock Exchange decreased by 1 per cent to 263,163 contracts, compared with 1H 2013. The total open interest of all futures and options contracts on 30 June 2014 was 6,450,173 contracts, down 1 per cent from 6,526,220 contracts a year ago.

The ADT of DWs, CBBCs and warrants on the Stock Exchange in 1H 2014 was \$11.3 billion, a decline of 22 per cent compared with 1H 2013.

There are now 77 stock option classes, including 3 new option classes introduced on 2 July 2014. 40 of these can be traded by Taiwan investors as a result of the approval obtained from the Taiwan Financial Supervisory Commission in February 2014. There are now 17 stock option classes in the Primary Market Maker programme that was introduced as part of the stock options revamp. A market maker protection function has been available since January 2014 to enable the Primary Market Makers to provide more quotes and narrower spreads with lower simultaneous execution risk.

In 1H 2014, 1,244,356 contracts were traded during the AHFT session, which accounted for 6 per cent of the volume of the day session. Following the SFC's approval in May 2014, the closing time for the after-hours trading of Stock Index Futures and RMB Currency Futures will be extended from 11:00 pm to 11:45 pm effective 3 November 2014 to increase the overlap with the US trading hours. The T+1 Clearing Session Cutoff Time will also be extended by 45 minutes. It will move from 11:45 pm to 12:30 am on the next calendar day. To facilitate Participants' verification of their system readiness for clearing activities beyond midnight, a simulation test has been scheduled for August 2014.

RMB Currency Futures – USD/CNH Futures – have been included in the AHFT session since 7 April 2014. On the same day, an additional calendar quarter month and more calendar spreads were introduced. Up to the end of June 2014, the total trading volume of USD/CNH Futures in the AHFT session was 1,381 contracts, which accounted for 5 per cent of the day session. On 22 May 2014, HKEx hosted a RMB FIC Market Strategy Forum for over 400 market participants. The forum covered topics including market development, and global regulatory developments and their impact on the RMB FIC, cash, derivatives and OTC markets in Asia.

To complement the large-cap CES 120, which includes the 80 largest A-share companies based on market capitalisation and the 40 largest Hong Kong-listed Mainland enterprises by market capitalisation, CESC launched the CES 280 on 7 July 2014. The new index is comprised of the 200 largest A-share companies and the 80 largest Hong Kong-listed Mainland enterprises not covered by the CES 120. Together, the 2 indices account for 70 per cent of the market value of the stocks in the CESC universe. In June 2014, HKEx renewed the Liquidity Provider Programme for CES 120 Futures, and introduced a 50 per cent trading discount for 6 months and a new active trader programme. The programmes had 3 liquidity providers and 5 active traders as at 30 June 2014.

HKEx announced a new marketing programme for Asia Commodities and Derivatives New Products in June 2014. The new programme will waive subscriber fees for streaming Level 2 derivatives data for the users in Australia, India, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan and the Mainland until the end of 2016.

BUSINESS REVIEW

Analysis of Results

Revenue

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Trading fees and trading tariff	479	560	(14%)
Stock Exchange listing fees	228	220	4%
Market data fees	77	83	(7%)
Other revenue	4	7	(43%)
Total	788	870	(9%)

Trading fees and trading tariff decreased by \$81 million or 14 per cent due to lower ADT of DWs, CBBCs and warrants, a drop in the average daily number of derivatives contracts traded on the Futures Exchange, and a higher proportion of trades being lower fee H-shares index products. The decrease was partially offset by an increase in the number of trading days (2 per cent) when compared to 1H 2013.

Stock Exchange listing fees rose by \$8 million or 4 per cent as there were more newly listed CBBCs during 1H 2014.

Key Market Indicators

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Change
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	11.3	14.4	(22%)
Average daily number of derivatives contracts traded on the Futures Exchange	262,653	291,171	(10%)
Average daily number of stock options contracts traded on the Stock Exchange	263,163	267,047	(1%)
Number of newly listed DWs	3,623	3,564	2%
Number of newly listed CBBCs	5,194	4,337	20%

EBITDA

Operating expenses dropped by 10 per cent mainly due to lower premises costs upon renewal of certain leases, and more staff being redeployed to strategic capital projects. As a result, EBITDA margin increased marginally by 1 per cent to 75 per cent.

Commodities Segment

Business Update

During 1H 2014, the average daily volume at LME was 719,435 lots, an increase of 10 per cent compared to 2H 2013 and 3 per cent higher than 1H 2013. March 2014 and June 2014 were the second and third busiest months on record with average daily trading of 796,487 lots and 772,552 lots respectively. In 1H 2014, zinc and lead average daily volume increased by 1 per cent and 2 per cent year-on-year respectively. Trading of aluminium, the biggest contract in terms of average daily volume, was flat year-on-year, albeit up 13 per cent from 2H 2013. Nickel, one of the smallest LME contracts by turnover over 1H 2014, grew by 54 per cent year-on-year. The copper contract's turnover fell by 6 per cent year-on-year, and declines in turnover were also experienced by steel billet, molybdenum and aluminium alloy.

BUSINESS REVIEW

Futures MOI at the end of June 2014 was 2,453,440 lots, representing a 4 per cent decrease from the MOI reported at the end of 2013.

In 1H 2014, an average of 154,143 lots per day traded across LMEselect, up 7 per cent from 2H 2013.

On 1 May 2014, LME brought its previously outsourced technology team in-house. The insourcing of IT is an indication of the function's increasing importance to LME and the integral part it will play in the delivery of strategic initiatives, including the launch of LME Clear in September 2014. As a result of the insourcing, LME welcomed more than 100 new employees.

On 23 June 2014, LME announced its decision to maintain and further invest in the Ring, its open-outcry trading floor, following a 6-month internal review and extensive discussions with market participants.

LME Week Asia 2014 was held from 23 to 25 April 2014 in Hong Kong. Industry leaders and key market players shared their insights and views on how Asia interacts with the rest of the world in the commodity business, and the next phase in the internationalisation of the Mainland commodity markets. The seminar and the following dinner respectively attracted more than 700 and 1,500 participants including government officials as well as executives of LME Members, financial institutions, software companies and IVs from many different parts of the world. The next LME Week Asia will be held on 20 May 2015 and details are available on the HKEx Group website.

On 22 April 2014, HKEx announced that, subject to regulatory approval and market readiness, 4 new commodities contracts, London Aluminium Mini Futures, London Copper Mini Futures, London Zinc Mini Futures and API 8 Thermal Coal Futures, will be traded, cleared and settled in Hong Kong. Prior to launch, the Asia Commodities team is engaging extensively with potential market makers and market participants to promote the use of the contracts and establish connectivity. As at 30 June 2014, the team had established broad contacts with more than 50 professional market makers and brokers globally, and hosted more than 200 meetings to introduce the new contracts. A user committee will be set up to provide advice on the ongoing development of the contracts.

As more fully described in note 22 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report, certain Group companies continue to be involved in litigation related to the metals warehousing industry.

Analysis of Results

Revenue

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Trading fees and trading tariff	468	436	7%
Market data fees	90	88	2%
Other revenue	87	84	4%
Total	645	608	6%

Trading fees and trading tariff rose by \$32 million or 7 per cent as a result of the increase in average daily volume of metals contracts traded on LME and the appreciation of GBP.

BUSINESS REVIEW

Key Market Indicators

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013	Change
Average daily volume of metals contracts traded on LME (lots)	719,435	699,863	3%

EBITDA

Operating expenses rose by \$104 million attributable to increases in headcount over the past year related to infrastructure and commercialisation initiatives, annual payroll adjustments as well as legal fees (\$38 million) in respect of US class action lawsuits and a judicial review claim filed in the UK. As a result, EBITDA fell by 17 per cent to \$317 million and EBITDA margin declined from 63 per cent in 1H 2013 to 49 per cent in 1H 2014.

Clearing Segment

Business Update

HKEx has assessed the business implications of the US Foreign Account Tax Compliance Act (FATCA) and has developed plans for the necessary operational, legal documentation and system changes to be able to meet the FATCA implementation timeline. HKSCC, HKCC, SEOCH and OTC Clear have each registered with the US Internal Revenue Service as a “Reporting Financial Institution under a Model 2 Intergovernmental Agreement”.

The Financial Sector Assessment Program’s Technical Note on Oversight and Supervision of Financial Market Infrastructures was issued on 16 July 2014. HKEx will, if necessary, develop and agree with the SFC on plans to ensure compliance with the Principles for Financial Market Infrastructures (PFMI). OTC Clear has published on the HKEx website its PFMI disclosure document which is based on the Disclosure Framework and Assessment Methodology published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions. The publication of the disclosure documents for HKSCC, HKCC and SEOCH is in progress.

Since the default of LBSA in 2008, HKSCC has been pursuing recovery of its default loss in LBSA’s liquidation. In May 2014, HKSCC recovered \$55 million through the first dividend payment made by LBSA’s liquidators, representing 35 per cent of the admitted claim. The amount ultimately recovered will depend on the outcome of further distributions from the liquidators.

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 was gazetted on 13 June 2014 and tabled to the Legislative Council on 25 June 2014. HKEx continues working with the SFC and the other stakeholders to finalise the technical details of the operational model, and to prepare for the relevant subsidiary legislation for an uncertificated securities market regime in Hong Kong.

OTC Clear’s second phase of development, the addition of client clearing services and acceptance of non-cash financial instruments as collateral, is underway. Subject to the SFC’s approval, OTC Clear aims to offer the new services in the first half of 2015. To facilitate the participation of financial institutions incorporated in the US as OTC Clear’s Clearing Members, no-action relief was obtained from the US Commodity Futures Trading Commission thereby allowing OTC Clear to admit US persons as Clearing Members in connection with their own proprietary clearing businesses on an interim basis. To assist its European Union-based Clearing Members, OTC Clear has applied to the European Securities and Markets Authority for admission as a third country central counterparty.

BUSINESS REVIEW

The migration of the LME open interest from LCH.Clearnet Limited to the new clearing house developed by LME Clear (subject to regulatory approval), and the commencement of clearing services are on schedule to take effect in September 2014.

Analysis of Results

Revenue and Other Income

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	85	91	(7%)
Clearing and settlement fees	843	839	0%
Depository, custody and nominee services fees	379	345	10%
Other revenue and sundry income	17	12	42%
Total revenue	1,324	1,287	3%
Net investment income	262	159	65%
Total revenue and other income	1,586	1,446	10%

Trading fees and trading tariff allocated from Equity and Financial Derivatives segment fell due to a decrease in number of derivatives contracts traded (see Equity and Financial Derivatives Segment commentary above).

Despite a decrease in ADT on the Stock Exchange, clearing and settlement fees remained stable due to an increase in the number of trading days and a reduction in average transaction size that led to a higher proportion of clearing transactions being subject to the minimum fee.

Depository, custody and nominee services fees rose by \$34 million or 10 per cent due to higher scrip fees, electronic IPO services fees and stock withdrawal fees.

The analysis of net investment income is as follows:

	<u>Six months ended 30 Jun 2014</u>			<u>Six months ended 30 Jun 2013</u>		
	Average fund size \$bn	Net investment income \$m	Annualised net investment return %	Average fund size \$bn	Net investment income \$m	Annualised net investment return %
Margin Funds and cash collateral	41.4	250	1.21%	43.3	152	0.70%
Clearing House Funds [#]	3.8	12	0.68%	4.2	7	0.34%
Total	45.2	262	1.16%	47.5	159	0.67%

[#] In April 2014, \$156 million previously earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear was segregated into designated bank accounts and separately managed. Accordingly, this amount is now disclosed under Clearing House Funds instead of Corporate Funds.

The decline in the average fund size of Margin Funds and cash collateral during the period was caused by the lower margin rates required per contract.

The reduction in the average fund size of Clearing House Funds was due to a drop in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

BUSINESS REVIEW

The higher net investment income and return of the Margin Funds and cash collateral in 2014 were mainly attributable to a rise in interest income from higher bank deposit rates.

EBITDA

Operating expenses fell by 10 per cent due to the recovery from LBSA's liquidators which was partly offset by the ongoing costs of developing LME Clear. EBITDA of the segment rose by 14 per cent to \$1,338 million as compared to 1H 2013, and EBITDA margin increased from 81 per cent in 1H 2013 to 84 per cent in 1H 2014.

Platform and Infrastructure Segment

Business Update

Further to the launch of the MMDH in March 2014, HKEx is working on the final phase of the OMD initiative for the derivatives market (OMD-D). HKEx is conducting readiness testing and planning to launch the OMD-D in the second half of this year (2H 2014).

On 9 June 2014, HKEx launched the OCG for the securities market. The OCG benefits EPs by reducing infrastructure costs, introducing new services such as 'drop copy', and adopting industry messaging standards. The OCG also has better performance and resilience compared to the existing Open Gateways which will be gradually replaced by the OCG.

HKEx has started the enrolment process and acceptance testing for the NSTD that will replace the legacy AMS Terminals and MWS trading devices. HKEx plans to commence the NSTD migration in 2H 2014.

Analysis of Results

Revenue

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Network, terminal user, dataline and software sub-license fees	144	129	12%
Hosting services fees	47	34	38%
Others	5	5	0%
Total	196	168	17%

Network, terminal user, dataline and software sub-license fees rose by \$15 million or 12 per cent as there was an increase in sales of throttles, Cash Market trading system line rental income and Derivatives Market trading system sub-license fee income.

Hosting services fees increased by \$13 million or 38 per cent due to the increased number of racks taken up by customers.

EBITDA

Operating expenses increased by \$10 million, or 16 per cent due to higher operating costs of hosting services and increased IT costs consumed by Participants. EBITDA margin remained the same as 1H 2013 at 63 per cent, as revenue and operating expenses rose by similar percentages.

BUSINESS REVIEW

Corporate Items

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

Revenue and Other Income

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Net investment income	87	113	(23%)
Others	3	2	50%
Total	90	115	(22%)

The analysis of net investment income is as follows:

	Six months ended 30 Jun 2014			Six months ended 30 Jun 2013		
	Average fund size \$bn	Net investment income \$m	Annualised net investment return %	Average fund size \$bn	Net investment income \$m	Annualised net investment return %
Corporate Funds	10.7	87	1.62%	9.0	113	2.50%

The average fund size of Corporate Funds increased mainly due to profits retained from prior periods.

The lower net investment income and return of the Corporate Funds in 2014 is mainly attributable to a non-recurring fair value gain on LME’s investment in shares of LCH.Clearnet Group Limited of \$108 million in 1H 2013 which has been partly offset by higher fair value gains on investments and a rise in interest income from higher bank deposit rates in 1H 2014.

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.

Expenses, Other Costs and Taxation

Operating Expenses

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Staff costs and related expenses	822	755	9%
IT and computer maintenance expenses	261	250	4%
Premises expenses	145	149	(3%)
Product marketing and promotion expenses	18	14	29%
Legal and professional fees	103	55	87%
Other operating expenses	74	118	(37%)
Total	1,423	1,341	6%

Staff costs and related expenses increased by \$67 million or 9 per cent mainly due to the increased headcount of the LME Group due to infrastructure and commercialisation initiatives and the development of LME Clear.

BUSINESS REVIEW

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by Participants of \$38 million (2013: \$35 million), was \$223 million (2013: \$215 million). The increase was mainly caused by higher maintenance costs for OTC Clear.

Premises expenses decreased by \$4 million or 3 per cent due to lower rental costs upon renewal of certain leases.

Legal and professional fees increased by \$48 million or 87 per cent as a result of legal fees incurred in respect of US class action lawsuits and a judicial review claim filed in the UK (\$38 million), and higher professional fees related to strategic initiatives.

Other operating expenses decreased by \$44 million or 37 per cent due to the reversal of provision for impairment losses following the recovery from LBSA's liquidators but partly offset by higher maintenance costs of the Hong Kong data centre at Tseung Kwan O.

Depreciation and Amortisation

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Depreciation and amortisation	324	233	39%

Depreciation and amortisation increased by \$91 million or 39 per cent mainly due to higher depreciation of the Hong Kong data centre at Tseung Kwan O, following completion of the final phase of construction in December 2013, and amortisation of new systems rolled out in the fourth quarter of 2013 eg, OMD, the clearing system of OTC Clear, the Genium system for the derivatives market, and enhancements to LME's trading platform and its compliance monitoring and price discovery systems.

Finance Costs

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Finance costs	98	92	7%

The increase in finance costs was mainly attributable to the refinancing of a portion of the floating rate bank borrowings with fixed rate notes in December 2013 and January 2014, which bear slightly higher interest rates. The refinancing was undertaken to lock in part of the interest expenses of the Group at relatively low fixed rates as interest rates are expected to rise in future.

Taxation

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m	Change
Taxation	417	442	(6%)

Taxation dropped mainly due to higher non-taxable investment income.

FINANCIAL REVIEW

Financial Assets by Funds

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m	Change
Clearing House Funds [#]	3,228	4,471	(28%)
Margin Funds and cash collateral [^]	47,108	39,793	18%
Corporate Funds [#]	10,283	10,142	1%
Total	60,619	54,406	11%

[#] Amounts of Clearing House Funds included \$157 million (31 December 2013: \$Nil) for contribution to the Rates and FX Guarantee Resources of OTC Clear. At 31 December 2013, \$156 million had been earmarked and kept within the Group's Corporate Funds. This has now been transferred to separately designated and managed accounts and included in Clearing House Funds for presentation purpose.

[^] Including margin receivable from Clearing Participants of \$5 million (31 December 2013: \$6 million)

Corporate Funds at 30 June 2014 increased by only 1 per cent during the period. Cash generated from profits during the period was mostly offset by the payment of 2013 final dividend and a \$1.1 billion payment to LBSA's liquidators for dividends payable to LBSA's clients that were previously booked as an accrued liability by the Group.

The increase in financial assets of Margin Funds and cash collateral at 30 June 2014 against those at 31 December 2013 was due to an increase in open interest in futures and options contracts at 30 June 2014 compared to 31 December 2013.

The reduction in financial assets of Clearing House Funds at 30 June 2014 against those at 31 December 2013 was mainly due to a decrease in additional contributions from Participants arising from market fluctuations and changes in risk exposure.

Working Capital, Financial Resources and Gearing

Working capital rose by \$1,357 million or 18 per cent to \$8,965 million at 30 June 2014 (31 December 2013: \$7,608 million). The increase was primarily due to the profit of \$2,367 million generated during 1H 2014 and the increase in working capital of the LME Group as a result of appreciation of GBP, but was partly offset by the payment of the 2013 final dividend, net of scrip dividend, of \$1,283 million in May 2014.

At 30 June 2014, the Group had floating rate borrowings of \$1,589 million from a bank (31 December 2013: \$2,326 million) that will mature within 9 years (31 December 2013: 9 years), 2 fixed rate notes issued totalling \$1,513 million (31 December 2013: \$770 million) with an average annual coupon of 2.8 per cent that will mature in 2018 and 2019, and \$3,652 million of convertible bonds (31 December 2013: \$3,607 million) with an annual coupon of 0.5 per cent that will mature in 2017. All of these debts are denominated in USD and were used to fund part of the consideration for the acquisition of the LME Group. The Group also had a financial liability of \$222 million (31 December 2013: \$218 million) in relation to put options granted to the non-controlling shareholders of OTC Clear. In July 2014, the Group refinanced the existing bank borrowings with a new bank loan of US\$205 million. The new bank loan will mature within 7 years, and bears a lower interest rate than the refinanced borrowings.

At 30 June 2014, the Group had a gearing ratio (net debt divided by adjusted capital) of zero per cent (31 December 2013: 2 per cent). For this purpose, net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds (and will be zero when the amount of cash and cash equivalents of Corporate Funds is greater than total borrowings), and adjusted capital as all components of shareholders' equity other than designated reserves.

FINANCIAL REVIEW

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 30 June 2014, the Group's total available banking facilities for its daily operations amounted to \$15,012 million (31 December 2013: \$15,012 million), which included \$8,000 million (31 December 2013: \$8,000 million) of committed banking facilities and \$7,000 million (31 December 2013: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for the RMB Trading Support Facility to support the trading of RMB stocks. At 30 June 2014, the total amount of the facilities was RMB17,000 million (31 December 2013: RMB17,000 million).

At 30 June 2014, 90 per cent (31 December 2013: 94 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances, and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD, whereas 3 per cent (31 December 2013: 2 per cent) were denominated in GBP and are held by the LME Group.

Capital Expenditure and Commitments

During 1H 2014, the Group incurred capital expenditure of \$231 million (2013: \$277 million) on the development and upgrade of various trading and clearing systems including a commodities clearing system, a Central Gateway for Cash Market trading, a new market data platform, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong.

The Group's capital expenditure commitments at 30 June 2014, including those authorised by the Board but not yet contracted for, amounted to \$661 million (31 December 2013: \$878 million) and were related to the development and enhancement of IT systems including a market data system, clearing systems for OTC derivatives and commodities, a Central Gateway for Cash Market trading, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong. The Group has adequate resources to fund its capital expenditure commitments.

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

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

Charges on Assets

Details of charges on assets are included in note 25 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

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.

FINANCIAL REVIEW

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 appropriate. However, some foreign currencies may be held to hedge other GBP/USD exposures within the Group. Forward foreign exchange contracts may also 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\$19,766 million at 30 June 2014 (31 December 2013: HK\$18,455 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.

LME Clear's clearing services are expected to commence in September 2014 and all fees will be denominated in USD. LME Clear's functional currency will therefore be changed from GBP to USD shortly before launch. LME Clear will remain exposed to foreign exchange risk related to those operating costs that are denominated in GBP which will be managed through forward foreign exchange contracts and other hedging strategies.

The remaining aggregate net open foreign currency positions at 30 June 2014 amounted to HK\$1,855 million, of which HK\$505 million was non-USD exposure (31 December 2013: HK\$1,821 million, of which HK\$413 million was non-USD exposure) and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK\$1,072 million (31 December 2013: HK\$1,120 million). All forward foreign exchange contracts will mature within 2 months (31 December 2013: 3 months).

Contingent Liabilities

Details of contingent liabilities are included in note 22 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Changes since 31 December 2013

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 2013.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the six months ended 30 June 2014 in conjunction with HKEx's external and internal auditors. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2014.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with Corporate Governance Code

Throughout the six months ended 30 June 2014, 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 88(5) of HKEx's Articles of Association, coterminous with his employment with HKEx, and he is not subject to retirement by rotation.

Board of Directors

On 14 March 2014, the Government announced the re-appointment of Messrs C K Chow and Tim Freshwater as Directors, each for a term of approximately 2 years from the close of the 2014 AGM until the conclusion of the AGM to be held in 2016. Dr Bill Kwok and Mr Vincent Lee were re-elected as Directors by Shareholders at the 2014 AGM, each for a term of approximately 3 years from 16 April 2014 until the conclusion of the AGM to be held in 2017.

The Board on 17 April 2014 re-appointed Mr C K Chow as HKEx's Chairman for a term to be coterminous with his directorship, and the Chief Executive of the HKSAR approved his re-appointment which took effect on 25 April 2014.

The composition of the Board as at the date of this Interim Report is set out below.

Independent Non-executive Directors

CHOW Chung Kong * JP (Chairman)
CHAN Tze Ching, Ignatius BBS, JP
Timothy George FRESHWATER *
John Barrie HARRISON *
HUI Chiu Chung, Stephen * JP
KWOK Chi Piu, Bill JP
LEE Kwan Ho, Vincent Marshall
LEE Tze Hau, Michael * JP
LEUNG KO May Yee, Margaret * SBS, JP
John Estmond STRICKLAND GBS, JP
John Mackay McCulloch WILLIAMSON
WONG Sai Hung, Oscar

* Government Appointed Director

Executive Director

LI Xiaojia, Charles (Chief Executive)

CORPORATE GOVERNANCE AND OTHER INFORMATION

Changes since Date of 2013 Annual Report

Committee Memberships

	Appointment (effective)	Cessation (effective)
Environmental, Social and Governance Committee		
• John Harrison	–	17 Apr 2014
• John Williamson	17 Apr 2014	–
Investment Advisory Committee		
• Timothy Freshwater	17 Apr 2014	–
Risk Management Committee		
• Benjamin Hung *	–	7 Jul 2014
• May Tan *	7 Jul 2014	–

* As a member by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

The member lists of the various Committees are available under the About HKEx (Organisation) section of the HKEx website.

Directors' Information

	Appointment (effective)	Cessation (effective)
T C Chan		
• Larry Jewelry International Company Limited * – independent non-executive director	–	20 Jun 2014
C K Chow		
• Anglo American plc (listed on the London Stock Exchange and Johannesburg Stock Exchange) – independent non-executive director	–	24 Apr 2014
• Hong Kong Trade Development Council – council member	–	7 Jun 2014
• The Hong Kong General Chamber of Commerce – chairman	–	7 Jun 2014
Stephen Hui		
• Agile Property Holdings Limited * – independent non-executive director	27 Jun 2014	–
Michael Lee		
• Hong Kong Committee for Pacific Economic Cooperation – member	–	1 Apr 2014
Vincent Lee		
• LT Holdings Limited, where Mr Lee is a non-executive director, changed its name to LT Commercial Real Estate Limited *.	–	–
Margaret Leung		
• Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR – member	–	1 Apr 2014
Oscar Wong		
• Credit China Holdings Limited * – non-executive director	17 Mar 2014	–
• Hong Kong Housing Authority – member of Finance Committee	–	1 Apr 2014
• LW Management Advisors Limited – executive director	–	1 May 2014
• China Bio-Med Regeneration Technology Limited * – chairman	18 Jul 2014	–
– vice-chairman	–	18 Jul 2014
• JPMorgan Chinese Investment Trust plc (listed on the London Stock Exchange) – independent non-executive director	1 Aug 2014	–

* Currently listed on the Stock Exchange

CORPORATE GOVERNANCE AND OTHER INFORMATION

The biographies of Directors are available under the About HKEx (Organisation) section of the HKEx website.

Non-executive Directors' Remuneration

At the 2014 AGM, Shareholders approved the Board's recommendation to revise the remuneration of Non-executive Directors and members of certain Board Committees, details of which are set out below.

	Fee (per annum) (\$)
Board *	
– Chairman	1,500,000
– Other member	700,000
Audit Committee	
– Chairman	180,000
– Other member	100,000
– Attendance fee per meeting	3,000
Executive Committee *, Investment Advisory Committee and Remuneration Committee	
– Chairman	150,000
– Other member	100,000
– Attendance fee per meeting	3,000

* Excluding the Executive Director

The above remuneration took effect from the conclusion of the 2014 AGM and will remain in effect until otherwise determined in a general meeting.

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

Organisational Changes

Mr Bryan Chan, Co-Head of Equities, Fixed Income and Currency (EFIC) in the Global Markets Division, tendered resignation which will be effective 20 September 2014. Mr Chan is currently a key member of the Shanghai-Hong Kong Stock Connect project, and will continue to be involved in the project until his departure. HKEx appreciates Mr Chan's many contributions to the Company over the past years since he first joined in 2000, and wishes him every success in his future endeavours.

With effect from 22 July 2014, the EFIC has been restructured into 2 sub-divisions, namely Market Operations and Business Development, and the heads of which report to Mr Romnesh Lamba, Co-Head of Global Markets.

Market Operations, comprising Cash Trading, Derivatives Trading and Market Data, is headed by Mr Roger Lee who was previously Head of Structured Products and Fixed Income, and Primary Market Information in the Listing and Regulatory Affairs Division. Mr David Lo, Head of Cash Trading, takes up the role of Deputy Head of Market Operations. Client Business Development and FIC Development are now grouped under the newly formed Business Development. Mr Tae Yoo is the Acting Head, pending the appointment of a new head.

Mr Wayne Wong, Senior Vice President in the Listing and Regulatory Affairs Division, succeeded Mr Roger Lee as the division's Head of Structured Products and Fixed Income, and Primary Market Information.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 complied with the Model Code during the six months ended 30 June 2014.

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

As at 30 June 2014, 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 Stock Exchange (in the case of HKEx, the SFC) 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 number ¹ of shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 ²	–	–	–	15,000	0.00
Margaret Leung	–	5,000 ³	–	–	5,000	0.00
Charles Li	271,406 ⁴	–	–	–	271,406	0.02
John Strickland	18,000 ⁵	–	–	–	18,000	0.00

Notes:

1 Based on 1,167,112,019 HKEx shares in issue as at 30 June 2014

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 111,209 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in "Directors' Interests in Long-term Incentive Schemes" below.

5 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 30 June 2014, 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 Stock Exchange (in the case of HKEx, the SFC) pursuant to the Model Code.

Apart from the Share Award Scheme, during the period under review, HKEx or any of its subsidiaries was not a party to any arrangements whose objects are, or one of whose objects is, 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 those disclosed above, during the six months ended 30 June 2014, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 Interim 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 June 2014, the 8 approved Minority Controllers in aggregate held approximately 61 per cent of the HKEx shares in issue.

As at 30 June 2014, 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 Stock 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 number ¹ of shares in issue
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 ²	66,730,300	5.71

Notes:

1 Based on 1,167,112,019 HKEx shares in issue as at 30 June 2014

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 June 2014, 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 Stock Exchange.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 25 January 2015.

Movements in the outstanding share options granted under the Post-Listing Scheme during the six months ended 30 June 2014 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2014	Issued upon ¹ subscription during the six months ended 30 Jun 2014	Cancelled/ lapsed during the six months ended 30 Jun 2014	As at 30 Jun 2014	
Employees						
31 Mar 2004	16.96	288,500	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	491,000	185,000	–	306,000	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$125.17.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the second anniversary and became fully vested on the fifth anniversary of the grant.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). Unless terminated earlier by the Board, the Scheme shall be valid for a term of 15 years commencing on the Adoption Date provided that no contribution to the trust fund shall be made on or after 14 September 2017. The Board shall not make any further award which will result in the number of the Awarded Shares to be in excess of 3 per cent (ie, 31,871,575 shares) of the HKEx shares in issue as at the Adoption Date. The number of shares which may be awarded to a selected employee in the Scheme shall not exceed 1 per cent (ie, 10,623,858 shares). The rules and trust deed of the Scheme are available under the About HKEx (Organisation) section of the HKEx website.

Since the Adoption Date and up to 30 June 2014, a total of 4,558,505 shares had been awarded under the Scheme representing 0.4 per cent of the HKEx shares in issue as at the Adoption Date. As at 30 June 2014, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 1,400,496 HKEx shares held in trust under the Scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' Interests in Long-term Incentive Schemes

Non-executive Directors are not entitled to participate in the Share Option Schemes or the Share Award Scheme. No share options under the Share Option Schemes were granted to HKEx's Chief Executive (being the only Executive Director on the Board) and details of his interests in the Awarded Shares (save for those which had been fully vested as of 31 December 2013) are set out below.

	Date of award ²	Number of Awarded Shares	Average fair value per share ³ \$	Number of shares ¹			Reference awarded sum ⁴ \$	Vesting ⁵ period	
				As at 1 Jan 2014	Shares acquired during the six months ended 30 Jun 2014 out of the dividends	Vested during the six months ended 30 Jun 2014			As at 30 Jun 2014
Charles Li	30 Dec 2011	70,495	124.75	37,430	458	–	37,888	–	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	70,556	126.71	72,432	889	–	73,321	–	3 Dec 2014 – 3 Dec 2015
	–	–	–	–	–	–	–	8,652,600	9 Dec 2015 – 9 Dec 2016
	–	–	–	–	–	–	–	4,326,300 ⁶	End of a performance period of 2013 – 2015
	–	–	–	–	–	–	–	8,652,600 ⁶	End of a performance period of 2014 – 2016

Notes:

- It included shares acquired out of the dividends from the Awarded Shares according to the Scheme.
- The date of award refers to the date on which the trustee allocated the Awarded Shares to Mr Li.
- The fair value of the Awarded Shares is based on the average fair value calculated from the weighted average of the following:
 - 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
 - for shares purchased from the market: average cost per share.
- This refers to the amount approved by the Board in 2012 and 2013 respectively for the purchase of the HKEx shares, and no purchases have since been made up to the date of this Interim Report.
- Save for those Senior Executive Awards as referred to in note 6 below, the Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant.
- The awards were granted under the Scheme as long-term incentives for selected senior executives of the Group (Senior Executive Awards). The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the Remuneration Committee and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the six months ended 30 June 2014, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Sustainable Workplace

As part of a continued effort to develop a sustainable workplace, the Group organised 50 in-house courses during the reporting period to enhance employees' job knowledge, skills and well-being. The courses attracted about 1,700 participants. Moreover, the Group sponsored a total of 146 employees to attend external training.

As at the end of June 2014, the Group had 1,373 employees, including 69 temporary staff. HKEx's remuneration policy has remained unchanged since the date of 2013 Annual Report. Information regarding employees' remuneration and benefits for the six months ended 30 June 2014 is set out in note 5 to the Unaudited Condensed Consolidated Financial Statements of this Interim Report.

Details of HKEx's principles and practices related to governance and sustainability are set out in the About HKEx (Corporate Governance / Corporate Social Responsibility) section of the HKEx website.

INFORMATION FOR SHAREHOLDERS

Interim Report

This Interim Report is printed in English and Chinese, and is available under the About HKEx (Financial Statements) section of the HKEx website. Shareholders are encouraged to access HKEx's corporate communications electronically via the HKEx website, which helps conserve the environment. Shareholders may at any time change their choice of language or means of receiving HKEx's corporate communications free of charge by giving not less than 7 days' notice in writing to HKEx's registrar, Hong Kong Registrars Limited (by post to 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at hkex.ecom@computershare.com.hk).

Shareholders who are interested in receiving information about HKEx may register at the Investment Service Centre on the HKEx website. Upon registration, they will receive alerts when HKEx publishes its corporate communications on the HKExnews website.

Interim Dividend and Closure of Register of Members

The Board has declared an interim dividend of \$1.83 per share (2013: \$1.82 per share) for the year ending 31 December 2014. The interim dividend will be payable in cash with a scrip dividend alternative. The scrip dividend alternative is conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEx to be issued pursuant thereto.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	19 August 2014
Closure of ROM	21 to 22 August 2014 (both dates inclusive)
Record date	22 August 2014
Despatch of scrip dividend circular and election form	on or about 28 August 2014
Despatch of dividend warrants/definitive share certificates	on or about 22 September 2014

To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar at the address given below no later than 4:30 pm on Wednesday, 20 August 2014.

Hong Kong Registrars Limited

Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Tel: +852 2862 8555

Fax: +852 2865 0990/+852 2529 6087

The About HKEx (Investor Relations) section of the HKEx website contains further information which may be of interest to Shareholders.

AUDITOR'S INDEPENDENT REVIEW REPORT

Report on Review of Interim Financial Information to the Board of Directors of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 26 to 50, which comprises the condensed consolidated statement of financial position of Hong Kong Exchanges and Clearing Limited (the Company) and its subsidiaries as at 30 June 2014 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 6 August 2014

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Trading fees and trading tariff	3	1,765	1,816
Stock Exchange listing fees		541	496
Clearing and settlement fees		843	839
Depository, custody and nominee services fees		379	345
Market data fees		382	370
Other revenue		353	297
REVENUE AND TURNOVER	2	4,263	4,163
Investment income		351	274
Interest rebates to Participants		(2)	(2)
Net investment income	4	349	272
Sundry income		9	5
REVENUE AND OTHER INCOME		4,621	4,440
OPERATING EXPENSES			
Staff costs and related expenses	5	(822)	(755)
Information technology and computer maintenance expenses		(261)	(250)
Premises expenses		(145)	(149)
Product marketing and promotion expenses		(18)	(14)
Legal and professional fees		(103)	(55)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	6	54	-
Others		(128)	(118)
		(1,423)	(1,341)
EBITDA*		3,198	3,099
Depreciation and amortisation		(324)	(233)
OPERATING PROFIT		2,874	2,866
Finance costs	7	(98)	(92)
Share of loss of a joint venture		(5)	(4)
PROFIT BEFORE TAXATION	2	2,771	2,770
TAXATION	8	(417)	(442)
PROFIT FOR THE PERIOD		2,354	2,328
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEx		2,367	2,328
- Non-controlling interests		(13)	-
		2,354	2,328
Basic earnings per share	9(a)	\$2.04	\$2.03
Diluted earnings per share	9(b)	\$2.04	\$2.02

* 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.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
PROFIT FOR THE PERIOD	2,354	2,328
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences of foreign subsidiaries recorded in exchange reserve	604	(1,178)
OTHER COMPREHENSIVE INCOME	604	(1,178)
TOTAL COMPREHENSIVE INCOME	2,958	1,150
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
- Shareholders of HKEx	2,971	1,150
- Non-controlling interests	(13)	-
TOTAL COMPREHENSIVE INCOME	2,958	1,150

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
(Financial figures are expressed in Hong Kong Dollar)

	Note	At 30 Jun 2014			At 31 Dec 2013		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	11	51,038	-	51,038	41,452	-	41,452
Financial assets measured at fair value through profit or loss	11	3,856	140	3,996	3,761	141	3,902
Financial assets measured at amortised cost	11	5,523	57	5,580	8,986	60	9,046
Accounts receivable, prepayments and deposits	11, 12	6,125	6	6,131	10,940	6	10,946
Taxation recoverable		3	-	3	7	-	7
Interest in a joint venture		-	82	82	-	87	87
Goodwill and other intangible assets		-	19,270	19,270	-	18,680	18,680
Fixed assets		-	1,656	1,656	-	1,753	1,753
Lease premium for land		-	23	23	-	23	23
Deferred tax assets		-	44	44	-	47	47
Total assets		66,545	21,278	87,823	65,146	20,797	85,943
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	13	47,108	-	47,108	39,793	-	39,793
Accounts payable, accruals and other liabilities	14	6,977	18	6,995	12,815	19	12,834
Deferred revenue		404	-	404	593	-	593
Taxation payable		570	-	570	379	-	379
Other financial liabilities		29	-	29	27	-	27
Participants' contributions to Clearing House Funds	15	2,426	-	2,426	3,884	-	3,884
Borrowings	16	-	6,976	6,976	-	6,921	6,921
Provisions		66	58	124	47	47	94
Deferred tax liabilities		-	913	913	-	900	900
Total liabilities		57,580	7,965	65,545	57,538	7,887	65,425
Equity							
Share capital	17			12,054			1,161
Share premium	17			-			10,167
Shares held for Share Award Scheme	17			(174)			(174)
Employee share-based compensation reserve	18			160			105
Exchange reserve				1,172			568
Convertible bond reserve				409			409
Designated reserves	19			644			586
Reserve relating to written put options to non-controlling interests				(217)			(217)
Retained earnings							
- Proposed dividend				2,133			1,995
- others				5,997			5,805
Equity attributable to shareholders of HKEx				22,178			20,405
Non-controlling interests				100			113
Total equity				22,278			20,518
Total liabilities and equity				87,823			85,943
Net current assets				8,965			7,608
Total assets less current liabilities				30,243			28,405

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx									
	Share capital, share premium and shares held for Share Award Scheme (note 17) \$m	Employee share-based compensation reserve (note 18) \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves (note 19) \$m	Reserve relating to written put options to non- controlling interests \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
At 1 Jan 2014	11,154	105	568	409	586	(217)	7,800	20,405	113	20,518
Profit/(loss) for the period	-	-	-	-	-	-	2,367	2,367	(13)	2,354
Other comprehensive income	-	-	604	-	-	-	-	604	-	604
Total comprehensive income	-	-	604	-	-	-	2,367	2,971	(13)	2,958
Total contributions by and distributions to shareholders of HKEx, recognised directly in equity:										
- 2013 final dividend at \$1.72 per share	-	-	-	-	-	-	(1,996)	(1,996)	-	(1,996)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	17	17	-	17
- Shares issued upon exercise of employee share options	9	-	-	-	-	-	-	9	-	9
- Shares issued in lieu of cash dividends	713	-	-	-	-	-	-	713	-	713
- Vesting of shares of Share Award Scheme	2	(2)	-	-	-	-	-	-	-	-
- Employee share-based compensation benefits	-	59	-	-	-	-	-	59	-	59
- Transfer of reserves	2	(2)	-	-	4	-	(4)	-	-	-
- Transfer of reserves – surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant (note 6)	-	-	-	-	54	-	(54)	-	-	-
Total transactions with shareholders recognised directly in equity	726	55	-	-	58	-	(2,037)	(1,198)	-	(1,198)
At 30 Jun 2014	11,880	160	1,172	409	644	(217)	8,130	22,178	100	22,278

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx									
	Share capital, share premium and shares held for Share Award Scheme	Employee share-based compensation reserve	Exchange reserve	Convertible bond reserve	Designated reserves	Reserve relating to written put options to non-controlling interests	Retained earnings	Total	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2013	9,576	122	189	409	587	-	6,881	17,764	-	17,764
Profit for the period	-	-	-	-	-	-	2,328	2,328	-	2,328
Other comprehensive income	-	-	(1,178)	-	-	-	-	(1,178)	-	(1,178)
Total comprehensive income	-	-	(1,178)	-	-	-	2,328	1,150	-	1,150
Total contributions by and distributions to shareholders of HKEx, recognised directly in equity:										
- 2012 final dividend at \$1.46 per share	-	-	-	-	-	-	(1,675)	(1,675)	-	(1,675)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	5	5	-	5
- Shares issued upon exercise of employee share options	1	-	-	-	-	-	-	1	-	1
- Shares issued in lieu of cash dividends	536	-	-	-	-	-	-	536	-	536
- Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	-	(2)	-	(2)
- Vesting of shares of Share Award Scheme	50	(46)	-	-	-	-	(4)	-	-	-
- Employee share-based compensation benefits	-	55	-	-	-	-	-	55	-	55
- Transfer of reserves	-	-	-	-	(2)	-	2	-	-	-
Total transactions with shareholders recognised directly in equity	585	9	-	-	(2)	-	(1,672)	(1,080)	-	(1,080)
At 30 Jun 2013	10,161	131	(989)	409	585	-	7,537	17,834	-	17,834

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	20	1,852	2,638
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(395)	(363)
Net decrease in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		1,129	831
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		-	24
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		-	247
Interest received from financial assets measured at amortised cost (excluding time deposits)		-	1
Interest received from financial assets measured at fair value through profit or loss		13	14
Net cash inflow from investing activities		747	754
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares upon exercise of employee share options		9	1
Purchases of shares for Share Award Scheme		-	(2)
Proceeds from issuance of notes		737	-
Payments of transaction costs on issuance of notes		(2)	-
Repayments of bank borrowings		(737)	-
Payments of finance costs		(40)	(44)
Dividends paid to shareholders of HKEx		(1,272)	(1,130)
Net cash outflow from financing activities		(1,305)	(1,175)
Net increase in cash and cash equivalents		1,294	2,217
Cash and cash equivalents at 1 Jan		6,375	4,035
Exchange differences on cash and cash equivalents		42	(41)
Cash and cash equivalents at 30 Jun		7,711	6,211
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks of Corporate Funds	11	7,711	6,211

- (a) The cash and cash equivalents of Clearing House Funds, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar unless otherwise stated)

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 2013 annual 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 2013.

2. Operating Segments

Hong Kong Exchanges and Clearing Limited (HKEx or the Company) and its subsidiaries (collectively the Group) determine its operating segments based on the reports that are used to make strategic decisions reviewed by the chief operating decision-maker.

The Group has five reportable segments (“Corporate Items” is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group’s reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, sales of market data relating to these products 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 and listing fees of equity products and market data fees.

The **Equity and Financial Derivatives** segment refers to derivatives products traded on Hong Kong Futures Exchange Limited (Futures Exchange) and The Stock Exchange of Hong Kong Limited (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, derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants and sales of market data relating to these products. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees.

The **Commodities** segment refers to the operations of The London Metal Exchange (LME), which operates an exchange in the United Kingdom 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 four clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC) and OTC Clearing Hong Kong Limited (OTC Clear), which are responsible for clearing, settlement and custodian activities of the Stock Exchange and the Futures Exchange, clearing over-the-counter derivatives contracts, and the development and operations of the new clearing house for clearing base metals futures and options contracts traded on LME (LME Clear Limited (LME Clear)). Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on Margin Funds, cash collateral and Clearing House Funds.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

2. Operating Segments (continued)

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. Its major sources of revenue 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 Corporate Funds) and central costs (mainly costs of central support functions that 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”.

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

	Six months ended 30 Jun 2014						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,316	788	645	1,315	196	3	4,263
Net investment income	-	-	-	262	-	87	349
Sundry income	-	-	-	9	-	-	9
Revenue and other income	1,316	788	645	1,586	196	90	4,621
Operating expenses	(223)	(199)	(328)	(248)	(73)	(352)	(1,423)
Reportable segment EBITDA	1,093	589	317	1,338	123	(262)	3,198
Depreciation and amortisation	(42)	(31)	(171)	(41)	(24)	(15)	(324)
Finance costs	-	-	-	-	-	(98)	(98)
Share of loss of a joint venture	-	(5)	-	-	-	-	(5)
Reportable segment profit before taxation	1,051	553	146	1,297	99	(375)	2,771

	Six months ended 30 Jun 2013						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,233	870	608	1,282	168	2	4,163
Net investment income	-	-	-	159	-	113	272
Sundry income	-	-	-	5	-	-	5
Revenue and other income	1,233	870	608	1,446	168	115	4,440
Operating expenses	(227)	(222)	(224)	(277)	(63)	(328)	(1,341)
Reportable segment EBITDA	1,006	648	384	1,169	105	(213)	3,099
Depreciation and amortisation	(24)	(21)	(132)	(29)	(19)	(8)	(233)
Finance costs	-	-	-	-	-	(92)	(92)
Share of loss of a joint venture	-	(4)	-	-	-	-	(4)
Reportable segment profit before taxation	982	623	252	1,140	86	(313)	2,770

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**3. Trading Fees and Trading Tariff**

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Stock Exchange (excluding stock options contracts)	921	950
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	376	430
Base metals futures and options contracts traded on LME	468	436
	1,765	1,816

4. Net Investment Income

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Gross interest income	292	165
Interest rebates to Participants	(2)	(2)
Net interest income	290	163
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		
	50	117
Others	9	(8)
Net investment income	349	272

5. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Salaries and other short-term employee benefits	697	650
Employee share-based compensation benefits of HKEx Share Award Scheme (Share Award Scheme)	59	55
Termination benefits	5	3
Retirement benefit costs (note 23(b))	61	47
	822	755

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**6. Reversal of Provision for Impairment Losses Arising from Participants' Default on Market Contracts**

In prior years, the Group lodged claims with the liquidators of Lehman Brothers Securities Asia Limited (LBSA) in respect of the losses of approximately \$160 million previously recognised in the Group's results. In May 2014, the liquidators declared an interim dividend and the amount received has been recognised in the Group's condensed consolidated income statement for the six months ended 30 June 2014. The amount relating to the reversal of the provision for closing-out losses was then appropriated to the HKSCC Guarantee Fund reserve from retained earnings under the clearing house rules.

No further adjustment in respect of the claims has been made in these interim results, as the Group is unable to estimate with any degree of accuracy the outcome of further distributions, if any, from the liquidators of LBSA.

7. Finance Costs

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Interest expenses on borrowings	99	90
Net foreign exchange (gains)/losses on financing activities	(1)	2
	98	92

8. Taxation

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

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Current tax - Hong Kong Profits Tax	427	401
Current tax - Overseas Tax	-	100
	427	501
Deferred tax	(10)	(59)
	417	442

Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2013: 16.5 per cent) and overseas profits tax at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

9. Earnings Per Share

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

(a) Basic earnings per share

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013
Profit attributable to shareholders (\$m)	2,367	2,328
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,161,380	1,148,265
Basic earnings per share (\$)	2.04	2.03

(b) Diluted earnings per share

	Six months ended 30 Jun 2014	Six months ended 30 Jun 2013
Profit attributable to shareholders (\$m)	2,367	2,328
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,161,380	1,148,265
Effect of employee share options (in '000)	458	734
Effect of shares awarded under Share Award Scheme (Awarded Shares) (in '000)	1,281	2,221
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,163,119	1,151,220
Diluted earnings per share (\$)	2.04	2.02

- (i) The effects of the outstanding convertible bonds (note 16) were not included in the computation of diluted earnings per share as they were anti-dilutive.

10. Dividends

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Interim dividend declared of \$1.83 (2013: \$1.82) per share at 30 Jun	2,136	2,100
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(3)	(4)
	2,133	2,096

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

11. Financial Assets

The Clearing House Funds, Margin Funds and cash collateral, and Corporate Funds are invested into cash and cash equivalents, financial assets measured at fair value through profit or loss and financial assets measured at amortised cost, details of which are as follows:

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
<u>Clearing House Funds</u> (notes (a) and 15)		
Cash and cash equivalents	3,194	4,271
Financial assets measured at amortised cost	34	200
	3,228	4,471
<u>Margin Funds and cash collateral</u> (note 13)		
Cash and cash equivalents	40,133	30,650
Financial assets measured at fair value through profit or loss	1,803	1,802
Financial assets measured at amortised cost	5,167	7,335
Accounts receivable and deposits	5	6
	47,108	39,793
<u>Corporate Funds</u>		
Cash and cash equivalents (note (a))	7,711	6,531
Financial assets measured at fair value through profit or loss	2,193	2,100
Financial assets measured at amortised cost	379	1,511
	10,283	10,142
	60,619	54,406

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

	At 30 Jun 2014				At 31 Dec 2013			
	Clearing House Funds \$m	Margin Funds and cash collateral \$m	Corporate Funds \$m	Total \$m	Clearing House Funds \$m	Margin Funds and cash collateral \$m	Corporate Funds \$m	Total \$m
Within twelve months	3,228	47,108	10,086	60,422	4,471	39,793	9,941	54,205
Over twelve months	-	-	197	197	-	-	201	201
	3,228	47,108	10,283	60,619	4,471	39,793	10,142	54,406

- (a) Amounts of Clearing House Funds included \$157 million (31 December 2013: \$Nil) for contribution to the Rates and FX Guarantee Resources of OTC Clear. At 31 December 2013, \$156 million had been earmarked and held within the Group's Corporate Funds. This has now been transferred to separately designated and managed accounts and included in Clearing House Funds for presentation purpose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**12. 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 85 per cent (31 December 2013: 90 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.

13. Margin Deposits and Cash Collateral from Clearing Participants

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Margin deposits and cash collateral from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,555	4,420
HKCC Clearing Participants' margin deposits	40,427	33,116
HKSCC Clearing Participants' margin deposits and cash collateral	2,109	2,240
OTC Clear Clearing Participants' margin deposits	17	17
	47,108	39,793

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

14. 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 75 per cent (31 December 2013: 77 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 mature within three months.

During the six months ended 30 June 2014, \$17 million (2013: \$5 million) of dividends declared by HKEx, which were unclaimed over a period of six years from the date of payment, were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

15. Clearing House Funds

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Clearing House Funds comprised:		
Clearing Participants' cash contributions (note (a))	2,426	3,884
Contribution from Corporate Funds for Rates and FX Guarantee Resources of OTC Clear	156	-
Designated reserves (note 19)	644	586
	3,226	4,470
Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Financial assets of Clearing House Funds (note 11)	3,228	4,471
Less: Other financial liabilities of Clearing House Funds	(2)	(1)
	3,226	4,470
Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	983	2,155
SEOCH Reserve Fund	378	588
HKCC Reserve Fund	1,507	1,576
OTC Clear Rates and FX Guarantee Fund	201	151
OTC Clear Rates and FX Guarantee Resources	157	-
	3,226	4,470

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

16. Borrowings

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Bank borrowings	1,589	2,326
Convertible bonds	3,652	3,607
Notes	1,513	770
Written put options to non-controlling interests	222	218
Total borrowings	6,976	6,921

On 24 January 2014, HKEx issued US\$95 million (HK\$737 million) senior notes to independent third parties with a maturity of five years due on 24 January 2019. The notes bear coupon interest at a rate of 2.85 per cent per annum payable semi-annually in arrears. The proceeds were used to repay the floating rate bank borrowings.

During the six months ended 30 June 2014, none of the convertible bonds were redeemed or converted, and none of the written put options were exercised. With effect from 26 April 2014, the conversion price of the convertible bonds has been adjusted from HK\$160 per share to HK\$157.62 per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

17. Share Capital, Share Premium and Shares Held for Share Award Scheme

	Issued and fully paid:				
	Number of shares '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2013	1,147,408	1,150	8,731	(305)	9,576
Shares issued upon exercise of employee share options (note (a))	59	-	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	(19)	-	-	(2)	(2)
Vesting of shares of Share Award Scheme (note (c))	1,080	-	5	141	146
At 31 Dec 2013	1,160,119	1,161	10,167	(174)	11,154
At 1 Jan 2014	1,160,119	1,161	10,167	(174)	11,154
Shares issued upon exercise of employee share options prior to 3 March 2014 (note (a))	121	-	2	-	2
Transfer on 3 March 2014 upon adoption of the new Hong Kong Companies Ordinance (note (d))	-	10,169	(10,169)	-	-
Shares issued upon exercise of employee share options on or after 3 March 2014 (note (a))	378	7	-	-	7
Shares issued in lieu of cash dividends (note (b))					
- total	5,098	715	-	-	715
- to Share Award Scheme	(17)	-	-	(2)	(2)
	5,081	715	-	(2)	713
Transfer from employee share-based compensation reserve upon exercise of employee share options on or after 3 March 2014	-	2	-	-	2
Vesting of shares of Share Award Scheme (note (c))	13	-	-	2	2
At 30 Jun 2014	1,165,712	12,054	-	(174)	11,880

- (a) During the six months ended 30 June 2014, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 498,500 shares (year ended 31 December 2013: 58,600 shares) in HKEx at a consideration of \$9 million (year ended 31 December 2013: \$1 million).
- (b) In May 2014, 5,098,366 new fully paid HKEx shares (year ended 31 December 2013: 11,648,466 shares) were issued and allotted at \$140.22 per share (year ended 31 December 2013: weighted average price of \$123.71 per share) to the shareholders (including 17,017 new shares (year ended 31 December 2013: 56,956 shares) allotted to the Share Award Scheme) who elected to receive HKEx shares in lieu of cash pursuant to the scrip dividend scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**17. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)**

- (c) During the six months ended 30 June 2014, the Share Award Scheme transferred 13,150 HKEx shares (year ended 31 December 2013: 1,079,481 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 \$2 million (year ended 31 December 2013: \$141 million). During the year ended 31 December 2013, \$5 million was credited to share premium in respect of vesting of certain shares whose fair values were higher than the costs.
- (d) On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (new CO) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.

18. Employee Share-based Arrangements

The Group operates a share option scheme and the Share Award Scheme as part of the benefits of its employees. Under the Share Award Scheme, the Board is allowed to make awards as long-term incentives for selected senior executives of the Group (Senior Executive Awards) in addition to any other awards (Employee Share Awards) which they may be eligible to receive under the Share Award Scheme.

The employee share-based compensation expenses in relation to the options and share awards are charged to profit or loss under staff costs over the relevant vesting periods with a corresponding increase in employee share-based compensation reserve.

During the six months ended 30 June 2014, no share options or Senior Executive Awards were granted, and Employee Share Awards totalling \$850,000 were granted to certain selected employees.

19. Designated reserves

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

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Clearing House Funds reserves (note 15)		
- HKSCC Guarantee Fund reserve	183	127
- SEOCH Reserve Fund reserve	106	107
- HKCC Reserve Fund reserve	354	352
- OTC Clear Rates and FX Guarantee Fund reserve	-	-
- OTC Clear Rates and FX Guarantee Resources reserve	1	-
	644	586

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

20. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Profit before taxation	2,771	2,770
Adjustments for:		
Net interest income	(290)	(163)
Dividend income	(5)	(5)
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	(50)	(117)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(9)	(5)
Finance costs	98	92
Depreciation and amortisation	324	233
Employee share-based compensation benefits	59	55
(Reversal of provision for)/provision for impairment losses of receivables	(52)	1
Share of loss of a joint venture	5	4
Changes in provisions	15	2
Net increase in financial assets of Margin Funds and cash collateral	(7,315)	(6,406)
Net increase in financial liabilities of Margin Funds and cash collateral	7,315	6,405
Net decrease/(increase) in Clearing House Fund financial assets	1,399	(1,978)
Net (decrease)/increase in Clearing House Fund financial liabilities	(1,457)	1,980
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(73)	-
Decrease in accounts receivable, prepayments and deposits	4,883	3,431
Decrease in other current liabilities	(5,850)	(3,656)
Net cash inflow from operations	1,768	2,643
Dividends received	3	4
Interest received from bank deposits	292	164
Interest received from financial assets measured at fair value through profit or loss	28	31
Interest paid to Participants	(2)	(2)
Income tax paid	(237)	(202)
Net cash inflow from operating activities	1,852	2,638

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**21. Capital Expenditures and Commitments**

During the six months ended 30 June 2014, the Group incurred capital expenditures of \$231 million (2013: \$277 million) related to the development and upgrade of various trading and clearing systems including a commodities clearing system, a Central Gateway for Cash Market trading, a new market data platform, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong.

At 30 June 2014, the Group's commitments in respect of capital expenditure were as follows:

	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Contracted but not provided for		
- fixed assets	16	19
- intangible assets	100	92
Authorised but not contracted for		
- fixed assets	134	225
- intangible assets	411	542
	661	878

The Group's capital expenditure commitments were mainly related to the development and enhancement of information technology systems including a market data system, clearing systems for over-the-counter derivatives and commodities, a Central Gateway for Cash Market trading, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong.

22. Contingent Liabilities

At 30 June 2014, 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 2013: \$71 million). Up to 30 June 2014, 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 501 trading Participants covered by the indemnity at 30 June 2014 (31 December 2013: 504) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$100 million (31 December 2013: \$101 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.

22. Contingent Liabilities (continued)

(d) LME litigation

(i) US litigation

Since August 2013, 26 class actions have been filed against LME in the United States (US) alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. In March 2014, 24 of the class actions were consolidated into three complaints, with two complaints remaining unconsolidated. HKEx was named as a defendant only in the consolidated complaint filed by direct purchasers of primary aluminium; LME Holdings Limited (LMEH) was named as a defendant in all three of the consolidated complaints, and LME was named in all five of the complaints. Following the filing of a series of motions to dismiss the claims by LME and LMEH in April 2014, two hearings were held before the US District Court for the Southern District of New York in June 2014. HKEx also moved to dismiss the claim against it on 16 June 2014. To date the US District Court has not ruled on any of the motions to dismiss, although a ruling is expected by the end of August 2014. On 28 July 2014, a further complaint was filed in the US District Court, naming LME as a defendant. The Company understands that the complaint will be consolidated with the pending class actions.

In May 2014, HKEx, LME and LMEH were named as co-defendants in a new class action alleging anti-competitive and monopolistic behaviour in the warehousing market in connection with zinc prices. Two further complaints of a similar nature were filed in June and July 2014. An initial status conference for all the zinc cases was held on 23 July 2014, at which the US District Court appointed counsel who are also involved in the aluminium cases as interim lead counsel and the plaintiffs were ordered to file a consolidated amended complaint by the end of September 2014. Any motions to dismiss are to be filed by 30 October 2014, although the Court indicated that it will entertain a request to modify that schedule if the 30 October date becomes impracticable.

LME and HKEx management continue to take the view that the aluminium lawsuits are without merit, as are the zinc lawsuits, and each of LME, LMEH and HKEx will contest them vigorously.

As it is not yet clear how the US proceedings will be dealt with by the US District Court, the Group does not currently have sufficient information to estimate the financial effect (if any) relating to the lawsuits, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be.

(ii) UK litigation

In December 2013, LME was named as a defendant in a judicial review claim filed by United Company RUSAL Plc (Rusal) in the English High Court (High Court) to challenge LME's decision to introduce rule changes to the delivery out rates of LME approved warehouses. Following the hearing in February 2014, the High Court handed down judgement in March 2014 in favour of Rusal, quashing LME's consultation on the rule changes and the decision to implement such changes. Leave to appeal against the High Court's judgement was granted to LME by the Court of Appeal, and the appeal hearing took place on 29 and 30 July 2014. The Court of Appeal reserved judgment. Whilst a decision may be handed down at any time after the hearing, LME does not currently expect that a decision will be handed down until October 2014 after the Court vacation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

22. Contingent Liabilities (continued)

- (d) LME litigation (continued)
(ii) UK litigation (continued)

At this stage of the judicial review proceedings, the Group has made provision of GBP200,000 (HK\$3 million) in the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014 representing the interim payment on account of Rusal's costs of the High Court hearing made in April 2014. However, as the outcome of the appeal hearing is yet to be determined, LME is currently unaware whether it will in fact need to pay any of Rusal's legal costs in relation to the High Court hearing. LME is not currently in a position to estimate the further financial effect (if any) of the judicial review claim pending judgement in the appeal.

23. Material Related Party Transactions

- (a) Key management personnel compensation

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Salaries and other short-term employee benefits	59	60
Employee share-based compensation benefits	18	18
Retirement benefit costs	5	5
	82	83

- (b) Post-retirement 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 LMEH, LME and LME Clear (LME pension scheme). The retirement benefit costs charged to the condensed consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME pension scheme and related fees (note 5). At 30 June 2014, the contributions payable to the post-retirement benefit plans were \$4 million (31 December 2013: \$3 million).

- (c) Transactions and balance with a joint venture, China Exchanges Services Company Limited (CESC)

	Six months ended 30 Jun 2014 \$m	Six months ended 30 Jun 2013 \$m
Transactions with CESC:		
- Management fee charged to CESC	2	2
	At 30 Jun 2014 \$m	At 31 Dec 2013 \$m
Balances with CESC:		
- Amount due from CESC	1	3

- (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

24. Fair Value of Financial Assets and Financial Liabilities

(a) Financial assets and financial liabilities carried at fair value

At 30 June 2014 and 31 December 2013, no non-financial assets or non-financial liabilities were carried at fair value.

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in Hong Kong Financial Reporting Standard (HKFRS) 13: Fair Value Measurement, with the fair value of each financial asset and financial 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.

	At 30 Jun 2014			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
Recurring fair value measurements:				
Financial assets				
Financial assets measured at fair value through profit or loss:				
- equity securities	281	-	140	421
- debt securities	-	3,575	-	3,575
	281	3,575	140	3,996

Recurring fair value measurements:				
Financial liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	-	7	-	7

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

24. Fair Value of Financial Assets and Financial Liabilities (continued)

(a) Financial assets and financial liabilities carried at fair value (continued)

	At 31 Dec 2013			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
Recurring fair value measurements:				
Financial assets				
Financial assets measured at fair value through profit or loss:				
- equity securities	276	-	141	417
- debt securities	-	3,472	-	3,472
- forward foreign exchange contracts	-	13	-	13
	276	3,485	141	3,902
Recurring fair value measurements:				
Financial liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	-	6	-	6

During the six months ended 30 June 2014, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities and forward foreign exchange contracts 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 transfer into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Fair value measurements using significant unobservable inputs (Level 3)

	Investment in an unlisted company	
	2014 \$m	2013 \$m
At 1 Jan	141	292
(Losses)/gains recognised in profit or loss, under net investment income	(5)	106
Disposals	-	(247)
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	4	(10)
At 30 Jun 2014/31 Dec 2013	140	141
Change in unrealised (losses)/gains for the period/year included in profit or loss for assets held at 30 Jun 2014/31 Dec 2013, under net investment income	(5)	4

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

24. Fair Value of Financial Assets and Financial Liabilities (continued)

(a) Financial assets and financial 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	
					At 30 Jun 2014	At 31 Dec 2013
					\$m	\$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%	+25/-19	+25/-19
Fair value at 30 Jun 2014 was \$140 million (31 Dec 2013: \$141 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value	+/-1%	-18/+23	-18/+23
	Discount for value attributable to a minority stake	5% to 15%	The higher the discount, the lower the fair value	+/-3%	-4/+4	-4/+4

As the unlisted investment held by a subsidiary 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) and an adjustment for the value of the investment attributable to a minority stake.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

24. Fair Value of Financial Assets and Financial Liabilities (continued)

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

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 borrowings 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.

	At 30 Jun 2014		At 31 Dec 2013	
	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
Assets				
Financial assets measured at amortised cost:				
- debt securities ¹	70	70	70	70
- other financial assets maturing over one year ²	57	51	60	57
Liabilities				
Borrowings:				
- liability component of convertible bonds ³	3,652	3,744	3,607	3,639
- notes ³	1,513	1,549	770	770
- written put options to non-controlling interests ³	222	228	218	219
Financial guarantee to the Collector of Stamp Revenue ⁴	20	63	20	55

¹ The fair values are determined based on quotes from market makers or alternative pricing sources supported by observable inputs.

² 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, adjusted by an estimated credit spread. The discount rates used ranged from 0.83 per cent to 2.99 per cent at 30 June 2014 (31 December 2013: 0.80 per cent to 3.20 per cent).

³ 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 respective loans. The discount rate used was 2.36 per cent at 30 June 2014 (31 December 2013: 2.90 percent).

⁴ 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 used was 2.00 per cent at 30 June 2014 (31 December 2013: 2.29 per cent).

25. Pledge of Assets

One of the Group's subsidiaries, LME Clear, holds securities as collateral against overnight triparty reverse repurchase agreements under which its investment services agent, Citibank N.A., is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was GBP65 million (HK\$865 million) as at 30 June 2014 (31 December 2013: HK\$Nil).

This collateral, which was not recorded on the condensed consolidated statement of financial position of the Group at 30 June 2014, has been repledged to Citibank N.A. under a first floating charge arrangement for the settlement and depository services it provides in respect of the collateral held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

GLOSSARY

2014 AGM	AGM held on 16 April 2014
ADT	Average daily turnover value
AGM	HKEx's annual general meeting
AHFT	After-Hours Futures Trading
AMS	The Automatic Order Matching and Execution System
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's board of directors
CBBCs	Callable bull/bear contracts
CES 120	CES China 120 Index
CES 280	CES China 280 Index
CESC	China Exchanges Services Company Limited
CNH	RMB traded in Hong Kong
Corporate Governance Code and Corporate Governance Report	Refer to Appendix 14 to the Main Board Listing Rules
Director(s)	HKEx's director(s)
DWs	Derivative warrants
EPs or Participants	Exchange Participants
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Euro	The official currency of the Eurozone
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange	Hong Kong Futures Exchange Limited
GBP	Pound sterling
GBS	Gold Bauhinia Star
GEM	Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
IPO(s)	Initial Public Offering(s)
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
LBSA	Lehman Brothers Securities Asia Limited
Listing Rules	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
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	LME Holdings Limited, LME and LME Clear
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

GLOSSARY

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOI	Market open interest
MWS	Multi-workstation System
NSTD	New Securities Trading Device
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
ROM	HKEx's Register of Members
RQFII	RMB Qualified Foreign Institutional Investor
SBS	Silver Bauhinia Star
SECHK	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect	A pilot programme that links the stock markets in Shanghai and Hong Kong. Under the programme, investors in Hong Kong and the mainland China can trade and settle shares listed on the other market via the exchange and clearing house in their home market
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, 13 May 2010 and 17 December 2013
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
Stock Exchange	The Stock Exchange of Hong Kong Limited
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

Hong Kong Exchanges and Clearing Limited

12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122

Fax: +852 2295 3106

HKEx website: www.hkex.com.hk

Email: info@hkex.com.hk

HKEx Group website: www.hkexgroup.com

