



# 2014 Annual Report



HKEx has entered a new era. Mutual market access has many possibilities. There are fresh opportunities.

Hong Kong's strengths put it in a unique position to contribute in the next stage of China's capital market development as investment flows shift and the internationalisation of the Renminbi continues. HKEx is committed to continuing to find ways to expand Hong Kong's competitive advantages.

Visionary planning and prudent investment have given us a strong base for the next chapter of our development. Strategic and innovative thinking as we chart our course, efficient use of resources and sound implementation remain top priorities. Long-term sustainability is the focus.

We are mindful of the importance of maintaining high standards and quality services, and remembering the principles behind our success. Hong Kong and HKEx have prospered by aiming to provide value for all. Our aim is the same today.

This is a time of dynamic growth prospects for HKEx. There is an atmosphere of enthusiasm and optimism as we look forward to our future.

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

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# FINANCIAL HIGHLIGHTS

	2014	2013	Change
<b>KEY MARKET STATISTICS</b>			
ADT of equity products on the Stock Exchange (\$bn)	56.2	50.1	12%
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	13.3	12.5	6%
ADT on the Stock Exchange (\$bn)	69.5	62.6	11%
Average daily number of derivatives contracts traded on the Futures Exchange	274,879	283,610	(3%)
Average daily number of stock options contracts traded on the Stock Exchange	301,797	249,295	21%
Average daily volume of metals contracts traded on the LME (lots)	700,204	676,283	4%

	2014 \$m	2013 \$m	Change
Revenue and other income	9,849	8,723	13%
Operating expenses	2,958	2,777	7%
EBITDA <sup>1</sup>	6,891	5,946	16%
Profit attributable to shareholders	5,165	4,552	13%
Basic earnings per share	\$4.44	\$3.95	12%
Interim dividend per share	\$1.83	\$1.82	1%
Final dividend per share	\$2.15	\$1.72	25%
	\$3.98	\$3.54	12%
Dividend payout ratio	90%	90%	–

- Revenue and other income reached \$9.8 billion and increased by 13 per cent (\$1,126 million) compared with 2013.
- The overall growth in revenue and other income reflects increased trading volumes and related revenue as well as growth in all other categories of revenue and income. The launch of LME Clear in September 2014 also contributed to the revenue growth. The increase over 2013 was reduced by the impact of gains on the Group's investment in LCH.Clearnet Group Limited, which were \$85 million higher in 2013.
- Operating expenses increased by 7 per cent against 2013 mainly due to higher staff costs attributable to increased headcount as well as higher legal fees for defending litigation in the United Kingdom and the United States of America. This was partly offset by recoveries and receivables of \$77 million from the liquidators of Lehman Brothers Securities Asia Limited in 2014.
- EBITDA increased by 16 per cent compared to 2013. The overall EBITDA margin increased by 2 per cent from 68 per cent in 2013 to 70 per cent in 2014 as the growth in revenue and other income outpaced the 7 per cent increase in operating expenses.
- Profit attributable to shareholders increased by 13 per cent (\$613 million) to \$5,165 million. Higher EBITDA was partly offset by an increase in depreciation and amortisation, due primarily to new systems launched during the year (including LME Clear) and the Hong Kong data centre at Tseung Kwan O, the final phase of which was completed in late 2013, together with the effect of a one-off deferred tax credit of \$108 million in 2013 arising from a reduction of the Corporation Tax rate in the United Kingdom.

<sup>1</sup> For the purposes of this Annual Report, EBITDA is defined as earning before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture.

# HIGHLIGHTS OF THE YEAR

## 滬港通 SHANGHAI - HONG KONG STOCK CONNECT



**10 April**

Premier Li Keqiang announced plans to create conditions to establish a Shanghai-Hong Kong stock markets link at the Boao Forum for Asia

(Photo courtesy of China News Service)



**10 November**

HKEx explained rollout details after market regulators announced launch date

**August – September**

Completed market connectivity tests and market rehearsals

**4 September**

Stock exchanges and clearing houses of Shanghai and Hong Kong signed the four-party agreement



**17 November**

Launched Shanghai-Hong Kong Stock Connect



## Other Corporate News

### 23-25 April

Held second LME Week Asia in Hong Kong

### 22 May

Hosted an RMB FIC conference

### 22 September

Launched LME Clear, the new clearing house for the LME market

### 11 September

Vice Premier Ma Kai visited the LME



## Products and Services

### 19 February

First international ETF on Mainland's onshore bond market – CSOP China 5-Year Treasury Bond ETF – listed in Hong Kong

### 3 November

Extended close of AHFT session to 11:45 pm

### 1 December

Introduced Asia commodities contracts with day trading from 9:00 am to 4:15 pm and after-hours trading from 5:00 pm to 1:00 am the next morning

## Market Infrastructure

### 3 March

Mainland Market Data Hub in Shanghai commenced service

### 27 June

Launched Orion Central Gateway

### 1 December

Completed rollout of Orion Market Data Platform with derivatives launch

## Regulatory Framework

### 1 April

Implemented the related new publication requirement under new sponsor regime

### 29 August

Published a concept paper on WVR



# CHAIRMAN'S STATEMENT



2014 was a remarkable year for the Group. A number of priorities outlined in our strategic plan were accomplished. These achievements have laid strong foundations for the sustainable growth of the Group in the years ahead, and will have a profound impact on our future.

## Strategic Achievements

With the support of the government authorities and regulators in Hong Kong and the Mainland, and the collaborative efforts of the exchanges and clearing houses in the two cities, the Shanghai-Hong Kong Stock Connect programme was launched on 17 November 2014. The Stock Connect scheme was a breakthrough and is of historic significance. For the first time, mutual market access is offered to investors in Hong Kong and the Mainland, enabling them to trade shares listed and traded in Shanghai and Hong Kong respectively through an orderly, controllable and scaleable channel. The scheme brings long-term mutual benefits to the two markets – it expands the sources of investment, opens up new investment opportunities and facilitates the gradual opening of the Mainland's capital account in support of RMB internationalisation. With its pivotal role in the Stock Connect scheme, HKEx has reinforced its position as the global exchange of choice for Chinese investors and the Chinese exchange of choice for international investors. Recognising that we cannot be complacent, we will continue to work closely with the relevant authorities and regulators, our exchange partners and market participants to ensure that the Stock Connect scheme operates smoothly, and to gradually expand mutual market access in an orderly manner.



On the commodities front, we made a big step forward with the launch of LME Clear, the new clearing house of the LME in London, and the announcement of the LME new fee schedule. These strategic achievements not only provide us with immediate incremental revenues but also give the Group the ability to pursue new products, new markets and new capabilities. On 1 December 2014, we launched LME-based metals contracts in Hong Kong in the form of cash-settled RMB-denominated mini futures. It was another milestone as we expand beyond our well-established equity and equity derivatives businesses. We will continue to pursue our strategy of expanding our Hong Kong markets into new asset classes.

Details of the performance and progress in 2014 against our strategic objectives are set out in the Chief Executive's Review and the Business Review sections of this Annual Report.

## Performance and Dividend

Our markets performed well in 2014 despite the challenging global financial environment. In respect of IPO funds raised, the Stock Exchange was ranked second worldwide and first in Asia<sup>1</sup>. The market capitalisation of Hong Kong's securities market exceeded \$26 trillion for the first time. The turnover of ETFs also reached a record high, topping \$1 trillion. In our Derivatives Market, various products reached new record highs in terms of trading volume and open interest. The turnover of our securitised derivatives<sup>2</sup> ranked first in the world for the eighth consecutive year. The LME also had a good year, as it continued to enjoy steady turnover growth.

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<sup>1</sup> Source: Dealogic

<sup>2</sup> DWs and CBBCs



The Group's consolidated revenue and other income rose 13 per cent against 2013, resulting in an increase of 13 per cent in the profit attributable to shareholders. The basic earnings per share were \$4.44, an increase of 12 per cent. The Board recommends a final dividend of \$2.15 per share for the year ended 31 December 2014 resulting in the full-year dividend of \$3.98 per share, an increase of 12 per cent as compared with that of previous year.

## Role and Responsibilities

Apart from pursuing our business objectives, we recognise our wider role of contributing to the integrity, quality and stability of our markets. We work closely with the regulatory authorities to ensure our businesses remain on track to comply with evolving regulatory requirements. In addition, with the support of market participants and regulators, we continue to monitor closely market changes and progress international standards, launch market consultations, and introduce enhancements to the local regulatory regime, when and where appropriate.

We do not lose sight of the inextricable link between our business and our social responsibility. We are accountable to our stakeholders and the communities in which we operate. It is encouraging that in recognition of our commitment to being a responsible corporate citizen, HKEx continues to be included in the leading global and regional sustainability indices. In 2014, we contributed \$83 million to The Community Chest of Hong Kong through our Stock Code Balloting for Charity Scheme. We have prepared our 2014 Corporate Social Responsibility Report which summarises our commitment and efforts and will be available on the HKEx website before 25 March 2015.

## Governance and the Board

Good governance practices are crucial in order to earn the trust of our stakeholders. The Board remains focused on improving its effectiveness, and the efficiency of the governance processes. With our expansion in Hong Kong and into markets outside Hong Kong, the Board and the management have paid particular attention to enhancing the Group's risk management, both the structure and the process. The Board on 5 March 2015 resolved to establish a Risk Committee to be responsible for the Group's enterprise-wide risk management including overseeing the relevant risk management systems and ensuring that they are compatible with the Group's strategy and risk appetite. In addition, an external consultant was engaged to conduct a Board performance review in 2014, which confirmed that the Board continues to operate to a very high standard. Details of our governance performance in 2014 are set out in the Corporate Governance Report of this Annual Report.

We believe that an appropriate mix of skills, experience and perspectives within the Board helps strengthen its effectiveness. Dr Fred Hu who is a prominent economist and has a wealth of experience in the financial industry, in particular the Mainland financial sector, joined the Board as an Independent Non-executive Director in November 2014. Dr Hu was appointed by the Board to fill the vacancy that arose upon the resignation of Mr John Strickland, a veteran Director who had served the Group for more than 14 years. On behalf of the Board, I would like to thank John for his guidance and contributions to the Group during his long service on the Board.

## Outlook

Looking ahead, the global economic environment remains challenging. Deleveraging in both the public and private sectors, monetary policy divergence, anticipated US interest rate changes, oil price volatility and regional political instability have created uncertainties and risks. However, Hong Kong is benefiting from the continued growth of the Mainland economy. The Group is well-positioned to sustain the value of our core businesses, and will continue to capitalise on new opportunities arising from the further development of the Mainland's financial markets.

On behalf of the Board, I would like to thank our Shareholders and other stakeholders for their unwavering confidence and support. I also wish to extend my appreciation to my fellow Board members, our diligent and dedicated management team and our staff at every level for their contributions in delivering the remarkable achievements last year.

**CHOW Chung Kong**

Chairman

Hong Kong, 5 March 2015

# CHIEF EXECUTIVE'S REVIEW



2014 was a year of breakthroughs for the Company, with many of our key strategic initiatives in the Strategic Plan for 2013-2015 coming to fruition. One of our most important achievements is the successful launch of Shanghai-Hong Kong Stock Connect, which fundamentally changed our market landscape and opened up a new era for our business growth. At the same time, we have implemented many other critical, albeit not so eye-catching, initiatives and enhancements to our business. I am confident that these efforts have not only laid down a solid foundation for our future growth, but have also brought us to a new level of competitiveness that will have far-reaching significance for our business as well as our market on the global stage.

## Market Performance

Our primary market performed competitively in 2014. HKEx ranked second globally in IPOs with total equity funds raised of \$232.5 billion, representing a 38 per cent rise from 2013. 122 companies were newly listed on our market, compared to 110 in 2013<sup>1</sup>. The listed companies also raised \$710.2 billion through follow-on placements, an increase of 238 per cent over 2013. Total funds raised of \$942.7 billion represents a record for HKEx.

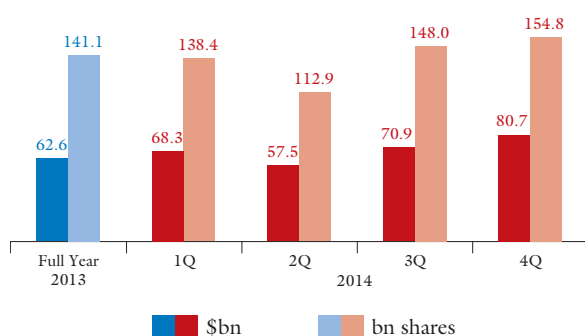
In the secondary market, the full-year 2014 ADT stood at \$69.5 billion, an 11 per cent increase compared to 2013. Although the year started relatively weakly, market sentiment in the second half of the year quickly picked up, due to the announcement of the Shanghai-Hong Kong Stock Connect and a renewed interest in Chinese companies. ADT steadily rose to \$70.9 billion in the third quarter and \$80.7 billion in the fourth quarter. In particular, we witnessed a total of 11 trading days in December with daily turnover exceeding \$100 billion.

<sup>1</sup> Including the number of transfers of listing from the GEM to the Main Board in 2013 and 2014

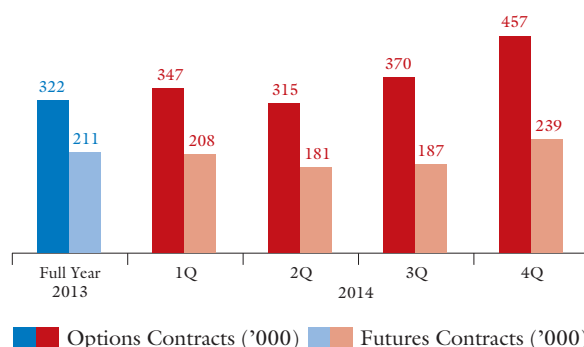


Derivatives turnover witnessed another record year with total turnover of 142,439,039 contracts, an increase of 10 per cent from 2013. This was largely driven by strong trading in stock options and index futures and options. Open interest at year-end was 7,960,406 contracts, up from 6,230,082 at the previous year-end.

Average Daily Turnover on Cash Market



Average Daily Number of Contracts Traded on Derivatives Market



## Business Development Review

### Preserving and Enhancing the Competitiveness of Our Core Businesses

For primary listings in 2014, we continued to actively encourage potential issuers around the globe to list in Hong Kong via a wide range of marketing activities. To improve the regulatory environment for IPOs in Hong Kong, we worked closely with the SFC and market participants and published a number of Rule amendments and guidance letters, all of which were aimed at enhancing our market attractiveness for potential issuers. As a follow-up to the big debate about the future of Hong Kong's IPO framework, we also worked closely with the regulators and published a Concept Paper on WVR: whether governance structures that give certain persons voting power or other related rights disproportionate to their shareholding (WVR structure) should be permissible for companies listed or seeking to list on SEHK's markets. The process of gathering market feedback is still ongoing and we hope the market will come to a consensus that will benefit Hong Kong's long-term future.

In the secondary market, we continued to enhance market structure to improve our global competitiveness. Our efforts include:

- **Expanding Market Reach:** AHFT was extended from 11:00 pm to 11:45 pm to ensure it covers the morning part of the US business day, and to 1:00 am for our Hong Kong listed commodities contracts. As a result of this, the full year 2014 AHFT trading accounted for 6 per cent of day session trading volume, versus 4 per cent in the previous year.
- **Enhancing Market Efficiency:** We published a consultation paper on 16 January 2015 on the proposed introduction of a VCM in the securities and derivatives markets and a CAS in the securities market, with the aim of offering greater safeguards to our market and improving market efficiency.

### Continuing Effort in Developing Fixed Income and Currency

Our RMB Currency Futures contract continued to prove itself an effective risk management tool for market users amid increased USD/CNH volatility in 2014. Trading of RMB Currency Futures increased 48 per cent compared with 2013, and reached daily high of 6,318 contracts on 19 March.

Our effort in engaging the market also remained active via various channels, including education, promotional activities as well as incentive programmes to solidify the development of the market. We hosted the first RMB FIC Conference on 22 May 2014. The event was a great success with over 400 senior representatives attending, and we plan to host the second Conference in June 2015.



### Taking Commodities Business to the Next Level

Average daily volume on the LME hit a fresh record high in 2014, rising 4 per cent from the previous year to 700,204 lots. Aluminium, along with zinc and nickel, enjoyed record annual volumes. Their average daily volumes gained 3 per cent, 2 per cent and 39 per cent respectively.

A number of transformational initiatives have also taken place within the LME to take it to the next level, including:

- **Launched Proprietary Clearing House (LME Clear):** LME Clear was launched on 22 September 2014. It is an important milestone in the LME's development, as it not only provides immediate incremental revenues, but also gives the LME and the Group the capability to pursue new markets, new products and other new opportunities in a more timely fashion.
- **Continued Investment in Technology:** To support future business development at the LME, we have made considerable investments in technology during 2014, including the launch of LMEnet, the introduction of LMEstage as well as insourcing of IT. The delivery of these IT initiatives not only provided market players with an enhanced service experience; it also laid a great foundation for future delivery of various strategic initiatives within the LME.
- **Announced New Fees:** As part of the LME commercialisation plan, the LME announced its new trading fees in September 2014, which took effect from 1 January 2015. The new fee schedule allows the LME to continue its efforts in innovation and providing the highest levels of service to users.

Building an Asian commodities business has always been a key component of our strategy, which is to build the "East Wing" of the LME and to extend the LME to the Asian time zone. The launch of the London Metal Mini Futures on the Hong Kong platform is the first step in the realisation of this strategy. We have attracted 3 liquidity providers and 18 Active Traders since launch. On the first day of trading, the volume for Day Trading and After-Hours Trading Sessions totalled 2,064 contracts for all 3 metals contracts. We will continue to market and enhance the liquidity of these contracts.

### Enhancing Platform Capability for New Opportunities

HKEx systems demonstrated strong reliability again in 2014, facilitating smooth continuous operation of our markets. In addition to stable system support for existing operations, we have also continued to build our platform and enhance our capabilities. Major initiatives include:

- **Orion Central Gateway:** OCG was launched for the Cash Market in June 2014, followed by EP migration taking place via 2 batches in the second half of 2014. With OCG, market participants will enjoy a number of benefits, such as reduced infrastructure costs and a new “drop copy” service.
- **New Systems for Shanghai-Hong Kong Stock Connect:** To support the launch of Shanghai-Hong Kong Stock Connect, new systems, namely the “China Stock Connect System” and “China Stock Connect Open Gateway”, were developed, and have been operating smoothly since debut.
- **New Securities Trading Device:** The NSTD was rolled out in November 2014 to replace the legacy MWS and AMS Terminals. The new system will provide not only the existing terminal trading functions, but also more advanced features for market participants. Migration from the MWS and the AMS will take place in phases and be completed within 2015.
- **Orion Market Data Platform for Derivatives Market:** Upon the rollout of OMD for the Cash Market in September 2013, the platform was also expanded and launched for the Derivatives Market in December 2014, marking the completion of the HKEx OMD initiative, which standardised the market data systems across Cash and Derivatives markets and enabled direct distribution of HKEx market data to the Mainland.

### China Connectivity: Shanghai-Hong Kong Stock Connect

On 10 April 2014, Premier Li Keqiang announced the establishment of a mutual market access programme between Shanghai and Hong Kong, namely Shanghai-Hong Kong Stock Connect. This is the most significant milestone of China's capital market reform and opening up since the H-share scheme was introduced in 1993.

In the following 7 months, China Securities Regulatory Commission and the SFC collaborated closely to establish the regulatory framework for the programme. The SSE, ChinaClear as well as ourselves engaged the market intensively to prepare for a smooth launch.

On 17 November 2014, we witnessed history, the launch of Shanghai-Hong Kong Stock Connect. For the first time ever, investors in Shanghai and Hong Kong markets, be they individuals or institutions, are able to trade listed shares in the other market, through their own local brokers and exchange. It marked a breakthrough in the opening up of China's financial markets, and further enhances Hong Kong's role as a unique gateway between Mainland and international investors.

Since the launch, the programme has been running smoothly and stably. While we endeavour to ensure the sound operation of Shanghai-Hong Kong Stock Connect, we have also focused on continuing market education and on engaging the market for further programme enhancement. Our efforts include:

- maintaining active communication and engagement with market participants and investors via a range of channels, such as educational seminars, workshops, joint international roadshows with the SSE, etc;
- facilitating overseas regulators and fund associations to gain a clearer and better understanding of the programme via a number of channels, and as a consequence, the first Undertakings for Collective Investment in Transferable Securities (UCITS) was approved to participate in Shanghai-Hong Kong Stock Connect in December 2014 and a fast-track application procedure for UCITS to update their prospectuses to invest in A shares via Shanghai-Hong Kong Stock Connect has also been put in place;



- introducing covered short-selling service for Northbound Trading in the first quarter of 2015 to give investors greater flexibility in trading strategy and risk management; and
- implementing an enhanced solution in the first quarter of 2015, through which institutional investors who hold A shares through custodians are able to comply with the Mainland's pre-trade checking requirement without transferring their shares to brokers before execution of a sell transaction.

Shanghai-Hong Kong Stock Connect is the first step of a long and historic opening. We firmly believe that Stock Connect will take us further to the next big opportunity – the development of a Mutual Market whereby HKEx and our Mainland counterparts can effect accelerated opening of China's capital markets by allowing international capital to invest in Mainland products and Mainland capital to invest in international products.

### Strategy Outlook – Mutual Market

The greatest significance of Shanghai-Hong Kong Stock Connect is that it provides China with an interim model for opening up of its capital markets before it is completely ready for the large-scale arrivals of international investors and departures of Chinese domestic investors. The interim model works like a “Mutual Market” whereby investors on each side of the boundary are able to trade products of the other market within their home time zone, relying on their home market infrastructures. With the joint oversight of the two regulators, capital flows from China and international markets are able to congregate and interact with each other in this “Mutual Market”, facilitating the gradual convergence of the Mainland and international markets.

This model has the potential to be extended to other products and asset classes, including equity derivatives, commodities, fixed income and currencies. Those Chinese capital markets products that are of interest to international investors can be placed in this “Mutual Market”, while those international products that are needed by Chinese investors can also be added, thereby enabling Chinese investors to diversify their investments and hedge against international price risks. In this way, a swift and large-scale opening up of China's markets can be achieved, giving China greater international market and pricing influence without waiting for lengthy and extensive legal and regulatory reforms to be carried out first. Further, with the currency of transaction being the RMB, this “Mutual Market” would further accelerate the internationalisation of China's currency, helping to realise yet another goal.

### Appreciation

I would like to take this opportunity to express my greatest appreciation to the HKEx Group staff. It was their enormous effort, consistent focus and dedication that not only have delivered the strategic achievements, but have kept our ship on the right course at the same time.

I must also thank our regulator, the SFC, our market participants and other stakeholders for their generous support, in particular, over the course of the Shanghai-Hong Kong Stock Connect implementation. I look forward to continuing to work with them closely in the coming years.

Last but not least, I would like to thank my fellow members of the Board for their tremendous support, without which we would not have achieved so much in implementing strategies and making history in 2014.

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

Hong Kong, 5 March 2015

# BOARD AND COMMITTEES



## Board

### INEDs

CHOW Chung Kong \*<sup>1</sup> JP (Chairman)  
CHAN Tze Ching, Ignatius BBS, JP  
Timothy George FRESHWATER \*<sup>2</sup>  
John Barrie HARRISON \*  
HU Zuli, Fred<sup>3</sup>  
HUI Chiu Chung, Stephen \* JP  
KWOK Chi Piu, Bill<sup>4</sup> JP  
LEE Kwan Ho, Vincent Marshall<sup>4</sup>  
LEE Tze Hau, Michael \* JP  
LEUNG KO May Yee, Margaret \* SBS, JP  
John Estmond STRICKLAND<sup>5</sup> GBS, JP  
John Mackay McCulloch WILLIAMSON  
WONG Sai Hung, Oscar

### Executive Director

LI Xiaojia, Charles (Chief Executive)

### Company Secretary

MAU Kam Shing, Joseph

### Notes:

- \* Government Appointed Director
- \*\* Appointed by the Financial Secretary
- Δ Established under Section 65 of the SFO
- 1 Re-appointed as Director effective 16 April 2014 and as the Chairman effective 25 April 2014
- 2 Re-appointment effective 16 April 2014

## Committees

### Audit Committee

John Barrie HARRISON (Chairman)  
LEE Kwan Ho, Vincent Marshall<sup>6</sup> (Deputy Chairman)  
CHAN Tze Ching, Ignatius  
KWOK Chi Piu, Bill<sup>6</sup>  
LEE Tze Hau, Michael  
John Mackay McCulloch WILLIAMSON

### Environmental, Social and Governance Committee

CHOW Chung Kong<sup>7</sup> (Chairman)  
John Barrie HARRISON<sup>8</sup>  
HUI Chiu Chung, Stephen  
LEE Tze Hau, Michael  
LI Xiaojia, Charles  
John Mackay McCulloch WILLIAMSON<sup>9</sup>

### Executive Committee

CHOW Chung Kong<sup>7</sup> (Chairman)  
Timothy George FRESHWATER<sup>6</sup>  
KWOK Chi Piu, Bill<sup>6</sup>  
LEE Kwan Ho, Vincent Marshall<sup>6</sup>  
LI Xiaojia, Charles

- 3 Appointment effective 10 November 2014
- 4 Re-elected on 16 April 2014
- 5 Resigned on 31 October 2014
- 6 Re-appointment effective 17 April 2014
- 7 Re-appointment effective 25 April 2014 by virtue of being HKEx's chairman



#### Investment Advisory Committee

WONG Sai Hung, Oscar <sup>10</sup> (Chairman)  
 John Estmond STRICKLAND <sup>5</sup> (ex-Chairman)  
 Timothy George FRESHWATER <sup>9</sup>  
 HUI Chiu Chung, Stephen  
 LEE Tze Hau, Michael  
 LUI Yin Tat, David

#### Nomination Committee

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

#### Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)  
 KWOK Chi Piu, Bill <sup>6</sup>  
 LEE Kwan Ho, Vincent Marshall <sup>6</sup>  
 LEE Tze Hau, Michael  
 WONG Sai Hung, Oscar

#### Remuneration Committee

CHOW Chung Kong <sup>6</sup> (Chairman)  
 KWOK Chi Piu, Bill <sup>6</sup>  
 LEE Kwan Ho, Vincent Marshall <sup>6</sup>  
 LEUNG KO May Yee, Margaret  
 John Mackay McCulloch WILLIAMSON

#### Risk Committee <sup>11</sup>

CHOW Chung Kong <sup>12</sup> (Chairman)  
 CHAN Tze Ching, Ignatius <sup>12</sup>  
 John Barrie HARRISON <sup>12</sup>  
 LEUNG KO May Yee, Margaret <sup>12</sup>

#### Risk Management Committee (statutory) <sup>Δ</sup>

CHOW Chung Kong <sup>7</sup> (Chairman)  
 CHAN Ngai Hang <sup>\*\*</sup>  
 CHAN Tze Ching, Ignatius  
 HE Guangbei <sup>\*\* 13</sup>  
 HUNG Pi Cheng, Benjamin <sup>\*\* 14</sup>  
 LEE Tat Chi, Howard <sup>\*\*</sup>  
 LEUNG KO May Yee, Margaret  
 LIU Swee Long, Michael <sup>\*\*</sup>  
 LUI Kei Kwong, Keith <sup>\*\*</sup>  
 TAN Siew Boi, May <sup>\*\* 15</sup>

8 Appointment ceased effective 17 April 2014

9 Appointment effective 17 April 2014

10 Ceased to be the deputy chairman and appointed as the chairman effective 5 November 2014

11 Established on 5 March 2015

12 Appointment effective 5 March 2015

13 Appointment ceased effective 20 January 2014

14 Appointment for the period from 20 January to 6 July 2014 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

15 Appointment effective 7 July 2014 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited



# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Board of Directors



**CHOW Chung Kong**  
JP

Chairman, INED  
Aged 64

Director since 23 April 2012  
Chairman since 27 April 2012  
Term of office: 16 April 2014  
(re-appointed) to 2016 AGM

\* Currently listed on the Stock Exchange

1 Appointment effective 5 March 2015

### Other positions held within the Group

**HKE** – chairman of Environmental, Social and Governance Committee, Executive Committee, Nomination Committee, Remuneration Committee, Risk Committee <sup>1</sup> and Risk Management Committee (statutory)

**SEHK** – chairman of Listing Appeals Committee and member of Listing Nominating Committee

**LME** – independent non-executive director and member of Nomination Committee

**LMEH** – independent non-executive director

### Other major offices

**AIA Group Limited** \* – independent non-executive director (2010~)

**The Hong Kong Jockey Club** – steward (2011~)

**World Federation of Exchanges** – director (2012~)

### Past offices

**Anglo American plc** (listed on the London Stock Exchange and Johannesburg Stock Exchange)

– independent non-executive director (2008-2014)

**Brambles Industries plc** – chief executive (2001-2003)

**GKN plc** – chief executive (1997-2001)

**MTR Corporation Limited** \* – chief executive officer (2003-2011)

### Public service

**Commission on Strategic Development**

– non-official member (2013~)

**Economic Development Commission** – non-official member and convenor of Working Group on Transportation (2013~)

**Executive Council of the HKSAR** – non-official member (2012~)

**Independent Commission Against Corruption** – chairman of Advisory Committee on Corruption (2013~)

**Standing Committee on Judicial Salaries and Conditions of Service** – member (2010~)

### Qualifications

**Chartered Engineer** (The Institution of Chemical Engineers, UK)

**Bachelor of Science (Chemical Engineering)**

(University of Wisconsin, US)

**Master of Science (Chemical Engineering)**

(University of California, US)

**Master of Business Administration**

(The Chinese University of Hong Kong)

**Honorary Doctor of Engineering** (The University of Bath, UK)

**Honorary Fellow** (The Chinese University of Hong Kong,

The Hong Kong Institution of Engineers, and

The Institution of Engineering and Technology)

**Fellow** (City & Guilds of London Institute, Hong Kong Academy

of Engineering Sciences, The Chartered Institute of Logistics and

Transport in Hong Kong, The Institution of Chemical Engineers, and

The Royal Academy of Engineering)



### LI Xiaojia, Charles

Executive Director, Chief Executive  
Aged 53

Joined on 16 October 2009

Chief Executive since 16 January 2010  
Ex-officio member of the Board  
Term of office: renewed up to  
15 October 2015

#### Other positions held within the Group

**HKEx** – member of Environmental, Social and Governance Committee, and Executive Committee  
**SEHK** – member of Listing Committee and GEM Listing Committee  
**HKCC, HKFE, HKSCC, SEHK and SEOCH** – chairman  
**LME** – member of Nomination Committee and Special Committee  
**HKEx's certain subsidiaries** – director

#### Other major office

**China Entrepreneurs Forum** – director (2005~)

#### Past offices

**Brown & Wood, New York** – associate (1993-1994)  
**Davis Polk & Wardwell, New York** – associate (1991-1993)  
**JP Morgan China** – chairman (2003-2009)  
**Merrill Lynch China** (1994-2003: president (1999-2003))

#### Public service

**Consulting Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen** – member (2012~)

#### Qualifications

**Bachelor of Arts (English Literature)** (Xiamen University, China)  
**Master of Arts (Journalism)** (University of Alabama, US)  
**Juris Doctor** (Columbia University, US)



### CHAN Tze Ching, Ignatius

BBS, JP

INED  
Aged 58

Director since 23 April 2009  
Term of office: 23 April 2012  
(re-elected) to 2015 AGM

#### Other positions held within the Group

**HKEx** – chairman of Panel Member Nomination Committee, member of Audit Committee, Nomination Committee, Risk Committee<sup>1</sup> and Risk Management Committee (statutory), and deputy chairman of Clearing Consultative Panel  
**HKSCC** – member of Disciplinary Appeals Committee

#### Other major offices

**Affin Holdings Berhad** (listed on Bursa Malaysia) – non-executive director (2013~)  
**CVC Capital Partners Limited** – senior adviser (2010~)  
**Mongolian Mining Corporation** \* – independent non-executive director (2010~)  
**Rizal Commercial Banking Corporation** (listed on the Philippine Stock Exchange) – non-executive director (2011~)  
**The Bank of East Asia Limited** \* – senior adviser (2009~)

#### Past offices

**Bank of China (Hong Kong) Limited** – deputy chief executive (2008)  
**Citigroup** (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))  
**Larry Jewelry International Company Limited** \* – independent non-executive director (2012-2014)

#### Public service

**Financial Reporting Council** – member<sup>2</sup> (2014~)  
**Hong Kong Tourism Board** – member (2013~)  
**Investor Education Centre** (established by the SFC) – member of Executive Committee (2012~)  
**Standing Commission on Civil Service Salaries and Conditions of Service** – member (2014~)

#### Qualifications

**Bachelor of Business Administration and Master of Business Administration** (University of Hawaii, US)  
**Certified Public Accountant** (American Institute of Certified Public Accountants)

\* Currently listed on the Stock Exchange

1 Appointment effective 5 March 2015

2 Appointment effective 1 December 2014



**Timothy George  
FRESHWATER**

INED  
Aged 70

Director since 23 April 2012  
Term of office: 16 April 2014  
(re-appointed) to 2016 AGM

- \* Currently listed on the Stock Exchange
- 1 Appointments effective 5 November 2014
- 2 Appointment effective 17 January 2015

**Other positions held within the Group**

**HKE**x – member of Executive Committee, Investment Advisory Committee and Nomination Committee  
**SEHK**<sup>1</sup> – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee

**Other major offices**

**Aquarius Platinum Limited** (listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange) – independent non-executive director (2006~)  
**COSCO Pacific Limited** \* – independent non-executive director (2005~)  
**Goldman Sachs (Asia) LLC** – advisory director (2012~)  
**Savills plc** (listed on the London Stock Exchange) – independent non-executive director (2012~)  
**Swire Pacific Limited** \* – independent non-executive director (2008~)

**Past offices**

**Chong Hing Bank Limited** \* – independent non-executive director (1997-2014)  
**Goldman Sachs (Asia) LLC** – (2001-2012: director (2001-2012), vice chairman (2005-2012) and chairman, corporate finance (2001-2004))  
**HKE**x – INED (2000-2006)  
**Jardine Fleming** (1996-2000: chairman (1999-2000))  
**Slaughter and May** (1967-1996: head of worldwide corporate practice (1993-1996) and partner (1975-1996))

**Public service**

**Financial Services Development Council** – member (2015~)<sup>2</sup>

**Qualifications**

**Solicitor** (Hong Kong, and England & Wales)  
**Bachelor of Laws** and **Master of Arts** (University of Cambridge, UK)



**John Barrie HARRISON**

INED  
Aged 58

Director since 20 April 2011  
Term of office: 24 April 2013  
(re-appointed) to 2015 AGM

- \* Currently listed on the Stock Exchange
- 1 Appointment effective 5 March 2015

**Other positions held within the Group**

**HKE**x – chairman of Audit Committee and member of Risk Committee<sup>1</sup>  
**LME** – independent non-executive director, and chairman of Audit and Risk Committee  
**LME Clear** – independent non-executive director, chairman of Audit Committee, and member of Nomination Committee and Remuneration Committee

**Other major offices**

**AIA Group Limited** \* – independent non-executive director (2011~)  
**AustralianSuper Pty Ltd** – member of Asian Advisory Committee (2012~)  
**BW Group Limited** – independent non-executive director (2010~)  
**BW LPG Limited** (listed on Oslo Borse) – vice-chairman and independent non-executive director (2013~)

**Past offices**

**KPMG** (1977-2010: deputy chairman of KPMG International (2008-2010), chairman of KPMG’s Asia Pacific region and chairman of KPMG China and Hong Kong (2003-2009), and partner of KPMG Hong Kong (1987-2009))

**Qualifications**

**Bachelor of Science (Mathematics)** (Durham University, UK)  
**Fellow** (Institute of Chartered Accountants in England & Wales)  
**Member** (HKICPA)



**HU Zuli, Fred**

INED

Aged 51

Director since 10 November 2014  
 Term of office: 10 November 2014  
 to 2015 AGM

\* Currently listed on the Stock Exchange

1 Listed on 23 December 2014

**Other major offices**

**Dalian Wanda Commercial Properties Co Ltd** \* 1  
 – independent non-executive director (2014~)  
**Hang Seng Bank Limited** \* – independent non-executive director (2011~)  
**Lloyd's** – council member (2014~)  
**Primavera Capital Limited** – founder and chairman (2011~)  
**SCMP Group Limited** \* – independent non-executive director (2010~)  
**Shanghai Pudong Development Bank Co Ltd** (listed on the Shanghai Stock Exchange) – external supervisor (2008~)  
**Sotheby's Hong Kong Limited** – adviser (2012~)  
**Tsinghua University** – professor and co-director of National Center for Economic Research (1996~)

**Past offices**

**Goldman Sachs Group Inc** (1997-2010: chairman of Greater China (2008-2010) and managing director (2000-2010))  
**International Monetary Fund, Washington DC** – economist (1991-1996)

**Qualifications**

**Master and Doctor of Philosophy (Economics)** (Harvard University, US)  
**Master of Science (Engineering Science)** (Tsinghua University, China)

**HUI Chiu Chung, Stephen**

JP

INED

Aged 67

Director since 23 April 2009  
 Term of office: 24 April 2013  
 (re-appointed) to 2015 AGM

**Other positions held within the Group**

**HKEx** – member of Environmental, Social and Governance Committee, and Investment Advisory Committee, and deputy chairman of Cash Market Consultative Panel  
**SEHK** – member of Disciplinary Appeals Committee

**Other major offices**

**Agile Property Holdings Limited** \*  
 – independent non-executive director (2014~)  
**China South City Holdings Limited** \*  
 – independent non-executive director (2011~)  
**Gemdale Properties and Investment Corporation Limited** \*  
 – independent non-executive director (2004~)  
**Lifestyle International Holdings Limited** \*  
 – independent non-executive director (2005~)  
**Luk Fook Financial Services Limited**  
 – chairman and chief executive officer (2011~)  
**Luk Fook Holdings (International) Limited** \*  
 – non-executive director (1997~)  
**SINOPEC Engineering (Group) Co Ltd** \*  
 – independent non-executive director (2013~)  
**Zhuhai Holdings Investment Group Limited** \*  
 – independent non-executive director (1998~)

**Past offices**

**Chun Wo Development Holdings Limited** \*  
 – independent non-executive director (2006-2015) 1  
**HKSCC** – director (1992-1996 and 1997-2000)  
**OSK Holdings Hong Kong Limited** – vice-chairman (2011) and chief executive officer (2005-2011)  
**SEHK** – member of Listing Committee and GEM Listing Committee (2003-2009), and second vice-chairman (1995-1996 and 1997-2000) and member (1991-1996) of Council  
**UOB Kay Hian (Asia) Limited** – managing director (2002-2005)

**Public service**

**The Administrative Committee of Hengqin New Area, Zhuhai** – member of Hengqin New Area Development Advisory Committee, and Hong Kong and Macao Legal Issues Expert Group of Hengqin New Area (2013~)  
**Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference** – member (2006~)

**Qualifications**

**Fellow** (The Hong Kong Institute of Directors)  
**Senior Fellow** (Hong Kong Securities and Investment Institute)

\* Currently listed on the Stock Exchange

1 Appointment ceased effective 1 February 2015



**KWOK Chi Piu, Bill**  
JP

INED  
Aged 62

Director since 3 April 2000  
Term of office: 16 April 2014  
(re-elected) to 2017 AGM

**Other positions held within the Group**

**HKEx** – member of Audit Committee, Executive Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Derivatives Market Consultative Panel  
**HKFE** – chairman of Disciplinary Appeals Committee

**Other major offices**

**HSBC Private Bank (Suisse) SA** – non-executive director (2006~)  
**Wing On Company International Limited** \*  
– non-executive director (1992~)  
**Wing On International Holdings Limited** – executive director (1991~)  
**Wocom Holdings Limited** – managing director (1992~)

**Past offices**

**Bloomberg LP** – member of Asia Pacific Advisory Board (2006-2010)  
**HKFE** – director (1991-2000) and vice-chairman (1997-2000)

**Public service**

**Financial Services Development Council**  
– member of New Business Committee (2013~)  
**SFC** – member of Committee on Real Estate Investment Trusts (2011~)

**Qualifications**

**Bachelor of Science (Chemistry) and Bachelor of Arts (Economics)** (Stanford University, US)  
**Doctor of Philosophy (Biochemistry)** (University of Chicago, US)  
**Senior Fellow** (Hong Kong Securities and Investment Institute)

\* Currently listed on the Stock Exchange



**LEE Kwan Ho, Vincent Marshall**

Officer of the Order of the Crown  
(Belgium)

INED  
Aged 59

Director since 3 April 2000  
Term of office: 16 April 2014  
(re-elected) to 2017 AGM

**Other positions held within the Group**

**HKEx** – deputy chairman of Audit Committee, member of Executive Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Cash Market Consultative Panel  
**SEHK** – chairman of Disciplinary Appeals Committee

**Other major offices**

**Guangdong Land Holdings Limited** \*  
– independent non-executive director (2009~)  
**LT Commercial Real Estate Limited** \*  
– non-executive director (2013~)  
**Tung Tai Group of Companies** – chairman (2010~)

**Past offices**

**Coopers and Lybrand, Los Angeles & Boston**  
– certified public accountant (1978-1981)  
**HSBC Group, Hong Kong & Vancouver** – senior banker (1981-1990)  
**Tung Tai Group of Companies** – managing director (1990-2010)

**Public service**

**Clearing and Settlement Systems Appeals Tribunal** – member (2013~)  
**Correctional Services Children's Education Trust Committee**  
– member (2011~)  
**Financial Services Development Council** <sup>1</sup> – member (2013~) and member of Policy Research Committee (2014~) <sup>2</sup>  
**Sir Murray MacLehose Trust Fund Investment Advisory Committee**  
– chairman (2012~)

**Qualifications**

**Bachelor of Science (Accounting and International Finance) (Magna Cum Laude)** (University of Southern California, US)  
**Master of Economics** (London School of Economics and Political Science, UK)  
**Certified Public Accountant** (State of California, US)  
**Fellow** (HKICPA)

\* Currently listed on the Stock Exchange

<sup>1</sup> Ceased to be a member of the New Business Committee effective 16 April 2014

<sup>2</sup> Appointment effective 16 April 2014



**LEE Tze Hau, Michael**  
JP

INED  
Aged 53

Director since 23 April 2009  
Term of office: 24 April 2013  
(re-appointed) to 2015 AGM

- \* Currently listed on the Stock Exchange
- 1 Ceased to be a member of the Investment Sub-committee effective 1 November 2014
- 2 Appointments effective 26 November 2014

**Other positions held within the Group**

**HKEx** – member of Audit Committee, Environmental, Social and Governance Committee, Investment Advisory Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel  
**HKFE** – member of Disciplinary Appeals Committee  
**OTC Clear** – chairman, independent non-executive director and chairman of Risk Management Committee

**Other major offices**

**Chen Hsong Holdings Limited \***  
– independent non-executive director (2008~)  
**Hysan Development Company Limited \***  
– non-executive director (2010~)  
**MAP Capital Limited** – managing director (2007~)  
**The Hong Kong Jockey Club** – steward (2006~)  
**Trinity Limited \*** – independent non-executive director (2008~)

**Past offices**

**Asia Strategic Investment Management Limited**  
– managing director (1995-2002)  
**Hysan Development Company Limited \***  
– managing director (2003-2007), chief operating officer (2002-2003) and non-executive director (1990-2002)  
**Lloyd George Management** – executive director (1992-1995)  
**SEHK** – member of Listing Committee (2004-2007) and GEM Listing Committee (2006-2007)

**Public service**

**Beat Drugs Fund Association** <sup>1</sup> – member and member of Governing Committee <sup>2</sup> (2014~)  
**Council of the Queen Elizabeth Foundation for the Mentally Handicapped** – member (2009~)  
**Police Children's Education Trust Management Committee**  
– member (2008~) and chairman (2012~)  
**Police Education and Welfare Trust Management Committee**  
– member (2008~) and chairman (2012~)

**Qualifications**

**Bachelor of Arts** (Bowdoin College, US)  
**Master of Business Administration** (Boston University, US)





**LEUNG KO May Yee,  
Margaret**  
SBS, JP

INED  
Aged 62

Director since 24 April 2013  
Term of office: 24 April 2013  
(appointed) to 2015 AGM

- \* Currently listed on the Stock Exchange
- 1 Appointment effective 5 March 2015
- 2 Appointment effective 11 September 2014
- 3 Ceased to be a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service and the chairman of its Police Sub-Committee effective 1 January 2015

**Other positions held within the Group**

HKEx – member of Remuneration Committee, Risk Committee<sup>1</sup> and Risk Management Committee (statutory)  
SEHK – member of Listing Nominating Committee

**Other major offices**

**China Construction Bank Corporation** \*  
– independent non-executive director (2013~)  
**Chong Hing Bank Limited** \* – deputy chairman, executive director and managing director (2014~)  
**First Pacific Company Limited** \*  
– independent non-executive director (2012~)  
**Li & Fung Limited** \* – independent non-executive director (2013~)  
**QBE Insurance Group Limited** (listed on the Australian Securities Exchange) – independent non-executive director (2013~)  
**Sun Hung Kai Properties Limited** \*  
– independent non-executive director (2013~)  
**The Hong Kong Jockey Club** – steward (2014~)<sup>2</sup>  
**Yuexiu Financial Holdings Limited** – vice-chairman, executive director and chief executive (2014~)

**Past offices**

**Hang Seng Bank Limited** \*  
– vice-chairman and chief executive (2009-2012)  
**HSBC Group** – global co-head, commercial banking (2003-2009)  
**HSBC Holdings plc** \* – group general manager (2005-2012)  
**Hutchison Whampoa Limited** \*  
– independent non-executive director (2009-2012)  
**Swire Pacific Limited** \*  
– independent non-executive director (2008-2012)  
**Wells Fargo HSBC Trade Bank, NA** – director (2007-2010)

**Public service**<sup>3</sup>

**Hospital Authority**  
– board member and member of Finance Committee (2011~)  
**Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development** – member (2012~)  
**The Guangzhou Municipal Committee of the Chinese People’s Political Consultative Conference** – member (2008~)  
**The Henan Provincial Committee of the Chinese People’s Political Consultative Conference** – member of Standing Committee (2009~)  
**The National Committee of the Chinese People’s Political Consultative Conference** – member (2013~)

**Qualifications**

**Bachelor in Economics, Accounting and Business Administration**  
(The University of Hong Kong)



**John Mackay McCulloch  
WILLIAMSON**

INED  
Aged 56

Director since 18 June 2008  
Term of office: 23 April 2012  
(re-elected) to 2015 AGM

**Other positions held within the Group**

HKEx – member of Audit Committee, Environmental, Social and Governance Committee, Nomination Committee and Remuneration Committee

**Other major offices**

**SAIL Advisors Limited** – chief executive officer (2011~)  
**Search Investment Group Limited** – senior managing director (2012~) and chief financial officer (2007~)

**Past offices**

HKEx – member of Clearing Consultative Panel (2000-2007)  
**Morgan Stanley Dean Witter Asia Limited** – managing director, and head of infrastructure and operational risk (1998-2007)  
**NatWest Investment Services, London**  
– managing director (1992-1994)  
**NatWest Securities Asia Holdings Limited**  
– chief operating officer (1994-1998)  
**Search Investment Group Limited** – managing director (2007-2011)

**Qualifications**

**Bachelor of Arts (Accountancy & Computer Science)**  
(Heriot-Watt University, UK)  
**Chartered Accountant** (The Institute of Chartered Accountants of Scotland)  
**Fellow** (Chartered Institute for Securities and Investment, UK)  
**Senior Fellow** (Hong Kong Securities and Investment Institute)



**WONG Sai Hung, Oscar**

INED  
Aged 59

Director since 15 April 2003  
Term of office: 24 April 2013  
(re-elected) to 2016 AGM

\* Currently listed on the Stock Exchange

1 Ceased to be the deputy chairman and appointed as the chairman effective 5 November 2014

**Other positions held within the Group**

**HKEx** – chairman of Investment Advisory Committee<sup>1</sup>, member of Nomination Committee and Panel Member Nomination Committee, and chairman of Clearing Consultative Panel  
**HKSCC** – chairman of Disciplinary Appeals Committee

**Other major offices**

**China Bio-Med Regeneration Technology Limited** \*  
– chairman (2014~) and non-executive director (2013~)  
**Credit China Holdings Limited** \* – non-executive director (2014~)  
**JPMorgan Chinese Investment Trust plc** (listed on the London Stock Exchange) – independent non-executive director (2014~)  
**Ping An Insurance (Group) Company of China Ltd** \*  
– independent non-executive director (2013~)

**Past offices**

**ARN Asian Enterprise Fund Limited** (formerly listed on the Irish Stock Exchange) – non-executive director (2006-2012)  
**ARN Investment Sicav** (listed on the Luxembourg Stock Exchange) – non-executive director (2010-2014)  
**BOCI-Prudential Asset Management Limited**  
– chief executive officer (2001-2005)  
**China Bio-Med Regeneration Technology Limited** \*  
– chairman and executive director (2012-2013), vice-chairman (2009-2012 and 2013-2014), and non-executive director (2008-2012)  
**ICBC (Asia) Investment Management Company Limited**  
– business adviser (2012), and chief executive and executive director (2008-2011)  
**INVESCO Asia Limited** – deputy chief executive (1998)  
**LW Management Advisors Limited** – executive director (2013-2014)  
**Prudential Portfolio Managers Asia**  
– regional managing director (1999-2000)

**Qualifications**

**Higher Diploma in Business Studies (Marketing)**  
(The Hong Kong Polytechnic University)

## Company Secretary



**MAU Kam Shing, Joseph**

Company Secretary and  
Head of Secretarial Services  
Aged 56

Joined in June 2000

**Past offices**

**Hysan Development Company Limited**  
– company secretary (1988-2000)  
**Impala Pacific Corporation Limited**  
– financial controller and company secretary (1986-1988)  
**Deloitte Haskins & Sells** – audit senior (1981-1984)

**Qualifications**

**Master of Science (Business Administration)**  
(The University of Bath, UK)  
**Master of Laws in Corporate and Financial Laws**  
(The University of Hong Kong)  
**Fellow** (The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators, and Association of Chartered Certified Accountants)  
**Associate** (HKICPA, and Institute of Chartered Accountants in England & Wales)

## Senior Management



**CHENG Wai Ching, Margaret**

Group Head of Human Resources

Aged 49

Joined in August 2013

**Past offices**

**The Hongkong and Shanghai Banking Corporation Limited**  
(2001-2013: head of human resources, Hong Kong and global businesses, Asia Pacific (2011-2013), head of human resources, regional personal financial services & Hong Kong (2009-2011), head of human resources, China (2004-2009), head of human resources, treasury & capital markets, Asia Pacific (2002-2004), and head of human resources, investment banking division, Asia Pacific (2001-2002))  
**Bank of America** – vice president, regional human resources (2001)  
**JP Morgan** – vice president, human resources (1997-2001)  
**Citibank** – human resources manager (1993-1997)

**Qualifications**

**Bachelor of Arts (Business Administration)**  
(California State University, US)  
**Master of Business Administration**  
(Kellogg School of Management, Northwestern University, US, and The Hong Kong University of Science and Technology)



**CHOW Tang Bill, Bill**

Chief Technology Officer and  
Co-head of Information Technology  
Aged 58

Joined in May 1993

**Past offices**

**Systemk Information Technology Limited**  
– senior project manager (1991-1993)  
**Westpac Banking Corporation (Australia)**  
– consultant applications engineer (1987-1991)  
**China Light & Power Company Limited**  
– senior systems analyst (1985-1987)

**Qualifications**

**Bachelor of Science (Computer Science & Chemistry)**  
(The University of Hong Kong)  
**Master of Science (Electronic Commerce)**  
(City University of Hong Kong)



**David GRAHAM**

Chief Regulatory Officer and  
Head of Listing  
Aged 56

Joined in January 2013

**Other positions held within the Group**

**LME** – chairman of Enforcement Committee, and member of Arbitration Panel Committee, Audit and Risk Committee, and Special Committee

**Past offices**

**Nomura** – global head of legal and general counsel, wholesale division (2011-2013)  
**UBS** (2004-2011: global/co-global general counsel (UBS Investment Bank) (2008-2011), group general counsel (Europe, Middle East and Africa) (2009-2011), and general counsel (Asia Pacific) (2004-2008))  
**Morgan Stanley** – general counsel, Asia ex-Japan (2001-2004)  
**Freshfields Bruckhaus Deringer LLP**  
(1982-2001: partner (1991-2001))

**Public service**

**SFC** – member of Advisory Committee (2013~)  
**Standing Committee on Company Law Reform** – member (2013~)  
**UK Takeover Panel** – member of the Code Committee (2012~)

**Qualifications**

**Master of Arts (Jurisprudence)** (The University of Oxford, UK)  
**Solicitor** (Hong Kong, and England & Wales)





**James Henry Carre  
INGROUILLE**

Chief Operating Officer  
Aged 44

Joined in July 2012

**Past offices**

**HKEx** – Chief Administrative Officer (2012-2013)  
**Morgan Stanley** (1994-1997, 1999-2012: managing director (2006-2012); global head of collateral management (2008-2011))  
**Bankers Trust Company (Hong Kong)**  
 – Asia head, network management (1997-1999)  
**London Stock Exchange** – international relations analyst (1992-1994)

**Qualifications**

**Bachelor of Science (Computational Linguistics and Modern Languages)** (University of Manchester, UK)



**Garry Peter JONES**

Co-head of Global Markets  
Aged 56

Joined in September 2013

**Other positions held within the Group**

**HKEx Investment (UK) Limited** – chairman  
**LME** – chief executive, chairman of Executive Committee, vice chairman of Aluminium Committee, and member of Charity Committee, Enforcement Committee, Trustee Committee (LME Pension Scheme) and User Committee

**Past offices**

**NYSE Euronext** – group executive vice president and head of global derivatives (2009-2012)  
**NYSE LIFFE** – chief executive officer (2007-2009)  
**ICAP Electronic Broking** – chief executive officer (2003-2006)  
**Brokertec Europe Limited**  
 – chief executive officer and president (1999-2003)

**Qualifications**

**Bachelor and Master of Arts (Geology)** (University of Oxford, UK)  
**Master of Business Administration** (Stanford University, US)



**Paul Michael KENNEDY**

Group Chief Financial Officer  
Aged 57

Joined in January 2013

**Past offices**

**HKEx** – special adviser to HKEx's Chief Executive (2012-2013)  
**The Hongkong and Shanghai Banking Corporation Limited**  
 – managing director, financial institutions group of Hong Kong's global banking division (2010-2012)  
**SFC** – several senior positions including chief operating officer and executive director (2006-2010)  
**KPMG** (1983-2006: financial services partner of KPMG Hong Kong (1991-2006) and managing partner of KPMG's Shanghai office (2000-2005))

**Qualifications**

**Bachelor of Arts (Accounting and Financial Administration)** (Bangor University, UK)  
**Fellow** (HKICPA, and Institute of Chartered Accountants in England & Wales)



**Romnesh LAMBA**

Co-head of Global Markets  
Aged 51

Joined in February 2010

**Other positions held within the Group**

**HKFE** – chief executive  
**LME** – member of Enforcement Committee, Special Committee and Trustee Committee (LME Pension Scheme)  
**LME Clear** – member of Nomination Committee  
**SEHK** – chief executive

**Past offices**

**HKEx** – Head of Market Development (2010-2013)  
**JP Morgan (Hong Kong)** – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010)  
**Merrill Lynch (Asia Pacific)** (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006))  
**Indosuez WI Carr Securities (Hong Kong)** – head of equity capital markets and director, investment banking (1997-2000)

**Qualifications**

**Bachelor of Science in Economics (Magna Cum Laude)** and **Master of Business Administration (Distinction)** (The Wharton School, University of Pennsylvania, US)



**LEUNG Chung Kwong, Richard**

Co-head of Information Technology  
Aged 51

Joined in October 2011

**Past offices**

**Chi-X Global** – chief technology officer (2008-2011)  
**Cicada Corporation** – chief technology officer (1999-2008)  
**Telerate Inc** – regional technical development manager, Asia Pacific (1985-1999)

**Qualifications**

**Master of Science (E-Commerce)** (The Hong Kong Polytechnic University)



**Ketan B PATEL**

Group Risk Officer  
(effective 1 January 2015)  
Aged 36

Joined in September 2011

**Past offices**

**HKEx** – Co-head of Clearing Risk Management and Head of FIC and OTC Clearing Risk Management (2013-2014) and Co-deputy Head of Risk Management (2012-2013)  
**OTC Clear** – chairman of Default Management Group (2013-2014)  
**CME Group** (2005-2011: executive director (2009-2011), and director of risk management (2009))

**Qualifications**

**Bachelor in Management** (Purdue University, US)  
**Master of Business Administration (Economics and Analytical Finance)** (Booth School of Business, The University of Chicago, US)



### Trevor William SPANNER

Head of Global Clearing (Europe)  
(effective 1 April 2014)

Aged 55

Joined the LME in November 2011

#### Other positions held within the Group

**LME** – member of Executive Committee  
**LME Clear** – chief executive and chairman of Executive Committee

#### Past offices

**LME** – Head of Post Trade Services (2011-2013)  
**European Central Counterparty Ltd (EuroCCP)**  
– chief operating officer (2007-2011)  
**Merrill Lynch Europe** – managing director (European) and head of transaction and custody services (2001-2006)  
**UBS AG** – managing director (global operations and logistics division) (1996-2001)

#### Qualifications

**Bachelor of Arts** (University of Kent, UK)  
**Associate** (Institute of Chartered Accountants in England & Wales)



### TAI Chi Kin, Calvin

Head of Global Clearing (Asia)  
(effective 1 April 2014)

Aged 52

Joined in July 1998

#### Other positions held within the Group

**HKSCC** – chief executive and member of Risk Management Committee  
**OTC Clear** – chief executive and chairman of User Committee

#### Other major office

**China Exchanges Services Company Limited** – director (2012~)

#### Past offices

**HKEx** – Co-head of the Equities and Fixed Income and Currency Business (2013-2014); Head of Trading Division (2010-2013), and Head of Derivatives Market Development and Operations (2003-2010)  
**HKFE** – head of products (1998-2000)  
**ABN-Amro Bank NV**  
– senior vice president of treasury division (1995-1998)  
**Royal Bank of Canada** – head of treasury department (1994-1995)  
**HSBC** – various positions in general banking and treasury (1984-1994)

#### Qualifications

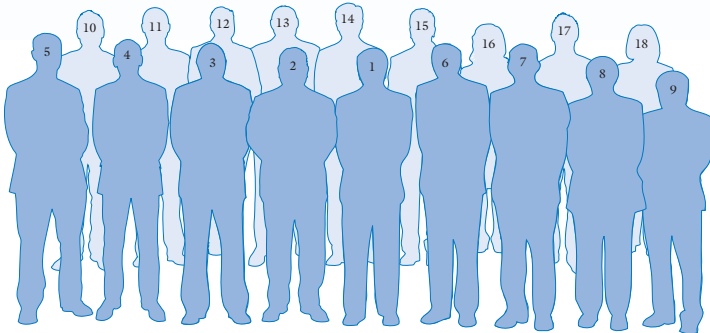
**Bachelor of Social Sciences** (The University of Hong Kong)

Messrs David Graham, Henry Ingrouille, Garry Jones, Paul Kennedy, Romnesh Lamba, Richard Leung, Trevor Spanner and Calvin Tai also hold positions as a director in certain HKEx's subsidiaries.





### Management Committee



- |   |                  |    |                     |
|---|------------------|----|---------------------|
| 1 | Charles Li       | 10 | Adrian Farnham      |
| 2 | Garry Jones      | 11 | Mao Zhirong         |
| 3 | David Graham     | 12 | Ketan Patel         |
| 4 | Stuart Sloan     | 13 | Trevor Spanner      |
| 5 | Henry Ingrouille | 14 | Calvin Tai          |
| 6 | Romnesh Lamba    | 15 | Roger Lee           |
| 7 | Paul Kennedy     | 16 | Christine Wong      |
| 8 | Bill Chow        | 17 | Matthew Chamberlain |
| 9 | Richard Leung    | 18 | Margaret Cheng      |

# BUSINESS REVIEW

## Major Achievements and Key Initiatives

### Cash Segment

#### 2014 Achievements

- Implemented new sponsor regime including new publication requirement, and conducted implementation review
- Facilitated inaugural listing of perpetual preference shares offered to professional investors only and sukuk debt sold by Government
- Published:
  - consultation conclusions on review of connected transaction Rules
  - consultation conclusions on amendments to Corporate Governance Code and Corporate Governance Report relating to risk management and internal control
  - concept paper on WVR
  - consultation paper on review of Listing Rules on disclosure of financial information with reference to the new Companies Ordinance and HKFRSs and proposed minor/housekeeping Rule amendments
  - amendments to Chapter 20 of Main Board Listing Rules governing Authorised Collective Investment Schemes
  - report on key observations and findings from a review of 120 periodic financial reports released by issuers (review focused on compliance with disclosure requirements of Listing Rules and accounting standards)
  - report on findings and recommendations from a review of all listed issuers' annual reports (review focused on compliance with Listing Rules and disclosure of material events and developments)
- Reviewed various listing-related matters, including listing process for GEM applications, application of reverse takeover rules in Listing Rules, Hong Kong depository receipts, independent financial advisers (IFA) requirements and fairness opinions prepared by IFA, warrant placing under general mandate by issuers and contractual arrangements adopted by issuers for their businesses
- Launched Shanghai-Hong Kong Stock Connect
- Launched market data exchange programme with SSE
- Introduced market data promotion programmes to support Southbound Trading
- Launched MMDH in Shanghai
- Facilitated launch of 12 ETFs on Stock Exchange, including the first RQFII ETFs tracking Mainland's onshore bond market and A-share sector
- Co-hosted ETFs & Options Investment Expo and ETF & Stock Investment Simulation Game to promote ETF market to retail investors
- Introduced Throttle-on-Demand Scheme for EPs' subscription of temporary throttles
- Launched CES 280 and new index series on Stock Connect scheme by CESC

#### 2015 Initiatives

- Publish:
  - consultation conclusions on review of Listing Rules on disclosure of financial information with reference to the new Companies Ordinance and HKFRSs and proposed minor/housekeeping Rule amendments
  - responses to concept paper on WVR
  - consultation paper on proposed amendments to the Environmental, Social and Governance Reporting Guide
- Review various listing-related matters, including placing guidelines, disciplinary and review procedures under Chapters 2A and 2B of Main Board Listing Rules and GEM Listing Rules equivalent, and issuers' compliance with Corporate Governance Code
- Continue to discuss auditor regulatory reform
- Implement Stock Connect enhancements
- Prepare for expansion of connect initiatives to other asset classes
- Publish consultation paper and conclusions on VCM and CAS and commence related development subject to consultation conclusions
- Develop new market data promotion programmes to increase accessibility of real-time data in Mainland
- Review commercial package for non-display usage of Cash Market data
- Enhance Vendor Information and Reporting System

## Equity and Financial Derivatives Segment

### 2014 Achievements

- Introduced Mini-HSI Futures, Mini H-shares Index Futures, USD/CNH Futures and 3 London Metal Mini Futures in AHFT session
- Extended closing time of AHFT session for stock index futures and USD/CNH Futures to 11:45 pm and extended block trade facility to AHFT session
- Added a fourth calendar quarter month, more calendar spreads and new market makers for USD/CNH Futures
- Introduced 10 new stock option classes
- Expanded Primary Market Maker programme to a total of 17 stock option classes
- Introduced market maker protection function for Primary Market Makers and Continuous Quote Market Makers for selected stock option classes
- Obtained approval from Taiwan Financial Supervisory Commission to allow Taiwan investors to trade 40 stock option classes
- Provided real-time stock options prices on Stock Options Mobile Apps
- Enhanced Derivatives Market data promotion programme to include Asia Commodities products and cover Australia, India and other Asia-Pacific countries
- Strengthened cooperation with professional associations by joining Treasury Markets Association as an institutional member
- Hosted 1<sup>st</sup> RMB FIC Conference

### 2015 Initiatives

- Introduce new products, including sector index futures and Mini H-shares Index Options
- Publish consultation paper and conclusions on VCM and commence related development subject to consultation conclusions
- Launch FIC risk management products for interest rates and currencies
- Explore proposed relaxation of position limit for stock options with SFC
- Strengthen Large Open Positions monitoring in stock index futures and options
- Develop Primary Market Maker programme for stock index options
- Enhance continuous quote market making obligations in stock options and stock index options
- Extend coverage of Stock Options Mobile Apps to stock index options
- Review commercial package for non-display usage of Derivatives Market data
- Enhance Vendor Information and Reporting System
- Develop market depth and liquidity in existing RMB futures market
- Apply for class relief from US Securities and Exchange Commission for plan to familiarise US institutional investors with stock options and H-shares Index Options
- Host 2<sup>nd</sup> RMB FIC Conference

## Commodities Segment

### 2014 Achievements

- Launched LMEstage to provide LME Members and their clients a real-time synthetic test environment
- Commenced investment programme for LME Ring
- Launched LMEnet to provide market participants a fast, reliable and secure connection to LME and LME Clear electronic systems
- Launched LMEbullion to provide reference prices for the platinum and palladium markets
- Announced new LME transaction fees
- Organised LME Week in London, LME Week Asia in Hong Kong, LME Singapore Metals Night and LME Dinner Downunder in Australia
- Increased LME footprint in various aspects, including membership base, brand listings, warehousing, market data and training
- Introduced first Asia commodities contracts – London Metal Mini Futures
- Introduced HKFE/LME Reciprocal Membership Arrangement
- Strengthened cooperation with professional associations in Hong Kong through LME training and briefings on new commodities products

## Commodities Segment

### 2015 Initiatives

- Introduce additional RMB-denominated, monthly cash-settled London metal mini futures for trading on HKFE
- Explore launching additional commodities products such as API 8 thermal coal futures for trading on HKFE
- Launch LME premium contracts and ferrous contracts
- Develop LME precious metals initiatives
- Study introduction of bulk commodities futures contracts for trading on HKFE
- Continue with warehouse reform
- Explore Asian connectivity into LME clearing, membership and pricing initiatives
- Study Asia Commodities market data offerings
- Organise LME Week, LME Week Asia, LME Singapore Metals Night and LME Dinner Downunder
- Expand HKFE/LME Reciprocal Membership Arrangement
- Recruit new LME Members from Asia
- Organise more training to promote the Group's commodities business in particular in Asia

## Clearing Segment

### 2014 Achievements

- Submitted applications to ESMA for recognition of HKSCC, HKCC, SEOCH and OTC Clear as third country CCPs
- Published PFMI disclosure documents for HKSCC, HKCC, SEOCH and OTC Clear
- Completed registration with US Internal Revenue Service by HKSCC, HKCC, SEOCH and OTC Clear as a "Reporting Financial Institution under a Model 2 Intergovernmental Agreement"
- Discontinued accepting bank guarantees as collateral and formulated various plans by HKSCC, HKCC and SEOCH to ensure compliance with PFMI
- Implemented operational and system changes by OTC Clear to ensure compliance with FATCA
- Delivered clearing services and risk management support to facilitate launch and enhancement of HKEx's products and services, including Stock Connect scheme, London Metal Mini Futures, extension of AHFT close
- Recovered 35 per cent of HKSCC's admitted claims from LBSA's liquidators
- Received no-action relief from US CFTC to allow OTC Clear to admit US persons as Clearing Members
- Developed client clearing risk management framework of OTC Clear and incorporated framework into rules and clearing procedures and risk policies of OTC Clear
- Launched LME Clear, a new clearing house for the LME market

### 2015 Initiatives

- Obtain third country CCP recognition for HKSCC, HKCC, SEOCH and OTC Clear in EU
- Formalise a custodian policy for selection of custodian banks for HKSCC, HKCC and SEOCH
- Develop risk management data repository for HKSCC, HKCC and SEOCH
- Conduct independent validation of risk management models and enhance recovery and resolution plans for HKSCC, HKCC and SEOCH
- Review use of credit rating agencies ratings by HKSCC, HKCC and SEOCH to assess creditworthiness of CPs
- Review Guarantee/Reserve Funds of HKSCC, HKCC and SEOCH, covering triggering and collection mechanisms
- Enhance HKSCC margining arrangements for collecting additional margin from CPs with major default losses in stress testing, and study introduction of multiple margin rates
- Consider introducing margin offsets for eligible derivatives with different underlying instruments and enhance concentration risk policy applicable to HKCC and SEOCH
- Introduce client clearing services, non-cash collateral services and expand product coverage, including cross currency swaps, by OTC Clear
- Enhance OTC Clear's collateral risk policy for acceptance of non-cash collateral
- Prepare for introduction of mandatory OTC derivatives clearing and reporting in Hong Kong
- Apply for exempt derivative clearing organisation status for OTC Clear from US CFTC
- Build LME Clear brand and establish capability through demonstrating robustness, resilience and risk management focus
- Expand clearing solution to support launch of LME premium futures and ferrous contracts, and accept RMB as collateral by LME Clear



## Platform and Infrastructure Segment

### 2014 Achievements

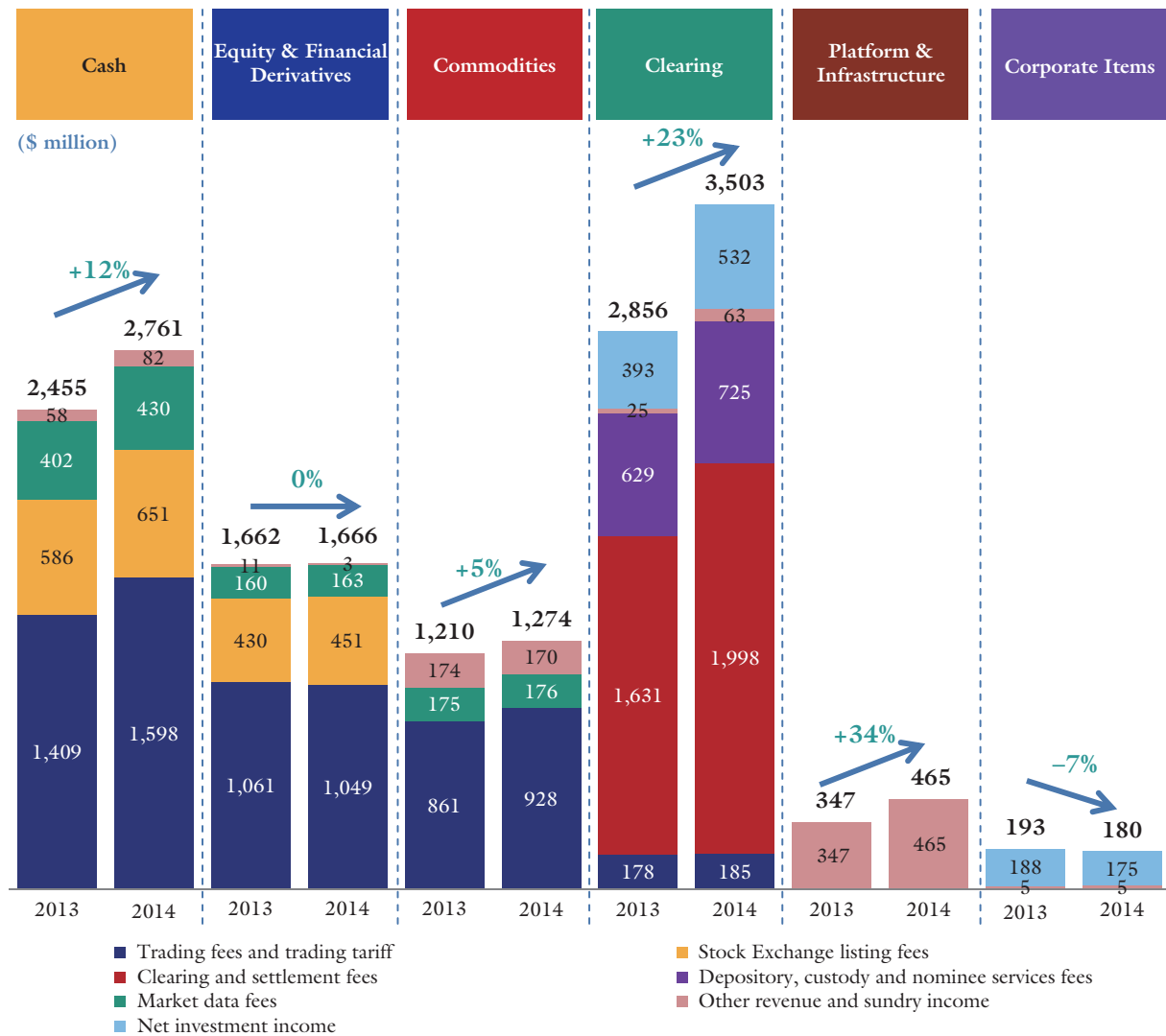
- Launched OCG for Cash Market
- Launched NSTD for Cash Market
- Launched MMDH for Cash Market data distribution in Mainland
- Launched OMD product feeds for Derivatives Market
- Completed technical design for new Cash Market trading platform – OTP-C
- Initiated CCASS modernisation study
- Completed IT security enhancement programme
- HKEx's enterprise data centre was awarded ISO27001 certification
- Provided new Hosting Services access to OMD, OCG and China Stock Connect System

### 2015 Initiatives

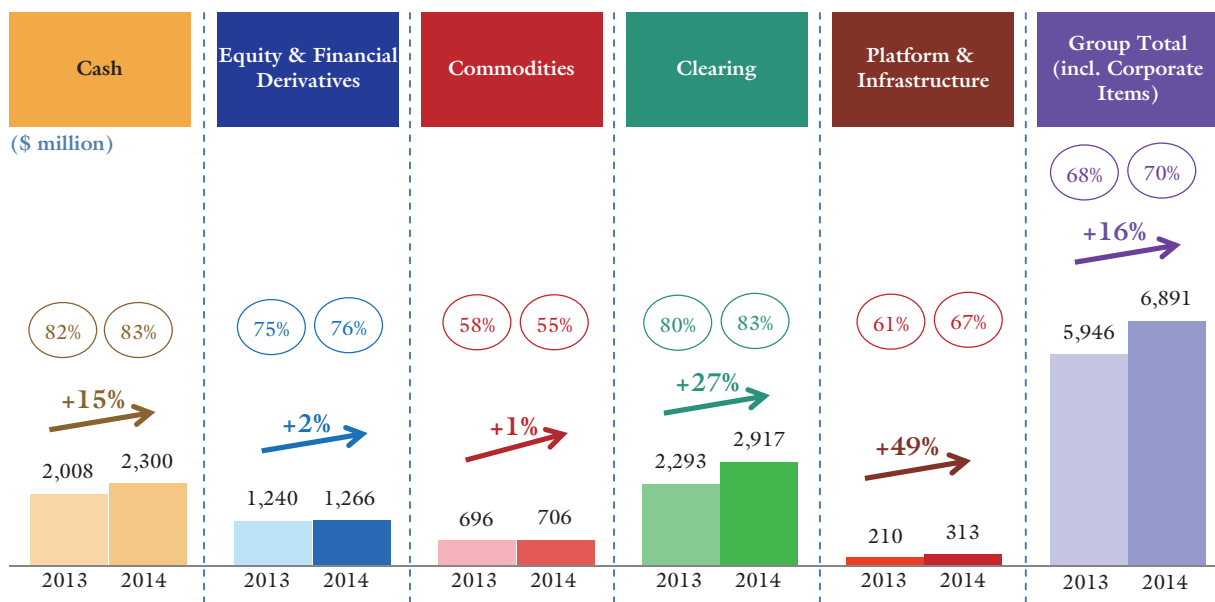
- Implement enhancements to OMD-D
- Commence specifications for and development of OTP-C
- Define architecture roadmap for next generation CCASS platform
- Enhance OMD to distribute SSE market data to support Stock Connect scheme
- Implement Pre-trade Risk Management function in Derivatives Market
- Study adoption of cloud computing technologies

## Business Update and Analysis of Results by Operating Segment

### Analysis of Revenue and Other Income by Segment



### Analysis of EBITDA and EBITDA Margin by Segment\*



% EBITDA margin = EBITDA divided by Revenue and Other Income

\* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

## Cash Segment

### Key Market Indicators

	2014	2013	Change
ADT of equity products on the Stock Exchange # (\$bn)	56.2	50.1	12%
Number of newly listed companies on the Main Board *	103	87	18%
Number of newly listed companies on the GEM	19	23	(17%)
Number of companies listed on the Main Board at 31 Dec	1,548	1,451	7%
Number of companies listed on the GEM at 31 Dec	204	192	6%
Total	1,752	1,643	7%
Market capitalisation of companies listed on the Main Board at 31 Dec (\$bn)	24,892	23,909	4%
Market capitalisation of companies listed on the GEM at 31 Dec (\$bn)	179	134	34%

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

\* Including 7 transfers from the GEM (2013: 8)

	2014 \$bn	2013 \$bn	Change
Total equity funds raised on the Main Board			
– IPOs	230.3	165.8	39%
– Post-IPO	699.0	204.0	243%
Total equity funds raised on the GEM			
– IPOs	2.2	3.2	(31%)
– Post-IPO	11.2	5.9	90%
Total	942.7	378.9	149%

### Business Update

#### Review of Listing Rules

In 2014, the Stock Exchange made various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2014 as well as the proposals under review in 2015 are set out in the 2014 Listing Committee Report which will be available on the HKEx website.

#### Proposals and Conclusions Made in 2014

	Consultation paper *	Consultation conclusions *	Effective date of changes (if any)
• Review of connected transaction Rules	Apr 2013	Mar 2014	1 Jul 2014
• Proposed changes to align the definitions of connected person and associate in the Listing Rules	Apr 2013	Mar 2014	1 Jul 2014
• Risk management and internal control: review of the Corporate Governance Code and Corporate Governance Report	Jun 2014	Dec 2014	Accounting periods beginning on or after 1 Jan 2016
• Review of Listing Rules on disclosure of financial information with reference to the new Companies Ordinance and HKFRSs and proposed minor/housekeeping Rule amendments	Aug 2014	Feb 2015	
– amendments unrelated to disclosure of financial information			1 Apr 2015
– amendments relating to disclosure of financial information			Accounting periods ending on or after 31 Dec 2015
• Concept paper on WVR	Aug 2014	First half of 2015 (tentative)	–

\* All the consultation papers and conclusions are available under the News & Consultations (Market Consultations) section of the HKEx website.

#### First Listing of New Products

2014 witnessed the first listing of perpetual preference shares issued by commercial banks to qualify as additional tier-1 capital. Carrying complex features with conversion triggers, the preference shares are offered to professional investors only. Two banks listed their preference shares in the last quarter of 2014, raising an aggregate of approximately RMB75 billion. The Government also sold its inaugural US\$1 billion five-year sukuk debt which was listed on the Stock Exchange in September 2014.

## IPO Processing, Compliance and Monitoring

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

### Statistics of IPO Work

	2014	2013
• Number of listing applications vetted	232 <sup>1</sup>	227
• Number of first comment letters issued to new listing applicants	147 <sup>2</sup>	144
– Average time (in business days) between receipt of application and issuance of first comment letter	10	14
• Number of applications brought to the Listing Committees (or their delegates) for decisions	140	138
– Number of applications reviewed by the Listing Committees (or their delegates) within 120 calendar days	101	74
– Number of applications reviewed by the Listing Committees (or their delegates) more than 180 calendar days	13	26
• Number of applications to which approval was granted in principle	148 <sup>3</sup>	146
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of the listing matters	124	108
– Average response time (in business days)	6	7
• Number of listing applications for transfer of listing from the GEM to the Main Board accepted	12	14

Notes:

- 1 Comprising 194 new applications and 38 existing applications brought forward from 2013
- 2 The number of comment letters was lower than the total number of new applications accepted because investment vehicles under Chapter 20 of the Main Board Listing Rules and transfer of listing from the GEM to the Main Board are not included. If the applications for transfers of listing from the GEM to the Main Board were included, the number of first comment letters issued would be 157 and the average number of days taken to issue these letters would be 10 business days.
- 3 As at the end of 2014, 21 approved applications had not been listed yet, and 8 approved applications had lapsed during the year.

### Number of IPO Transactions

	2014	2013
• New listing applications accepted in the year	194	177
• Applications listed	135	132
– Companies listed on the Main Board under Chapter 8	96	79
– Investment vehicles listed on the Main Board	12	18
– Transfers of listing from the GEM to the Main Board	7	8
– Companies listed on the GEM	19	23
– Deemed new listing(s)	1	4
• New listing applications rejected <sup>1</sup>	13	7
• New listing applications withdrawn	7	2
• Applications in process at year-end	39	38
• Active applications with approval granted but not yet listed at year-end	21	20

Note:

- 1 In 2014, 2 rejection decisions (2013: 1) were subsequently reversed by the Listing Committee upon review.

The Listing Rules complementing the new sponsor regulation introduced on 1 October 2013 came into full effect on 1 October 2014. During the period of 16 months between 1 October 2013 and 31 January 2015 (Relevant Period), the Stock Exchange made various enhancements to the existing guidance materials to clarify the requirements of the new regime to the market. With the issuance of new and revised guidance and the streamlining of the IPO vetting process, improvement in the quality of the Application Proof submissions and reduction in the vetting processing time were noted. The return rate<sup>1</sup> of listing applications during the second 8 months of the Relevant Period was 3 per cent as compared with 11 per cent during the first 8 months of the Relevant Period, and a 12 per cent reduction in the average number of calendar days taken to process an application for hearing by the Listing Committee/GEM Listing Approval Group in the second 8 months of the Relevant Period as compared with that in the first 8 months.

Note:

- 1 The return rate is the number of applications returned by the Stock Exchange expressed as a percentage of the total number of applications received during the Relevant Period.



The Stock Exchange's service standard for IPO cases accepted for vetting under the new sponsor regulation is summarised in the following table:

Action	Service standard	Cases accepted for vetting from 1 Jan to 31 Dec 2014			% of cases meeting service standard
		Number of business days taken			
		Average	Maximum	Minimum	
Issuance of the first round of comments	10 business days from the date of receipt of the listing application	10	16	7	73 <sup>1</sup>

Note:

- 1 A longer time was required for certain cases because there was an increase of 157 per cent of applications received in March 2014 against the same time in 2013. The increase in the number of applications might be attributed to the commencement of the requirement to publish an Application Proof on the HKExnews website on 1 April 2014.

#### Number of Compliance and Monitoring Actions

	2014	2013
• Announcements of issuers vetted	48,761	41,726
– Pre-vetted	161	151
– Post-vetted <sup>1</sup>	48,600	41,575
• Circulars of issuers vetted	1,761	1,581
– Pre-vetted	1,327	1,190
– Post-vetted	434	391
• Share price and trading volume monitoring actions undertaken <sup>2</sup>	7,417	5,287
– Clarification announcements published by issuers in response to enquiries on unusual share price and/or trading volume movements <sup>3</sup>	494	390
• Enquiries raised about press reports <sup>4</sup>	66	55
– Clarification announcements published by issuers in response to enquiries about press reports	26	32
• Complaints handled	445	454
• Cases (including complaints) referred to Listing Enforcement Team for investigation	22	25

Notes:

- 1 Including clarification announcements published by issuers in response to unusual share price and/or trading volume movements in their securities
- 2 In 2014, monitoring actions undertaken included 1,356 enquiries (2013: 1,015) on unusual share price and trading volume movements, and the actions undertaken led to 129 resumption announcements (2013: 81) on trading suspensions.
- 3 Including 210 qualified announcements (2013: 136) and 284 standard negative announcements (2013: 254)
- 4 Figures cover written enquiries only. The Stock Exchange also raised verbal enquiries to issuers in relation to press reports. In 2014, there were 65 (2013: 142) verbal enquiries and 17 (2013: 46) of them resulted in clarification announcements.

#### Post-vetted Announcements

	2014	2013
Subject to detailed post-vetting <sup>1</sup>	12,554	10,452
Required follow-up actions by the Stock Exchange	2%	3%
Required follow-up actions by issuers (eg, clarification announcements) <sup>2</sup>	28%	23%
Involved Listing Rules non-compliance <sup>2</sup>	11%	16%

Notes:

- 1 Representing 26 and 25 per cent of all post-vetted announcements in 2014 and 2013 respectively
- 2 Figures are presented as a percentage of the number of post-vetted announcements which required follow-up actions taken by the Stock Exchange and mainly involved minor Rule non-compliance and voluntary clarifications.

### Key Initiatives by the Stock Exchange in 2014 to Promote Issuers' Self-compliance with the Listing Rules

- Published consultation conclusions and guidance materials on Listing Rules amendments, including the Rule changes on connected transaction requirements
- Issued letters to issuers providing guidance to Rule compliance based on findings from the Stock Exchange's review of disclosure in issuers' annual reports and published a report to release the findings and recommendations to promote transparency and high quality disclosures by issuers
- Published a report of key findings and observations under the Financial Statements Review Programme to enhance transparency and improve the quality of financial disclosure in periodic financial reports
- Issued guidance letters on major areas affecting listed issuers, including the application of reverse takeover requirements, use of contractual arrangements for issuers' businesses, and opinion letters prepared by independent financial advisers under the Listing Rules
- Organised 13 seminars (11 sessions in Hong Kong, and 2 sessions in Beijing and Shanghai) for issuers and market practitioners on the Rule changes on connected transactions, review of inside information regime, corporate governance update and updates of Listing Rules compliance issues

The following table summarises the Stock Exchange's service standards for monitoring and guidance actions. It is the Stock Exchange's objective to continue improving the transparency, quality, efficiency and predictability of its service.

Service for initial responses	Service standard	% of cases meeting service standard	
		2014	2013
• Pre-vetting activities			
– Initial response to pre-vetted announcements	Same day	98%	98%
– Initial response to pre-vetted circulars (very substantial acquisition)	10 business days	99%	100%
– Initial response to pre-vetted circulars (other than very substantial acquisition)	5 business days	99%	99%
• Issuer enquiries <sup>1</sup>			
– Initial response to issuer's enquiries	5 business days	98%	98%
• Waiver applications <sup>2</sup>			
– Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	98%	98%
• Post-vetting activities			
– Initial response to post-vetted results announcements	5 business days	99%	98%
– Initial response to post-vetted announcements (other than results announcements)	1 business day	98%	99%

Notes:

1 In 2014, 387 written enquiries (2013: 415) on Listing Rules interpretations and related matters were handled.

2 In 2014, 357 waiver applications (2013: 344) from strict compliance with requirements under the Listing Rules were processed.

### Long Suspension

Status of long suspended companies (as at year-end)	Main Board		GEM	
	2014	2013	2014	2013
Resumption of trading of securities during the year	21	19	3	6
Cancellation/withdrawal of listing during the year	6	3	0	2
Companies in the third stage of delisting	2	4	N/A	N/A
Companies notified of the Stock Exchange's intention to cancel their listing <sup>1</sup>	0	0	3	2
Companies suspended for 3 months or more	37	39	8	8

Note:

1 For the GEM, the figures represent companies who had failed to maintain sufficient operations or assets to warrant their continued listing. In these cases, the Stock Exchange had notified the companies of its intention to cancel the companies' listing and place them in a one-stage delisting procedure (as compared to 3 stages for the Main Board).

### Listing Enforcement

Following the implementation of statutory backing for the obligation to disclose inside information in January 2013, work relating to the enforcement of that obligation has now passed to the SFC. This change has enabled the Stock Exchange to re-focus its Listing Rule enforcement activities in different directions. Five themes have been approved by the Listing Committee as the focus for investigation and enforcement during 2014, details of which are set out in the 2014 Listing Committee Report.

**Enforcement Statistics**

	2014	2013
Investigations <sup>1</sup>	60 <sup>2,3</sup>	69
Public censures <sup>4</sup>	4	5
Public statements/criticisms <sup>4</sup>	1	3
No sanction following disciplinary action	1	0
Warning/caution letters <sup>5</sup>	14	16

## Notes:

- Figures cover cases concluded during the year, and cases which remained active as at year-end.
- There were 20 outstanding investigations (80 per cent of which commenced in 2014) as at the end of 2014 as compared to 27 investigations (82 per cent of which commenced in 2013) as at the end of 2013.
- In 2014, 2 cases originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings after investigation.
- Figures represent only the primary regulatory action from a disciplinary matter. They exclude any other actions taken at a lower level, eg, private reprimand in the same case.
- The warning and caution letters were primarily delivered in circumstances where action before the Listing Committees was not considered appropriate.

**Primary Market Information**

The Latest Listed Company Information section of the HKExnews website, which housed a total of 2,034,373 archived issuer documents for public access free of charge as at the end of 2014, remained one of the most popular sections of the website during 2014. The Stock Exchange also administers the filing and publication of Disclosure of Interests (DI) notices through the HKExnews website in accordance with the SFC's requirements and specifications under Part XV of the SFO.

**Primary Market Information Statistics (Main Board and GEM)**

	2014	2013
Number of issuer news filings processed by the Stock Exchange	272,064 <sup>1</sup>	239,004
Hit rates for HKExnews website (m)	452	409
Number of searches for issuer documents (m)	74 <sup>2</sup>	49
Number of DI filings processed by the Stock Exchange	55,083	52,658
Hit rates for DI filings (m)	168	143

## Notes:

- The majority of issuers' submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx's control).
- Eighty per cent of searches were responded to within 0.1 seconds (excluding the Internet transmission time which is beyond HKEx's control).

**Client Business Development**

Apart from participating in seminars and meetings organised in different cities around the world to promote listing in Hong Kong, the Listing in Hong Kong Bi-monthly Newsletter was introduced on the HKEx website in 2014 to provide information about listing in Hong Kong.

**Shanghai-Hong Kong Stock Connect**

Shanghai-Hong Kong Stock Connect was launched on 17 November 2014. At launch, Hong Kong investors could trade 568 A shares listed on the SSE, and Mainland investors could trade 273 stocks listed on the Stock Exchange under the Stock Connect scheme. From the launch day to the end of December 2014, the average daily trading turnover (ie, the daily average of the buy trade value and sell trade value) of Northbound Trading and Southbound Trading was RMB5,584 million and HK\$929 million respectively. As at 31 December 2014, there were 97 China Connect Exchange Participants and 63 Trade-through Exchange Participants registered to participate in Northbound Trading, while there were 89 members of the SSE registered to participate in Southbound Trading. The total revenue and other income generated by the Stock Connect during 2014 was approximately \$68 million.

To increase public knowledge of the Stock Connect scheme, HKEx participated in more than 240 investor education seminars held in and outside Hong Kong. Over 28,000 market participants, including institutional investors, retail investors and brokers, attended the events. Market participants who want updates on the scheme can read the Bi-weekly Investor Newsletter – Shanghai-Hong Kong Stock Connect on the HKEx website.

HKEx and the SSE have been exchanging free 1-price depth data from the eligible stocks for Northbound Trading and Southbound Trading to increase the visibility of real-time data. The Members and Participants of the two exchanges can use the data internally free of charge and provide the data to their trading clients. Other programmes such as free-trial services, volume discounts and enhanced Basic Market Price features have also been introduced to further improve the accessibility of real-time Hong Kong market data in the Mainland. HKEx introduced short selling for eligible A shares on 2 March 2015 and will continue to introduce enhancements to facilitate Northbound Trading.

### Mainland Development

As evidenced by, among other things, the launch of Stock Connect, the Mainland's capital market reform and opening up has accelerated. Against this backdrop, HKEx has stepped up liaison and promotional efforts in the Mainland to explore new business opportunities.

Throughout the year, HKEx continued to undertake market promotion activities all over the Mainland. Another new initiative, the “Institute-Connect” was also introduced for better reaching out to Mainland business partners including exchanges, market intermediaries, industry associations and government agencies. In its first year, the programme comprised more than 100 events in different Mainland cities that HKEx organised or participated in to promote its businesses, including the Stock Connect scheme. HKEx also arranged exchange and training programmes for officials from various Mainland authorities to foster an understanding of different markets and to pave the way for future cooperation opportunities.

### ETF Market Development

In 2014, there were 12 ETFs newly listed on the Stock Exchange (2013:16) and 6 ETFs delisted (2013: Nil). As at the end of 2014, HKEx had 122 listed ETFs (2013: 116), 26 ETF managers (2013: 24) and 34 ETF market makers (2013: 33), and 20 ETFs had RMB counters (2013: 14). The total turnover of ETFs of \$1,167.7 billion in 2014 was a record high (2013: \$903.1 billion), accounting for 7 per cent (2013: 6 per cent) of the total market turnover. The higher turnover of ETFs in the second half of 2014 was attributed to improved market sentiment towards A shares.

Underlying benchmark of ETFs newly listed in 2014	Number
Regional markets	3
A-share market	2
A-share sectors	2
Onshore RMB bonds	2
European market	1
Hong Kong sector	1
Investment grade bond	1

In the 2014-15 Budget, the Financial Secretary proposed waiving the stamp duty for the trading of all ETFs, to reduce the transaction costs of Hong Kong-listed ETFs, thus facilitating the development, management and trading of ETFs in Hong Kong. Following the passage of the Stamp Duty (Amendment) Bill 2014 on 4 February 2015 in the Legislative Council, a stamp duty waiver for all ETFs listed in Hong Kong took effect on 13 February 2015.

The HKEx website was awarded the 10<sup>th</sup> Annual ETF Global Awards – Most Informative ETF Website in Asia-Pacific by [exchangetradedfunds.com](http://exchangetradedfunds.com) and the Stock Exchange was awarded the Asia-Pacific Structured Products Awards 2014 – Best Exchange by [StructuredRetailProducts.com](http://StructuredRetailProducts.com).

### Service Enhancement

The new Throttle-on-Demand Scheme became effective on 2 January 2015 enabling EPs to temporarily increase their system capacity for trading on the securities market in Hong Kong on a daily or monthly basis.



## CESC

In July 2014, CESC launched the CES 280, which enlarged the aggregate market value of the Mainland stocks in its Cross Border Index Series from 50 per cent to 70 per cent. The CES 280 has a well-balanced mix of sectors, including industrial, financial and consumer discretionary, with no individual sector covering more than 20 per cent of the index.

CESC launched a new index series on the Stock Connect scheme on 15 December 2014. The series, comprising the CES SHSC300 and CES SCHK100, provides market participants with a benchmark to measure the performance of the stocks admitted under the scheme.

## Mainland Market Data Hub in Shanghai

HKEx launched the MMDH in Shanghai in March 2014 to strengthen HKEx's Mainland connectivity and enable Mainland investors to access HKEx's market data through a reliable, scalable and cost-effective infrastructure. It offers securities market and index datafeed products and is the first significant technical infrastructure footprint in the Mainland. As at 31 December 2014, 5 IVs were connected to the MMDH.

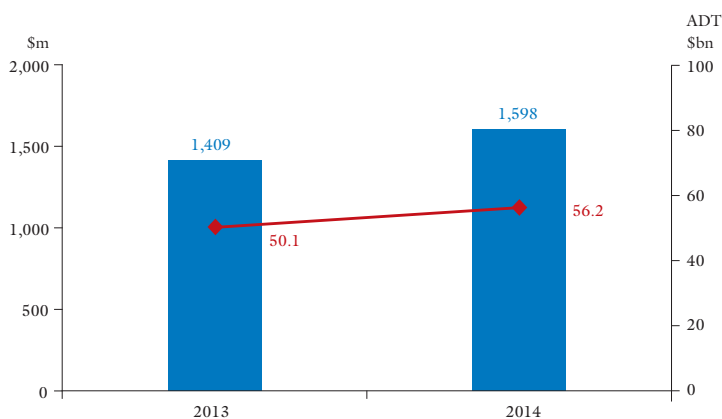
## Analysis of Results

### Summary

	2014 \$m	2013 \$m	Change
Trading fees and trading tariff #	1,598	1,409	13%
Stock Exchange listing fees #	651	586	11%
Market data fees #	430	402	7%
Other revenue	82	58	41%
Total revenue	2,761	2,455	12%
Operating expenses	(461)	(447)	3%
EBITDA	2,300	2,008	15%
EBITDA margin	83%	82%	1%

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

### Trading Fees and Trading Tariff



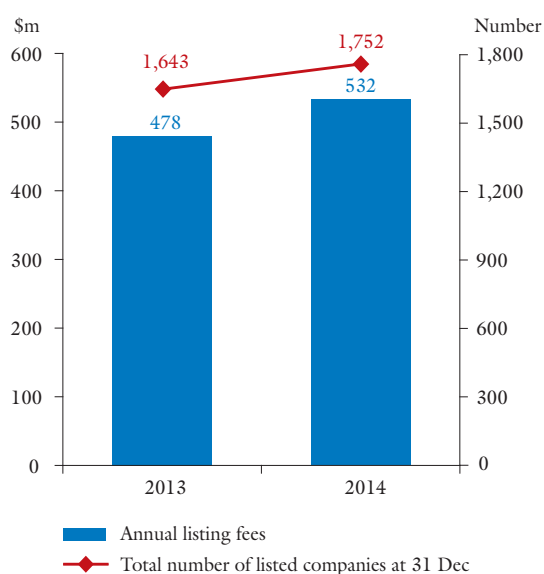
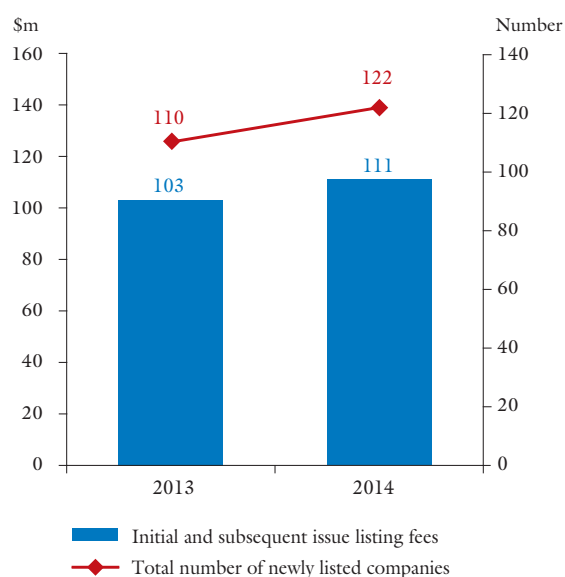
Trading fees and trading tariff rose by 13 per cent or \$189 million due to a rise in ADT of equity products by 12 per cent and a 1 per cent increase in the number of trading days.

■ Trading fees and trading tariff  
◆ ADT of equity products on the Stock Exchange #

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

### Stock Exchange Listing Fees

	2014 \$m	2013 \$m	Change
Annual listing fees	532	478	11%
Initial and subsequent issue listing fees	111	103	8%
Others	8	5	60%
Total	651	586	11%

**Annual Listing Fees****Initial and Subsequent Issue Listing Fees**

Annual listing fees increased with the rise in the total number of listed companies. The 11 per cent increase in annual listing fees was higher than the 7 per cent increase in the number of listed companies due to the full year impact of the annual listing fees of companies newly listed in 2013 as nearly 60 per cent of these companies were listed in the fourth quarter of 2013.

Initial and subsequent issue listing fees increased with the number of newly listed companies, but was partly offset by a lower number of lapsed and withdrawn IPO applications not listed within 6 months of application.

**Market Data Fees**

Market data fees increased by 7 per cent or \$28 million due to the full year effect of new datafeeds, following the launch of OMD in the second half of 2013, together with greater demand for non-display data services.

**Other Revenue**

Other revenue increased by 41 per cent or \$24 million arising from higher brokerage fees on direct IPO allotments.

**EBITDA**

Operating expenses increased by 3 per cent or \$14 million mainly due to increased staff costs, on headcount increases for Stock Connect and other initiatives, which was partly offset by lower premises costs upon renewal of certain leases. Coupled with a 12 per cent increase in revenue and other income, EBITDA margin edged up by 1 per cent from 82 per cent to 83 per cent.

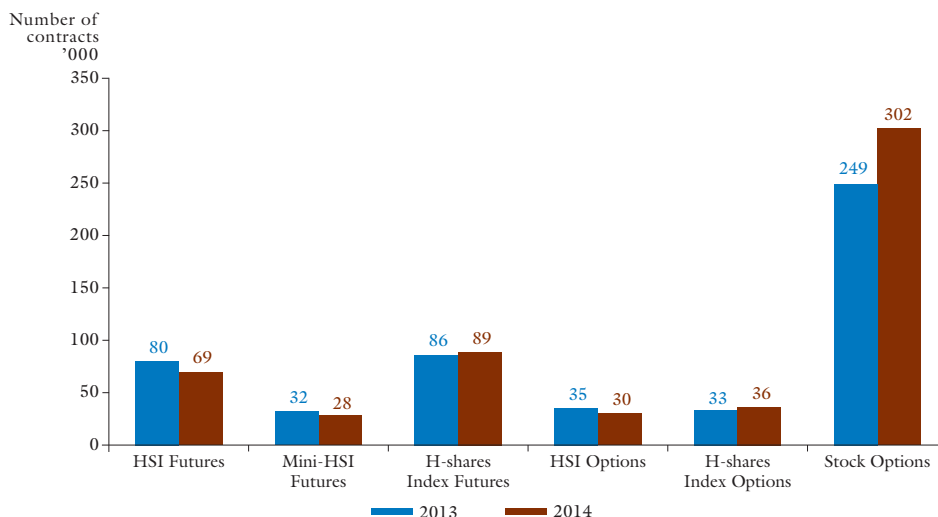
**Equity and Financial Derivatives Segment****Key Market Indicators**

	2014	2013	Change
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	13.3	12.5	6%
Average daily number of derivatives contracts traded on the Futures Exchange	274,879	283,610	(3%)
Average daily number of stock options contracts traded on the Stock Exchange	301,797	249,295	21%
Number of newly listed DWs	7,560	7,264	4%
Number of newly listed CBBCs	9,983	8,948	12%

## Business Update

It was a record year for the futures and options market in terms of total trading volume with 142,439,039 contracts (up 10 per cent from the previous year) and year-end total open interest of 7,960,406 contracts (up 28 per cent from the previous year). The growth in the H-shares Index products was also noteworthy in 2014 with total trading volume and year-end open interest increased by 10 per cent and 16 per cent respectively.

### Average Daily Turnover of Major Derivatives



### Record High Volume and Open Interest Achievements in 2014

	Volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
H-shares Index Futures	–	–	24 Dec	335,684
Mini H-shares Index Futures	5 Dec	51,414	11 Dec	16,436
H-shares Index Options	5 Dec	115,258	29 Dec	1,560,676
CES 120 Futures	–	–	27 May	1,178
USD/CNH Futures	19 Mar	6,318	14 Feb	23,887
Flexible H-shares Index Options	–	–	29 Dec	40,290
Stock Options	5 Dec	865,463	29 Dec	10,319,511

### Stock Options Market Development

The trading volume of Stock Options in 2014 increased 23 per cent from the previous year to 74,543,861 contracts and year-end open interest increased 33 per cent from the previous year to 6,320,147 contracts; both are record highs. At the end of December 2014, there were 80 stock option classes available for trading, including 10 new stock option classes introduced in 2014, 40 of which could be traded by Taiwan investors. 17 option classes were under the Primary Market Maker programme and accounted for 79 per cent of total stock options volume in 2014. A market maker protection function was introduced in January 2014 to enable market makers to provide more quotes and narrower spreads with lower simultaneous execution risk on selected stock option classes.

To increase investor interest, real-time stock option prices were made available on the HKEx Stock Options Mobile Apps from December 2014. In addition, 4 educational videos with market commentators were produced to increase investors' knowledge of stock options. The ETFs & Options Investment Expo 2014 and other stock options seminars held by HKEx in the year attracted over 6,500 participants.

### RMB Currency Futures Market Development

The trading volume of USD/CNH Futures in 2014 increased 48 per cent from the previous year to 205,049 contracts. HKEx has continued to promote the USD/CNH Futures to increase investor awareness in Hong Kong and other parts of Asia in particular in the Mainland and Singapore. Other than including USD/CNH Futures in the AHFT, an additional calendar quarter month, more calendar spreads and 2 new market makers were introduced for USD/CNH Futures in 2014. In January 2015, HKEx introduced an Active Trader Programme and a Spread Enhancement Programme to further develop the market.

### FIC Development

On 22 May 2014, HKEx hosted its first RMB FIC Conference to create an industry-wide forum to explore regulatory and business issues with a representative cross section of the FIC community. Given the overwhelming support, the second RMB FIC Conference will be held in June 2015. To further extend our community outreach, HKEx joined as an institutional member of the Treasury Markets Association (TMA) which is an industry group that promotes cooperation and synergy among market practitioners with a view to enhancing professionalism and the overall competitiveness of the treasury markets in Hong Kong. Through the TMA, HKEx has convened an industry working group under the Market Development Committee to review specific new products for introduction in 2015.

### Service Enhancement and Other Product Development

On 6 January 2014, HKEx began offering after-hours trading of Mini-HSI Futures and Mini H-shares Index Futures and extended the block trade facility to the AHFT session. On 7 April 2014, USD/CNH Futures were also included in the AHFT session. Since 3 November 2014, the close of AHFT of stock index futures and USD/CNH Futures has been extended from 11:00 pm to 11:45 pm, thus allowing an overlap with the trading hours in the US for at least one hour and 15 minutes on each trading day. On 1 December 2014, the 3 London Metal Mini Futures were included in the AHFT from 5:00 pm to 1:00 am of the following day. AHFT volume was 6 per cent of the volume of the day session in 2014.

HKEx enhanced its Derivatives Market data promotion programme in 2014 to include Asia Commodities products and cover Australia, India and other Asia-Pacific countries. As of the end of December 2014, 42 IVs had enrolled in the programme.

CES 120 Futures was awarded the Most Innovative New Contract Launch by an Exchange – Equities and Equity Indexes by FOW, a leading news and data provider for the derivatives industry, in 2014.

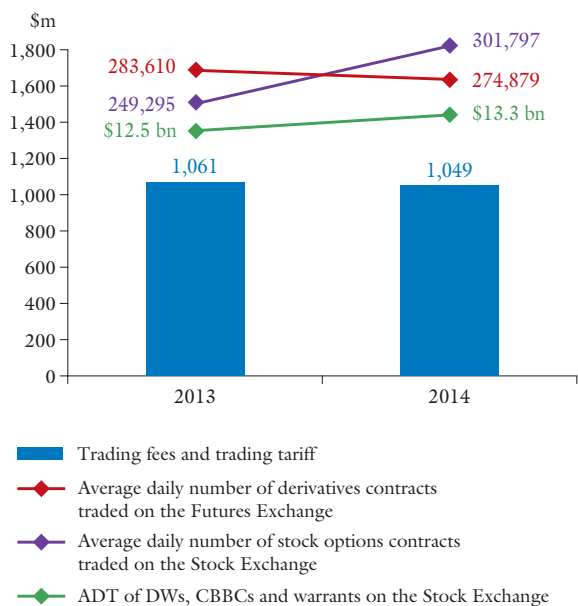
## Analysis of Results

### Summary

	2014 \$m	2013 \$m	Change
Trading fees and trading tariff	1,049	1,061	(1%)
Stock Exchange listing fees	451	430	5%
Market data fees	163	160	2%
Other revenue	3	11	(73%)
Total revenue	1,666	1,662	0%
Operating expenses	(400)	(422)	(5%)
EBITDA	1,266	1,240	2%
EBITDA margin	76%	75%	1%



**Trading Fees and Trading Tariff**



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

Trading fees and trading tariff decreased by 1 per cent or \$12 million due to 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 higher ADT of DWs, CBBCs and warrants, higher average daily number of stock options contracts traded and a 1 per cent increase in the number of trading days.

**Stock Exchange Listing Fees**

Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees of DWs and CBBCs. The increase in fees by 5 per cent or \$21 million was due to higher numbers of newly listed DWs and CBBCs.

**EBITDA**

Operating expenses decreased by 5 per cent or \$22 million mainly due to lower premises costs upon renewal of certain leases, and the redeployment of additional staff to strategic capital projects. As a result, EBITDA margin increased by 1 per cent to 76 per cent.

**Commodities Segment**

**Key Market Indicators**

	2014	2013	Change
Average daily volume of metals contracts traded on the LME (lots)	700,204	676,283	4%

**Business Update**

**LME**

The total futures MOI at the end of the year was 2,268,769 lots, a 12 per cent decrease from the MOI reported at the end of 2013. However, futures MOI achieved record high in 2014 at 2,621,235 lots. Excluding minor contracts, nickel experienced the strongest growth, with MOI 10 per cent above the level reported at the end of last year. The MOI of the other 5 main metals were down by between 7 and 21 per cent. In the 12 months ended 31 December 2014, an average of 143,605 lots per day traded across LMEselect, down 3 per cent year-on-year.

Products	Average daily volume year-on-year increase
Aluminium	3%
NASAAC	36%
Nickel	39%
Tin	2%
Zinc	2%

During 2014, various initiatives were completed as scheduled. These included: (i) the launch of LMEstage, a real-time synthetic test environment for Members and their clients; (ii) the insourcing of IT to improve the delivery of strategic initiatives; (iii) maintaining and further investment in the Ring; (iv) the announcement of the launch of LMEnet, a dedicated network that provides market participants a fast, reliable and secure connection to the LME and LME Clear electronic systems; (v) the launch of LMEbullion, a custom-built electronic solution that replaced the previous pricing mechanism to provide reference prices for the platinum and palladium markets; and (vi) the introduction of new transaction fees on 1 January 2015.

In addition, the LME continued with its proposed reforms of the warehousing network. These included the appointment of a Physical Market Committee, the publication of the LME's first Commitments of Traders Report and the implementation of the linked load-in/load-out rule with effect from 1 February 2015. Further information is available on the LME website. The LME is also continuing the development of a premium futures contract for the aluminium industry.

Information about the litigation related to the metals warehousing industry is set out in note 46 to the Consolidated Financial Statements to this Annual Report.

### Introduction of First Asia Commodities Contracts

On 1 December 2014, the London Metal Mini Futures commenced trading on the Futures Exchange. The London Metal Mini Futures are monthly cash-settled futures contracts tradable in RMB from 9:00 am to 4:15 pm and 5:00 pm to 1:00 am the next morning Hong Kong time on weekdays, excluding the public holidays on HKEx's trading calendar. Pre-holiday arrangements are the same as those for other contracts traded on the Futures Exchange.

A HKFE/LME Reciprocal Membership Arrangement has been introduced for the period between 17 November 2014 and 31 December 2015 to broaden access to and provide liquidity for the London Metal Mini Futures and to encourage the Futures Exchange's Participants to become LME Members. Under this reciprocal arrangement, the LME and HKFE will waive their respective first year's annual subscription and application processing fees for existing HKFE Participants/LME Members or their affiliates.

### Promotional Activities

The LME further expanded its global franchise by including new Members from Asia and the first Aluminium Committee Member from the Middle East. To increase market participants' knowledge of its commodities products and the LME's business, the LME has continued its dialogue with the global metals community, organised and participated in metal-related seminars held in Hong Kong and other major cities, and increased its presence at high profile industry events such as the CESCO Week held in Chile and the FIA Expo in Chicago. The LME also continued to hold its LME Week Asia in Hong Kong. The event in April 2014 saw a 50 per cent increase in the number of participants compared with the event held in the previous year. The 2015 LME Week Asia will be held in Hong Kong on 20 May 2015. More details are available on the HKEx Group website.

Since July 2014, HKEx has strengthened cooperation with 8 Hong Kong professional associations and conducted training on commodities products for about 900 participants.

## Analysis of Results

### Summary

	2014 \$m	2013 \$m	Change
Trading fees and trading tariff	928	861	8%
Market data fees	176	175	1%
Other revenue	170	174	(2%)
Total revenue	1,274	1,210	5%
Operating expenses	(568)	(514)	11%
EBITDA	706	696	1%
EBITDA margin	55%	58%	(3%)

### Trading Fees and Trading Tariff

Trading fees and trading tariff rose by 8 per cent or \$67 million as a result of a 4 per cent increase in average daily volume of metals contracts traded on the LME and the effect of appreciation of GBP over 2013 on the GBP income stream.

## EBITDA

Operating expenses rose by 11 per cent or \$54 million. The increase was attributable to higher headcount due to infrastructure and commercialisation initiatives of the LME, increased expenditure on promoting the newly launched Asia commodities contracts, and the legal fees incurred in respect of the class action lawsuits in the US and a judicial review claim filed in the UK of \$43 million (2013: \$15 million). The increase was partly offset by lower IT costs of the LME due to insourcing of a previously outsourced IT team. As revenue only rose by 5 per cent or \$64 million, EBITDA rose by 1 per cent to \$706 million. However, as the percentage increase in operating expenses is higher than that of revenue, EBITDA margin declined from 58 per cent in 2013 to 55 per cent in 2014.

## Clearing Segment

### Business Update

#### Regulatory Review

The 4 clearing houses in Hong Kong have each submitted an application to the ESMA as a third country CCP, and all of them received a Notification of Completeness in the last quarter of 2014. In January 2015, the SFC and the ESMA entered into an MOU on cooperation arrangements in connection with the CCPs established in Hong Kong which have applied for the ESMA's recognition. The establishment of cooperation arrangements fulfilled a pre-condition for the recognition of these CCPs by the ESMA under the EMIR.

In response to the Financial Sector Assessment Program's Technical Note on Oversight and Supervision of Financial Market Infrastructures published in July 2014 by the International Monetary Fund, each of the Hong Kong clearing houses has published its PFMI disclosure document on the HKEx website. Moreover, HKSCC, HKCC and SEOCH discontinued accepting bank guarantees as an approved type of collateral for any purpose with effect from 1 September 2014.

HKSCC, HKCC, SEOCH and OTC Clear each registered with the US Internal Revenue Service as a "Reporting Financial Institution under a Model 2 Intergovernmental Agreement" in June 2014, and the relevant amended rules and procedures became effective July 2014. On 13 November 2014, the Government signed an inter-governmental agreement with the US Government to facilitate compliance with the FATCA by Hong Kong's financial institutions.

#### Cash Clearing

HKSCC's depository counter and the CCASS back-up centre were relocated from Infinitus Plaza to Exchange Square in November 2014.

The Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014 was gazetted and submitted to the Legislative Council in June 2014. The first reading of the Bill was completed in January 2015. As a member of the Uncertificated Securities Market Working Group, HKEx continues to work with the SFC and other stakeholders to finalise details of the operational model, including the fee model, and to prepare for the relevant subsidiary legislation for the launch of an uncertificated securities market regime in Hong Kong.

Since the launch of the Stock Connect, securities and money settlement as well as nominee services have been smoothly conducted for Northbound and Southbound trades. To further facilitate institutional investors' participation, HKSCC is enhancing its clearing infrastructure through the development of an alternative Pre-trade Checking mechanism. It also aims to provide delivery versus payment service on Settlement Instructions. These enhancements will tentatively be launched in March 2015.

#### Derivatives Clearing

On 3 November 2014, the cut-off time for system input after the AHFT session (T+1 Session Cutoff Time) for stock index futures and RMB Currency Futures was extended from 11:45 pm on the calendar day to 12:30 am on the next calendar day. In addition, HKCC extended its services to support the clearing of the London Metal Mini Futures effective 1 December 2014.

## OTC Clear

OTC Clear obtained no-action relief from the US CFTC in May 2014 that allows it to offer clearing services to US persons for their proprietary transactions on an interim basis until December 2015. As a long-term measure, OTC Clear intends to apply to the CFTC for exempt derivative clearing organisation status by June 2015. Furthermore, OTC Clear will start admitting Hong Kong branches of PRC-incorporated banks as Clearing Members once the relevant rule amendments are approved by the SFC in early 2015. In addition to inter-dealer clearing, subject to the SFC's approval, OTC Clear plans to introduce client clearing services and accept non-cash collateral in the first half of 2015. Regarding clearable OTC products, OTC Clear has commenced the development work for the clearing of cross currency swaps and aims to introduce the service by the end of 2015.

## LME Clear

In February 2014, LMEwire, a trade repository reporting service, was introduced for LME Members and their clients. LME Clear, the new clearing house for the LME market, was launched on 22 September 2014. All 43 LME Clearing Members transferred in a total of over 2.2 million positions, representing 100 per cent of the open interest for the LME market. Since its launch, LME Clear provided an immediate incremental revenue stream for the Group, and it will be a major contributor to the Group's results in 2015. Further details on LME Clear, including LMEwire, are available on the LME website.

## Analysis of Results

### Summary

	2014 \$m	2013 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	185	178	4%
Clearing and settlement fees	1,998	1,631	23%
Depository, custody and nominee services fees	725	629	15%
Other revenue and sundry income	63	25	152%
	<b>2,971</b>	<b>2,463</b>	<b>21%</b>
Net investment income	532	393	35%
Total revenue and other income	<b>3,503</b>	<b>2,856</b>	<b>23%</b>
Operating expenses	(586)	(563)	4%
EBITDA	<b>2,917</b>	<b>2,293</b>	<b>27%</b>
EBITDA margin	<b>83%</b>	<b>80%</b>	<b>3%</b>

### Trading Fees and Trading Tariff

Trading fees and trading tariff allocated from Equity and Financial Derivatives segment increased due to the higher number of stock options contracts traded but partly offset by a drop in the number of derivatives contracts traded on the Futures Exchange (see Equity and Financial Derivatives Segment commentary above).

### Clearing and Settlement Fees

Clearing and settlement fees rose with the increase in ADT on the Stock Exchange, a 1 per cent increase in the number of trading days, and a reduction in average transaction size that has led to more clearing transactions being subject to the minimum fee. LME Clear also generated \$187 million of clearing fees after its launch in September 2014.

### Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees rose by 15 per cent or \$96 million due to higher scrip fees, stock withdrawal fees, corporate action fees, dividend collection fees and electronic IPO services fees.

### Other Revenue and Sundry Income

Other revenue increased mainly due to accommodation income received from LME Clear Participants on their cash collateral lodged with LME Clear as the investment return earned on this collateral was below the benchmarked investment return stipulated in the clearing rules of LME Clear.



## Net Investment Income

The analysis of net investment income is as follows:

	2014			2013		
	Average fund size \$bn	Net investment income \$m	Net investment return %	Average fund size \$bn	Net investment income \$m	Net investment return %
Margin Funds <sup>^</sup> *	67.5	510	0.75%	42.6	375	0.88%
Clearing House Funds <sup>^</sup> #	5.6	22	0.40%	3.8	18	0.46%
Total	73.1	532	0.73%	46.4	393	0.85%

<sup>^</sup> Including funds received from Participants of LME Clear from 22 September 2014

\* Including Mainland security and settlement deposits received from Participants in respect of trading of A shares on the SSE through the Stock Connect from 17 November 2014

# In April 2014, \$156 million of Corporate Funds 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 and its related investment income totalling \$157 million is now disclosed under Clearing House Funds instead of Corporate Funds.

The increase in the average fund size of the Margin Funds during the year was due to significant amounts of collateral collected from LME Clear Participants since the launch of LME Clear on 22 September 2014, which has increased the overall average for the year.

The increase in the average fund size of the Clearing House Funds was also due to contributions from LME Clear Participants.

The higher net investment income on the Margin Funds in 2014 was mainly attributable to a rise in interest income from higher bank deposit rates in Hong Kong and from the increase in margin deposits from LME Clear Participants. Net investment return dropped as LME Clear's Margin Funds are only allowed to be invested in overnight investments, which have very low investment yields.

## EBITDA

Operating expenses increased by 4 per cent due to increased operating costs after the launch of LME Clear. The increase was partly offset by recoveries and receivables of \$77 million from LBSA's liquidators. Due to the 23 per cent increase in revenue and other income, EBITDA of the segment rose by 27 per cent to \$2,917 million, and the EBITDA margin increased from 80 per cent in 2013 to 83 per cent in 2014.

## Platform and Infrastructure Segment

### Business Update

In 2014, all HKEx market systems continued to demonstrate high system reliability in serving their users and HKEx completed a number of important new system initiatives.

The China Stock Connect System and China Stock Connect Open Gateway were developed to support Northbound Trading, Mainland market data distribution and trading quota control under the Stock Connect. There was also an enhancement to CCASS to support Northbound clearing and settlement.

HKEx launched OCG in the Cash Market in June 2014, a new centralised access point that enables EPs to connect their order management systems to HKEx's securities trading system. The OCG benefits EPs by reducing infrastructure costs, introducing new services such as "drop copy", and adopting industry messaging standards.

HKEx commenced the rollout of NSTD in November 2014. NSTD is the new generation trading front-end provided by a third-party vendor to replace the legacy MWS and the on-floor and off-floor AMS Terminals. In addition to the existing terminal trading functions, NSTD gives EPs more advanced features. Migration of MWS and AMS Terminals to NSTD will be completed in the first and second half of 2015 respectively.

The OMD-D was launched in December 2014. It allows HKEx to offer streaming real-time Premium and FullTick products to its Derivatives Market users. The launch of the OMD-D marked the completion of the OMD initiative, which was aimed at standardising the market data systems across the Cash Market and the Derivatives Market and enabling direct distribution of HKEx market data to Mainland IVs through the MMDH.

The number of EPs subscribing for HKEx Hosting Services continues to grow progressively. At the end of 2014, 90 EPs were using the service. EPs that had subscribed for Hosting Services generated, in aggregate, approximately 32 per cent of the Cash Market turnover and about 46 per cent of the trading volume of the Derivatives Market last year.

HKEx's Genium INET platform upgrade of the Derivatives Market's trading and clearing systems and the LME's real-time testing platform were both awarded the Best Technology Innovation by an Exchange by FOW in 2014.

## Analysis of Results

### Summary

	2014 \$m	2013 \$m	Change
Network, terminal user, dataline and software sub-license fees	356	262	36%
Hosting services fees	98	75	31%
Others	11	10	10%
Total revenue	465	347	34%
Operating expenses	(152)	(137)	11%
EBITDA	313	210	49%
EBITDA margin	67%	61%	6%

### Network, Terminal User, Dataline and Software Sub-license Fees

Network, terminal user, dataline and software sub-license fees rose by 36 per cent or \$94 million. This arose from an increase in sales of throttles (partly related to one-off purchases by Participants to prepare for the launch of the Stock Connect), Cash Market trading system line rental income due to the launch of OCG and Derivatives Market trading system sub-license fee income due to the rollout of the Genium system.

### Hosting Services Fees

Hosting Services fees increased by 31 per cent or \$23 million due to the increased number of racks taken up by customers.

### EBITDA

Operating expenses increased by 11 per cent or \$15 million due to higher operating costs of Hosting Services and increased IT costs consumed by Participants. As the percentage increase in revenue was higher than that of operating expenses, EBITDA margin increased from 61 per cent to 67 per cent.

## Corporate Items

"Corporate Items" is not a business segment but comprises central income (mainly net investment income of the 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

	2014 \$m	2013 \$m	Change
Net investment income	175	188	(7%)
Others	5	5	0%
Total	180	193	(7%)

## Net Investment Income

The analysis of net investment income is as follows:

	2014			2013		
	Average fund size \$bn	Net investment income \$m	Net investment return %	Average fund size \$bn	Net investment income \$m	Net investment return %
Corporate Funds	10.9	175	1.62%	9.4	188	2.00%

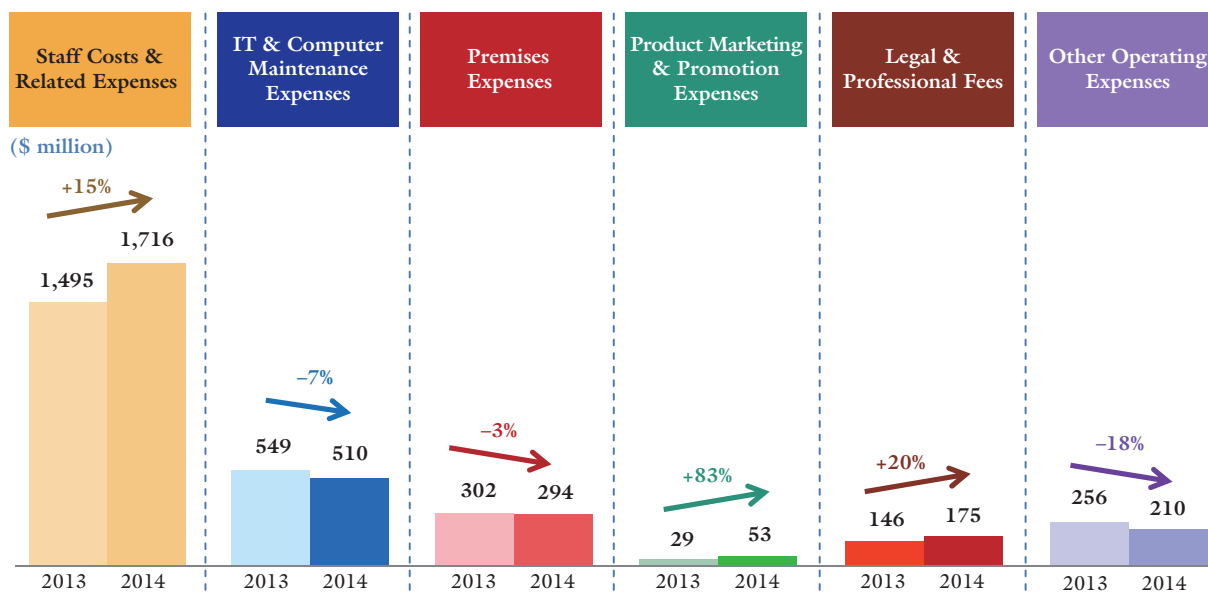
The average fund size of the Corporate Funds increased mainly due to profits retained from prior periods and the increase in profit during 2014.

Included in net investment income was a \$23 million of fair value gain on the LME's investment in shares of LCH.Clearnet Group Limited (2013: \$108 million of gain from the sale of part of the holding). Excluding these non-recurring fair value gains, net investment income of the Corporate Funds in 2014 increased by \$72 million principally due to higher fair value gains on investments and a rise in interest income from higher bank deposit rates in 2014.

As the valuation of 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



Staff costs and related expenses increased by \$221 million or 15 per cent mainly due to annual pay adjustments together with increased headcount attributable to the insourcing of the LME's IT staff from a previously outsourced IT team, the launch of the Stock Connect, infrastructure and commercialisation initiatives of the LME Group, and the launch of LME Clear.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$81 million (2013: \$75 million), was \$429 million (2013: \$474 million). The decrease was mainly attributable to lower IT costs of the LME Group due to the insourcing of a previously outsourced IT team, but was partly offset by higher maintenance costs for Genium and OTC Clear.

Premises expenses decreased by \$8 million or 3 per cent due to lower rental costs on renewal of certain leases and lower utility consumption.

Product marketing and promotion expenses rose by \$24 million or 83 per cent due to increased promotional activities relating to the launch of the Stock Connect and Asia Commodities products.

Legal and professional fees rose by \$29 million or 20 per cent, mainly related to legal fees incurred in respect of US class action lawsuits and a judicial review claim filed in the UK of \$43 million (2013: \$15 million).

Other operating expenses decreased by \$46 million or 18 per cent due to recoveries and receivables of \$77 million from LBSA's liquidators partly offset by higher maintenance and operating costs of the Hong Kong data centre at Tseung Kwan O, the final phase of which was completed in December 2013.

### Depreciation and Amortisation

	2014 \$m	2013 \$m	Change
Depreciation and amortisation	647	507	28%

Depreciation and amortisation increased by \$140 million or 28 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, as well as the rollout of various new technology systems and upgrades in Hong Kong and the UK most notably, LME Clear.

### Finance Costs

	2014 \$m	2013 \$m	Change
Finance costs	196	183	7%

The increase in finance costs was mainly attributable to the full-year impact of the interest of the financial liability relating to the put options written to non-voting shareholders of OTC Clear in October 2013 and the refinancing in December 2013 and January 2014 of a portion of the floating rate bank borrowings with fixed rate notes that bear slightly higher interest. 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

	2014 \$m	2013 \$m	Change
Taxation	900	700	29%

Taxation increased mainly due to higher profit before taxation and a one-off deferred tax credit of \$108 million in 2013 arising from a reduction of the Corporation Tax rate in the UK.

# FINANCIAL REVIEW

## HKEx Group – Overview of 2014 Results and Financial Position

### Key Market Statistics and Business Drivers – Cash Segment

	2014
ADT of equity products on the Stock Exchange	\$56.2 bn
Number of newly listed companies on Main Board	103
Number of newly listed companies on GEM	19
Number of Main Board companies at 31 Dec 2014	1,548
Number of GEM companies at 31 Dec 2014	204
Total equity funds raised on Main Board	\$929.3 bn
Total equity funds raised on GEM	\$13.4 bn
<b>Total equity funds raised</b>	<b>\$942.7bn</b>

### Reportable Segment Results for the Year

	2014						
	Cash	Equity and Derivatives Financial	Commodities	Clearing	Platform and Infra- structure	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue and other income	2,761	1,666	1,274	3,503	465	180	9,849
Operating expenses	(461)	(400)	(568)	(586)	(152)	(791)	(2,958)
Reportable segment EBITDA	2,300	1,266	706	2,917	313	(611)	6,891
Depreciation and amortisation	(89)	(64)	(322)	(98)	(46)	(28)	(647)
Finance costs	-	-	-	-	-	(196)	(196)
Share of loss of a joint venture	-	(10)	-	-	-	-	(10)
Reportable segment profit before taxation	2,211	1,192	384	2,819	267	(835)	6,038
Taxation							(900)
Profit for the year							5,138
Loss attributable to non-controlling interests							27
Profit attributable to shareholders of HKEx							5,165

### Key Market Statistics and Business Drivers – Equity and Financial Derivatives Segment

	2014
ADT of DWs, CBBCs and warrants on the Stock Exchange	\$13.3 bn
Average daily number of derivatives contracts traded on the Futures Exchange	274,879
Average daily number of stock options contracts traded on the Stock Exchange	301,797
Number of newly listed DWs	7,560
Number of newly listed CBBCs	9,983

### Key Market Statistics and Business Drivers – Commodities Segment

	2014
Average daily volume of metals contracts traded on the LME (lots)	700,204

### Consolidated Statement of Financial Position

	At 31 Dec 2013
<b>ASSETS</b>	<b>\$m</b>
Cash and cash equivalents of Corporate Funds	6,375
Cash and cash equivalents earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	156
Cash and cash equivalents of Clearing House Funds and Margin Funds (Funds)	54,400
Financial assets	34,921
Goodwill and other intangible assets	12,948
Fixed assets and lease premium for land	18,680
Other assets	1,776
	11,087
<b>Total assets</b>	<b>85,943</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits and cash collateral from CPs and Participants' contributions to Clearing House Funds	43,677
Borrowings	6,921
Other liabilities	14,827
<b>Total liabilities</b>	<b>65,425</b>
<b>Equity</b>	
Share capital, share premium and reserves	12,779
Shares held for Share Award Scheme	(174)
Retained earnings	7,800
Equity attributable to shareholders of HKEx	20,405
Non-controlling interests	113
<b>Total equity</b>	<b>20,518</b>
<b>Total liabilities and equity</b>	<b>85,943</b>

### Cash Flows for the Year

	2014
	\$m
<b>Operating activities</b>	
Net cash inflow from operating activities	4,673
<b>Investing activities</b>	
Payments for purchases of fixed assets and intangible assets	(665)
Net decrease in financial assets of Corporate Funds	1,423
Interest received from financial assets	24
<b>Financing activities</b>	
Dividends paid	(3,234)
Payments of finance costs	(83)
Purchase of shares for Share Award Scheme	(405)
Other net inflows	4
Net increase in cash and cash equivalents	1,737
Cash and cash equivalents at 1 Jan 2014	6,375
Exchange differences on cash and cash equivalents	(45)
<b>Cash and cash equivalents of Corporate Funds at 31 Dec 2014</b>	<b>8,067</b>

### Consolidated Statement of Financial Position

	At 31 Dec 2014
<b>ASSETS</b>	<b>\$m</b>
Cash and cash equivalents of Corporate Funds	8,067
Cash and cash equivalents of Funds and cash prepayments for A shares	150,041
Financial assets – Others	13,263
Financial assets – Base metals futures and options contracts	59,679
Goodwill and other intangible assets	17,901
Fixed assets and lease premium for land	1,626
Other assets	22,613
<b>Total assets</b>	<b>251,860</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs and Participants' contributions to Clearing House Funds	138,910
Financial liabilities – Base metals futures and options contracts	59,679
Borrowings	7,026
Other liabilities	24,886
<b>Total liabilities</b>	<b>230,501</b>
<b>Equity</b>	
Share capital and reserves	12,955
Shares held for Share Award Scheme	(482)
Retained earnings	8,800
Equity attributable to shareholders of HKEx	21,273
Non-controlling interests	86
<b>Total equity</b>	<b>21,359</b>
<b>Total liabilities and equity</b>	<b>251,860</b>



## Notes

## Movements in Share Capital, Share Premium and Reserves for the Year

	2014			Total \$m
	Share capital and share premium \$m	Employee share-based compensation reserve \$m	Various other reserves \$m	
At 1 Jan 2014	11,328	105	1,346	12,779
Issue of shares for employee share options	12	-	-	12
Issue of shares in lieu of cash dividends	879	-	-	879
Employee share-based compensation benefits	-	137	-	137
Currency translation differences of foreign subsidiaries	-	-	(815)	(815)
Transfer from retained earnings	-	-	57	57
Vesting of shares of Share Award Scheme	3	(97)	-	(94)
Transfer	3	(3)	-	-
At 31 Dec 2014	12,225	142	588	12,955

## Movements in Retained Earnings for the Year

	2014 \$m
Profit attributable to shareholders of HKEx	5,165
Dividends	(4,129)
Unclaimed dividends forfeited	29
Vesting of shares of Share Award Scheme	(8)
Transfer to reserves	(57)
Net increase in retained earnings	1,000
Retained earnings at 1 Jan 2014	7,800
Retained earnings at 31 Dec 2014	8,800
Representing:	
Retained earnings	6,295
Proposed dividend	2,505
	8,800

Revenue and other income reached \$9.8 billion and increased by 13 per cent compared with 2013. The overall growth in revenue and other income reflects increased trading volumes and related revenue as well as growth in all other categories of revenue and income. The launch of LME Clear in September 2014 also contributed to the revenue growth. The increase over 2013 was reduced by the impact of gains on the Group's investment in LCH.Clearnet Group Limited, which were \$85 million higher in 2013.

Operating expenses increased by 7 per cent against 2013 mainly due to higher staff costs attributable to increased headcount as well as higher legal fees for defending litigation in the UK and the US. This was partly offset by recoveries and receivables of \$77 million from the liquidators of LBSA in 2014.

EBITDA increased by 16 per cent compared to 2013. The overall EBITDA margin increased by 2 per cent from 68 per cent in 2013 to 70 per cent in 2014 as the growth in revenue and other income outpaced the 7 per cent increase in operating expenses.

Profit attributable to shareholders increased by 13 per cent to \$5,165 million. Higher EBITDA was partly offset by an increase in depreciation and amortisation, due primarily to new systems launched during the year (including LME Clear) and the Hong Kong data centre at Tseung Kwan O, the final phase of which was completed in late 2013, together with the effect of a one-off deferred tax credit of \$108 million in 2013 arising from a reduction of the Corporation Tax rate in the UK.

The EBITDA of the Group by operating segment during 2014 was as follows:

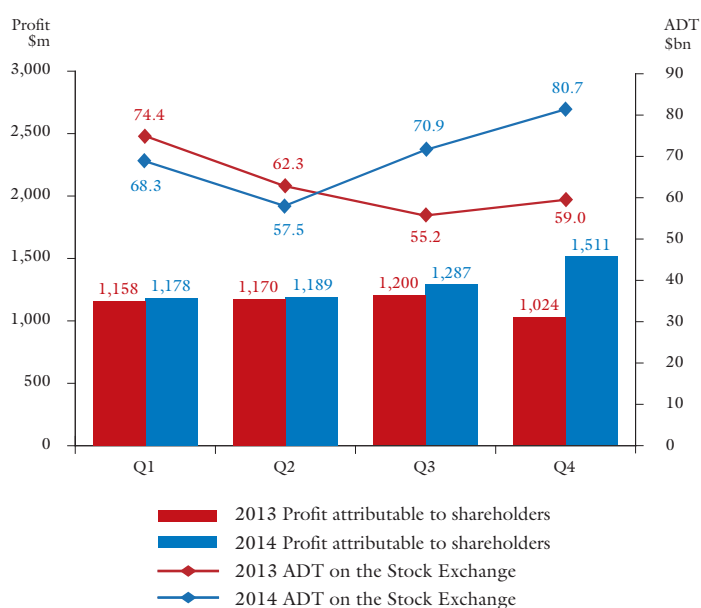
- EBITDA of the Cash segment increased by \$292 million mainly due to higher revenue from all sources.
- EBITDA of the Equity and Financial Derivatives segment increased by \$26 million due to lower premises costs and more staff being redeployed to strategic capital projects.
- EBITDA of the Commodities segment increased by \$10 million. The increase in revenue and other income due to higher average daily volume of metals contracts traded and appreciation of GBP was partly offset by the increase in operating expenses due to increased headcount and legal costs for defending litigation.
- EBITDA of the Clearing segment increased by \$624 million. Revenue and other income increased due to higher investment income and revenue from higher ADT and the launch of LME Clear. Operating expenses increased due to higher operating costs of LME Clear but partly offset by recoveries and receivables from LBSA's liquidators (\$77m).
- EBITDA of the Platform and Infrastructure segment increased by \$103 million mainly due to higher hosting services income, throttle sales, and other network and sub-license fees.
- Comprised financial assets and cash and cash equivalents of Margin Funds of \$128,869 million (2013: \$39,787 million), Corporate Funds of \$10,264 million (2013: \$10,142 million), Clearing House Funds of \$10,289 million (2013: \$4,471 million), and cash prepayments for A shares \$619 million (2013: \$Nil).
- Base metals derivative financial assets and derivative financial liabilities of \$59,679 million represent the fair value of outstanding contracts of LME Clear that do not qualify for netting treatment under the relevant accounting standards, where LME Clear is acting in its capacity as a CCP to the contracts traded on the LME.
- Goodwill and intangible assets dropped by \$779 million due to exchange losses of \$790 million arising from the depreciation of GBP against HKD, amortisation of \$405 million, but partly offset by additions of \$416 million.
- Fixed assets and lease premium for land decreased by \$150 million due to depreciation of \$242 million but partly offset by additions of \$101 million.
- Other assets consisted of money obligations receivable under the CNS System of \$20,410 million (2013: \$9,867 million) and other receivables.
- Represented margin deposits, Mainland security and settlement deposits and cash collateral from CPs of \$129,484 million (2013: \$39,793 million) and Participants' contributions to Clearing House Funds of \$9,426 million (2013: \$3,884 million). The increase was due to the launch of LME Clear where \$70,646 million (2013: \$Nil) of Margin Funds and \$4,426 million (2013: \$Nil) of contributions to Clearing House Funds were received from LME Clear Participants at 31 December 2014.
- Other liabilities mainly represented money obligations payable under the CNS System of \$21,029 million (2013: \$9,867 million) and other liabilities.
- Net cash inflow from operating activities decreased by \$315 million compared with 2013 as higher profit for the year was more than offset by the payment to LBSA's liquidators of \$1.3 billion for dividends withheld from LBSA's clients.

## Analysis of Results by Quarter

### Quarterly Results

	Q1 2014 \$m	Q2 2014 \$m	Q3 2014 \$m	Q4 2014 \$m	Total 2014 \$m
Revenue and other income	2,335	2,286	2,471	2,757	9,849
Operating expenses	(734)	(689)	(753)	(782)	(2,958)
EBITDA	1,601	1,597	1,718	1,975	6,891
Depreciation and amortisation	(164)	(160)	(157)	(166)	(647)
Operating profit	1,437	1,437	1,561	1,809	6,244
Finance costs	(51)	(47)	(55)	(43)	(196)
Share of loss of a joint venture	(3)	(2)	(2)	(3)	(10)
Profit before taxation	1,383	1,388	1,504	1,763	6,038
Taxation	(212)	(205)	(223)	(260)	(900)
Profit for period/year	1,171	1,183	1,281	1,503	5,138
Loss attributable to non-controlling interests	7	6	6	8	27
Profit attributable to shareholders	1,178	1,189	1,287	1,511	5,165
	Q1 2013 \$m	Q2 2013 \$m	Q3 2013 \$m	Q4 2013 \$m	Total 2013 \$m
Profit attributable to shareholders	1,158	1,170	1,200	1,024	4,552

### Analysis of Quarterly Results



In the first half of 2014, there were signs of renewed optimism in the capital markets, when IPO funds raised doubled compared with the amount raised in the same period last year. The improved IPO market sentiment, however, did not provide momentum for stronger turnover in the secondary market, and ADT on the Stock Exchange dropped.

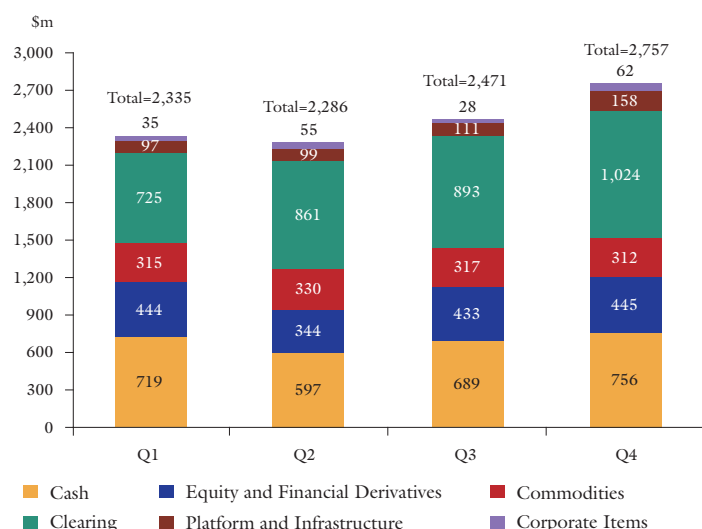
Despite the drop in ADT, profit for the first two quarters remained at a similar level to last year as the increases in non-trading income, in particular listing related fees and investment income, together with a recovery from the liquidators of LBSA, more than offset the decline in trading fees and the \$108 million one-off gain in the first half of 2013 on the partial disposal of the investment in LCH.Clearnet Group Limited.

Market sentiment improved in the second half of 2014 due to the expected launch of Stock Connect and the measures announced by the PRC Government to boost the Mainland's economic growth.

Profit for the third quarter was only marginally better than the same period last year due to the effect of a one-off deferred tax credit of \$108 million recognised in the third quarter of 2013.

Profit increased further in the fourth quarter when ADT reached \$80.7 billion, mirroring the record trading values in the Mainland, and the impact of LME Clear's contribution following its successful launch on 22 September 2014.

### Analysis of 2014 Segment Revenue and Other Income by Quarter



Revenue and other income from all segments generally moved in line with the respective market indicators in the table below.

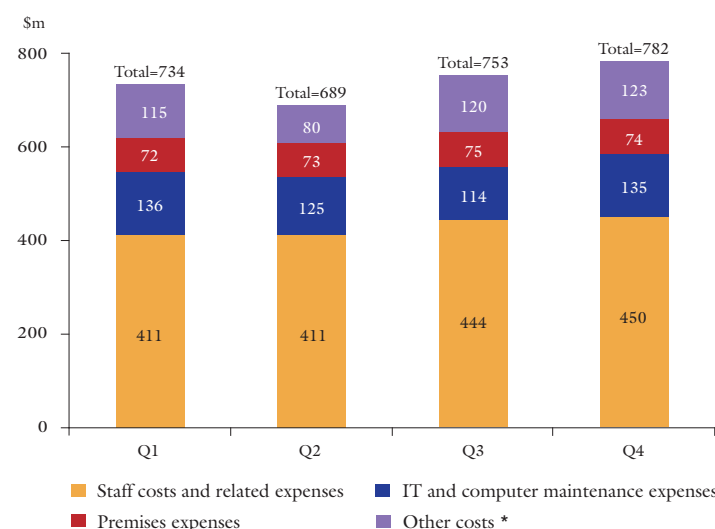
Revenue from the Clearing Segment increased significantly in the fourth quarter on account of the launch of LME Clear on 22 September 2014.

The key market indicators for the income of the Group by quarter are set out below:

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014
ADT of equity products on the Stock Exchange (\$bn)	56.1	47.0	55.8	65.6	56.2
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	12.2	10.5	15.1	15.1	13.3
ADT on the Stock Exchange (\$bn)	68.3	57.5	70.9	80.7	69.5
Average daily number of derivatives contracts traded on the Futures Exchange	279,943	245,074	252,870	321,460	274,879
Average daily number of stock options contracts traded on the Stock Exchange	274,757	251,375	304,098	374,821	301,797
Average daily volume of metals contracts traded on the LME (lots)	703,779	735,604	678,406	684,925	700,204
Number of newly listed DWs	2,188	1,435	1,951	1,986	7,560
Number of newly listed CBBCs	3,115	2,079	2,307	2,482	9,983
Number of newly listed companies on Main Board *	20	26	29	28	103
Number of newly listed companies on GEM	5	1	8	5	19

\* Including 7 (Q1: 2; Q2: 2; Q3: 2; Q4: 1) transfers from the GEM

### Analysis of 2014 Operating Expenses by Quarter



Staff costs rose in the third quarter due to the increase in headcount following the insourcing of the LME's IT staff from a previously outsourced IT team, the launch of LME Clear and the imminent launch of Stock Connect and other initiatives.

Other costs were the lowest in the second quarter due to a \$54 million recovery from the liquidators of LBSA, while they were the highest in the fourth quarter due to additional marketing expenses incurred for promoting Asia Commodities products and Stock Connect.

\* Other costs include product marketing and promotion expenses, legal and professional fees, and other operating expenses.

## Changes to Key Items in Consolidated Statement of Financial Position

### (A) Financial Assets and Financial Liabilities

#### Impact of the launch of LME Clear

LME Clear was launched on 22 September 2014 and acts as a CCP to the metals contracts traded on the LME. As part of its risk management measures, LME Clear collects cash margins and cash contributions to the LME Clear Default Fund from its Participants. These are included in the Group's consolidated statement of financial position as Margin Funds and Clearing House Funds and together total \$75,072 million. In addition, derivative financial assets and derivative financial liabilities, where LME Clear acts as a counterparty to members' trades and the positions do not qualify for netting under accounting standards, are recorded on the consolidated statement of financial position at the fair value of the outstanding contracts. These amounted to \$59,679 million at 31 December 2014 (31 December 2013: \$Nil). As a result, the Group's total assets and total liabilities have increased by \$135 billion.

#### Financial assets and financial liabilities by funds

Details of the Group's financial assets and financial liabilities are set out below.

	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	Change
<b>Financial assets</b>			
Cash and cash equivalents	136,778	41,452	230%
Financial assets measured at fair value through profit or loss	62,686	3,902	1,507%
Financial assets measured at amortised cost	10,256	9,046	13%
<b>Total</b>	<b>209,720</b>	<b>54,400</b>	<b>286%</b>

The Group's financial assets comprised financial assets of the Corporate Funds, Margin Funds, Clearing House Funds, base metals derivatives contracts and cash prepayments for A shares traded under the Stock Connect. The amounts attributable to the respective categories were as follows:

	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	Change
Corporate Funds <sup>^</sup>	10,264	10,142	1%
Margin Funds <sup>*</sup>	128,869	39,787	224%
Clearing House Funds <sup>^</sup>	10,289	4,471	130%
Base metals derivatives contracts	59,679	–	N/A
Cash prepayments for A shares	619	–	N/A
<b>Total</b>	<b>209,720</b>	<b>54,400</b>	<b>286%</b>

<sup>^</sup> At 31 December 2013, \$156 million of the Group's Corporate Funds was earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear. This was subsequently transferred to separately designated and managed accounts, amounted to \$157 million at 31 December 2014, and is included in Clearing House Funds for presentation purposes.

<sup>\*</sup> Excluding margin receivable from CPs and Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear of \$615 million (31 December 2013: \$6 million)

	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	Change
<b>Financial liabilities</b>			
Base metals derivatives contracts	59,679	–	N/A
Other financial liabilities at fair value through profit or loss of Corporate Funds	1	6	(83%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	129,484	39,793	225%
Participants' contributions to Clearing House Funds	9,426	3,884	143%
<b>Total</b>	<b>198,590</b>	<b>43,683</b>	<b>355%</b>

The increase in financial assets of Margin Funds and the increased margin deposits, Mainland security and settlement deposits, and cash collateral from CPs at 31 December 2014 against those at 31 December 2013 was mainly due to the launch of LME Clear where \$70,646 million of Margin Funds were received from LME Clear Participants at 31 December 2014.

The increase in financial assets of Clearing House Funds and the increased Participants' contributions to Clearing House Funds at 31 December 2014 against those at 31 December 2013 was mainly due to the launch of LME Clear where \$4,426 million of contributions to Clearing House Funds were received from its Participants at 31 December 2014.

Base metals derivative financial assets and derivative financial liabilities of \$59,679 million represent the fair value of outstanding contracts traded through LME Clear that do not qualify for netting treatment under relevant accounting standards, where LME Clear is acting in its capacity as a CCP to the metals contracts traded on the LME.

Corporate Funds at 31 December 2014 increased by 1 per cent or \$122 million as compared to those at 31 December 2013 as cash generated from profits during 2014 was partly offset by the payment of a previously accrued \$1.3 billion liability to LBSA's liquidators, relating to dividends withheld from LBSA's clients, together with the 2013 final and 2014 interim dividends.

#### **(B) Fixed Assets, Intangible Assets and Capital Commitment**

The total net book value of the Group's fixed assets and intangible assets decreased to \$19,504 million at 31 December 2014 from \$20,433 million at 31 December 2013. The drop was due to exchange losses of \$794 million, arising from the effect of the depreciation of GBP against HKD on the Group's investment in overseas subsidiaries, together with the net effect of depreciation and amortisation of \$647 million and additions of \$512 million. The additions mainly 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 for derivatives, 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 31 December 2014, including those authorised by the Board but not yet contracted for, amounted to \$574 million (31 December 2013: \$878 million) and were mainly related to the development and enhancement of IT systems including a market surveillance system, a clearing system for OTC derivatives, a Central Gateway for Cash Market trading, trading and clearing systems for the Stock Connect and a corporate Enterprise Resource Planning system. The Group has adequate resources to fund its capital expenditure commitments.

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

To support its future development needs and product expansion plan, a subsidiary, OTC Clear, will raise additional capital in 2015 by issuing 1,680 new shares at \$210,000 per share (the Pre-emption Shares), comprising initially 1,260 ordinary shares to be issued to HKEx and 420 non-voting ordinary shares to be issued to external shareholders.

In October 2014, the Board approved the subscription for the 1,260 ordinary shares being its pro rata entitlement in OTC Clear at a consideration of \$265 million in the first quarter of 2015. It has also approved the take up of any Pre-emption Shares not subscribed by the external shareholders in the second quarter of 2015, at a maximum consideration of \$88 million.

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



**(D) Accounts Receivable, Prepayments and Deposits and Accounts Payable, Accruals and Other Liabilities**

	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	Change
CNS money obligations receivable	20,410	9,867	107%
Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	611	–	N/A
Other receivables from Participants	831	609	36%
Other accounts receivable, prepayments and deposits	753	628	20%
Less: provision for impairment losses of receivables	(82)	(158)	(48%)
<b>Total accounts receivable, prepayments and deposits</b>	<b>22,523</b>	<b>10,946</b>	<b>106%</b>
CNS money obligations payable	21,029	9,867	113%
Other payables to Participants	508	1,644	(69%)
Stamp duty payable to the Collector of Stamp Revenue	338	231	46%
Other accounts payable, accruals and other liabilities	974	1,092	(11%)
<b>Total accounts payable, accruals and other liabilities</b>	<b>22,849</b>	<b>12,834</b>	<b>78%</b>

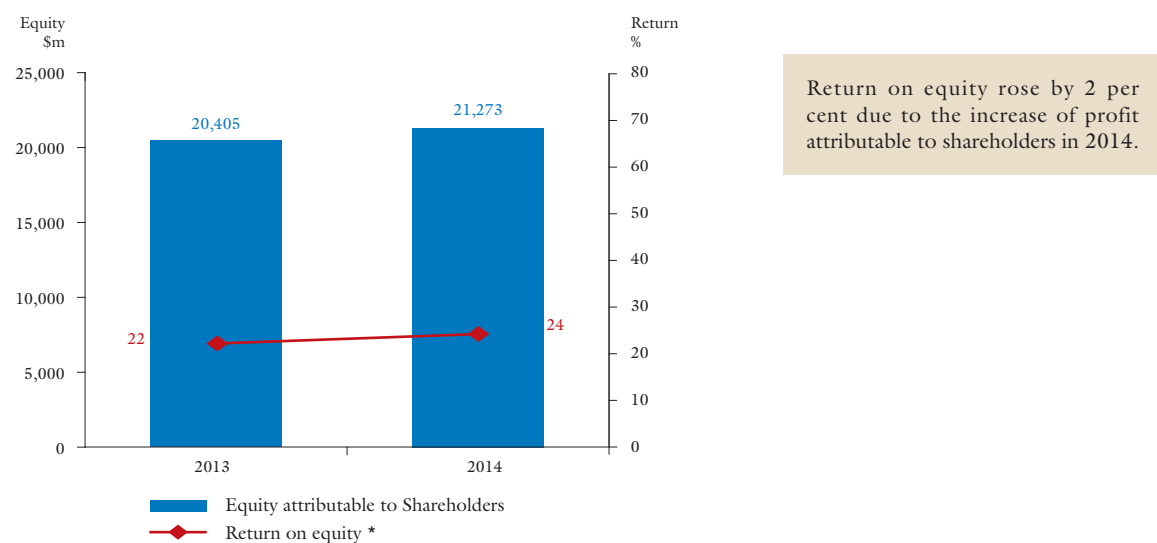
The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities at 31 December 2014 mainly comprised CNS money obligations receivable and payable and other receivables from and payables to EPs and CPs. Following the launch of Stock Connect, certain security deposits have been placed by HKSCC with ChinaClear to satisfy its obligations as a CP of ChinaClear.

The increase in CNS money obligations receivable and payable was mainly due to higher market turnover of the Stock Exchange at the end of December 2014.

Other payables to Participants dropped due to the payment of \$1.3 billion to LBSA's liquidators relating to dividends withheld from LBSA's clients.

**(E) Equity attributable to Shareholders and Return on Equity**

Equity attributable to Shareholders increased to \$21,273 million at 31 December 2014 from \$20,405 million at 31 December 2013 mainly due to \$874 million of shares issued in lieu of cash dividends, and a \$1,057 million increase in retained earnings (before transfers to designated reserves which also form part of shareholders' equity), but partly offset by a decrease in the exchange reserve of \$815 million, and the purchase of shares for Share Award Scheme of \$405 million.

**Equity attributable to HKEx's shareholders and Return on Equity**

\* Based on equity attributable to Shareholders at year-end

## Liquidity, Financial Resources and Gearing

Working capital rose by \$2,016 million to \$9,624 million at 31 December 2014 (31 December 2013: \$7,608 million). The increase was mainly due to profit attributable to shareholders of \$5,165 million, which was partly offset by the 2013 final dividend and 2014 interim dividend, net of scrip dividend, of \$3,255 million.

At 31 December 2014, the Group had floating rate borrowings of \$1,585 million from a bank (31 December 2013: \$2,326 million) that will mature within 7 years (31 December 2013: 9 years), 2 fixed rate notes issued totalling \$1,515 million (31 December 2013: \$770 million) with an average annual coupon of 2.8 per cent that will mature in 2018 and 2019, and \$3,701 million from 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 \$225 million (31 December 2013: \$218 million) in relation to a put option granted to the non-controlling interests.

At 31 December 2014, the Group had a net gearing ratio (ie, 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 higher than total borrowings), and adjusted capital as all components of equity attributable to Shareholders other than designated reserves.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. In 2014, the Group secured additional committed facilities, bringing the total committed banking facilities for its daily operations at 31 December 2014 to \$10,000 million (31 December 2013: \$8,000 million). Together with \$7,000 million of repurchase facilities (31 December 2013: \$7,000 million), the Group's total available banking facilities for its daily operations at 31 December 2014 amounted to \$17,012 million (31 December 2013: \$15,012 million).

The Group also put in place foreign exchange facilities for the RMB Equity Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2014, the total amount of the facilities was RMB17,000 million (31 December 2013: RMB17,000 million). In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million for settling payment obligations to ChinaClear at times when there are events that disrupt normal settlement arrangements, e.g. natural disasters or extreme weather conditions in Hong Kong.

At 31 December 2014, 93 per cent (31 December 2013: 94 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances, time deposits, reverse repurchase investments and government bonds within 3 months of maturity when acquired) were denominated in HKD or USD.

## Charges on Assets

Details of charges on assets are included in note 49 to the Consolidated Financial Statements of this Annual Report.

## Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 51(a)(i) – Foreign exchange risk management to the Consolidated Financial Statements of this Annual Report.

## Contingent Liabilities

Details of contingent liabilities are included in note 46 to the Consolidated Financial Statements of this Annual Report.

# 10-YEAR FINANCIAL STATISTICS

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>KEY MARKET STATISTICS</b>										
ADT on the Stock Exchange (\$bn)	69.5	62.6	53.9	69.7	69.1	62.3	72.1	88.1	33.9	18.3
Average daily number of derivatives contracts traded on the Futures Exchange	274,879	283,610	259,556	269,525	221,487	206,458	207,052	171,440	100,318	68,157
Average daily number of stock options contracts traded on the Stock Exchange	301,797	249,295	228,438	302,750	246,474	191,676	225,074	187,686	73,390	35,385
Average daily volume of metals contracts traded on the LME* (lots)	700,204	676,283	633,809	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

## RESULTS

(\$m)

Revenue and other income	9,849	8,723	7,211	7,855	7,566	7,035	7,549	8,390	4,147	2,694
Operating expenses	(2,958)	(2,777)	(1,957)	(1,733)	(1,505)	(1,392)	(1,511)	(1,333)	(1,111)	(994)
EBITDA	6,891	5,946	5,254	6,122	6,061	5,643	6,038	7,057	3,036	1,700
Depreciation and amortisation	(647)	(507)	(158)	(90)	(107)	(101)	(110)	(79)	(100)	(151)
Costs relating to acquisition of LME Group	-	-	(138)	-	-	-	-	-	-	-
Finance costs	(196)	(183)	(55)	-	-	-	-	-	-	-
Fair value loss on derivative component of convertible bonds	-	-	(55)	-	-	-	-	-	-	-
Gain on disposal of an associate	-	-	-	-	-	-	-	206	-	-
Share of profits less losses of associates/joint venture	(10)	(10)	(3)	-	-	-	-	6	27	18
Profit before taxation	6,038	5,246	4,845	6,032	5,954	5,542	5,928	7,190	2,963	1,567
Taxation	(900)	(700)	(761)	(939)	(917)	(838)	(799)	(1,021)	(445)	(227)
Profit for the year	5,138	4,546	4,084	5,093	5,037	4,704	5,129	6,169	2,518	1,340
Loss attributable to non-controlling interests	27	6	-	-	-	-	-	-	-	-
Profit attributable to shareholders	5,165	4,552	4,084	5,093	5,037	4,704	5,129	6,169	2,518	1,340
Dividend per share (\$)	3.98	3.54	3.31	4.25	4.20	3.93	4.29	5.19	2.13	1.13
Basic earnings per share (\$)	4.44	3.95	3.75	4.71	4.66	4.36	4.76	5.76	2.36	1.26

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$m)

Non-current assets	19,672	20,797	20,260	1,580	2,350	2,637	425	884	454	1,710
Current assets	232,188	65,146	60,577	52,448	45,534	42,695	62,397	87,070	40,207	21,236
Current liabilities	(222,564)	(57,538)	(55,337)	(44,809)	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)
Net current assets	9,624	7,608	5,240	7,639	6,374	5,710	7,177	7,797	5,073	2,900
Total assets less current liabilities	29,296	28,405	25,500	9,219	8,724	8,347	7,602	8,681	5,527	4,610
Non-current liabilities	(7,937)	(7,887)	(7,736)	(60)	(47)	(320)	(308)	(305)	(270)	(273)
Total equity	21,359	20,518	17,764	9,159	8,677	8,027	7,294	8,376	5,257	4,337
Non-controlling interests	(86)	(113)	-	-	-	-	-	-	-	-
Equity attributable to HKEx's shareholders	21,273	20,405	17,764	9,159	8,677	8,027	7,294	8,376	5,257	4,337
Net assets per share <sup>1</sup> (\$)	18.26	17.59	15.48	8.50	8.06	7.46	6.79	7.83	4.94	4.08

## FINANCIAL RATIOS

Dividend payout ratio	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio <sup>2</sup>	30%	32%	27%	22%	20%	20%	20%	15%	27%	37%
Pre-tax profit margin <sup>2</sup>	61%	60%	67%	77%	79%	79%	79%	84%	71%	58%
Return on equity <sup>3</sup>	24%	22%	23%	56%	58%	59%	70%	74%	48%	31%
Current ratio	1.0	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.2

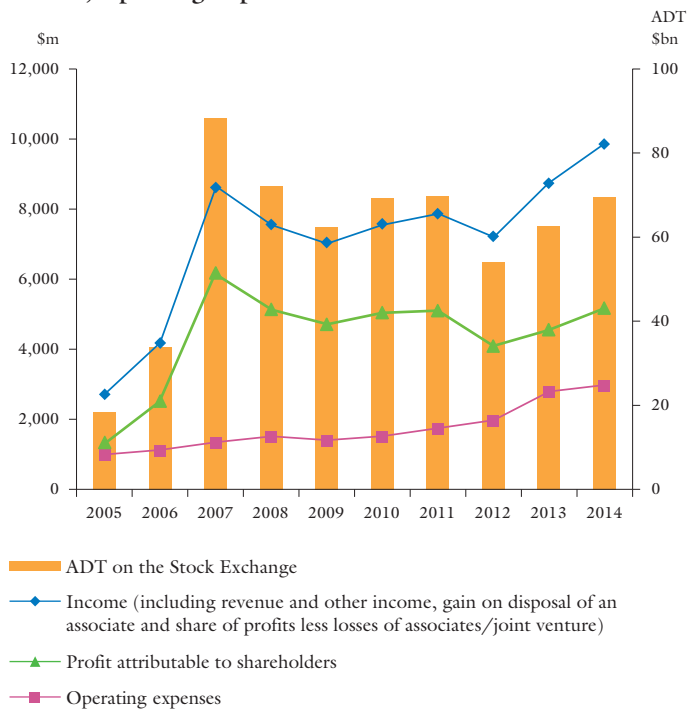
Notes:

<sup>1</sup> Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December

<sup>2</sup> For the purpose of computing cost (i.e. operating expenses) to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates/joint venture.

<sup>3</sup> Based on equity attributable to HKEx's shareholders at year end

## Income, Operating Expenses and Profit



Following the end of the Severe Acute Respiratory Syndrome threat in 2003, activity on the Stock Exchange and the Futures Exchange continued to gather momentum from 2004, in particular in 2006 when shares from various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Mainland's Qualified Domestic Institutional Investor scheme, and the Mainland's proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals, which culminated in record high turnover on the Stock Exchange and Futures Exchange. In 2008 and 2009, the activity in the Stock Exchange dropped as market sentiment was stricken by the global economic downturn and stock prices tumbled following the financial tsunami which started in the fourth quarter of 2008. Investor sentiment began to recover in 2010 and considerable growth in market turnover was recorded in the fourth quarter due to ample liquidity and continuing economic growth on the mainland of China and in other parts of Asia. Due to worries over the Eurozone sovereign debt crisis and economic uncertainty in the second half of 2011, market activities slowed down particularly in the fourth quarter. Market sentiment remained subdued in 2012 until the fourth quarter with further quantitative easing (QE) in the US and an influx of funds into Hong Kong. In 2013, market sentiment was generally boosted by the positive investor confidence and market momentum brought by the continuing QE policy of the US and bullish sentiment on China stocks with the new leadership changes in the first quarter. In the second half of 2014, market sentiment was boosted by the launch of Stock Connect and further relaxation policies of Mainland China to boost the Mainland's economic growth.

Income of the Group generally followed the level of market turnover but increased considerably since 2013 due to the income generated by the LME Group, which was acquired in December 2012.

Operating expenses increased steadily due to the implementation of various strategic initiatives but had been moderated by stringent cost controls on normal operations. They rose considerably from 2013 due to the inclusion of the expenses of the LME Group.

Profit attributable to shareholders was predominately affected by the level of income.

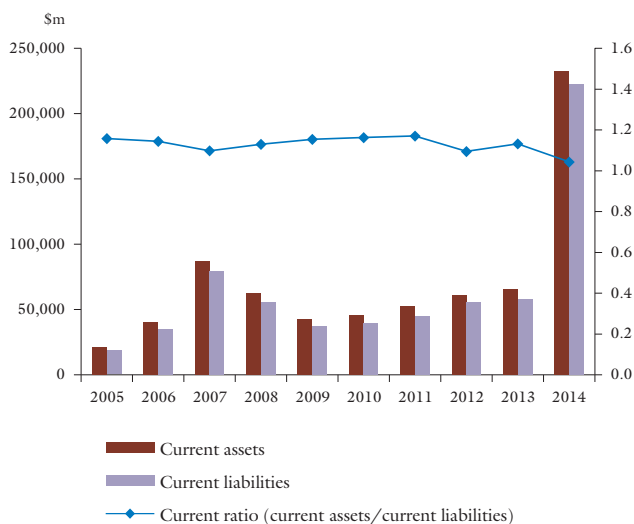
**Basic Earnings and Dividends per Share**



Earnings per share generally followed the same trend as profit attributable to shareholders. In 2013, the percentage increase in earnings per share was lower than the percentage increase in profit attributable to shareholders as a result of the share placement in December 2012 for funding the acquisition of the LME Group.

Dividends per share moved in line with earnings per share as the Board has adopted a policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent.

**Current Assets, Current Liabilities and Current Ratio**



Prior to 2014, current assets and current liabilities were directly affected by the CNS money obligations receivable and payable under the T+2 settlement cycle and the Margin Funds. Therefore, the amounts generally followed the level of activity on the Stock Exchange and the Futures Exchange.

Since the launch of LME Clear in September 2014, significant amounts of Margin Funds and Clearing House Funds were received by LME Clear. In addition, derivative financial assets and derivative financial liabilities in respect of the fair values of outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting treatment under relevant accounting standards are recorded on the consolidated statement of financial position. As a result, the Group's current assets and current liabilities trebled in 2014.

**Net Assets per Share and Return on Equity**



\* Based on equity attributable to HKEx's shareholders at year end

Net assets per share had been increasing steadily as a result of increasing profits up to 2007. They dropped in 2008 as total dividends paid (which were based on the higher profit in the second half of 2007 and the first half of 2008) were higher than the profit for the year. Net assets per share rose during 2009 to 2011 as profits increased. The significant rise in 2012 was mainly due to a \$7,708 million share placement in December 2012. Net assets per share continued to increase in 2013 and 2014 due to rising profits.

Return on equity generally moved in line with profit attributable to shareholders. The decline in 2008 and 2009 was due to a drop in profit caused by the financial tsunami. In 2010 and 2011, return on equity declined mainly attributable to the increase in equity due to profits retained. In 2012, it fell significantly mainly due to the lower profit for the year and the share placement in December 2012. Return on equity improved in 2014 due to the increase in profit attributable to shareholders.



# CORPORATE GOVERNANCE REPORT

## Compliance with Corporate Governance Code

Throughout the year ended 31 December 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 and A.4.2 as addressed below.

Code Provision A.4.1 (Re-election of non-executive 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. They are normally appointed for a term of approximately 2 years and on expiration of their terms, they shall retire and be eligible for re-appointment pursuant to Article 88(4) of HKEx's Articles.
Code Provision A.4.2 (Retirement by rotation of directors)
<ul style="list-style-type: none"><li>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, coterminous with his employment with HKEx, and he is not subject to retirement by rotation.</li><li>HKEx's Chief Executive is appointed under an employment contract for a fixed term, normally not more than 3 years, with no automatic renewal provision, and shall be eligible for re-appointment. Pursuant to Articles 109(1) and (3) of HKEx's Articles, his appointment has to be approved by the Board and is subject to the SFC's approval under Section 70 of the SFO.</li></ul>

HKEx has applied the principles of the Corporate Governance Code to its corporate governance structure and practices as set out under the About HKEx (Corporate Governance) section of the HKEx website. The Board has delegated its corporate governance functions to the Environmental, Social and Governance Committee. A summary of the work done by the Environmental, Social and Governance Committee in 2014/2015 is set out in the ESG Committee Report of this Annual Report.

## Strategic Planning

Rigorous strategic planning is a key and ongoing process in identifying and assessing the opportunities and challenges the Group might face, and developing a planned course of action for the Group to generate and preserve long-term value. An annual full-day offsite meeting is held at the beginning of each year to review and fine-tune the Group's strategies. The Group's Strategic Plan 2013-2015 is available under the About HKEx (Corporate Information) section of the HKEx website.

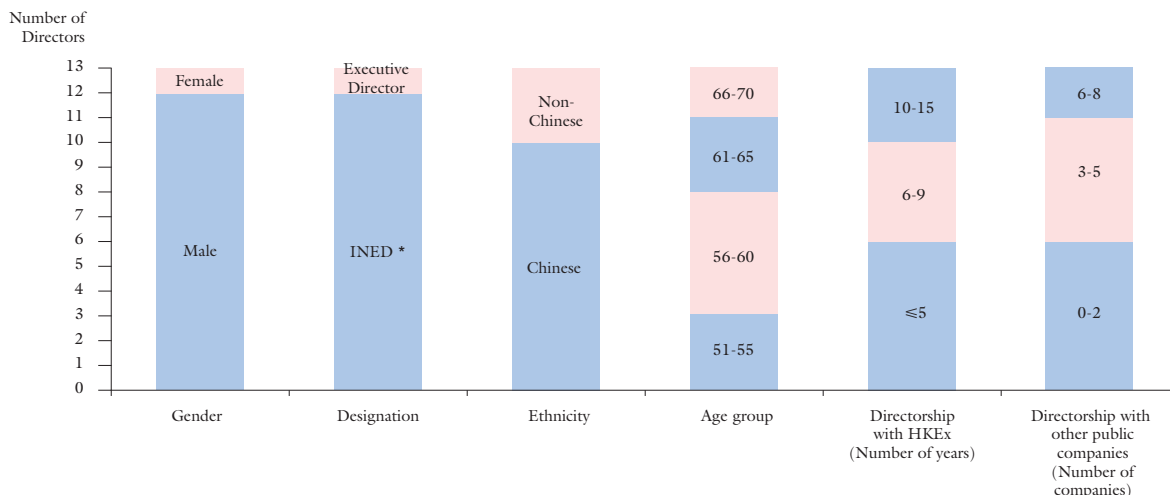
### Work Done in 2014 under Strategic Plan 2013-2015

- Chief Executive's Review (pages 9 to 13)
- Business Review (pages 29 to 51)

## The Board

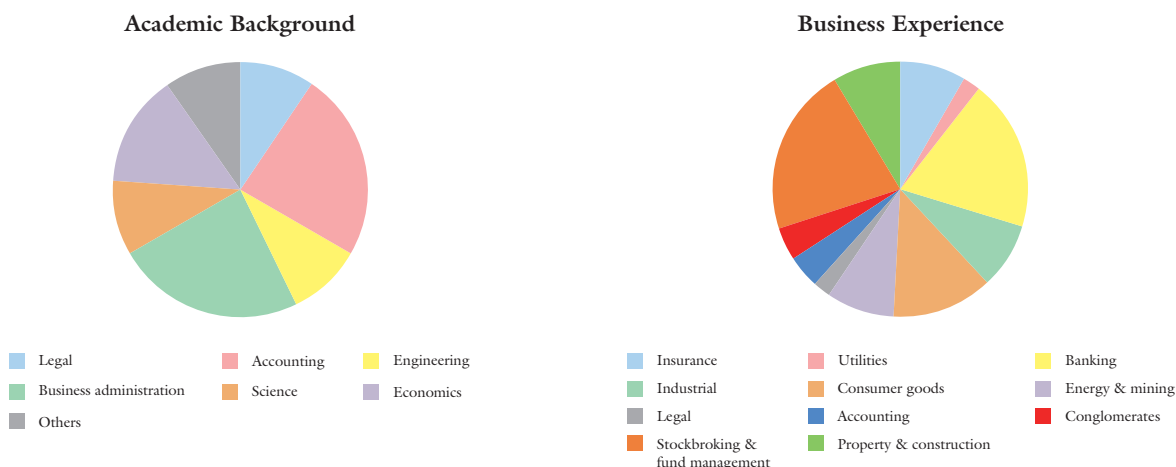
### Board Composition

The Board structure is governed by Article 88 of HKEx's Articles and Section 77 of the SFO. There is a well balance of skills and experience on the Board which comprises 13 members. In November 2014, HKEx was pleased to welcome Dr Fred Hu to the Board. Dr Hu is a prominent economist and has significant experience in the financial industry, in particular the Mainland financial sector.



\* 6 Government Appointed Directors and 6 Elected Directors

The staggered terms of service enables the Board to retain a core team of veteran Directors who are conversant with the Group’s ongoing business and seek skilled people to bring new and fresh perspectives and diverse experience to the Board. The process for the nomination of Directors is led by the Nomination Committee and is set out on page 70.



The biographical details of all current Directors (including their roles, functions and respective terms of office at HKEx as well as their skills and experience) are set out in the Board of Directors and Senior Management section of this Annual Report, and are available under the About HKEx (Organisation) section of the HKEx website.

**Appointment and Election of Directors**

**Changes in Directors during 2014**

- In 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.
- At the 2014 AGM, Dr Bill Kwok and Mr Vincent Lee were re-elected by Shareholders, each for a term of approximately 3 years from 16 April 2014 until the conclusion of the AGM to be held in 2017.
- Mr John Strickland resigned as a Director on 31 October 2014.
- Dr Fred Hu was appointed as a Director effective 10 November 2014 to fill the casual vacancy that arose upon the resignation of Mr Strickland.

The service terms of 4 Government Appointed Directors, namely, Messrs John Harrison, Stephen Hui and Michael Lee and Mrs Margaret Leung, and 2 Elected Directors, namely Messrs T C Chan and John Williamson, will expire at the conclusion of the 2015 AGM. Dr Fred Hu shall retire at the 2015 AGM. Pursuant to Articles 88(4), 90 and 91(2) of HKEx's Articles, they are all eligible for re-appointment.

### Chairman and Chief Executive

The roles of HKEx's Chairman and Chief Executive are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Their respective responsibilities are set out under the About HKEx (Corporate Governance) section of the HKEx website.



### Re-appointment of Chairman in 2014

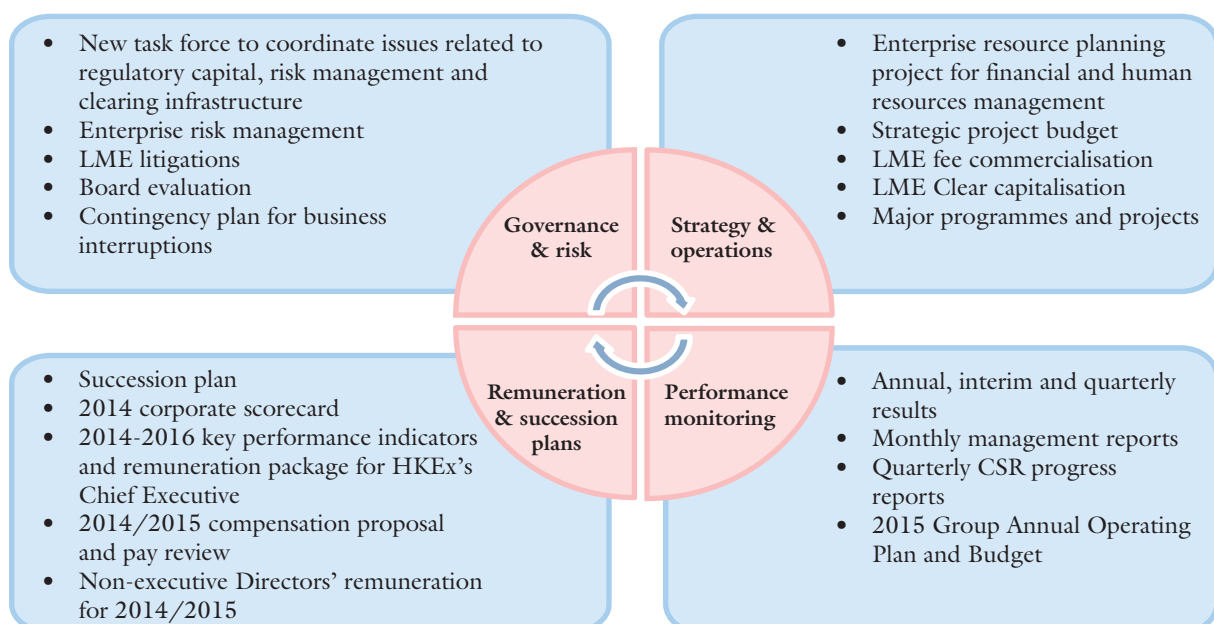
The Board on 17 April 2014 re-appointed Mr C K Chow as HKEx's Chairman for a term to be coterminous with his directorship with HKEx. Pursuant to Section 69 of the SFO, the Chief Executive of the HKSAR approved his re-appointment which took effect on 25 April 2014.

### Roles and Responsibilities

The Board believes that good governance emanates from an effective board which, directly and indirectly through its committees, leads and provides direction for management by laying down strategies and overseeing their implementation by management, reviews the operational and financial performance, and provides oversight to ensure that a sound system of internal control and risk management is in place.

The Board operates under defined terms of reference, which are available under the About HKEx (Organisation) section of the HKEx website.

### Key Matters Addressed by the Board during 2014



## Board Effectiveness

The Board recognises the importance and benefits of conducting regular evaluations of its performance. The Board commissioned an externally facilitated evaluation in 2014.

The evaluation process was led by an independent external consultant with previous experience of evaluating and making recommendations to improve the Board effectiveness. The objectives of the evaluation were to assess whether the Board/committees, HKEx's Chairman and other Directors have adequately and effectively performed its/their roles and fulfilled its/their duties and responsibilities, and to recommend areas for improvement.

### Key Evaluation Findings

- The Board continues to operate to a very high standard, compared both to Hong Kong and global benchmarks.
- HKEx continues to attract Non-executive Directors of high calibre. Board and committee members bring relevant professional experience and skills, and all Board members, including those appointed by the Government, rigorously maintain independence of view.
- The relationships between Board and committee members are strong.
- The support provided by HKEx to the Board and committees is of high quality.
- Board discussions enable a good level of strategic debate and oversight of HKEx's performance and its management.
- The Board committees operate effectively.

The Board welcomes the consultant's recommendations for further improvements, and has committed to implementing the recommendations, where appropriate.

## Independence of Non-executive Directors

All Directors (with the exception of HKEx's Chief Executive being the only Executive Director) are INEDs since HKEx's listing. Assessments of Non-executive Directors' independence are carried out upon appointment, annually and at any other time where the circumstances warrant reconsideration. The Board acknowledges that it is crucial for an independent Board to provide objective and constructive challenge to the viewpoints presented by management.

### Assessments of Non-executive Directors' Independence for 2014

#### Assessment upon Director's appointment

Dr Fred Hu, upon his appointment, confirmed in writing to the SFC –

- his independence having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules; and
- he has no past or present financial or other interest in the Group's business and no connection with any of HKEx's core connected persons (as defined in the Main Board Listing Rules).

#### Annual assessment

On 5 March 2015, the Nomination Committee held a meeting to assess the annual confirmation of independence received from each of the INEDs having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules.

- As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence.
- Particular attention was given to assessing the independence of the Government Appointed Directors (including Mr C K Chow who is an Executive Councillor) given that the Government is a Minority Controller of HKEx.
- Consideration was given to the independence of Dr Bill Kwok, Mr Vincent Lee and Mr Oscar Wong, who have been serving on the Board for more than 9 years.
- The Nomination Committee affirmed that all INEDs continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.

#### Ongoing assessment

- Each INED is required to inform HKEx as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2014.
- None of the Directors have any financial, business, family or other material/relevant relationships with each other, in particular, between HKEx's Chairman and Chief Executive.
- Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections on pages 74 and 75.

#### Induction and Development

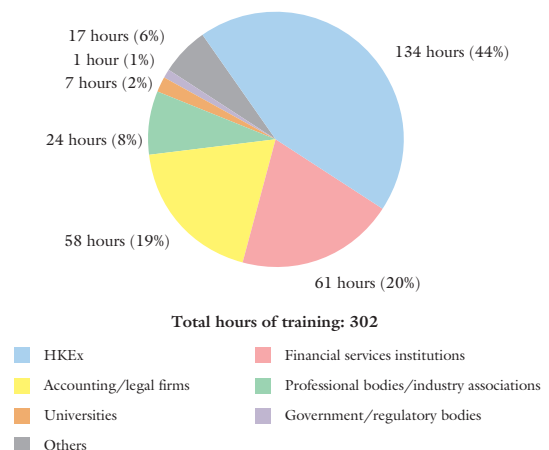
An induction programme was held for Dr Fred Hu to ensure that he has a firm understanding of the Group's operations as well as his associated role and responsibilities. Details of the programme are set out below.

Key matters covered	Facilitated by
<ul style="list-style-type: none"> <li>• HKEx's roles and group structure, governance structure, Board procedures, Director's responsibilities, guidelines on conduct, CSR strategy and management</li> <li>• Director's duties and responsibilities</li> <li>• HKEx's business (Listing, Global Markets, Global Clearing and IT)</li> <li>• Financial and risk management</li> </ul>	Company Secretary  External legal adviser Respective division/department heads and senior executives

A Director's Handbook is given to every new Board member, which contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct and information on other key governance issues. The Director's Handbook is reviewed and updated regularly, and is available under the About HKEx (Corporate Governance) section of the HKEx website.

Development and training of Directors is an ongoing process to ensure the continued enhancement of their skills and knowledge. All Directors are required to provide the Company with their training records on a semi-annual basis, and the records are maintained by the Company Secretary for annual review by the ESG Committee. In 2014, each Director received over 10 hours of training and a majority of them attended over 20 hours. The training records of the Directors were reviewed by the ESG Committee in February 2015.

#### Analysis of Directors' Training in 2014 by Training Organiser \*



\* Including Mr John Strickland who resigned from the Board effective 31 October 2014



## Analysis of Directors' Training in 2014 by Training Topic

	HKEx's strategy/ business	Economy/ financial markets and products	Director's duties/ governance practices	Risk management	Legislative/ regulatory compliance	Induction programme	Electronic platform for Board papers	Others
<b>INEDs</b>								
C K Chow (Chairman)	✓		✓		✓			
T C Chan	✓		✓	✓				
Timothy Freshwater	✓	✓	✓	✓				
John Harrison	✓	✓	✓	✓				✓
Fred Hu <sup>1</sup>			✓			✓	✓	
Stephen Hui	✓		✓	✓				✓
Bill Kwok	✓		✓	✓				
Michael Lee	✓	✓	✓	✓	✓			
Vincent Lee		✓		✓				
Margaret Leung	✓	✓		✓	✓			✓
John Strickland <sup>2</sup>	✓		✓	✓				
John Williamson	✓	✓			✓			
Oscar Wong	✓		✓	✓				
<b>Executive Director</b>								
Charles Li	✓	✓		✓				
<b>Total Number of Hours Attended</b>								
by all Directors	138	46	61	26	17	9	1	4

## Notes:

- 1 Dr Hu was appointed as a Director effective 10 November 2014.
- 2 Mr Strickland resigned from the Board effective 31 October 2014.

## Board Process

Directors are expected to devote sufficient time and attention to performing their duties and responsibilities. The high attendance record at the Board and its committee meetings in 2014, which was reviewed and confirmed by the Nomination Committee on 5 March 2015, demonstrates Directors' strong commitment to the Company.

## Key Features of Board Process in 2014

- The Board held 10 meetings, all of which were scheduled well before the start of the year. The Board had a standing agenda of items to ensure that matters relating to strategy, finance, major projects, governance, risk management and compliance were covered in its meetings at appropriate intervals during the year.
- To supplement the formal Board meetings, HKEx's Chairman had regular gatherings with Directors, occasionally without the presence of HKEx's Chief Executive, to consider issues in an informal setting. During 2014, a total of 3 Board lunches and a dinner were held, including one attended only by Non-executive Directors and another one with the presence of the Group's senior executives.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense.
- Directors' and Officers' liability insurance has been arranged. The terms and extent of the cover for 2014/2015 was reviewed and renewed.
- The Company has put in place procedures to deal with Directors' conflicts of interest which are set out in the Director's Handbook. To safeguard their independence, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from meetings or voting on the proposals. In 2014, Mr Tim Freshwater did not participate in discussions on a business matter where there was a potential conflict of interest.
- Declared interests are properly recorded and the register is accessible by each and every Board member.
- An Escalation and Incident Reporting Policy and guidelines on reporting and disseminating inside information are in place to ensure that critical concerns for the Group's operations and performance are communicated and addressed by the Board in a timely manner.
- All Directors were provided with a tablet computer to access Board/committee papers through an electronic platform. A reading room was added to the platform to provide Directors with access to comprehensive information relevant to their duties. The electronic platform ensures timely and secure provision of information to Directors whilst at the same time reducing the environmental impact of Board/committee meetings.

## Attendance Record of Directors and Committee Members in 2014

	2014 AGM	Board	Audit Committee	Environmental, Social and Governance Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member <sup>1</sup> Nomination Committee	Remuneration Committee	Risk Management Committee (statutory)
Number of Meetings	1	10	4	1	5	4	2	-	4	12
Total Duration (approximate number of hours)	1	34	9	1	2	5	2	-	7	10
<b>INEDs</b>										
C K Chow (Chairman)	1/1	10/10		1/1	5/5		2/2		4/4	11/12
T C Chan	1/1	10/10	4/4				2/2	-		11/12
Timothy Freshwater <sup>2</sup>	1/1	10/10			5/5	3/3	2/2			
John Harrison <sup>3</sup>	1/1	10/10	4/4	1/1						
Fred Hu <sup>4</sup>		1/1								
Stephen Hui	1/1	10/10		1/1		4/4				
Bill Kwok	1/1	9/10	4/4		5/5			-	4/4	
Michael Lee	1/1	10/10	4/4	1/1		3/4		-		
Vincent Lee	1/1	9/10	4/4		5/5			-	4/4	
Margaret Leung	1/1	10/10							3/4	9/12
John Strickland <sup>5</sup>	0/1	8/8				3/3				
John Williamson <sup>6</sup>	1/1	9/10	4/4	-			2/2		4/4	
Oscar Wong	1/1	10/10				4/4	2/2	-		
<b>Executive Director</b>										
Charles Li	1/1	10/10		1/1	3/5					
<b>Market Professionals</b>										
Chan Ngai Hang										9/12
He Guangbei <sup>7</sup>										0/1
Benjamin Hung <sup>8</sup>										3/5
Howard Lee										11/12
Michael Liu										11/12
Keith Lui										12/12
David Lui						4/4				
May Tan <sup>9</sup>										4/6
Average Attendance Rate	92%	98%	100%	100%	92%	95%	100%	N/A	95%	84% <sup>10</sup>

## Notes:

- 1 No meeting of the Panel Member Nomination Committee took place in 2014.
- 2 Mr Freshwater was appointed as a member of the Investment Advisory Committee effective 17 April 2014.
- 3 Mr Harrison ceased to be a member of the Environmental, Social and Governance Committee effective 17 April 2014.
- 4 Dr Hu was appointed as a Director effective 10 November 2014.
- 5 Mr Strickland resigned as a Director and the chairman of the Investment Advisory Committee on 31 October 2014.
- 6 Mr Williamson was appointed as a member of the Environmental, Social and Governance Committee effective 17 April 2014. No meeting of the Environmental, Social and Governance Committee took place during the period between 17 April and 31 December 2014.
- 7 Mr He ceased to be a member of the Risk Management Committee (statutory) effective 20 January 2014.
- 8 Mr Hung was appointed as a member of the Risk Management Committee (statutory) for the period from 20 January to 6 July 2014.
- 9 Ms Tan was appointed as a member of the Risk Management Committee (statutory) effective 7 July 2014.
- 10 The attendance rate took into account the attendance by alternate committee members.

## Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to HKEx's Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management.

The Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2014, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

## Board Delegation

### Board Committees

The Board has delegated authority to various committees which operate under defined terms of reference. Committees' composition and terms of reference are reviewed and updated regularly to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

The committees' member lists are set out in the Board and Committees section of this Annual Report, and together with their major roles and functions and terms of reference are available under the About HKEx (Corporate Governance) section of the HKEx website. The attendance record of the committee members is set out on page 69.

### The Nomination Committee

The Nomination Committee is delegated by the Board with the primary responsibility to formulate and implement the policy for nominating candidates for election by Shareholders, to assess the independence of INEDs, and to review the time required from Directors to perform their responsibilities. The Committee, comprising 5 members who are all INEDs, held 3 meetings in 2014 and up to 5 March 2015.

#### Summary of Work Done in 2014/2015

- Nominated candidates to stand for election by Shareholders at the 2014 and 2015 AGMs
- Reviewed and confirmed the independence of the 12 INEDs
- Reviewed time commitment from Directors to perform their responsibilities
- Nominated Dr Fred Hu for consideration by the Board to fill the casual vacancy that arose upon the resignation of Mr John Strickland
- Considered the Board's composition taking into account the Board Diversity Policy

On 5 March 2015, the Committee, after having reviewed the Board's composition, nominated Mr T C Chan, Dr Fred Hu and Mr John Williamson to the Board for it to recommend them to stand for election by Shareholders at the 2015 AGM. The nominations were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out in the Board Diversity Policy. The Board Diversity Policy is available under the About HKEx (Corporate Governance) section of the HKEx website. An analysis of the current Board's composition based on these criteria is set out on page 64.

On 5 March 2015, the Committee's nominations were accepted by the Board. As a good governance practice, Mr Chan, Dr Hu and Mr Williamson each abstained from voting at the Committee meeting and/or Board meeting on their nominations for election by Shareholders. Mr Chan, Dr Hu and Mr Williamson do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the About HKEx (Investor Relations) section of the HKEx website.

### Consultative Panels

Apart from the Board committees, there are 3 Consultative Panels – Cash Market Consultative Panel, Derivatives Market Consultative Panel, and Clearing Consultative Panel – with the major responsibility of providing market expertise and advice to the Board in relation to the trading and clearing in Hong Kong's securities and derivatives markets. The composition and terms of reference of the Consultative Panels are available under the About HKEx (Organisation) section of the HKEx website.

Meetings Held in 2014	
	Number of meetings
Cash Market Consultative Panel	2
Derivatives Market Consultative Panel	4
Clearing Consultative Panel	2

### Management Functions

The senior management under the leadership of HKEx's Chief Executive is responsible for the day-to-day management of the Group's businesses and implementation of the strategies laid down by the Board. The Management Committee, chaired by HKEx's Chief Executive, is the management decision making body of the Group and aims to meet at least twice a month. Its members and details of its duties are available under the About HKEx (Organisation) section of the HKEx website.

The updated organisation structure is available under the About HKEx (Organisation) section of the HKEx website. The list of Senior Management and their respective biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

### Senior Management Succession Planning

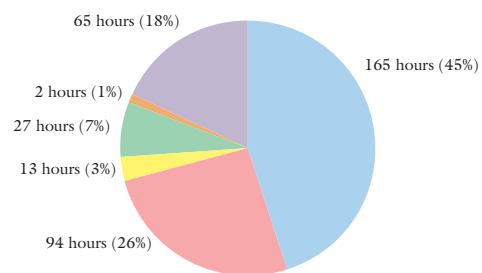
The Board recognises the importance of having continuity in the senior management, and leaders with appropriate skills and experience to support the delivery of the Group's strategic priorities. Senior management succession planning is a regular Board agenda item and considered by the Board annually.

### Management Training

Ongoing professional development is important to the Senior Management given the competitive business environment in which the Group operates. To ensure that members of the Senior Management continue to cultivate skills and knowledge for the fulfilment of their duties and responsibilities, the ESG Committee reviewed their training records in February 2015.

Further information about training attended by the Group's employees during 2014 is set out in the 2014 Corporate Social Responsibility Report.

Analysis of Senior Management's Training in 2014 by Training Topic



Total hours of training: 366



### Subsidiary Governance

Governance is important at all levels of the organisation. To ensure there is an integrated, Group-wide approach towards upholding high governance standards whilst expanding HKEx's business portfolio, focus and efforts have been placed on establishing and strengthening the governance structures of HKEx's subsidiaries which constitute part of the Group.

With a view to fostering the governance linkages between HKEx and its subsidiaries and ensuring that the Board receives timely and accurate updates on the subsidiaries' activities, there are some common memberships between the Board and the board and committees of HKEx's subsidiaries. Details about these linkages are set out in HKEx's corporate governance structure, which is available under the About HKEx (Corporate Governance) section of the HKEx website.

Further details about the governance structures of the Group's principal subsidiaries (including composition and terms of reference of their boards and committees) are available under the About HKEx (Organisation) section of the HKEx website.

## Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the Remuneration Committee Report of this Annual Report.

## Directors' Securities Transactions and Interests in HKEx

### 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 at all applicable times during the year ended 31 December 2014.

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

As at 31 December 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 HKEx <sup>1</sup> shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Vincent Lee	–	–	–	500,000 <sup>3</sup>	500,000	0.04
Margaret Leung	–	5,000 <sup>4</sup>	–	–	5,000	0.00
Charles Li	392,395 <sup>5</sup>	–	–	–	392,395	0.03

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

Name of Director	Number of shares/underlying shares held				Total	% of HKEx <sup>1</sup> shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
Vincent Lee	–	–	–	109,300 <sup>6</sup>	109,300	0.00

Notes:

- Based on 1,168,165,636 HKEx shares in issue as at 31 December 2014
- Mr Chow was the beneficial owner of those shares.
- Mr Lee was interested in 500,000 underlying shares of HKEx through certain listed equity derivatives (physically settled options) held by Lee Tung Hai Family Trust, a trust of which he is a beneficiary.
- Mrs Leung's spouse was the beneficial owner of those shares.
- It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 156,911 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report of this Annual Report.
- Mr Lee had a short position in 109,300 underlying shares of HKEx through certain listed equity derivatives (physically settled options) held by Lee Tung Hai Family Trust, a trust of which he is a beneficiary.



Save for those disclosed above, as at 31 December 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 Awarded Shares as disclosed in the Remuneration Committee Report of this Annual Report, during the year ended 31 December 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.

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

### Minority Controllers

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

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

As at the date of this report, the SFC has granted approval to 9 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 31 December 2014, the 9 approved Minority Controllers in aggregate held approximately 60 per cent of HKEx shares in issue.

As at 31 December 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 HKEx <sup>1</sup> shares in issue
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>2</sup>	66,730,300	5.71

Notes:

<sup>1</sup> Based on 1,168,165,636 HKEx shares in issue as at 31 December 2014

<sup>2</sup> 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 31 December 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.

## Senior Management

Members of the Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2014, Senior Management's interests in the shares and underlying shares of HKEx were as set out below.

Name of employee	Number of shares held	Number of shares remained unvested under the Share Award Scheme	Derivatives (number of underlying shares)
Margaret Cheng	-	14,684	-
Bill Chow	414,048	14,055	-
David Graham	-	28,105	-
Henry Ingrouille	7,700	22,763	-
Garry Jones	-	11,396	-
Paul Kennedy	-	8,439	-
Romnesh Lamba	100,165	43,598	-
Richard Leung	36,461	18,815	-
Ketan Patel	252	11,953	-
Trevor Spanner	-	37,601	-
Calvin Tai	119,867	22,692	-

## Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The waiver has remained valid since then. During the year ended 31 December 2014 and subject to the waiver, the Group had the following continuing connected transactions.

### Continuing Connected Transactions for the Year ended 31 December 2014

<p>A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of: (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:</p> <ul style="list-style-type: none"> <li>• Mr Ronald Arculli, an ex-INED who retired on 24 April 2013, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a CP, in which his sister and his brother-in-law each have a 50 per cent interest.</li> <li>• Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.</li> <li>• Mr Vincent Lee, an INED, was interested in the transactions entered into by Hang Tai Securities Limited, Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.</li> </ul>
<p>B. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with: (i) the listing, or proposed listing, of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:</p> <ul style="list-style-type: none"> <li>• Dr Bill Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.</li> </ul>
<p>C. Transactions between HKEx or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for: (i) carrying out "buy-in" when a CCASS Participant has failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred to as Buy-in Transactions):</p> <ul style="list-style-type: none"> <li>• WSL is one of the brokers appointed by HKSCC under an agreement for assisting HKSCC to carry out Buy-in Transactions. Dr Bill Kwok, an INED, is taken to be interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. During the year ended 31 December 2014, no Buy-in Transaction was conducted by WSL.</li> </ul>

The Audit Committee comprising 6 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions pursuant to Rule 14A.55 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the Audit Committee respectively, abstained from reviewing the respective transactions in which they had an interest. The Audit Committee confirmed that:

- (i) the transactions disclosed above were entered into in the Group's ordinary and usual course of business and conducted on an arm's length basis, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (ii) in respect of the transactions as disclosed under (A) and (B) above, they were conducted in accordance with the rules and regulations of the relevant Group company governing such transactions, and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (iii) in respect of the Buy-in Transactions as disclosed under (C) above, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the mutually agreed commission rates payable by HKSCC in respect of such Buy-in Transactions generally; and
- (iv) the transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Main Board Listing Rules. The Company provided a copy of the said letter to the SFC and the Stock Exchange.

## Material Related Party Transactions

During the year ended 31 December 2014, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards, which include transactions that constitute connected/continuing connected transactions for which the disclosure requirements under the Main Board Listing Rules have been complied with. Details of the material related party transactions are disclosed in note 48 to the Consolidated Financial Statements of this Annual Report.

## Accountability and Audit

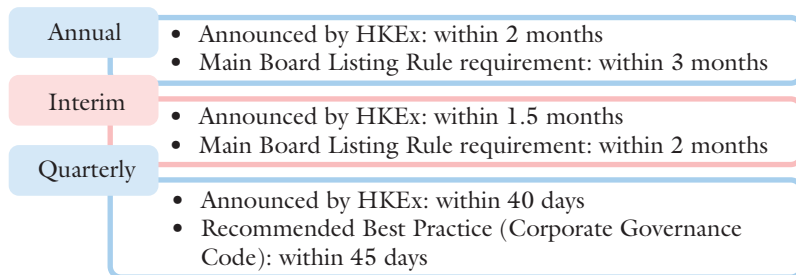
### Financial Reporting

The Board is responsible for overseeing the preparation of annual financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year. Management provides the Board with management accounts and updates on a monthly basis, with a view to giving a balanced and understandable assessment of the Group's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties. In preparing the financial statements for the year ended 31 December 2014, the Board:

- (i) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;
- (ii) selected suitable accounting policies and applied them consistently;
- (iii) made prudent and reasonable judgements and estimates; and
- (iv) ensured that the financial statements were prepared on a going concern basis and show a true and fair view of the state of affairs of HKEx and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year.

The Board is committed to presenting a balanced, clear and comprehensible assessment of the Group's operational performance, financial results and prospects to Shareholders and other stakeholders in a timely manner.

#### Results Announcement Timeline in 2014 (after the relevant period-end)



### Risk Management and Internal Control

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems for the Group (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets. To this end, management continues to allocate resources for an internal control and risk management system compatible with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The dynamics of the Group and the environment within which it operates are continually evolving together with its exposure to risk. The Group continues to review the adequacy of its risk management and control framework and looks for opportunities to make improvements and add appropriate resources when necessary.

In light of HKEx's nature of business and its strategic importance to the Hong Kong's financial markets and the world's metals industry and based on the recommendations of the OECD (Organisation for Economic Co-operation and Development) on the board's role in risk management, the Board on 5 March 2015 resolved to establish a Risk Committee to be responsible for the Group's enterprise-wide risk management including overseeing the relevant risk management systems and ensuring that they are compatible with the Group's strategy and risk appetite. The Risk Committee's composition and terms of reference are available under the About HKEx (Corporate Governance) section of the HKEx website.

## Risk Governance

The Group's risk governance structure is based on the "3 lines of defence" model, with oversight and directions from the Board and various committees at HKEx and its subsidiaries.

### Key Enhancements and Measures Undertaken in 2014

#### 1<sup>st</sup> line of defence – Risk management

- LME Clear participated in the risk assessment for the first time and their top risks have been incorporated into the Group Risk Report for 2014.
- Management conducts an Internal Control Self-evaluation annually, and in 2014, all division/department heads confirmed to the Internal Audit Department (IAD) that appropriate internal control policies and procedures have been established and properly complied with.
- Different policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties and controls, and they are kept under regular review. In 2014, the Management Committee approved a policy and procedures for the creation, governance and ongoing storage and management of Group-wide policies.
- Whistleblowing policies are in place to facilitate internal reporting of any malpractice within HKEx and the LME without fear of reprisal or victimisation.
- HKEx's Continuous Disclosure and Communication Policy is in place to provide employees with guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions.

#### 2<sup>nd</sup> line of defence – Risk oversight

- The risk governance structure has been enhanced by: (i) the appointment of the Group Risk Officer, a newly created position to oversee all of the Group's risk functions and head the new Risk Management Division; and (ii) the establishment of Regulatory Compliance Department to lead or facilitate the self-assessments and on-site reviews on the adequacy of procedures for compliance with the Group's regulatory obligations.
- The HKEx Enterprise Risk Management Framework was refined to help management assess and manage risks from new business activities and environments.
- There was further investment in information security in line with industry best practice. For example, various control improvements were introduced to reduce the risk of cyber security threats within HKEx, and a security awareness training module was provided to educate all employees of HKEx and the LME their responsibilities.
- The HKEx Escalation and Incident Reporting Policy has been refined to ensure it continues to provide a framework for effective communication and action from appropriate stakeholders.

#### 3<sup>rd</sup> line of defence – Independent assurance

- The IAD is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management systems and reporting the review results regularly to the Board through the Audit Committee. Its work covers all material controls, including the financial, operational and compliance controls and risk management functions.
- The IAD conducted a review of the Group's Enterprise Risk Management Framework and processes. No significant deficiencies were identified.
- During 2014, certain Group companies continued to be involved in litigation related to the metals warehousing industry. The relevant details and financial effect are disclosed in note 46 to the Consolidated Financial Statements of this Annual Report. Save as aforesaid, no suspected cases of fraud, irregularities, or infringement of laws, rules and regulations, or material control failures within the Group were identified by the IAD during 2014.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. For example, an independent review of the LME's core IT systems was completed in 2014, and a number of initiatives, as recommended in an independent IT security risk and infrastructure review of HKEx's IT systems performed in 2012, were carried out in 2014 to enhance IT security.
- Further details of the IAD's role and its internal audit methodology and processes are available under the About HKEx (Corporate Governance) section of the HKEx website.

The Audit Committee, on behalf of the Board, assesses the effectiveness of the risk management and internal control systems on a regular basis by reviewing the IAD's work and findings.

Further details of the Audit Committee's work done in 2014/2015 and its reviews of the risk management and internal control systems and the accounting, internal audit and financial reporting functions of the Group are set out in the Audit Committee Report of this Annual Report.

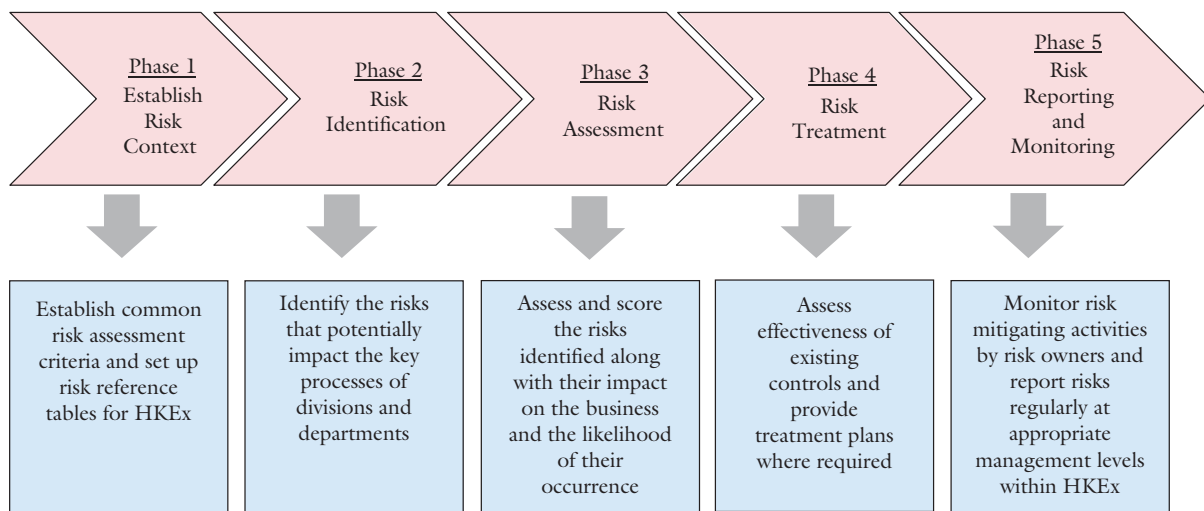


### Enterprise Risk Management Framework

The Group prudently manages the risks associated with its business and operations. HKEx, the LME and LME Clear have their own enterprise risk management (ERM) framework. The HKEx ERM Framework is designed to enhance risk management through a holistic and integrated framework so that all material risks faced by the Group are identified and appropriately managed to:

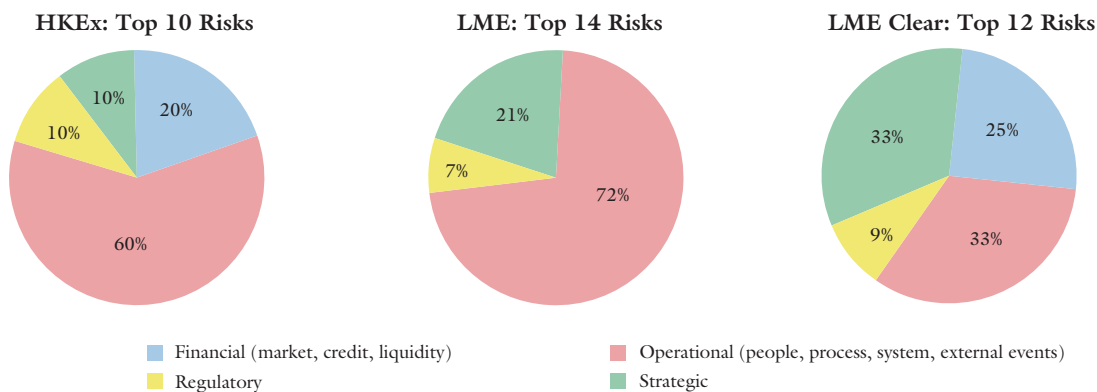
- (i) promote consistent risk identification, measurement, reporting and mitigation;
- (ii) set a common risk language to avoid any conflicting terminology or confusion in risk reporting; and
- (iii) develop and communicate policies on risk management and control aligned with the business strategy.

#### Key ERM Processes

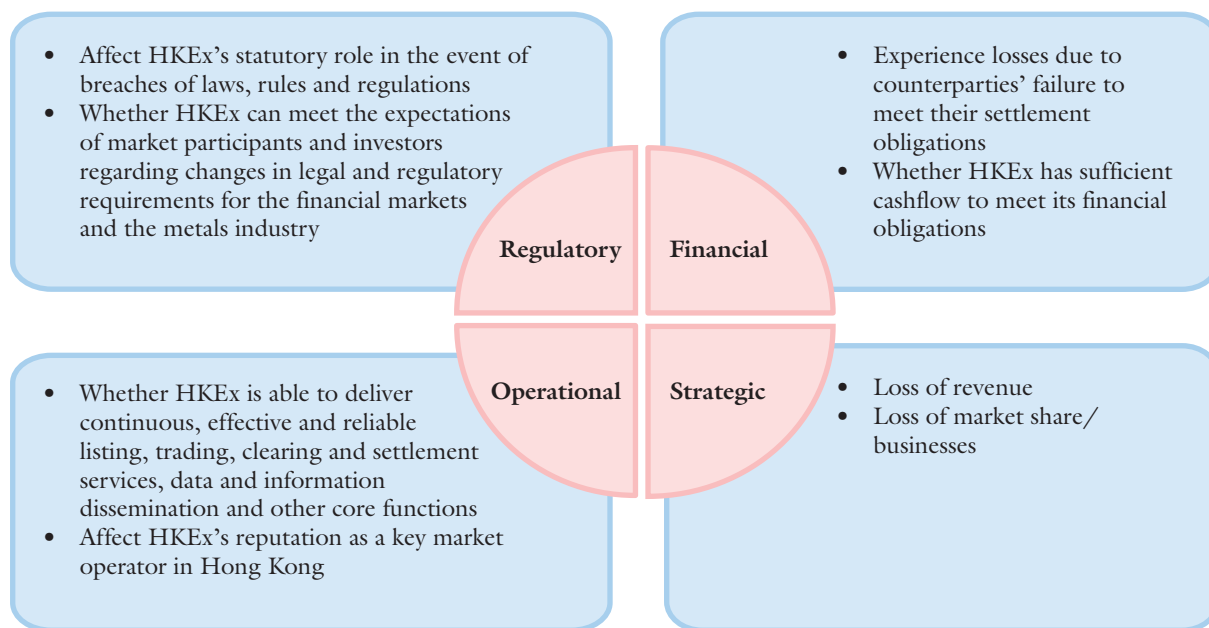


### Significant Risks

In 2014, HKEx conducted a Group-wide exercise based on the HKEx ERM Framework to review the identified risks and assess the risks which might arise from both existing and new businesses. The Group Risk Report for 2014 was compiled to cover: (i) the top risks of HKEx, the LME and LME Clear; (ii) changes in the nature and extent of the significant risks; and (iii) associated action plans and controls designed to mitigate the top risks, where applicable, at appropriate levels. The Group Risk Report, as endorsed by the Management Committee in November 2014, was presented to the Board for review in December 2014 and the top risk of HKEx was presented to the Risk Management Committee (statutory) for information in January 2015. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagrams below.



### HKEx's Key Risk Exposures



Information about the Group's management of its financial risks is set out in note 51 to the Consolidated Financial Statements of this Annual Report.

### Independence of External Auditor

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. All services provided by the external auditor are required to be approved by the Audit Committee. To ensure that the policy of restricting the non-audit work done by the external auditor is strictly adopted by all entities within the Group, appropriate policies and procedures have been established for approval of engagement of the Group's independent external auditor, PricewaterhouseCoopers, to provide services to the Group, which set out: (i) the classification of services as pre-approved services, prohibited services and non pre-approved services; and (ii) the approval process for non pre-approved services.

Under the approval procedures for audit fees, all audit fees for entities within the Group are required to be coordinated and presented by PricewaterhouseCoopers Hong Kong and all statutory audit fees for the Group companies are required to be approved by the Audit Committee.

Prior to the commencement of the audit of the Group's 2014 financial statements, the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviewed the external auditor's statutory audit scope and non-audit services and approved its fees.

External Auditor's Services and Fees		
	2014	2013
	\$m	\$m
<b>Audit services</b>	12	9
<b>Non-audit services</b>		
• Tax advisory and compliance	4	5
• Other services	1	1
<b>Total</b>	<b>17</b>	<b>15</b>

HKEx has adopted a policy of rotating the engagement partner of the external auditor every 5 years since 2005 and the current engagement partner is due for rotation after completing the audit for the year ended 31 December 2014. However, due to the changes to the Group's business operations, in particular the acquisition of the LME Group, the Board approved the extension of the service period of the current audit engagement partner from 5 years to a maximum of 7 years to safeguard the quality of the audit. This one-off extension has been agreed with PricewaterhouseCoopers, and complies with the Code of Ethics for Professional Accountants issued by the HKICPA.

In addition, the Group has adopted a policy of not hiring employees of the external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to its auditing. This policy has been strictly complied with since their adoption.

Further details of the external auditor's reporting responsibilities are set out in the Auditor's Report of this Annual Report. More information about the policies and procedures in safeguarding and supporting the independence and objectivity of the external auditor is available under the About HKEx (Corporate Governance) section of the HKEx website.

## Shareholder Relations

The Board gives high priority to balanced, clear and transparent communications which allow Shareholders and other investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and other investors through various channels of communication to ensure that their views and concerns are understood and addressed in a constructive way.

### Investor Engagement and Communications

HKEx has a dedicated investor relations team which acts as the primary contact point for communications with investors and analysts. It has a comprehensive and well-established programme of engagement for institutional shareholders. The programme provides the opportunity for current and potential investors to meet with HKEx's Chief Executive, Co-heads of Global Markets, the Group Chief Financial Officer and other senior executives to get a better understanding of how the Group operates and how it intends to achieve its strategic and operational objectives.

#### Key Investor Relations Activities

- Small group/one-to-one meetings
- Conference calls
- Media and analyst briefings
- Investor conferences

#### Investor Relations Contact Details

Email: [info@hkex.com.hk](mailto:info@hkex.com.hk)  
 Fax: (852) 2868 4084  
 Tel: (852) 2840 3895

The views of investors are communicated to the Board on a regular basis through the investor relations update report, which includes an analysis of HKEx shares' price performance and a summary of questions and feedback from investors and analysts. All Directors can, therefore, have a better understanding of the investors' issues or concerns.

To foster institutional investors' understanding of the Group's governance performance, HKEx continues to address the views and concerns raised by international ESG rating agencies such as GMI Ratings and Institutional Shareholder Services Inc by providing feedback and additional information in relation to the Group's governance principles and practices. Additional information about engagement with other stakeholders during 2014 is set out in the 2014 Corporate Social Responsibility Report.

## Shareholder Engagement and Communications

### Key Shareholder Engagement and Communications

#### Announcements and financial statements

- HKEx ensures prompt dissemination of corporate communications with contingency measures in place to enable Shareholders and other stakeholders to keep abreast of the Group's business affairs and developments.
- HKEx's commitment to pursuing quality and transparency in governance disclosure and financial reporting gained additional recognition from external professional organisations when its 2013 Annual Report received awards from the HKICPA and The Hong Kong Management Association in 2014.

#### HKEx website

- The HKEx website has become the primary channel of communication with the investing public. As at 31 December 2014, about 77 per cent of Shareholders opted to receive corporate communications via electronic methods. The About HKEx (Investor Relations) section of the website is kept under regular review to ensure that a wide range of information of interest to Shareholders is provided in an accurate and timely manner.

#### Scrip dividend scheme

- HKEx offers Shareholders the option of receiving their dividends in the form of new shares in HKEx instead of cash, which may enable Shareholders to increase their investment in HKEx without incurring brokerage fees, stamp duty or related dealing costs.

#### General meetings

- Shareholder(s) representing at least 5 per cent of the total voting rights of all Shareholders having a right to vote at general meetings may request the Board to call a general meeting. The request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved, at the meeting. Such request may consist of several documents in like form and be sent to the Company Secretary in hard copy form (at HKEx's registered office) or in electronic form (via email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk)).
- Pursuant to Article 88(3) of HKEx's Articles, if a Shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should submit a written notice of nomination which shall be given to the Company Secretary at HKEx's registered office. Details of the procedures for nominating candidates to stand for election as a Director at the 2015 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report.
- The procedures for Shareholders to put forward proposals at general meetings include a written notice of those proposals being submitted by Shareholders to the Company Secretary in hard copy form (at HKEx's registered office) or in electronic form (via email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk)). Details of the procedures for putting forward proposals by Shareholders are set out under the About HKEx (Corporate Governance) section of the HKEx website.

#### Policies and guidelines

- A Shareholders Communication Policy is in place to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about HKEx. The policy is regularly reviewed to ensure its effectiveness and is posted on the About HKEx (Corporate Governance) section of the HKEx website.
- A Shareholders' Guide with answers to the frequently asked questions raised by Shareholders with regard to their interests in HKEx shares is posted on the About HKEx (Corporate Governance) section of the HKEx website.

#### Shareholding analysis

- Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs, and the analysis for 2014 is set out in the Shareholding Analysis section of this Annual Report. HKEx's market capitalisation as at 31 December 2014 and public float are set out in the Information for Shareholders and Directors' Report sections of this Annual Report respectively.

The important dates for Shareholders in 2014 and the results announcement schedule in 2015 are set out in the Financial Calendar under the About HKEx (Investor Relations) section of the HKEx website.

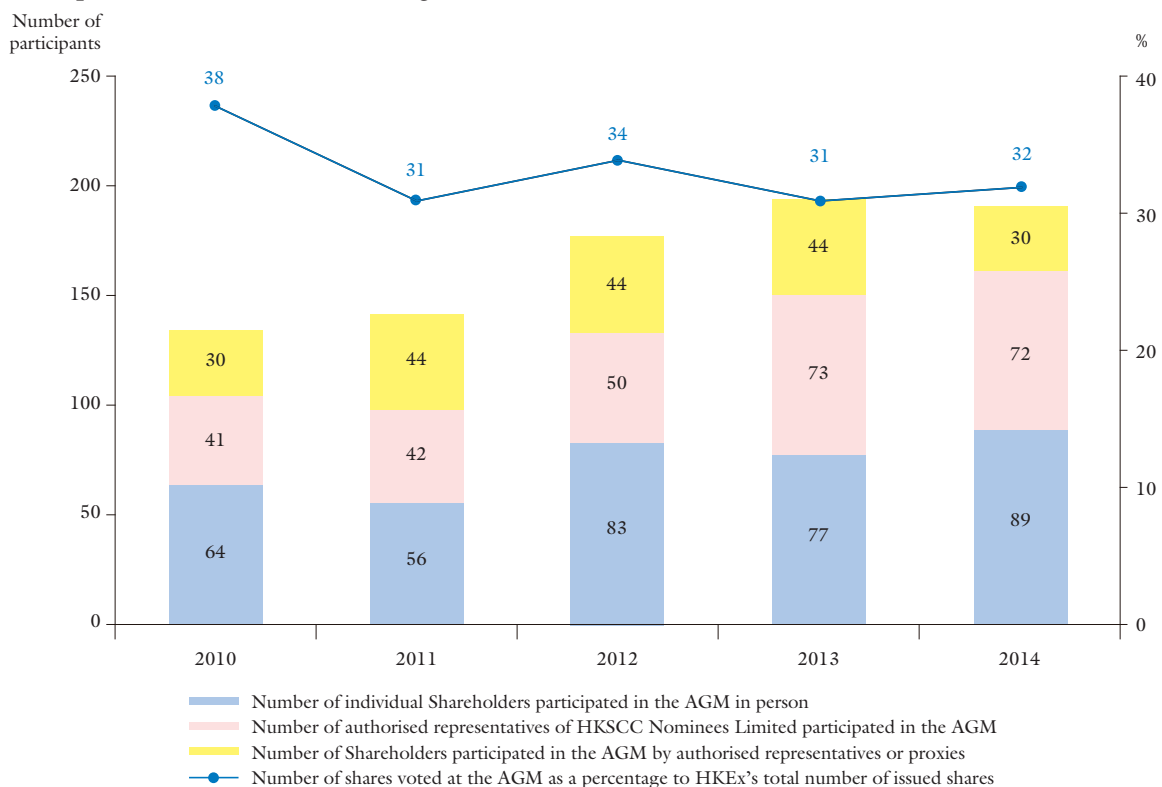
The Board is grateful to Shareholders and other stakeholders for their interest, and welcomes their views as well as any questions about the management and governance of the Group. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to the Company Secretary by post to HKEx, Secretarial Services Department, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

### 2014 Annual General Meeting

The Board and the management are committed to the constructive use of the AGM as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business.

A majority of the Directors on the Board when the 2014 AGM was held, including HKEx's Chairman, who was also chairing the Nomination Committee and Remuneration Committee, the chairman of the Audit Committee and the chairmen and/or deputy chairmen of other Board committees, attended the meeting along with key executives and the external auditor.

#### Participation in Annual General Meetings



At the 2014 AGM, HKEx continued its practice of proposing separate resolutions on each substantially separate issue. All resolutions were passed by way of a poll conducted by the Company's registrar and verified by an independent scrutineer. The poll voting results and the minutes of the meeting are available under the About HKEx (Investor Relations) section of the HKEx website.

To enhance efficiency and transparency in the vote counting process, the Company continued to use an electronic poll voting system at the 2014 AGM. The results of the voting in respect of each resolution were instantaneously displayed at the meeting.



#### Matters Resolved at the 2014 AGM

- Received the audited financial statements for the year ended 31 December 2013 together with the Reports of the Directors and the Auditor
- Payment of the final dividend of \$1.72 per share (with scrip alternative) for the year ended 31 December 2013
- Election of Dr Bill Kwok and Mr Vincent Lee as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation to the Directors to fix the Auditor's remuneration
- Approval of a general mandate for the Directors to repurchase HKEx shares not exceeding 10 per cent of the number of HKEx shares in issue (subject to adjustment in the case of any conversion of any or all of the HKEx shares into a larger or smaller number of shares after passing of the resolution) as at the date of 2014 AGM
- Approval of a general mandate for the Directors to allot, issue and deal with additional HKEx shares not exceeding 10 per cent of the number of HKEx shares in issue (subject to adjustment in the case of any conversion of any or all of the HKEx shares into a larger or smaller number of shares after passing of the resolution) as at the date of 2014 AGM, provided any shares to be allotted and issued (whether for cash or otherwise) under such authority are not at a discount of more than 10 per cent to the "benchmark price" (as described in Rule 13.36(5) of the Main Board Listing Rules)
- Approval of remuneration of \$1,500,000 and \$700,000 payable to HKEx's Chairman and each of the other Non-executive Directors respectively for their service during the period from the conclusion of each AGM to the conclusion of the AGM to be held in the immediately following year until Shareholders otherwise determine
- Approval of, in addition to an attendance fee of \$3,000 per meeting, remuneration of \$180,000 and \$100,000 payable to the chairman and each of the other members of the Audit Committee respectively, and \$150,000 and \$100,000 to the chairman and each of the other members (excluding Executive Director, if any) of Executive Committee, Investment Advisory Committee and Remuneration Committee respectively during the period from the conclusion of each AGM to the conclusion of the AGM to be held in the immediately following year until Shareholders otherwise determine
- Adoption of a new set of Articles of Association in substitution for, and to the exclusion of, HKEx's Memorandum and Articles of Association as amended by the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when it came into force effective 3 March 2014

#### 2015 Annual General Meeting

All Shareholders are encouraged to attend the 2015 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will have an opportunity to meet with Directors and the management after the conclusion of the meeting.

Apart from usual business at the 2015 AGM, the Board has proposed general mandates for the buy-back of HKEx shares and the issue of HKEx shares, and adjustment of the Non-executive Directors' remuneration. Further details of business to be conducted at the 2015 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the About HKEx (Investor Relations) section of the HKEx website. The poll results of each of the proposed resolutions will be published on the HKEx website shortly after the 2015 AGM is held.

#### Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2014 to the date of the approval of this report.

On behalf of the Board  
**MAU Kam Shing, Joseph**  
 Company Secretary

Hong Kong, 5 March 2015

# AUDIT COMMITTEE REPORT

## The Audit Committee

The Audit Committee (AC), comprised of 6 INEDs who have extensive experience in financial matters, is appointed by the Board. Among them, Messrs John Harrison and John Williamson are chartered accountants, and Messrs Vincent Lee and T C Chan are certified public accountants. None of the members is employed by or otherwise affiliated with the former or current auditors of HKEx.

The AC is delegated by the Board with the responsibility to provide an independent review and supervision of financial reporting, and to ensure the effectiveness of the Group's risk management and internal controls and the adequacy of the external and internal audits. The AC is provided with sufficient resources to perform its duties and supported by the Internal Audit Department (IAD) in examining all matters relating to the Group's adopted accounting principles and practices, and in reviewing all material financial, operational and compliance controls. The AC's terms of reference are available under the About HKEx (Organisation) section of the HKEx website.

The AC holds at least 4 regular meetings a year and convenes additional meetings when necessary. The external auditor, HKEx's Chief Executive and other senior executives are invited to attend the AC meetings as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC held 5 meetings in 2014 and up to 25 February 2015. Each member's attendance record in 2014 is shown on page 69 of the 2014 Annual Report.

### Summary of Work Done in 2014/2015

- Reviewed the financial statements for disclosure on a quarterly basis
- Reviewed the internal audit activities summary and approved the internal audit annual plan
- Reviewed significant findings of the internal audit, external auditor and regulators, and management's response to the recommendations raised
- Reviewed the continuing connected transactions
- Reviewed the effectiveness of the risk management and internal control systems and the adequacy of the accounting, internal audit and financial reporting functions
- Reviewed the effectiveness of the internal audit function
- Reviewed the external auditor's statutory audit scope for 2014 and the letter of representation to be given by the Board
- Considered and approved the 2014 external audit fees and engagement letters
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Reviewed changes in accounting principles and practices proposed by management

## Review of Risk Management and Internal Control Systems

The Group's risk management and internal control systems are reviewed by management and the IAD during the year. The AC assessed the effectiveness of the risk management and internal control systems in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2014: (i) the Group's risk management and internal control systems were effective and adequate, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) the Group had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal controls.

## Review of 2014 Consolidated Financial Statements

The AC reviewed the 2014 Consolidated Financial Statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2014. The AC therefore recommended the Consolidated Financial Statements for the year ended 31 December 2014 be approved by the Board.

## Review of Group's Accounting, Internal Audit and Financial Reporting Functions

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

## Review of Continuing Connected Transactions

The AC also reviewed the "Continuing Connected Transactions" as set out in the Corporate Governance Report of the 2014 Annual Report and confirmed that the continuing connected transactions entered into by the Group were in accordance with the conditions of the waiver granted by the SFC and the requirements of the Main Board Listing Rules.

## Recommendation for Re-appointment of External Auditor

The AC was satisfied with the external auditor's work, its independence, and its objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (which has indicated its willingness to continue in office) as the Group's external auditor for 2015 for Shareholders' approval at the 2015 AGM.

### Members of the Audit Committee

John Barrie HARRISON (Chairman)  
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)  
CHAN Tze Ching, Ignatius  
KWOK Chi Piu, Bill  
LEE Tze Hau, Michael  
John Mackay McCulloch WILLIAMSON

Hong Kong, 25 February 2015

# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

The Remuneration Committee (RC) is delegated by the Board with the responsibility to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The RC ensures that all employees and Executive and Non-executive Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance. The RC comprises 5 INEDs whose names are set out in the Board and Committees section of the 2014 Annual Report. Its detailed terms of reference are available under the About HKEx (Organisation) section of the HKEx website.

The RC held 5 meetings in 2014 and up to 12 February 2015. Members' attendance records in 2014 are shown on page 69 of the 2014 Annual Report.

### Summary of Work Done in 2014/2015

- Recommended the 2014 performance bonus and share award pools for the Group's employees
- Recommended the 2014 performance bonus and share award for HKEx's Chief Executive, and his salary adjustment for 2015
- Recommended the 2015 salary adjustment rates for the Group's employees
- Adopted the annual RC Report
- Reviewed the remuneration of non-executive directors of HKEx, the LME, LME Clear and OTC Clear, and recommended increases for 2015/2016

## Non-executive Directors' Remuneration

### Objective

To remunerate Non-executive Directors at an appropriate level for their commitment of time and effort to HKEx and to ensure the attraction and retention of high calibre and experienced individuals to oversee HKEx's business and development

### Policy

- To conduct annual reviews with reference to companies with comparable business or scale and recommend remuneration adjustments, if appropriate
- To seek the Board's endorsement for and Shareholders' approval of any recommended changes

### Annual review for 2014/2015

- McLagan, a professional firm specialising in performance and rewards for financial services industry, was appointed to conduct an independent review of the non-executive directors' remuneration for HKEx and its certain subsidiaries to ensure the competitiveness and appropriateness of their remuneration. The study included benchmarking against other listed exchanges as well as banks and constituent companies of the FTSE 100 Index and the HSI.
- Based on the findings and the consultant's recommendation, the RC (none of the RC members participated in the decision on his or her remuneration) recommended increasing the remuneration of Non-executive Directors. The proposal received endorsement from the Board and was approved by Shareholders at the 2014 AGM.

### Annual review for 2015/2016

- McLagan has again been appointed to conduct a review of the non-executive directors' remuneration for HKEx and its certain subsidiaries. The methodology and the benchmark used in the study largely followed the 2014/2015 exercise.
- After considering the consultant's analysis and recommendation, the RC (none of the RC members participated in the decision on his or her remuneration) recommended increases in the remuneration of Non-executive Directors. The fee changes, as set out in the following table, would be proposed to the Board for it to recommend to Shareholders for their approval at the 2015 AGM.

Annual review for 2015/2016	
	Proposed Fee for 2015/2016 onwards
	\$
HKEx's Chairman	2,100,000
Audit Committee	
– Chairman	200,000
– Other member	120,000
Executive Committee <sup>1</sup> , Investment Advisory Committee, Risk Committee <sup>2</sup> and RC	
– Chairman	180,000
– Other member	120,000

Notes:

- 1 Excluding the Executive Director
- 2 The establishment of the Risk Committee is subject to the Board's approval.

Non-executive Directors are not entitled to participate in the Share Option Schemes or the Share Award Scheme, or to receive other fringe benefits.

#### Non-executive Directors' Remuneration

	2014/2015
	\$
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/RC	
– Chairman	150,000
– Other member	100,000
– Attendance fee per meeting	3,000

The fees paid to each of the Non-executive Directors in 2013 and 2014 for their service on the Board and, where applicable, on its committees and the board and committees of HKEx's subsidiaries are set out below.

	2014	2013
	\$	\$
T C Chan	784,500	705,000
C K Chow	2,367,367	1,912,751 <sup>1</sup>
Timothy Freshwater	871,500	705,000
John Harrison	2,508,079	1,630,592 <sup>1</sup>
Fred Hu <sup>2</sup>	99,167	–
Stephen Hui	784,500	699,000
Bill Kwok	1,006,500	892,306
Michael Lee	1,317,000	892,726 <sup>1</sup>
Vincent Lee	1,006,500	889,306
Margaret Leung	781,500	538,500
John Strickland <sup>3</sup>	682,549	732,000
John Williamson	894,000	850,694
Oscar Wong	792,277	702,000
Total	13,895,439	11,325,375 <sup>4</sup>



Notes:

- 1 The 2013 comparative figures included pro-rated remuneration due to incomplete year of service at certain subsidiaries.
- 2 Dr Hu was appointed on 10 November 2014.
- 3 Mr Strickland resigned on 31 October 2014.
- 4 Including the remuneration of \$175,500 paid to Mr Ronald Arculli who retired on 24 April 2013

## Employees' Remuneration

Objective
To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals as well as the key business objectives at corporate level
Policy
<ul style="list-style-type: none"> <li>• To recommend, based on up-to-date market information, the appropriate salary adjustments, if any, for the Board's approval</li> <li>• To evaluate the corporate performance based on a set of pre-determined measurements and recommend to the Board the appropriate level of performance bonus and share award pools, if any, for the year</li> <li>• To consult HKEx's Chief Executive about the individual performance of the Senior Management and ensure that they are remunerated equitably and in accordance with the established guidelines</li> <li>• To review and recommend to the Board the remuneration of HKEx's Chief Executive and ensure that he is not involved in the discussion and decision on his own compensation</li> </ul>
Review for 2014/2015
<ul style="list-style-type: none"> <li>• The RC recommended and the Board approved in November and December 2014:                         <ol style="list-style-type: none"> <li>(i) a base salary adjustment and promotion increase effective January 2015. The salary adjustment took into consideration the cost of living and the projected pay increase in the financial services industry;</li> <li>(ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2014;</li> <li>(iii) a sum of \$257.69 million for the purchase of the HKEx shares pursuant to the Share Award Scheme for 226 selected employees, including HKEx's Chief Executive (\$15.07 million), and for selected employees to be recruited in 2015; and</li> <li>(iv) an additional sum of \$16.29 million for the purchase of the HKEx shares for a performance-based Senior Executive Award pursuant to the Share Award Scheme for HKEx's Chief Executive for the performance period between 2015 and 2017.</li> </ol> </li> <li>• The performance cash bonus and share award pools for the Group's employees were determined based on the overall achievements with respect to the following on the corporate performance scorecard:                         <ol style="list-style-type: none"> <li>(i) financial performance measures, including the growth of primary market activities relative to select peers among global exchanges, absolute revenue and EBITDA performance, profit margin, cost to income ratio, and absolute expenses (excluding incentives) relative to the budget;</li> <li>(ii) strategic initiative achievements per business line, eg, cash equity, equity derivatives, commodities and FIC;</li> <li>(iii) market and regulatory measures, eg, system stability and reliability, primary market and listing regulations; and</li> <li>(iv) organisation development measures, including talent recruitment and retention and CSR achievements.</li> </ol> </li> <li>• The applicable performance cash bonus and share awards were allocated to individual employees after consideration of year-on-year changes in their performance ratings (on a 5-point scale) and job grades, and with reference to a distribution guide. Management was allowed to make further adjustments to account for other factors, eg, internal relativity and external comparison with market benchmarks.</li> </ul>

Further details of HKEx's remuneration policy and structure are available under the About HKEx (Corporate Governance) section of the HKEx website.

As at 31 December 2014, the Group had 1,361 permanent employees and 59 temporary employees.

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked and their training and development opportunities are identified. Employee training details are set out in the 2014 Corporate Social Responsibility Report.

## Emoluments for 2014

## Executive Director

	2014					2013	2014	
	Salary \$	Cash bonus \$	Other <sup>1</sup> benefits \$	Retirement <sup>2</sup> benefits cost \$	Director's fee \$	Total <sup>3</sup> \$	Total <sup>3</sup> \$	Share <sup>4</sup> award benefits \$
HKEx's Chief Executive Charles Li <sup>5</sup>	8,652,600	10,094,700	164,179	1,081,575	–	19,993,054	19,282,806	20,914,560 <sup>6</sup>

## Senior Management

	2014					2013	2014	
	Salary \$	Cash bonus \$	Other <sup>1</sup> benefits \$	Retirement <sup>2</sup> benefits cost \$	Compensation for loss of office \$	Total <sup>3</sup> \$	Total <sup>3</sup> \$	Share <sup>4</sup> award benefits \$
Margaret Cheng	2,550,000	2,300,000	22,449	318,750	–	5,191,199	3,206,515 <sup>7</sup>	1,164,588
Bill Chow	2,937,600	5,753,000	55,504	367,200	–	9,113,304	8,605,229	1,563,922
David Graham	4,467,600	4,800,000	84,570	558,450	–	9,910,620	9,732,446 <sup>8</sup>	1,962,171
Henry Ingrouille	3,360,000	1,250,000	87,768	420,000	–	5,117,768	5,955,361	1,858,401
Garry Jones <sup>9</sup>	5,750,276	5,750,276	14,323	977,547	–	12,492,422	4,022,528 <sup>10</sup>	1,033,533
Paul Kennedy	3,600,000	4,200,000	73,938	450,000	–	8,323,938	7,455,449	673,716
Romnesh Lamba	4,467,600	5,450,000	93,249	558,450	–	10,569,299	10,324,927	4,283,126
Richard Leung	3,120,000	1,900,000	35,544	390,000	–	5,445,544	5,050,484	2,051,949
Ketan Patel <sup>11</sup>	2,520,000	2,250,000	41,480	315,000	–	5,126,480	4,881,740	1,286,651
Trevor Spanner <sup>9</sup>	3,641,841	4,472,437	61,477	619,113	–	8,794,868	7,834,398	3,079,212
Calvin Tai <sup>12</sup>	3,211,890	3,500,000	71,465	401,486	–	7,184,841	6,692,892	2,247,174

## Notes:

- Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of 7 years of service.
- Excluding the amounts approved by the Board for the purchase of the HKEx shares pursuant to the Share Award Scheme, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
- The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEx's Chief Executive and the respective members of the Senior Management that were charged to the Consolidated Income Statement for the year ended 31 December 2014.
- Mr Li's salary has been increased to \$9,000,000 per annum with effect from 1 January 2015.
- The amount included the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2014, the vesting of which is not affected by Mr Li's ceasing employment with the Group before the end of the performance assessment period. In accordance with prevailing accounting standards, such award is considered to be vested immediately upon grant. The actual number of shares to be transferred to Mr Li under the Senior Executive Awards is conditional on the satisfaction of performance conditions approved by the Board as set out in note 4 under the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
- Ms Cheng joined HKEx on 1 August 2013.
- Mr Graham joined HKEx on 9 January 2013.
- Mr Jones and Mr Spanner are members of the LME pension scheme operating in the UK. The vesting scale of HKEx's provident fund scheme as specified in note 2 above is not applicable to them.
- Mr Jones joined the Group on 30 September 2013.
- Mr Patel was appointed as the Group Risk Officer effective 1 January 2015.
- Mr Tai was appointed as the Head of Global Clearing (Asia) effective 1 April 2014.

Further details of Directors' emoluments and the 5 top-paid employees are set out in notes 15 and 16 respectively to the Consolidated Financial Statements of the 2014 Annual Report.

## Long-term Incentive Schemes

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

### Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme.

Movements in the outstanding share options granted under the Post-Listing Scheme during the year ended 31 December 2014 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options			As at 31 Dec 2014	Exercise <sup>2</sup> period
		As at 1 Jan 2014	Issued upon <sup>1</sup> subscription during the year	Cancelled/lapsed during the year		
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	347,000	–	144,000 <sup>3</sup>	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$137.31.
- 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.
- 3 These options were exercised prior to the end of the exercise period, and hence there are no outstanding options under the Post-Listing Scheme as at the date of this report.

Further details of the Share Option Schemes are set out in note 40(a) to the Consolidated Financial Statements of the 2014 Annual Report.

### Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of the HKEx shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Scheme is 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 HKEx website.

On 15 December 2014, the Board approved a total sum of \$273.98 million for the purchase of the HKEx shares pursuant to the Scheme, details of which are set out in the Employees' Remuneration section of this report. Based on the Board's recommendation, the Scheme's trustee has applied 98,608 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy such awards.

Further details of the Scheme are set out in note 40(b) to the Consolidated Financial Statements of the 2014 Annual Report.

Since the Adoption Date and up to the date of this report, a total of 7,048,069 shares had been awarded under the Scheme, representing about 0.7 per cent of the HKEx shares in issue as at the Adoption Date.

As at 31 December 2014, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,900,998 shares held in trust under the Scheme.

## Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes

No share options under the Share Option Schemes were granted to HKEx's Chief Executive. No share options granted under the Share Option Schemes to the Senior Management were outstanding during the year ended 31 December 2014. Details of the interests of HKEx's Chief Executive and the Senior Management in the Awarded Shares (save for those which had been fully vested as of 31 December 2013) are set out below.

	Date of <sup>2</sup> award	Number of Awarded Shares	Number of shares <sup>1</sup>				As at 31 Dec 2014	Vesting <sup>3</sup> period
			As at 1 Jan 2014	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
<b>HKEx's Chief Executive</b>								
Charles Li	30 Dec 2011	70,495	37,430	835	38,265	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	70,556	72,432	1,620	37,022	-	37,030	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	23,733 <sup>4</sup>	-	-	-	-	23,733	End of a performance period of 2013 – 2015
	3 Dec 2014	48,681	-	-	-	-	48,681	9 Dec 2015 – 9 Dec 2016
	3 Dec 2014	47,467 <sup>4</sup>	-	-	-	-	47,467	End of a performance period of 2014 – 2016
	2 Jan 2015 <sup>5</sup>	88,345	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015 <sup>5</sup>	95,100 <sup>4</sup>	-	-	-	-	-	End of a performance period of 2015 – 2017
<b>Senior Management</b>								
Margaret Cheng	3 Dec 2014	6,245	-	-	-	-	6,245	1 Aug 2015 – 1 Aug 2016
	3 Dec 2014	8,439	-	-	-	-	8,439	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	21,794	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Bill Chow	30 Dec 2011	15,419	8,194	182	8,376	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	16,051	16,479	368	8,418	-	8,429	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	5,626	-	-	-	-	5,626	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	10,210	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
David Graham	27 Mar 2013	10,700	10,983	244	-	-	11,227	9 Jan 2015 – 9 Jan 2016
	3 Dec 2014	16,878	-	-	-	-	16,878	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	25,059	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Henry Ingrouille	5 Sept 2012	8,900	9,134	155	4,622	-	4,667	7 Jul 2014 – 7 Jul 2015
	31 Dec 2012	14,639	15,028	338	7,678	-	7,688	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	10,408	-	-	-	-	10,408	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	18,742	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017

	Date of <sup>2</sup> award	Number of Awarded Shares	Number of shares <sup>1</sup>				As at 31 Dec 2014	Vesting <sup>3</sup> period
			As at 1 Jan 2014	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
Garry Jones	3 Dec 2014	11,396	-	-	-	-	11,396	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	39,163	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Paul Kennedy	3 Dec 2014	8,439	-	-	-	-	8,439	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	13,849	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Romnesh Lamba	30 Dec 2011	29,312	15,565	346	15,911	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	29,461	30,246	677	15,456	-	15,467	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	28,131	-	-	-	-	28,131	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	39,323	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Richard Leung	11 Oct 2011	14,400	7,643	169	7,812	-	-	3 Oct 2013 – 3 Oct 2014
	30 Dec 2011	12,528	6,653	148	6,801	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	14,402	14,786	332	7,555	-	7,563	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	11,252	-	-	-	-	11,252	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	14,556	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Ketan Patel	11 Oct 2011	11,800	6,263	139	6,402	-	-	19 Sept 2013 – 19 Sept 2014
	30 Dec 2011	5,059	2,690	59	2,749	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	9,638	9,892	223	5,054	-	5,061	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	6,892	-	-	-	-	6,892	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	8,915	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Trevor Spanner	3 Dec 2014	16,019	-	-	-	-	16,019	25 Apr 2015 – 25 Apr 2016
	3 Dec 2014	21,582	-	-	-	-	21,582	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	35,229	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017
Calvin Tai	30 Dec 2011	14,455	7,679	171	7,850	-	-	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	16,425	16,865	377	8,615	-	8,627	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	14,065	-	-	-	-	14,065	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015 <sup>5</sup>	26,991	-	-	-	-	-	15 Dec 2016 – 15 Dec 2017



## Notes:

- 1 It included shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme.
- 2 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 3 Save for those Senior Executive Awards as referred to in note 4 below, the Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant.
- 4 The awards were granted under the Share Award 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 RC and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.
- 5 With the awarded sum determined by the Board in December 2014, the relevant Awarded Shares were allocated to the selected employees on 2 January 2015.

**Members of the Remuneration Committee**

CHOW Chung Kong (Chairman)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LEUNG KO May Yee, Margaret

John Mackay McCulloch WILLIAMSON

Hong Kong, 12 February 2015

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The Board has delegated the day-to-day responsibility for all ESG-related matters to the ESG Committee. The ESG Committee comprises 5 Board members, including HKEx's Chairman, who acts as the ESG Committee's chairman, and HKEx's Chief Executive. The ESG Committee's terms of reference are available under the About HKEx (Organisation) section of the HKEx website.

The ESG Committee's functions include reviewing and monitoring the Company's ESG policies and practices to ensure compliance with legal and regulatory requirements, monitoring and responding to emerging ESG issues and making recommendations to the Board where appropriate to further the Group's ESG performance. In 2014, the CSR Management System Manual was updated, taking into account the latest legal and regulatory requirements as well as HKEx's organisational changes.

HKEx's Chief Executive provides a CSR progress report on a quarterly basis to the Board and reports directly to the Board on all ESG matters as and when he considers it necessary to do so. The progress reports cover the development, implementation and results of the initiatives carried out by different divisions and departments which have integrated the CSR objectives into their operations and activities and taken into account the feedback received during the stakeholder engagement processes to identify and manage the economic, environmental and social impact of their activities, as well as the related risks and opportunities.

The ESG Committee holds a meeting to review HKEx's ESG-related matters annually. The attendance record of members in 2014 is shown on page 69 of the 2014 Annual Report. On 10 February 2015, the ESG Committee reviewed the training and continual professional development of the Directors and Senior Management. It also approved the 2014 Corporate Governance Report, which has improved the disclosure of the Group's internal control and risk management, for inclusion in the 2014 Annual Report, and approved the 2014 Corporate Social Responsibility Report which will be available on the HKEx website before 25 March 2015.

HKEx remains a constituent company in the Dow Jones Sustainability Asia Pacific Index, the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series and the STOXX® Global ESG Leaders Indices in recognition of its effort in promoting sustainability within the organisation and the community. This continues to encourage everyone at HKEx to further the Group's commitment and achievements in being a responsible corporate citizen.

## **Members of the Environmental, Social and Governance Committee**

CHOW Chung Kong (Chairman)

HUI Chiu Chung, Stephen

LEE Tze Hau, Michael

LI Xiaojia, Charles

John Mackay McCulloch WILLIAMSON

Hong Kong, 10 February 2015

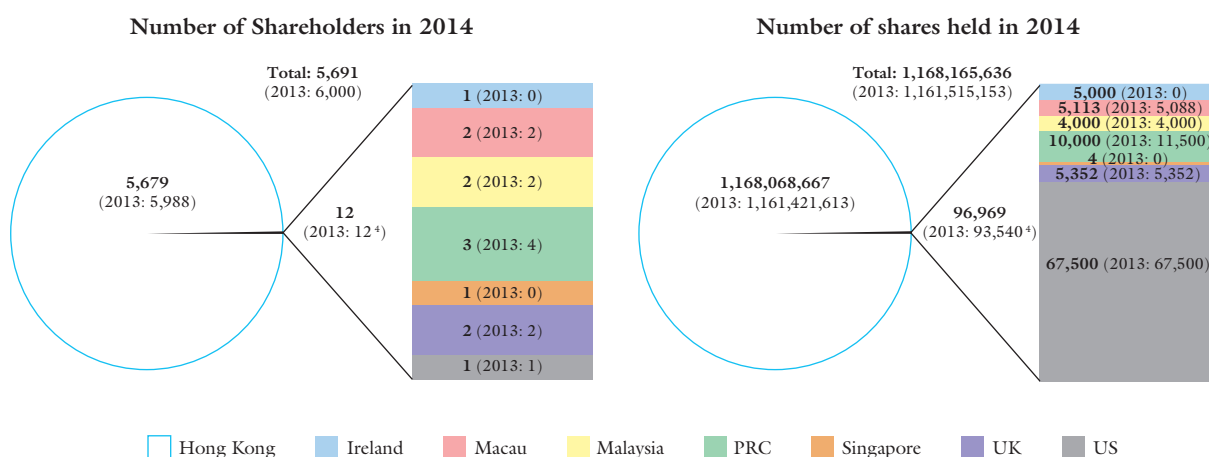
# SHAREHOLDING ANALYSIS

An analysis of Shareholders based on the ROM as at 31 December 2014 and 31 December 2013 is as follows:

## Shareholding Distribution

Size of shareholding	Number of Shareholders		% of Shareholders		Number of <sup>1</sup> shares held ('000)		% of <sup>2</sup> HKEx shares in issue	
	2014	2013	2014	2013	2014	2013	2014	2013
1 – 1,000	2,679	2,846	47.1	47.4	1,379	1,497	0.1	0.1
1,001 – 5,000	1,883	1,987	33.1	33.1	4,746	4,992	0.4	0.4
5,001 – 10,000	458	497	8.0	8.3	3,492	3,765	0.3	0.3
10,001 – 100,000	524	527	9.2	8.8	14,926	14,836	1.3	1.3
100,001 and above	147	143	2.6	2.4	1,143,622	1,136,425	97.9	97.8
<b>Total</b>	<b>5,691</b>	<b>6,000</b>	<b>100.0</b>	<b>100.0</b>	<b>1,168,166</b>	<b>1,161,515</b>	<b>100.0</b>	<b>100.0</b>

## Geographical Distribution<sup>3</sup>



## Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of <sup>1</sup> shares held ('000)		% of <sup>2</sup> HKEx shares in issue	
	2014	2013	2014	2013	2014	2013
Individual	5,597	5,906	65,610	65,379	5.6	5.6
Non-Individual	94	94	1,102,556	1,096,136	94.4	94.4
HKSCC Nominees Limited	1	1	1,073,936	1,066,244	91.9	91.8
Direct CPs			218,530	195,981	18.7	16.9
General CPs			553,724	387,109	47.4	33.3
Custodian Participants			290,789	467,682	24.9	40.3
IPs			10,308	13,332	0.9	1.1
Clearing Agency Participant			451	0	0.0	0.0
Defaulting Participant			17	1,489	0.0	0.1
			1,073,819 <sup>5</sup>	1,065,592 <sup>5</sup>	91.9	91.7
Other corporate/incorporated bodies	93	93	28,620	29,892	2.4	2.6
<b>Total</b>	<b>5,691</b>	<b>6,000</b>	<b>1,168,166</b>	<b>1,161,515</b>	<b>100.0</b>	<b>100.0</b>

Notes:

- Figures have been rounded up/down to the nearest thousand, and may not add up to the total or sub-group total due to rounding.
  - Percentage is for reference only, and may not add up to the total due to rounding.
  - According to the addresses shown on the ROM
  - For 2013, a Shareholder located in Australia held 100 shares.
  - The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the records shown in the Participant Shareholding Report (PSH Report). The number of shares registered in HKSCC Nominees Limited as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.
- For 2014, the shares were held for 406 Direct CPs (2013: 413); 9 General CPs (2013: 8); 24 Custodian Participants (2013: 26); 1,072 IPs (2013: 1,172); 1 Clearing Agency Participant (2013: 0); and 1 Defaulting Participant (2013: 1).

# INFORMATION FOR SHAREHOLDERS

## Annual Report

This Annual 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](mailto:hkex.ecom@computershare.com.hk)).

HKEx values feedback on this Annual Report as well as its reporting of the Group's financial and governance performance. Comments can be submitted via the online form at [www.hkex.com.hk/eng/exchange/invest/ir.htm](http://www.hkex.com.hk/eng/exchange/invest/ir.htm) or email at [ssd@hkex.com.hk](mailto:ssd@hkex.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.

## Annual General Meeting

The 2015 AGM will be held on Wednesday, 29 April 2015. The Notice of the 2015 AGM, which constitutes part of the circular to Shareholders, will be sent together with this Annual Report. The Notice of the 2015 AGM and the proxy form will be available under the About HKEx (Investor Relations) section of the HKEx website.

## 2014 Dividends

Interim dividend	\$1.83 per share
Proposed final dividend	\$2.15 per share

## Scrip Dividend Alternative

Subject to Shareholders' approval at the 2015 AGM of the proposed final dividend and a general mandate to issue shares, the final dividend will be payable in cash with a scrip dividend alternative. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEx to be issued pursuant thereto.

## Closure of ROM

### For determining Shareholders' eligibility to attend, speak and vote at 2015 AGM

Latest time to lodge transfer documents for registration with HKEx's registrar	At 4:30 pm on 24 April 2015
Closure of ROM	27 April 2015 to 29 April 2015 (both dates inclusive)
Record date	29 April 2015

### For determining Shareholders' entitlement to final dividend

Latest time to lodge transfer documents for registration with HKEx's registrar	At 4:30 pm on 5 May 2015
Closure of ROM	6 May 2015 to 7 May 2015 (both dates inclusive)
Record date	7 May 2015

## HKEx's Registrar and Transfer Office

Hong Kong Registrars Limited  
Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
Tel: +852 2862 8555  
Fax: +852 2865 0990/+852 2529 6087

## Financial Calendar

Announcement of 2014 final results	5 March 2015
2015 AGM	29 April 2015
Ex-dividend date for final dividend	4 May 2015
Expected despatch of scrip dividend circular and election form	On or about 13 May 2015
Expected despatch of dividend warrants/definitive share certificates	5 June 2015
Announcement of 2015 first quarter results (tentative)	May 2015
Announcement of 2015 interim results (tentative)	August 2015
Announcement of 2015 third quarter results (tentative)	November 2015

## Share Information

### Listing

First listed on the Stock Exchange	27 June 2000
Board lot	100 shares
As at 31 December 2014	
– Number of issued shares	1,168,165,636 shares
– Closing price	\$171.7 per share
– Market capitalisation	\$200.6 billion

### Index Constituent

FTSE4Good Index Series	Since September 2005
HSI	Since 11 September 2006
Hang Seng Corporate Sustainability Index Series	Since 26 July 2010
Dow Jones Sustainability Asia Pacific Index	Since 20 September 2010
STOXX® Global ESG Leaders Indices	Since September 2011

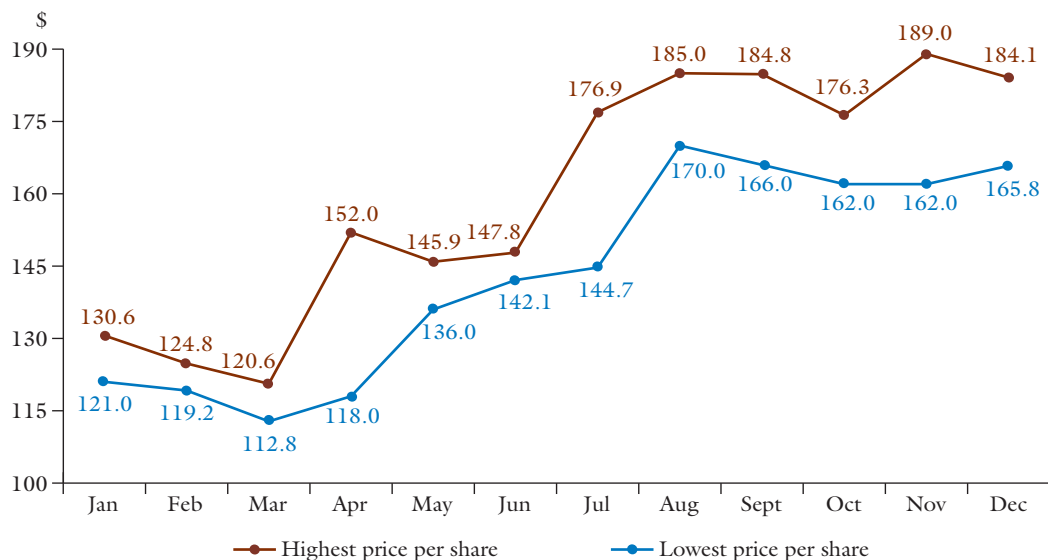
### Stock Codes

Stock Exchange	388
Reuters	0388.HK
Bloomberg	388 HK Equity
WPK Number	A0NJY9
SEDOL1	6267359 HK
ISIN	HK0388045442
COMMON	035776478

### American Depositary Receipts

Ticker Symbol	HKXCY
CUSIP	43858F109

### Price of HKEx shares in 2014



# DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited consolidated financial statements for the year ended 31 December 2014.

## Principal Activities

HKEx is a recognised exchange controller under the SFO. HKEx operates the only recognised stock and futures markets in Hong Kong through its wholly-owned subsidiaries SEHK and HKFE. HKEx also operates HKSCC, HKCC, SEOCH and OTC Clear, which are the only recognised clearing houses in Hong Kong. HKSCC, HKCC and SEOCH provide integrated clearing and settlement services to their participants, while OTC Clear provides OTC interest rate derivatives and non-deliverable forwards clearing and settlement services to its members. HKSCC also provides depository and nominee services to its participants. HKEx provides market data through its data dissemination entity, HKEx Information Services Limited. During the year, Gangsheng Information Services (Shanghai) Limited, an indirectly wholly-owned subsidiary, was established for routing orders to trade in eligible securities to the SSE for execution under the Shanghai-Hong Kong Stock Connect scheme.

HKEx also owns the LME in the UK, the world's premier base metals market. The LME is a recognised investment exchange under the UK Financial Services and Markets Act 2000. During the year, LME Clear, an indirectly wholly-owned subsidiary of HKEx, was launched as the new clearing house for the LME market.

The Group's revenue is derived from business activities conducted in Hong Kong and the UK. An analysis of the Group's revenue and other income, and profit before taxation for the year ended 31 December 2014 is set out in note 4 to the Consolidated Financial Statements of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2014 are set out in note 38 to the Consolidated Financial Statements of this Annual Report.

## Results and Appropriations

The Group's results for the year ended 31 December 2014 are set out in the Consolidated Income Statement on page 103 of this Annual Report.

The Board declared an interim dividend of \$1.83 per share (2013: \$1.82 per share), amounting to a total of \$2.1 billion (2013: \$2.1 billion) which was paid to Shareholders on 22 September 2014. This included dividends of \$3 million (2013: \$4 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$2.15 per share (2013: \$1.72 per share) to Shareholders whose names appear on the ROM on 7 May 2015, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$4.6 billion (2013: \$4.1 billion), which represents a payout ratio of 90 per cent (2013: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2014 and includes dividends of about \$9 million (2013: \$7 million) for shares held in trust under the Share Award Scheme. The Board also proposes to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

## Group Financial Summary

A summary of the Group's results and assets and liabilities for the past 10 financial years is set out in the 10-Year Financial Statistics section of this Annual Report.



## Intangible Assets and Fixed Assets

Details of the movements in intangible assets and fixed assets of the Group and HKEx during the year are set out in notes 27 and 28 respectively to the Consolidated Financial Statements of this Annual Report.

## Share Capital

Details of the movements in HKEx's share capital during the year are set out in note 39 to the Consolidated Financial Statements of this Annual Report.

## Convertible Bonds

Details of the convertible bonds are set out in note 35 to the Consolidated Financial Statements of this Annual Report.

## Borrowings

Details of the Group's borrowings as at the end of the year are set out in note 35 to the Consolidated Financial Statements of this Annual Report.

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

During 2014, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 2,298,700 HKEx shares at a total consideration of about \$405 million.

## Distributable Reserves

HKEx's distributable reserves as at 31 December 2014, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA, amounted to \$7.0 billion (31 December 2013: \$8.3 billion).

Details of the movements in the reserves of the Group and HKEx during the year are set out in the Consolidated Statement of Changes in Equity and notes 40 to 43 to the Consolidated Financial Statements of this Annual Report.

## Donations

The Group's charitable and other donations during the year amounted to \$2,042,000 (2013: \$1,928,000). There were no donations to political parties.

## Major Customers and Suppliers

During the year ended 31 December 2014, the combined value of the Group's contracts with its 5 largest suppliers which were not of a capital nature was less than 30 per cent of the total value of supplies purchased. HKEx's 5 largest customers combined contributed less than 30 per cent of the Group's total revenue and other income during the year ended 31 December 2014.

## Directors

The Directors during the year and up to the date of this Annual Report are set out in the Board and Committees section of this Annual Report. Information about the Board, including members' appointments, resignation and remuneration, and their interests in the HKEx shares, is set out in the Corporate Governance Report and the Remuneration Committee Report of this Annual Report.

## Biographical Details of Directors and Senior Management

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the Board of Directors and Senior Management section of this Annual Report. None of the Directors or Senior Management is involved in any relationships as defined in Appendix 16 to the Main Board Listing Rules.

## Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

## Directors' Interests in Contracts

Details of the continuing connected transactions and material related party transactions are set out in the Corporate Governance Report and note 48 to the Consolidated Financial Statements of this Annual Report.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

## Directors' Rights to Acquire Shares or Debentures

Pursuant to the Share Award Scheme, the HKEx shares were awarded to the Company's sole Executive Director, details of which are set out in the Remuneration Committee Report and note 40(b) to the Consolidated Financial Statements of this Annual Report.

Save for the above, neither HKEx nor any of its subsidiaries was a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate at any time during the year or at the end of the year.

## Loans to Officers

No loans to the Company's officers were made or outstanding at any time during the year or at the end of the year.

## Provident Fund Schemes

Particulars of the Group's provident fund schemes are set out in note 10 to the Consolidated Financial Statements of this Annual Report.

## Corporate Governance

HKEx's principal corporate governance practices are set out in the Corporate Governance Report, Audit Committee Report, Remuneration Committee Report and Environmental, Social and Governance Committee Report of this Annual Report and are also included in the 2014 Corporate Social Responsibility Report.

## Public Float

Based on publicly available information and within the Directors' knowledge, approximately 100 per cent of the HKEx shares in issue was held by the public as at the date of this Annual Report. HKEx share information, including the Company's market capitalisation as at 31 December 2014, is set out in the Information for Shareholders section of this Annual Report.

## Auditor

The financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers, which retires and, being eligible, offers itself for re-appointment at the 2015 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2015 AGM.

On behalf of the Board

**CHOW Chung Kong**  
Chairman

Hong Kong, 5 March 2015

# AUDITOR'S REPORT

## Independent Auditor's Report to the Shareholders of Hong Kong Exchanges and Clearing Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 103 to 205, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 5 March 2015

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 \$m	2013 \$m
Trading fees and trading tariff	5	3,760	3,509
Stock Exchange listing fees	6	1,102	1,016
Clearing and settlement fees		1,998	1,631
Depository, custody and nominee services fees		725	629
Market data fees		769	737
Other revenue	7	773	609
<b>REVENUE AND TURNOVER</b>		<b>9,127</b>	<b>8,131</b>
Investment income		713	585
Interest rebates to Participants		(6)	(4)
Net investment income	8	707	581
Sundry income	9	15	11
<b>REVENUE AND OTHER INCOME</b>	4	<b>9,849</b>	<b>8,723</b>
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses	10	(1,716)	(1,495)
Information technology and computer maintenance expenses	11	(510)	(549)
Premises expenses		(294)	(302)
Product marketing and promotion expenses		(53)	(29)
Legal and professional fees		(175)	(146)
Other operating expenses:			
Reversal of provision for impairment losses arising from Participants' default on market contracts	12(a)	77	–
Others	12(b)	(287)	(256)
		<b>(2,958)</b>	<b>(2,777)</b>
<b>EBITDA</b>	2(g)	<b>6,891</b>	<b>5,946</b>
Depreciation and amortisation		(647)	(507)
<b>OPERATING PROFIT</b>	13	<b>6,244</b>	<b>5,439</b>
Finance costs	14	(196)	(183)
Share of loss of a joint venture	26(c)	(10)	(10)
<b>PROFIT BEFORE TAXATION</b>	4	<b>6,038</b>	<b>5,246</b>
<b>TAXATION</b>	17(a)	<b>(900)</b>	<b>(700)</b>
<b>PROFIT FOR THE YEAR</b>		<b>5,138</b>	<b>4,546</b>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
– Shareholders of HKEx	43	5,165	4,552
– Non-controlling interests	38(c)(i)	(27)	(6)
<b>PROFIT FOR THE YEAR</b>		<b>5,138</b>	<b>4,546</b>
Basic earnings per share	18(a)	\$4.44	\$3.95
Diluted earnings per share	18(b)	\$4.43	\$3.94
<b>DIVIDENDS</b>	19	<b>4,638</b>	<b>4,092</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 \$m	2013 \$m
<b>PROFIT FOR THE YEAR</b>		<b>5,138</b>	4,546
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Currency translation differences of foreign subsidiaries recorded in exchange reserve	2(ad)(iii)	(815)	379
<b>OTHER COMPREHENSIVE INCOME</b>		<b>(815)</b>	379
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,323</b>	4,925
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
– Shareholders of HKEx		<b>4,350</b>	4,931
– Non-controlling interests	38(c)(i)	(27)	(6)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,323</b>	4,925



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	At 31 Dec 2014			At 31 Dec 2013		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	20, 21	136,778	-	136,778	41,452	-	41,452
Financial assets measured at fair value through profit or loss	20, 22	62,686	-	62,686	3,761	141	3,902
Financial assets measured at amortised cost	20, 23	10,199	57	10,256	8,986	60	9,046
Accounts receivable, prepayments and deposits	25	22,517	6	22,523	10,940	6	10,946
Taxation recoverable		8	-	8	7	-	7
Interest in a joint venture	26	-	77	77	-	87	87
Goodwill and other intangible assets	27(a)	-	17,901	17,901	-	18,680	18,680
Fixed assets	28(a)	-	1,603	1,603	-	1,753	1,753
Lease premium for land	29	-	23	23	-	23	23
Deferred tax assets	37(d)	-	5	5	-	47	47
<b>Total assets</b>		<b>232,188</b>	<b>19,672</b>	<b>251,860</b>	<b>65,146</b>	<b>20,797</b>	<b>85,943</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	30	59,680	-	59,680	6	-	6
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	20, 31	129,484	-	129,484	39,793	-	39,793
Accounts payable, accruals and other liabilities	32	22,835	14	22,849	12,815	19	12,834
Deferred revenue		646	-	646	593	-	593
Taxation payable		348	-	348	379	-	379
Other financial liabilities	33	84	-	84	21	-	21
Participants' contributions to Clearing House Funds	20, 34	9,426	-	9,426	3,884	-	3,884
Borrowings	35	-	7,026	7,026	-	6,921	6,921
Provisions	36(a)	61	58	119	47	47	94
Deferred tax liabilities	37(d)	-	839	839	-	900	900
<b>Total liabilities</b>		<b>222,564</b>	<b>7,937</b>	<b>230,501</b>	<b>57,538</b>	<b>7,887</b>	<b>65,425</b>
<b>Equity</b>							
Share capital	39			12,225			1,161
Share premium	39			-			10,167
Shares held for Share Award Scheme	39			(482)			(174)
Employee share-based compensation reserve	40			142			105
Exchange reserve	2(ad)(iii)			(247)			568
Convertible bond reserve	35(b)			409			409
Designated reserves	34, 41			643			586
Reserve relating to written put options to non-controlling interests	35(d)			(217)			(217)
Retained earnings	43			8,800			7,800
Equity attributable to shareholders of HKEx				21,273			20,405
Non-controlling interests	38(c)(i)			86			113
<b>Total equity</b>				<b>21,359</b>			<b>20,518</b>
<b>Total liabilities and equity</b>				<b>251,860</b>			<b>85,943</b>
<b>Net current assets</b>				<b>9,624</b>			<b>7,608</b>
<b>Total assets less current liabilities</b>				<b>29,296</b>			<b>28,405</b>

Approved by the Board of Directors on 5 March 2015

**CHOW Chung Kong**  
Director

**LI Xiaojia, Charles**  
Director

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	At 31 Dec 2014			At 31 Dec 2013		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>							
Cash and cash equivalents	20, 21	4,446	–	4,446	2,704	–	2,704
Financial assets measured at amortised cost	20, 23	–	1	1	1,338	1	1,339
Accounts receivable, prepayments and deposits	25	29	5	34	31	5	36
Amounts due from subsidiaries	38(b)	2,516	16,036	18,552	8,494	15,503	23,997
Interest in a joint venture	26	–	100	100	–	100	100
Intangible assets	27(b)	–	84	84	–	71	71
Fixed assets	28(b)	–	235	235	–	265	265
Investments in subsidiaries	38(a)	–	5,326	5,326	–	5,326	5,326
<b>Total assets</b>		<b>6,991</b>	<b>21,787</b>	<b>28,778</b>	<b>12,567</b>	<b>21,271</b>	<b>33,838</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	30	150	–	150	125	–	125
Accounts payable, accruals and other liabilities	32	277	–	277	315	–	315
Amounts due to subsidiaries	38(b)	183	3,385	3,568	5,430	3,341	8,771
Taxation payable		43	–	43	29	–	29
Other financial liabilities	33	123	–	123	162	–	162
Borrowings	35	–	3,100	3,100	–	3,096	3,096
Provisions	36(b)	53	2	55	43	2	45
Deferred tax liabilities	37(d)	–	22	22	–	28	28
<b>Total liabilities</b>		<b>829</b>	<b>6,509</b>	<b>7,338</b>	<b>6,104</b>	<b>6,467</b>	<b>12,571</b>
<b>Equity</b>							
Share capital	39			12,225			1,161
Share premium	39			–			10,167
Shares held for Share Award Scheme	39			(482)			(174)
Employee share-based compensation reserve	40			142			105
Convertible bond reserve	35(b)			409			409
Merger reserve	42			694			694
Retained earnings	43			8,452			8,905
<b>Equity attributable to shareholders of HKEx</b>				<b>21,440</b>			<b>21,267</b>
<b>Total liabilities and equity</b>				<b>28,778</b>			<b>33,838</b>
<b>Net current assets</b>				<b>6,162</b>			<b>6,463</b>
<b>Total assets less current liabilities</b>				<b>27,949</b>			<b>27,734</b>

Approved by the Board of Directors on 5 March 2015

**CHOW Chung Kong**  
Director

**LI Xiaojia, Charles**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to shareholders of HKEx									
	Share capital, share premium and shares held for Share Award Scheme (note 39) \$m	Employee share-based compensation reserve (note 40) \$m	Exchange reserve (note 39) \$m	Convertible bond reserve (note 35(b)) \$m	Designated reserves (note 41) \$m	Reserve relating to written put options to non- controlling interests (note 35(d)) \$m	Retained earnings (note 43) \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
At 1 Jan 2013	9,576	122	189	409	587	-	6,881	17,764	-	17,764
Profit for the year	-	-	-	-	-	-	4,552	4,552	(6)	4,546
Other comprehensive income	-	-	379	-	-	-	-	379	-	379
Total comprehensive income	-	-	379	-	-	-	4,552	4,931	(6)	4,925
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)
- 2013 interim dividend at \$1.82 per share	-	-	-	-	-	-	(2,097)	(2,097)	-	(2,097)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	15	15	-	15
- Shares issued upon exercise of employee share options	1	-	-	-	-	-	-	1	-	1
- Shares issued in lieu of cash dividends	1,433	-	-	-	-	-	-	1,433	-	1,433
- Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	-	(2)	-	(2)
- Vesting of shares of Share Award Scheme	146	(136)	-	-	-	-	(10)	-	-	-
- Employee share-based compensation benefits	-	119	-	-	-	-	-	119	-	119
- Transfer of reserves	-	-	-	-	(1)	-	1	-	-	-
- Put options written to non-controlling interests	-	-	-	-	-	(217)	-	(217)	-	(217)
Total changes in ownership interests in subsidiaries that do not result in a loss of control:										
- Sale of interest in a subsidiary to non-controlling interests	-	-	-	-	-	-	133	133	119	252
Total transactions with shareholders recognised directly in equity	1,578	(17)	-	-	(1)	(217)	(3,633)	(2,290)	119	(2,171)
At 31 Dec 2013	11,154	105	568	409	586	(217)	7,800	20,405	113	20,518
At 1 Jan 2014	11,154	105	568	409	586	(217)	7,800	20,405	113	20,518
Profit for the year	-	-	-	-	-	-	5,165	5,165	(27)	5,138
Other comprehensive income	-	-	(815)	-	-	-	-	(815)	-	(815)
Total comprehensive income	-	-	(815)	-	-	-	5,165	4,350	(27)	4,323
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)
- 2014 interim dividend at \$1.83 per share	-	-	-	-	-	-	(2,133)	(2,133)	-	(2,133)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	29	29	-	29
- Shares issued upon exercise of employee share options	12	-	-	-	-	-	-	12	-	12
- Shares issued in lieu of cash dividends	874	-	-	-	-	-	-	874	-	874
- Shares purchased for Share Award Scheme	(405)	-	-	-	-	-	-	(405)	-	(405)
- Vesting of shares of Share Award Scheme	105	(97)	-	-	-	-	(8)	-	-	-
- Employee share-based compensation benefits	-	137	-	-	-	-	-	137	-	137
- Transfer of reserves	3	(3)	-	-	57	-	(57)	-	-	-
Total transactions with shareholders recognised directly in equity	589	37	-	-	57	-	(4,165)	(3,482)	-	(3,482)
At 31 Dec 2014	11,743	142	(247)	409	643	(217)	8,800	21,273	86	21,359

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 \$m	2013 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	44	4,673	4,988
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets and intangible assets		(665)	(797)
Net decrease/(increase) in financial assets of Corporate Funds:			
Decrease/(increase) in time deposits with original maturities more than three months		1,353	(60)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		70	24
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		–	282
Interest received from financial assets measured at amortised cost (excluding time deposits)		1	1
Interest received from financial assets measured at fair value through profit or loss		23	27
Net cash inflow/(outflow) from investing activities		782	(523)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares upon exercise of employee share options		12	1
Purchases of shares for Share Award Scheme		(405)	(2)
Proceeds from issuance of notes		737	769
Payments of transaction costs on issuance of notes		(2)	–
Proceeds from new bank borrowings		1,589	–
Payments of transaction costs on new bank borrowings		(6)	–
Repayments of bank borrowings		(2,326)	(775)
Payments of finance costs		(83)	(89)
Dividends paid to shareholders of HKEx		(3,234)	(2,320)
Proceeds from disposal of interest in a subsidiary without loss of control		–	252
Net cash outflow from financing activities		(3,718)	(2,164)
<b>Net increase in cash and cash equivalents</b>		<b>1,737</b>	<b>2,301</b>
Cash and cash equivalents at 1 Jan		6,375	4,035
Exchange differences on cash and cash equivalents		(45)	39
<b>Cash and cash equivalents at 31 Dec</b>		<b>8,067</b>	<b>6,375</b>
<b>Analysis of cash and cash equivalents</b>			
Cash and cash equivalents of Corporate Funds	21	8,067	6,531
Less: Cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	21(a)	–	(156)
		<b>8,067</b>	<b>6,375</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (collectively, the Group) own and operate the only stock exchange and a futures exchange in Hong Kong and their related clearing houses. The Group also operates a clearing house for clearing over-the-counter derivatives contracts in Hong Kong, and an exchange and a clearing house for the trading and clearing of base metals futures and options contracts operating in the United Kingdom (UK).

On 22 September 2014, the Group's subsidiary, LME Clear Limited (LME Clear), commenced operations as a clearing house for clearing base metals futures and options contracts traded on The London Metal Exchange (LME). As part of its risk management measures, LME Clear collects cash margins (note 31) and cash contributions to the LME Clear Default Fund (note 34) from its Participants. In addition, derivative financial assets and derivative financial liabilities, where LME Clear acts as a counterparty to members' trades and the positions do not qualify for netting under Hong Kong Accounting Standard 32, are recorded on the consolidated statement of financial position at the fair value of the outstanding contracts (notes 22 and 30).

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated financial statements were approved for issue by the Board of Directors (Board) on 5 March 2015.

## 2. Principal Accounting Policies

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules) and the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Chapter 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Chapter 622) (new CO), "Accounts and Audit".

### (b) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

## 2. Principal Accounting Policies (continued)

### (b) Basis of preparation (continued)

#### Adoption of new/revised HKFRSs

In 2014, the Group has adopted the following new/revised HKFRSs which were effective for accounting periods beginning on or after 1 January 2014:

HK (IFRIC) Interpretation 21	Levies
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Annual Improvements to HKFRSs 2010-2012 Cycle:	
Amendments to HKFRS 2	Share-Based Payment – Definition of Vesting Condition

HK (IFRIC) Interpretation 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material. The Group has applied the amendments retrospectively.

Amendments to HKAS 32 clarify that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of the amendments to HKAS 32 does not have any financial impact to the Group as it already complies with the requirements of the amendments.

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs. Of these, the amendments to HKFRS 2 Share-Based Payment – Definition of Vesting Condition are effective for share-based payment transactions for which the grant date is on or after 1 July 2014. The amendments clarify the definition of a “vesting condition” and separately define “performance condition” and “service condition”. The adoption of the amendments to HKFRS 2 does not have any financial impact to the Group as it already complies with the requirements of the amendments.

#### New/revised HKFRSs issued before 31 December 2014 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2014 and are pertinent to its operations but not yet effective:

Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>1</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Annual Improvements to HKFRSs 2010-2012 Cycle:	
Amendments to HKFRS 8	Operating Segments – Aggregation of Operating Segments, and Reconciliation of the Total Reportable Segment Assets to the Entity’s Total Assets <sup>4</sup>
Amendments to HKAS 24	Related Party Disclosures – Key Management Personnel <sup>4</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2016

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2018

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2017

<sup>4</sup> Effective for accounting periods beginning on or after 1 July 2014



## 2. Principal Accounting Policies (continued)

### (b) Basis of preparation (continued)

#### New/revise HKFRSs issued before 31 December 2014 but not yet effective and not early adopted (continued)

The adoption of the amendments to HKAS 27 and the two amendments under the Annual Improvements to HKFRSs 2010-2012 Cycle is not expected to have any material impact on the Group as it already complies with the requirements of the amendments. The Group is in the process of making an assessment on the impact of HKFRS 9 (2014) and HKFRS 15.

The requirements of Part 9, “Accounts and Audit”, of the new CO will be effective from the company’s first financial year commencing after 3 March 2014 (i.e. HKEx’s financial year which begins on 1 January 2015) in accordance with section 358 of the new CO. The adoption of the requirements will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

### (c) Subsidiaries

#### (i) Consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. All material intra-group transactions, unrealised gains and losses and balances have been eliminated on consolidation.

Accounting policies of subsidiaries have been aligned on consolidation to ensure consistency with the policies adopted by the Group.

#### Business combination

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Acquisition-related costs are expensed when incurred in the Group’s consolidated financial statements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests’ proportionate share of the acquiree’s net assets.

The excess of the consideration transferred and the amount of any non-controlling interests in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

#### Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions (ie, as transactions with the owners in their capacity as owners). The difference between the fair value of any consideration paid/received and the relevant share acquired/disposed of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2. Principal Accounting Policies (continued)

### (c) Subsidiaries (continued)

#### (ii) Separate financial statements

In HKEx's statement of financial position, investments in subsidiaries are stated at cost less provision for impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in HKEx's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.

### (d) Structured entity

HKEx controls a structured entity, The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust), which is set up solely for the purpose of purchasing, administering and holding HKEx shares for an employees' share award scheme. As HKEx has the power to direct the relevant activities of the HKEx Employee Share Trust and it has the ability to use its power over the HKEx Employee Share Trust to affect its exposure to returns, the assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares held by the HKEx Employee Share Trust are presented as a deduction in equity as Shares held for Share Award Scheme.

### (e) Joint arrangements

A joint arrangement is an arrangement which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes the Group and other parties have joint control of the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An interest in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee and any impairment loss relating to the investment. The consolidated income statement includes the Group's share of post-acquisition profit or loss and any impairment loss of the investment, and the Group's share of post-acquisition movements of other comprehensive income of the investee is recognised in the consolidated statement of comprehensive income.

Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The accounting policies of the joint ventures are the same as the policies adopted by the Group.

In HKEx's statement of financial position, interests in joint ventures are stated at cost less provision for impairment losses, if necessary. The results of the joint ventures are accounted for in the HKEx's separate financial statements on the basis of dividends received and receivable.

## 2. Principal Accounting Policies (continued)

### (f) Revenue and other income recognition

Turnover consists of revenues from principal activities and is the same as Revenue in the consolidated income statement. Revenue and other income exclude value added tax or other sales tax, and are recognised in the consolidated income statement on the following basis:

- (i) Trading fees and trading tariff are recognised on a trade date basis.
- (ii) Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts (CBBCs) and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.
- (iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on The Stock Exchange of Hong Kong Limited (Stock Exchange) are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for clearing and settlement of trades in eligible securities transacted on the Shanghai Stock Exchange (A shares) through the Shanghai-Hong Kong Stock Connect (the Stock Connect) are recognised in full on the trade day upon acceptance of the trades. Fees for clearing and settlement of trades in respect of base metals futures and options contracts transacted on the LME are recognised on the trade day (or trade match day, if later). Fees for other settlement transactions are recognised upon completion of the settlement.
- (iv) Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Portfolio fees for A shares held or recorded in CCASS depository and for Hong Kong listed securities held by China Securities Depository and Clearing Corporation Limited (ChinaClear) are calculated and accrued on a daily basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (v) Market data fees and other fees are recognised when the related services are rendered.
- (vi) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.  
  
Interest income on impaired loans is recognised using the original effective interest rate.
- (vii) Cash dividends held by HKSCC Nominees Limited (HKSN) which have remained unclaimed for a period of more than seven years are forfeited and recognised as sundry income.

### (g) EBITDA

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. EBITDA is a non-HKFRS measure used by management for monitoring business performance.

### (h) Net investment income

Net investment income comprises interest income (net of interest rebates to Participants), net fair value gains/losses on financial assets and financial liabilities and dividend income, which is presented on the face of the consolidated income statement.

## 2. Principal Accounting Policies (continued)

### (i) Interest expenses and interest rebates to Participants

Interest expenses and interest rebates to Participants are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses and interest rebates to Participants are charged to profit or loss in the year in which they are incurred.

### (j) Employee benefit costs

#### (i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

#### (ii) Equity compensation benefits

##### Equity-settled share-based payment transactions

The Group operates the HKEx Share Award Scheme (Share Award Scheme), under which share awards are granted under the Share Award Scheme (Awarded Shares) to employees as part of their remuneration package.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to an employee share-based compensation reserve under equity (note 40(b)).

For those Awarded Shares which are amortised over the vesting periods, the Group revises its estimates of the number of Awarded Shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to the employee share-based compensation reserve.

In HKEx's financial statements, for Awarded Shares granted to the employees of HKEx Investment (UK) Limited, LME Holdings Limited (LMEH), LME and LME Clear (collectively, LME Group), the fair value of employees services received, measured by reference to the grant date fair value, is recognised over the vesting periods as an increase to investment in subsidiaries, with a corresponding credit to employee share-based compensation reserve. Any reimbursement receivable from the LME Group is offset against the investment in subsidiaries.

#### (iii) Retirement benefit costs

Contributions to the defined contribution plans are expensed as incurred.

### (k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under such operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease term.

## 2. Principal Accounting Policies (continued)

### (l) Finance leases

Leases where substantially all the rewards and risks of ownership are transferred to the Group are accounted for as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (ie, transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold. Finance leases are capitalised at the commencement of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

### (m) Fixed assets

Tangible fixed assets (including leasehold land classified as finance lease) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of major categories of fixed assets are as follows:

Leasehold land classified as finance lease	Over the remaining lives of the leases
Leasehold buildings	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 10 years
Computer trading and clearing systems – hardware and software	Up to 5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	Up to 5 years
Data centre facilities and equipment	Up to 20 years

Expenditure incurred in the construction of leasehold buildings and other directly attributable costs are capitalised when it is probable that future economic benefits associated with the expenditure will flow to the Group and the costs can be measured reliably. Other costs such as relocation costs and administration and other overhead costs are charged to profit or loss during the year in which they are incurred.

Qualifying software system development expenditure and related directly attributable costs are capitalised and recognised as a fixed asset if the software forms an integral part of the hardware on which it operates.

Subsequent costs and qualifying development expenditure incurred after the completion of a system are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with that item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs and other subsequent expenditure are charged to profit or loss during the year in which they are incurred.

## 2. Principal Accounting Policies (continued)

### (n) Lease premium for land

Leasehold land premiums are up-front payments to acquire medium-term interests in non-Hong Kong Government leasehold land classified as operating leases. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis. The amortisation is capitalised as part of leasehold buildings under fixed assets during the construction period of the building, and charged to profit or loss thereafter.

### (o) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interests in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGU(s)), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity (ie, operating segment level) at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised but impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

#### (ii) Tradenames

Tradenames acquired in a business combination are recognised at fair value at the acquisition date. The fair value is based on the discounted estimated royalty payments that are expected to be avoided as a result of the tradenames being owned. Tradenames arising from the acquisition of the LME Group have indefinite useful lives and are carried at cost less accumulated impairment losses. Tradenames are reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment.

#### (iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The fair value is determined using the multi-period excess earnings method, whereby the asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The customer relationships have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 20 to 25 years.



## 2. Principal Accounting Policies (continued)

### (o) Intangible assets (continued)

#### (iv) Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates and when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised in profit or loss as incurred. Development costs previously recognised in profit or loss are not recognised as an asset in a subsequent period.

Software development costs acquired in a business combination are recognised at fair value at the acquisition date based on the depreciated replacement cost method.

Qualifying software system development expenditure and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives on a straight-line basis, which do not exceed five years. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Costs associated with maintaining computer systems and software programmes are recognised in profit or loss as incurred.

## 2. Principal Accounting Policies (continued)

### (p) Impairment of non-financial assets

Assets that have an indefinite useful life, which include goodwill and tradenames (note 2(o)), are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value-in-use). Such impairment losses are recognised in profit or loss. An impairment loss other than goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in joint ventures are impaired. Such objective evidence includes whether there have been any significant adverse changes in the technological, markets, economic or legal environment in which the joint ventures operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a joint venture is impaired, the Group assesses whether the entire carrying amount of the investment is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value-in-use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

### (q) Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants

The Group receives margin deposits from the Clearing Participants of The SEHK Options Clearing House Limited (SEOCH), HKFE Clearing Corporation Limited (HKCC), OTC Clearing Hong Kong Limited (OTC Clear) and LME Clear for covering their open positions in derivatives contracts. Margin deposits and cash collateral are also received from Clearing Participants of Hong Kong Securities Clearing Company Limited (HKSCC) for covering their open positions in respect of the Stock Exchange trades. Mainland security and settlement deposits are received from HKSCC Clearing Participants for covering their open positions in respect of the Shanghai Stock Exchange trades through the Stock Connect.

The obligation to refund the margin deposits, Mainland security and settlement deposits, and cash collateral is disclosed as Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

### (r) Participants' contributions to Clearing House Funds

The Group receives contributions to Clearing House Funds from Clearing Participants of HKSCC, SEOCH, HKCC, OTC Clear and LME Clear.

Participants' contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

## 2. Principal Accounting Policies (continued)

### (s) Derivative financial instruments

Derivative financial instruments include forward foreign exchange, futures and options contracts, as well as the outstanding derivatives contracts of LME Clear, which acts as a central counterparty to the base metals contracts traded on the LME. Derivatives are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Except where outstanding derivatives contracts are held in the capacity as a central counterparty, derivatives are categorised as held for trading with changes in fair value recognised in profit or loss. All derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

### (t) Financial assets

#### (i) Classification

Financial assets of the Group are maintained for the Corporate Funds, base metals derivatives contracts, cash prepayments for A shares, Clearing House Funds and Margin Funds received from the Participants.

Investments and other financial assets of the Group are classified under the following categories:

#### Financial assets measured at amortised cost

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on the investments, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

The nature of any derivatives embedded in the financial assets is considered in determining whether the cash flows are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (i) Classification (continued)

##### Financial assets measured at fair value through profit or loss

Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives whose cash flows are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk are classified in their entirety as measured at fair value through profit or loss.

The Group will reclassify all affected investments when and only when, its business model for managing these assets changes.

Financial assets of Clearing House Funds and Margin Funds are classified as current assets as they will be liquidated whenever liquid funds are required.

Other financial assets, which include those held for trading purpose, are classified as current assets unless they are non-trading assets that are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case, they are included in non-current assets. For equities and mutual funds, which have no maturity date, they are included in current assets if they are held for trading or are expected to be disposed of within twelve months at the end of the reporting period.

#### (ii) Recognition and initial measurement

Purchases and sales of financial assets are recognised on the trade-date. Assets classified as financial assets measured at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs.

#### (iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

#### (iv) Gains or losses on subsequent measurement, interest income and dividend income

##### Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.
- Interest income is recognised in profit or loss using the effective interest method and included in net fair value gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and included under “others” in net investment income.

## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (iv) Gains or losses on subsequent measurement, interest income and dividend income (continued)

##### Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

#### (v) Fair value measurement principles

Fair values of quoted investments are based on the most representative prices within the bid-ask spreads which are currently considered as the bid-prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

#### (vi) Impairment of financial assets measured at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the financial assets and have an impact on their estimated future cash flows that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

## 2. Principal Accounting Policies (continued)

### (t) Financial assets (continued)

#### (vi) Impairment of financial assets measured at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be shown to relate objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

### (u) Financial liabilities

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise base metals derivatives contracts held by LME Clear in its capacity as a central counterparty and financial liabilities held for trading.

Liabilities under this category are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in profit or loss.

#### (ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the best estimate of the amount required to settle the guarantee and the amount initially recognised less, where appropriate, cumulative amortisation over the life of the guarantee on a straight-line basis.

Financial guarantee contracts issued by HKEx to guarantee borrowings of subsidiaries are eliminated on consolidation.

#### (iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

### (v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.



## 2. Principal Accounting Policies (continued)

### (w) Recognition of receivables and payables under the Continuous Net Settlement (CNS) basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For a trade in A shares transacted for Stock Exchange Participants, the rights and obligations of the parties to the trade will be transferred to ChinaClear, which becomes the sole settlement counterparty of the buyer and seller of such trade. At the same time as such transfer of rights and obligations to ChinaClear, a market contract between HKSCC and the relevant HKSCC Participant shall be created through novation. The CNS money obligations due by/to HKSCC Clearing Participants and ChinaClear are recognised as receivables and payables when they are confirmed on the trade day.

### (x) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as interest expense over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. When the facility is cancelled, the unamortised fees paid are charged to profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### (y) Convertible bonds

Convertible bonds with conversion options which are settled by exchanging a fixed amount of cash for a fixed number of HKEx shares comprise an equity component and a liability component.

The liability component is measured at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The liability component is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

The equity component (the convertible bond reserve) is not remeasured subsequent to initial recognition.

## 2. Principal Accounting Policies (continued)

### (z) Put options arrangement on non-controlling interests

The potential cash payments related to put options issued by HKEx for the non-voting shares of a subsidiary held by non-controlling interests are accounted for as financial liabilities, which are initially recognised at fair value as “written put options to non-controlling interests” within borrowings with a corresponding charge directly to equity under “reserve relating to written put options to non-controlling interests”.

The written put option financial liabilities are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liabilities up to the amount payable under the options at the date at which they first become exercisable. The charge arising is recorded under finance costs.

In HKEx’s statement of financial position, the initial fair value of the written put options is accounted for as an investment in subsidiaries with a corresponding credit to financial liabilities at fair value through profit or loss under other financial liabilities. Subsequent changes in fair value of the financial liabilities are recognised in HKEx’s profit or loss.

### (aa) Current and deferred tax

Tax charge for the period comprises current and deferred tax. Tax is recognised in profit or loss.

#### (i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where HKEx’s subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except that deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2. Principal Accounting Policies (continued)

### (ab) Deferred revenue

Deferred revenue mainly comprises listing fees received in advance and payments received in advance for services in relation to the sales of market data.

### (ac) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable or when the amount of obligation becomes reliably measurable, it will then be recognised as a provision.

### (ad) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong Dollar (HKD), which is the Group's presentation currency and HKEx's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

#### (iii) Group companies

The results and financial position of all the Group entities that have a non-HKD functional currency are translated into HKD as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries) for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated separately in the exchange reserve under equity.

## 2. Principal Accounting Policies (continued)

### (ae) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly reverse repurchase investments, government bonds and time deposits), with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude cash and cash equivalents held for specific purposes such as those held for the purpose of the Margin Funds and the Clearing House Funds, cash prepayments for A shares and cash earmarked for contributions to the Rates and FX Guarantee Resources of OTC Clear.

### (af) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### (ag) Shares held for Share Award Scheme

Where HKEx shares are acquired by the Share Award Scheme from the market or by electing for scrip in lieu of cash dividends, the total consideration of shares acquired from the market (including any directly attributable incremental costs) or under the scrip dividend scheme is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares or under the scrip dividend scheme (dividend shares) are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Award Scheme, and the related fair value of the shares regranted are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares regranted is credited to share capital (or share premium prior to the adoption of the new CO (note 39(a))) if the fair value is higher than the costs, or debited against retained earnings if the fair value is less than the cost.

### (ah) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker (note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as HKEx's Chief Executive. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

### (ai) Dividends

Dividends disclosed in note 19 to the consolidated financial statements represent interim dividend paid and final dividend proposed for the year (based on the issued share capital less the number of shares held for the Share Award Scheme at the end of the reporting period).

Dividends declared are recognised as liabilities in the financial statements in the period in which the dividends are approved by the shareholders or directors, where appropriate.

### 3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future when the consolidated financial statements are prepared. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated impairment of goodwill and tradenames

The Group tests in the year of acquisition and annually whether goodwill and tradenames have suffered any impairment in accordance with the accounting policy stated in note 2(p).

The recoverable amounts of relevant CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (note 27(a)).

Changes in facts and circumstances may result in revisions to estimates of recoverable amounts and to the conclusion as to whether an indication of impairment exists, which could affect profit or loss in future years.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the estimated level of future taxable profits of the subsidiaries concerned.

At 31 December 2014, the Group had unrecognised tax losses carried forward amounting to \$596 million (31 December 2013: \$559 million). These losses relate to subsidiaries that have a history of tax losses and the Group has not accounted for the relevant deferred tax assets. They will not expire and may be available to offset against taxable income in the future. If the Group were to recognise all unrecognised deferred tax assets, the Group's profit would increase by \$99 million (2013: \$92 million).

(c) Valuation of investments

The Group has a significant amount of investments that are classified as Level 2 and Level 3 investments under HKFRS 13. Except for an investment in an unlisted company held by a subsidiary, the valuations have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs.

The investment in an unlisted company 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 and an adjustment for the value of the investment attributable to a minority stake.

At 31 December 2014, the financial assets that were classified as Level 2 and Level 3 investments (excluding the base metals futures and options contracts held by LME Clear) under HKFRS 13 amounted to \$2,764 million (31 December 2013: \$3,626 million).

As the valuation of investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature. The impact of the fair value change of such investments on the Group's profit or loss is disclosed in notes 51(a)(iv) and 51(d)(i).

#### 4. Operating Segments

The Group determines its operating segments based on the reports that are used to make strategic decisions reviewed by the chief operating decision-maker.

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 and the Shanghai Stock Exchange through the Stock Connect, 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, 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 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), 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 LME, which operates an exchange in the UK for the trading of base metals futures and options contracts. The major sources of revenue of the segment are trading fees, commodity market data fees and fees generated from other ancillary operations.

The **Clearing** segment refers to the operations of the five clearing houses, namely HKSCC, SEOCH, HKCC, OTC Clear and LME Clear, which are responsible for clearing, settlement and custodian activities of the Stock Exchange, the Futures Exchange and the Shanghai Stock Exchange through the Stock Connect, clearing and settlement of over-the-counter derivatives contracts, and clearing and settlement of base metals futures and options contracts traded on the LME. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on Margin Funds and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. 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”.



#### 4. Operating Segments (continued)

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

	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	2,761	1,666	1,274	2,956	465	5	9,127
Net investment income	-	-	-	532	-	175	707
Sundry income	-	-	-	15	-	-	15
Revenue and other income	2,761	1,666	1,274	3,503	465	180	9,849
Operating expenses	(461)	(400)	(568)	(586)	(152)	(791)	(2,958)
Reportable segment EBITDA	2,300	1,266	706	2,917	313	(611)	6,891
Depreciation and amortisation	(89)	(64)	(322)	(98)	(46)	(28)	(647)
Finance costs	-	-	-	-	-	(196)	(196)
Share of loss of a joint venture	-	(10)	-	-	-	-	(10)
Reportable segment profit before taxation	2,211	1,192	384	2,819	267	(835)	6,038
Interest income	-	-	-	517	-	77	594
Interest rebates to Participants	-	-	-	(6)	-	-	(6)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	-	-	-	15	-	-	15
Employee share-based compensation expenses	(21)	(16)	(14)	(29)	(2)	(55)	(137)
Reversal of provision for/ (provision for) impairment losses	1	-	(2)	77	-	-	76
	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	2,455	1,662	1,210	2,452	347	5	8,131
Net investment income	-	-	-	393	-	188	581
Sundry income	-	-	-	11	-	-	11
Revenue and other income	2,455	1,662	1,210	2,856	347	193	8,723
Operating expenses	(447)	(422)	(514)	(563)	(137)	(694)	(2,777)
Reportable segment EBITDA	2,008	1,240	696	2,293	210	(501)	5,946
Depreciation and amortisation	(55)	(48)	(287)	(62)	(38)	(17)	(507)
Finance costs	-	-	-	-	-	(183)	(183)
Share of loss of a joint venture	-	(10)	-	-	-	-	(10)
Reportable segment profit before taxation	1,953	1,182	409	2,231	172	(701)	5,246
Interest income	-	-	-	361	-	42	403
Interest rebates to Participants	-	-	-	(4)	-	-	(4)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	-	-	-	11	-	-	11
Employee share-based compensation expenses	(25)	(22)	(4)	(19)	(2)	(47)	(119)
Reversal of provision for/ (provision for) impairment losses	1	-	(2)	-	-	-	(1)

#### 4. Operating Segments (continued)

(a) The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Taxation charge/credit is not allocated to reportable segments.

(b) Geographical information

(i) Revenue

The Group's revenue from external customers is derived from its operations in the following geographical location:

	2014 \$m	2013 \$m
Hong Kong (place of domicile)	7,644	6,921
United Kingdom	1,483	1,210
	<b>9,127</b>	<b>8,131</b>

(ii) Non-current assets

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Hong Kong (place of domicile)	2,140	2,168
United Kingdom	17,465	18,375
China	5	6
	<b>19,610</b>	<b>20,549</b>

(c) Information about major customers

In 2014 and 2013, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

#### 5. Trading Fees and Trading Tariff

	2014 \$m	2013 \$m
Trading fees and trading tariff were derived from:		
Securities traded on the Stock Exchange (excluding stock options contracts) and the Shanghai Stock Exchange through the Stock Connect	2,033	1,815
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	799	833
Base metals futures and options contracts traded on the LME	928	861
	<b>3,760</b>	<b>3,509</b>

## 6. Stock Exchange Listing Fees

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

	2014				2013			
	Equity		CBBs, DWs & others \$m	Total \$m	Equity		CBBs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
<b>Stock Exchange Listing Fees</b>								
Annual listing fees	502	27	3	532	453	25	2	480
Initial and subsequent issue listing fees	89	11	462	562	81	13	437	531
Other listing fees	6	2	–	8	4	1	–	5
<b>Total</b>	<b>597</b>	<b>40</b>	<b>465</b>	<b>1,102</b>	<b>538</b>	<b>39</b>	<b>439</b>	<b>1,016</b>
<b>Direct costs of listing function</b>	<b>(314)</b>	<b>(87)</b>	<b>(35)</b>	<b>(436)</b>	<b>(309)</b>	<b>(89)</b>	<b>(27)</b>	<b>(425)</b>
<b>Contribution before indirect costs</b>	<b>283</b>	<b>(47)</b>	<b>430</b>	<b>666</b>	<b>229</b>	<b>(50)</b>	<b>412</b>	<b>591</b>

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

The costs listed above comprise direct costs of promoting and maintaining a fair, orderly and efficient market for the trading of securities in Hong Kong. These costs cover the vetting of IPOs, enforcing the 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, dissemination of information relating to listed companies and promotion of the Stock Exchange to prospective issuers. The costs do not include any allocation of the costs of infrastructure and platforms that securities listed on the Stock Exchange utilise nor have any central overheads been allocated to the listing function above.

## 7. Other Revenue

	2014 \$m	2013 \$m
Network, terminal user, dataline and software sub-license fees	356	262
Commodities stock levies and warehouse listing fees	117	127
Hosting services fees	98	75
Participants' subscription and application fees	69	65
Brokerage on direct IPO allotments	34	9
Trading booth user fees	11	11
Accommodation income (note (a))	28	3
Sales of Trading Rights	6	8
Miscellaneous revenue	54	49
	<b>773</b>	<b>609</b>

- (a) Accommodation income mainly comprises income from Participants on securities deposited as alternatives to cash deposits of Margin Funds and interest shortfall collected from LME Clear Participants on cash collateral as the return of such collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

## 8. Net Investment Income

	2014 \$m	2013 \$m
Interest income from financial assets measured at amortised cost		
– bank deposits	593	402
– unlisted securities	1	1
Gross interest income	594	403
Interest rebates to Participants	(6)	(4)
Net interest income	588	399
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
– listed securities	77	45
– unlisted securities	54	149
– exchange differences	(22)	(9)
Others	109	185
	10	(3)
Net investment income	707	581

## 9. Sundry Income

In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of \$15 million (2013: \$11 million) held by HKSN, which had remained unclaimed for a period of more than seven years and recognised these as sundry income. The Group has, however, undertaken to honour all forfeited claims amounting to \$146 million if adequate proof of entitlement is provided by the beneficial owner claiming any dividends forfeited.

## 10. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	2014 \$m	2013 \$m
Salaries and other short-term employee benefits	1,446	1,267
Employee share-based compensation benefits of Share Award Scheme (note 40)	137	119
Termination benefits	12	11
Retirement benefit costs (note (a)):		
– ORSO Plan	92	79
– MPF Scheme	1	1
– LME Pension Scheme	28	18
	1,716	1,495

## 10. Staff Costs and Related Expenses (continued)

### (a) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under the Occupational Retirement Schemes Ordinance (ORSO) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie, 5 per cent of the employee's relevant income subject to a maximum contribution, which has been adjusted from \$1,250 to \$1,500 per month with effect from 1 June 2014). Forfeited contributions of the provident fund for employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund, and are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the MPF Scheme are held separately from those of the Group and are independently administered.

The Group has also sponsored a defined contribution pension scheme for all employees of the LME Group (LME Pension Scheme). For all employees who joined the LME Group before 1 May 2014, the Group contributes 15 per cent to 17 per cent of the employee's basic salary to the LME Pension Scheme.

In line with Auto enrolment legislation in the UK, for all employees who joined the LME Group on or after 1 May 2014, they are auto enrolled into the LME Pension Scheme on a matched contribution basis and may choose a personal contribution level ranging from 3 per cent to 5 per cent of their basic salaries, which is matched by the Group's contribution ranging from 6 per cent to 10 per cent of their basic salaries. Staff may opt-out of the scheme if they wish.

There are no forfeited contributions for the LME Pension Scheme as the contributions are fully vested to the employees upon payment to the scheme. Assets of the LME Pension Scheme are held separately from those of the Group and are independently administered.

## 11. Information Technology and Computer Maintenance Expenses

	2014 \$m	2013 \$m
Costs of services and goods:		
– consumed by the Group	429	474
– directly consumed by Participants	81	75
	<b>510</b>	<b>549</b>

## 12. Other Operating Expenses

- (a) 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 and December 2014, the liquidators declared interim dividends and such amounts have been recognised in the Group's consolidated income statement for the year ended 31 December 2014. The amounts relating to the reversal of the provision for closing-out losses amounted to \$77 million, of which \$54 million was appropriated to the HKSCC Guarantee Fund reserve from retained earnings under the clearing house rules (note 41) during 2014, and \$23 million was appropriated to the HKSCC Guarantee Fund reserve from retained earnings in January 2015 upon receipt of the dividend.

No further adjustment in respect of the claims has been made in these 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.

**12. Other Operating Expenses (continued)**

## (b) Others

	2014 \$m	2013 \$m
Insurance	9	9
Financial data subscription fees	21	16
Custodian and fund management fees	13	6
Bank charges	36	32
Repairs and maintenance expenses	45	27
License fees	20	21
Communication expenses	16	15
Travel expenses	34	40
Security expenses	14	10
Premises cleaning expenses	7	8
Contribution to Financial Reporting Council	5	5
Other miscellaneous expenses	67	67
	<b>287</b>	<b>256</b>

**13. Operating Profit**

	2014 \$m	2013 \$m
Operating profit is stated after (charging)/crediting:		
Amortisation of intangible assets (note 27(a))	(405)	(309)
Auditor's remuneration		
– audit fees	(12)	(9)
– other non-audit fees	(5)	(6)
Depreciation of fixed assets (note 28(a))	(242)	(198)
Operating lease rentals		
– land and buildings	(209)	(219)
– computer systems and equipment	(23)	(19)
Net foreign exchange gains/(losses) on financial assets and liabilities (excluding financial assets and financial liabilities measured at fair value through profit or loss)	2	(10)

**14. Finance Costs**

	2014 \$m	2013 \$m
Interest expenses:		
– Bank borrowings wholly repaid during 2014 (note 35(a))	22	70
– Bank borrowings not wholly repayable within five years (note 35(a))	11	–
– Convertible bonds wholly repayable within five years (note 35(b))	113	110
– Notes wholly repayable within five years (note 35(c))	42	1
– Written put option to non-controlling interests (note 35(d))	7	1
Net foreign exchange losses on financing activities	1	1
	<b>196</b>	<b>183</b>



## 15. Directors' Emoluments

All Directors, including one Executive Director (HKEx's Chief Executive), received emoluments during the years ended 31 December 2014 and 31 December 2013. The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2014 \$'000	2013 \$'000
Executive Director:		
Salaries and other short-term employee benefits	8,817	8,828
Performance bonus	10,095	9,374
Retirement benefit costs	1,081	1,081
	19,993	19,283
Employee share-based compensation benefits (note (a))	20,915	18,925
	40,908	38,208
Non-executive Directors:		
Fees	13,896	11,325
	54,804	49,533

- (a) Employee share-based compensation benefits represent the fair value of Awarded Shares issued under the Share Award Scheme (note 40(b)) amortised to profit or loss during the year.
- (b) The emoluments, including employee share-based compensation benefits, of the Directors were within the following bands:

	2014 Number of Directors	2013 Number of Directors
\$1 – \$500,000	1	1
\$500,001 – \$1,000,000	7	10
\$1,000,001 – \$1,500,000	3	–
\$1,500,001 – \$2,000,000	–	2
\$2,000,001 – \$2,500,000	1	–
\$2,500,001 – \$3,000,000	1	–
\$38,000,001 – \$38,500,000	–	1
\$40,500,001 – \$41,000,000	1	–
	14	14

## 15. Directors' Emoluments (continued)

- (c) The emoluments of all Directors, including HKEx's Chief Executive who is an ex-officio member, for the years ended 31 December 2014 and 31 December 2013 are set out below:

Name of Director	2014							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
C K Chow	2,367	-	-	-	-	2,367	-	2,367
Charles X Li	-	8,653	164	10,095	1,081	19,993	20,915	40,908
T C Chan	784	-	-	-	-	784	-	784
Timothy G Freshwater	872	-	-	-	-	872	-	872
John B Harrison	2,508	-	-	-	-	2,508	-	2,508
Fred Z Hu (note (iii))	99	-	-	-	-	99	-	99
Stephen C C Hui	785	-	-	-	-	785	-	785
Bill C P Kwok	1,007	-	-	-	-	1,007	-	1,007
Vincent K H Lee	1,007	-	-	-	-	1,007	-	1,007
Michael T H Lee	1,317	-	-	-	-	1,317	-	1,317
Margaret M Y Leung Ko (note (iv))	781	-	-	-	-	781	-	781
John E Strickland (note (vi))	683	-	-	-	-	683	-	683
John M M Williamson	894	-	-	-	-	894	-	894
Oscar S H Wong	792	-	-	-	-	792	-	792
<b>Total</b>	<b>13,896</b>	<b>8,653</b>	<b>164</b>	<b>10,095</b>	<b>1,081</b>	<b>33,889</b>	<b>20,915</b>	<b>54,804</b>

Name of Director	2013							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
C K Chow	1,913	-	-	-	-	1,913	-	1,913
Ronald J Arculli (note (v))	175	-	-	-	-	175	-	175
Charles X Li	-	8,653	175	9,374	1,081	19,283	18,925	38,208
T C Chan	705	-	-	-	-	705	-	705
Timothy G Freshwater	705	-	-	-	-	705	-	705
John B Harrison	1,631	-	-	-	-	1,631	-	1,631
Stephen C C Hui	699	-	-	-	-	699	-	699
Bill C P Kwok	892	-	-	-	-	892	-	892
Vincent K H Lee	889	-	-	-	-	889	-	889
Michael T H Lee	893	-	-	-	-	893	-	893
Margaret M Y Leung Ko (note (iv))	538	-	-	-	-	538	-	538
John E Strickland (note (vi))	732	-	-	-	-	732	-	732
John M M Williamson	851	-	-	-	-	851	-	851
Oscar S H Wong	702	-	-	-	-	702	-	702
<b>Total</b>	<b>11,325</b>	<b>8,653</b>	<b>175</b>	<b>9,374</b>	<b>1,081</b>	<b>30,608</b>	<b>18,925</b>	<b>49,533</b>

## Notes:

- (i) Other benefits included leave pay, insurance premium and club membership.
- (ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (iii) Appointment effective 10 November 2014
- (iv) Appointment effective 24 April 2013
- (v) Retired on 24 April 2013
- (vi) Resigned on 31 October 2014

## 16. Five Top-paid Employees

One (2013: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 15. Details of the emoluments of the other four (2013: four) top-paid employees were as follows:

	2014 \$'000	2013 \$'000
Salaries and other short-term employee benefits	18,581	18,714
Performance bonus	20,473	17,203
Retirement benefit costs	2,714	2,222
	41,768	38,139
Employee share-based compensation benefits (note (a))	10,358	10,576
	52,126	48,715

- (a) Employee share-based compensation benefits represent the fair value of Awarded Shares issued under the HKEx Share Award Scheme (note 40(b)) amortised to profit or loss during the year.
- (b) The emoluments of these four (2013: four) employees, including share-based compensation benefits, were within the following bands:

	2014 Number of employees	2013 Number of employees
\$10,000,001 – \$10,500,000	–	1
\$10,500,001 – \$11,000,000	–	1
\$11,500,001 – \$12,000,000	2	–
\$13,000,001 – \$13,500,000	–	1
\$13,500,001 – \$14,000,000	1	–
\$14,000,001 – \$14,500,000	–	1
\$14,500,001 – \$15,000,000	1	–
	4	4

The above employees included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

## 17. Taxation

(a) Taxation charge in the consolidated income statement represented:

	2014 \$m	2013 \$m
Current tax – Hong Kong Profits Tax		
– Provision for the year	885	759
– Overprovision in respect of prior years	–	(2)
	885	757
Current tax – Overseas Tax		
– Provision for the year	3	115
– (Overprovision)/underprovision in respect of prior years	(11)	14
	(8)	129
Total current tax	877	886
Deferred tax		
– Origination/(reversal) of temporary differences	23	(78)
– Impact of changes in UK Corporation Tax rates (note (ii))	–	(108)
Total deferred tax (note 37(a))	23	(186)
Taxation charge	900	700

- (i) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2013: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates.
- (ii) The corporation tax rates applicable to the subsidiaries in the UK were 24 per cent effective from 1 April 2012 and 23 per cent effective from 1 April 2013. Through the enactment of the 2013 Finance Act in July 2013, the UK Corporation Tax rate was further reduced to 21 per cent effective from 1 April 2014 and will drop to 20 per cent effective from 1 April 2015. As a result of the reduction in UK Corporation Tax rates, the Group's net deferred tax liabilities decreased by approximately \$108 million, with a corresponding deferred tax credit recognised in the consolidated income statement in 2013.

## 17. Taxation (continued)

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2014 \$m	2013 \$m
Profit before taxation	6,038	5,246
Tax calculated at domestic tax rates applicable to profits in the respective countries (note (i))	970	839
Income not subject to taxation	(102)	(77)
Expenses not deductible for taxation purposes	41	41
Remeasurement of deferred tax assets and liabilities arising from changes in UK Corporation Tax rates	–	(108)
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	2	(7)
(Overprovision)/underprovision in respect of prior years	(11)	12
Taxation charge	900	700

- (i) The weighted average applicable tax rate was 16.1 per cent (2013: 16.0 per cent).

## 18. Earnings Per Share

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

- (a) Basic earnings per share

	2014	2013
Profit attributable to shareholders (\$m)	5,165	4,552
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,163,712	1,152,061
Basic earnings per share (\$)	4.44	3.95

- (b) Diluted earnings per share

	2014	2013
Profit attributable to shareholders (\$m)	5,165	4,552
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,163,712	1,152,061
Effect of employee share options (in '000)	350	719
Effect of Awarded Shares (in '000)	1,286	2,059
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,165,348	1,154,839
Diluted earnings per share (\$)	4.43	3.94

- (i) The effect of the outstanding convertible bonds (note 35(b)) was not included in the computation of diluted earnings per share for 2014 and 2013 as it was anti-dilutive.

## 19. Dividends

	2014 \$m	2013 \$m
Interim dividend paid: \$1.83 (2013: \$1.82) per share	2,136	2,101
Less: Dividend for shares held by Share Award Scheme (note (a))	(3)	(4)
	<b>2,133</b>	<b>2,097</b>
Final dividend proposed (note (b)): \$2.15 (2013: \$1.72) per share based on issued share capital at 31 Dec	2,511	1,998
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(6)	(3)
	<b>2,505</b>	<b>1,995</b>
	<b>4,638</b>	<b>4,092</b>

- (a) The results and net assets of The HKEx Employees' Share Award Scheme are included in HKEx's financial statements. Therefore, dividends for shares held by The HKEx Employees' Share Award Scheme were deducted from the total dividends.
- (b) The final dividend proposed after 31 December is not recognised as a liability at 31 December. The 2013 final dividend paid was \$1,996 million, as \$1 million was paid for shares issued for employee share options exercised after 31 December 2013.
- (c) The 2014 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the Securities and Futures Commission (SFC) of the listing of and permission to deal in the new shares to be issued.

## 20. Financial Assets

As part of its day to day operations, the Group receives cash prepayments for A shares (note 21), margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants (note 31), and Participants' contributions to Clearing House Funds (note 34). LME Clear, which acts as a central counterparty to the contracts traded on the LME, records the fair value of certain outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32 as financial assets. The Group classifies the corresponding assets into the following categories:

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



## 20. Financial Assets (continued)

Clearing House Funds – The Clearing House Funds are established under the Clearing House Rules. Assets contributed by the Clearing Participants and the Group are held by the respective clearing houses (ie, HKSCC, HKCC, SEOCH, OTC Clear and LME Clear) (together with the accumulated income less related expenses for the clearing houses in Hong Kong) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge its liabilities and obligations when defaulting Clearing Participants deposit defective securities into CCASS. From April 2014 onwards, the amount previously earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear was also included in Clearing House Funds for presentation purpose (note 21(a)). These funds are held for segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

Base metals derivatives contracts (note 22) include the fair value of the outstanding base metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

Cash prepayments for A shares (note 21) represent cash received by HKSCC from its Clearing Participants for releasing their allocated A shares for same day settlement. Such prepayments will be used to settle HKSCC's Continuous Net Settlement obligations payable on the next business day.

Financial assets belonging to the Group and HKEx, which are funded by share capital and funds generated from operations (other than base metals derivatives contracts, amounts received by the Margin Funds and the Clearing House Funds, and amounts received for cash prepayments for A shares), are classified as Corporate Funds (note 24).

The Margin Funds, Clearing House Funds, base metals derivatives contracts, cash prepayments for A shares and Corporate Funds are allocated into cash and cash equivalents (note 21), financial assets measured at fair value through profit or loss (note 22) and financial assets measured at amortised cost (note 23).

## 21. Cash and Cash Equivalents

	Group				HKEx	
	At 31 Dec 2014				At 31 Dec 2014	
	Clearing House Funds (notes (b) and 34) \$m	Margin Funds (notes (b) and 31) \$m	Cash prepayments for A shares (note (b)) \$m	Corporate Funds (notes (a) and 24) \$m	Total \$m	Corporate Funds (note 24) \$m
Cash on hand and balances and deposits with banks	5,763	47,350	619	7,209	60,941	4,446
Reverse repurchase investments	4,426	65,978	-	858	71,262	-
Government bonds	-	4,575	-	-	4,575	-
	10,189	117,903	619	8,067	136,778	4,446

## 21. Cash and Cash Equivalents (continued)

	Group			HKEx	
	At 31 Dec 2013			At 31 Dec 2013	
	Clearing House Funds (notes (b) and 34) \$m	Margin Funds (notes (b) and 31) \$m	Corporate Funds (notes (a), (b) and 24) \$m	Total \$m	Corporate Funds (note 24) \$m
Cash on hand and balances and deposits with banks	4,271	30,650	6,531	41,452	2,704

- (a) Amounts of Clearing House Funds (note 34) 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 for contribution to the Rates and FX Guarantee Resources of OTC Clear 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.
- (b) The cash and cash equivalents of Clearing House Funds and Margin Funds, cash prepayments for A shares, and cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear are held for specific purposes and cannot be used by the Group to finance other activities. They are not therefore included in cash and cash equivalents of the Group for cash flow purpose in the consolidated statement of cash flows.

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

	Group			
	At 31 Dec 2014			
	Margin Funds (note 31) \$m	Corporate Funds (note 24) \$m	Base metals derivatives contracts \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
– listed in Hong Kong	–	117	–	117
– listed outside Hong Kong	–	126	–	126
– unlisted	–	156	–	156
	–	399	–	399
Debt securities:				
– listed in Hong Kong	–	487	–	487
– listed outside Hong Kong	–	828	–	828
– unlisted	895	384	–	1,279
	895	1,699	–	2,594
Derivative financial instruments:				
– forward foreign exchange contracts (note 51(b))	–	14	–	14
– base metals futures and options contracts cleared through LME Clear	–	–	59,679	59,679
	–	14	59,679	59,693
	895	2,112	59,679	62,686
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	895	2,112	59,679	62,686

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

	Group		
	At 31 Dec 2013		
	Margin Funds (note 31) \$m	Corporate Funds (note 24) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
– listed in Hong Kong	–	127	127
– listed outside Hong Kong	–	149	149
– unlisted	–	141	141
	–	417	417
Debt securities:			
– listed in Hong Kong	–	299	299
– listed outside Hong Kong	–	912	912
– unlisted	1,802	459	2,261
	1,802	1,670	3,472
Derivative financial instruments:			
– forward foreign exchange contracts (note 51(b))	–	13	13
	1,802	2,100	3,902
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	1,802	1,959	3,761
More than twelve months	–	141	141
	1,802	2,100	3,902

- (a) Includes financial assets maturing after twelve months of \$895 million (31 December 2013: \$898 million) attributable to the Margin Funds that could readily be liquidated to meet liquidity requirements of the Funds (note 51(b)).

## 23. Financial Assets Measured at Amortised Cost

	Group			HKEx	
	At 31 Dec 2014			At 31 Dec 2014	
	Clearing House Funds (note 34) \$m	Margin Funds (note 31) \$m	Corporate Funds (note 24) \$m	Total \$m	Corporate Funds (note 24) \$m
Time deposits with original maturities over three months	100	10,071	28	10,199	-
Other financial assets	-	-	57	57	1
	100	10,071	85	10,256	1
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	100	10,071	28	10,199	-
More than twelve months	-	-	57	57	1
	100	10,071	85	10,256	1
	Group			HKEx	
	At 31 Dec 2013			At 31 Dec 2013	
	Clearing House Funds (note 34) \$m	Margin Funds (note 31) \$m	Corporate Funds (note 24) \$m	Total \$m	Corporate Funds (note 24) \$m
Unlisted debt securities	-	-	70	70	-
Time deposits with original maturities over three months	200	7,335	1,381	8,916	1,338
Other financial assets	-	-	60	60	1
	200	7,335	1,511	9,046	1,339
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	200	7,335	1,451	8,986	1,338
More than twelve months	-	-	60	60	1
	200	7,335	1,511	9,046	1,339

- (a) The carrying amounts of short-term time deposits approximated their fair value. The fair values of other financial assets maturing after twelve months and debt securities are disclosed in note 51(d)(ii).

## 24. Corporate Funds

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Corporate Funds comprised the following instruments:				
Cash and cash equivalents (note 21)	8,067	6,531	4,446	2,704
Financial assets measured at fair value through profit or loss (note 22)	2,112	2,100	–	–
Financial assets measured at amortised cost (note 23)	85	1,511	1	1,339
	<b>10,264</b>	<b>10,142</b>	<b>4,447</b>	<b>4,043</b>

## 25. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Receivable from ChinaClear, Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	20,410	9,867	–	–
– transaction levy, stamp duty and fees receivable	716	441	–	–
– Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	611	–	–	–
– others	115	168	–	–
Other receivables, prepayments and deposits	753	628	34	36
Less: Provision for impairment losses of receivables (note (b))	(82)	(158)	–	–
	<b>22,523</b>	<b>10,946</b>	<b>34</b>	<b>36</b>

- (a) The carrying amounts of short-term accounts receivable and deposits approximated their fair values.
- (b) The movements in provision for impairment losses of receivables were as follows:

	Group	
	2014 \$m	2013 \$m
At 1 Jan	158	159
(Reversal of provision for)/provision for impairment losses of receivables under other operating expenses	(76)	1
Receivables written off during the year as uncollectible	–	(2)
At 31 Dec	<b>82</b>	<b>158</b>

- (c) 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.

## 26. Interest in a Joint Venture

	Group	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Share of net assets of a joint venture (note (b))	77	87

	HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Investment in unlisted shares, at cost	100	100

(a) Details of the joint venture at 31 December 2014 were as follows:

Name	Place of business and country of incorporation	Principal activities	Issued and fully paid up share capital held	% of ownership interest	Measurement method
China Exchanges Services Company Limited (CESC)	Hong Kong	Development of index-linked and equity derivatives products	100,000,000 ordinary shares (\$100,000,000)	33.33%	Equity

In 2012, HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange (the three JV investors) established a joint venture, CESC, with an aim of developing financial products and related services. CESC is a strategic investment for the Group and it is expected to enhance the competitiveness of Hong Kong, and help promote the development of China's capital markets and the internationalisation of the Group.

The three JV investors have an equal shareholding interest in CESC and have joint control over CESC as unanimous consent is required from all investors for all activities that significantly affect the returns of the arrangement. The joint arrangement also provides the three JV investors with rights to the net assets of CESC. Therefore, CESC is classified as a joint venture of the Group.

CESC is a private company and there is no quoted market price available for its shares.



## 26. Interest in a Joint Venture (continued)

- (b) Summarised statement of financial position of CESC and reconciliation to the carrying amount of the Group's share of net assets of CESC

	At 31 Dec 2014			At 31 Dec 2013		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
<b>Assets</b>						
Cash and cash equivalents	152	–	152	163	–	163
Time deposits with original maturities over three months	77	–	77	94	–	94
Other assets	2	5	7	2	7	9
<b>Total assets</b>	<b>231</b>	<b>5</b>	<b>236</b>	<b>259</b>	<b>7</b>	<b>266</b>
<b>Liabilities</b>						
Accounts payable, accruals, other liabilities and provisions	6	1	7	6	1	7
<b>Total liabilities</b>	<b>6</b>	<b>1</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>7</b>
<b>Net assets</b>	<b>225</b>	<b>4</b>	<b>229</b>	<b>253</b>	<b>6</b>	<b>259</b>
Carrying amount of the Group's share of net assets of CESC (@33.33%)			77			87

- (c) Summarised statement of comprehensive income of CESC

	2014 \$m	2013 \$m
Revenue	1	1
Net investment income	4	4
Operating expenses	(32)	(33)
Depreciation and amortisation	(3)	(2)
<b>Loss and total comprehensive loss for the year</b>	<b>(30)</b>	<b>(30)</b>
<b>Group's share of losses of CESC (@33.33%)</b>	<b>(10)</b>	<b>(10)</b>

## 27. Goodwill and Other Intangible Assets

## (a) Group

	Other Intangible Assets				Total \$m
	Goodwill \$m	Tradenames \$m	Customer Relationships \$m	Software Systems \$m	
<b>Cost:</b>					
At 1 Jan 2013	13,488	912	3,226	581	18,207
Exchange differences	262	18	62	20	362
Additions	-	-	-	458	458
At 31 Dec 2013	13,750	930	3,288	1,059	19,027
At 1 Jan 2014	13,750	930	3,288	1,059	19,027
Exchange differences	(580)	(39)	(176)	(25)	(820)
Additions	-	-	-	416	416
At 31 Dec 2014	13,170	891	3,112	1,450	18,623
<b>Accumulated amortisation:</b>					
At 1 Jan 2013	-	-	11	13	24
Exchange differences	-	-	7	7	14
Amortisation	-	-	129	180	309
At 31 Dec 2013	-	-	147	200	347
At 1 Jan 2014	-	-	147	200	347
Exchange differences	-	-	(14)	(16)	(30)
Amortisation	-	-	136	269	405
At 31 Dec 2014	-	-	269	453	722
<b>Net book value:</b>					
At 31 Dec 2014	13,170	891	2,843	997	17,901
At 31 Dec 2013	13,750	930	3,141	859	18,680
At 1 Jan 2013	13,488	912	3,215	568	18,183
<b>Cost of software systems under development:</b>					
At 31 Dec 2014	-	-	-	373	373
At 31 Dec 2013	-	-	-	318	318

Amortisation of \$405 million (2013: \$309 million) is included in “depreciation and amortisation” in the consolidated income statement.

Tradenames are regarded as having indefinite useful lives and there is no foreseeable limit to the period over which they are expected to generate cash flows for the Group as it is expected that their value will not be reduced through usage and there are no legal or similar limits on the period for their use.

## 27. Goodwill and Other Intangible Assets (continued)

### (a) Group (continued)

#### Impairment tests for cash generating units containing intangible assets with indefinite useful lives

Goodwill is monitored by management at the operating segment level. It was allocated to the CGUs that are expected to benefit from synergies of combination with the LME Group, which was determined to be the Group's commodities and clearing segments (note 4).

A summary of the allocation of goodwill and tradenames to these operating segments is as follows:

	At 31 Dec 2014		At 31 Dec 2013	
	Goodwill \$m	Tradenames \$m	Goodwill \$m	Tradenames \$m
Commodities segment	10,312	698	10,766	728
Clearing segment	2,858	193	2,984	202
	<b>13,170</b>	<b>891</b>	<b>13,750</b>	<b>930</b>

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The key assumptions, growth rate and discount rate used for value-in-use calculations are as follows:

	At 31 Dec 2014		At 31 Dec 2013	
	Commodities segment	Clearing segment	Commodities segment	Clearing segment
EBITDA margin (average of next five years)	68%	71%	62%	63%
Growth rate	3%	3%	3%	3%
Discount rate	10%	10%	10%	10%

Management determined the EBITDA margin based on past performance and its expectations regarding market development and fee increments relating to the products. The growth rate does not exceed the long-term average growth rate for the business in the countries in which each of the CGUs currently operates. The discount rate used is pre-tax and reflects specific risks relating to each CGU.

The recoverable amounts of the operating segments (including goodwill and tradenames) based on the estimated value-in-use calculations were higher than their carrying amounts at 31 December 2014 and 31 December 2013. Accordingly, no provision for impairment loss for goodwill or tradenames is considered necessary.

If the discount rate rose to 13 per cent (31 December 2013: 12 per cent), the recoverable amount of the commodities segment would be approximately equal to its carrying amount. Except for this, any reasonably possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment at 31 December 2014 and 31 December 2013.

## 27. Goodwill and Other Intangible Assets (continued)

(b) HKEx

	Software systems \$m
<b>Cost:</b>	
At 1 Jan 2013	22
Additions	54
At 31 Dec 2013	76
At 1 Jan 2014	76
Additions	36
At 31 Dec 2014	112
<b>Accumulated amortisation:</b>	
At 1 Jan 2013	–
Amortisation	5
At 31 Dec 2013	5
At 1 Jan 2014	5
Amortisation	23
At 31 Dec 2014	28
<b>Net book value:</b>	
At 31 Dec 2014	84
At 31 Dec 2013	71
At 1 Jan 2013	22
<b>Cost of software systems under development:</b>	
At 31 Dec 2014	23
At 31 Dec 2013	37

## 28. Fixed Assets

## (a) Group

	Leasehold land in Hong Kong under long term finance lease \$m	Leasehold buildings \$m	Computer trading and clearing systems \$m	Other computer hardware and software \$m	Data centre facilities and equipment \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
<b>Cost:</b>							
At 1 Jan 2013	70	711	1,318	374	391	546	3,410
Exchange differences	-	-	-	3	-	1	4
Additions	-	16	60	83	14	99	272
Disposals	-	-	(17)	(16)	-	(15)	(48)
At 31 Dec 2013	70	727	1,361	444	405	631	3,638
At 1 Jan 2014	70	727	1,361	444	405	631	3,638
Exchange differences	-	-	-	(3)	-	(1)	(4)
Additions	-	-	3	17	-	81	101
Disposals	-	-	(2)	(2)	-	(14)	(18)
Adjustments	-	(3)	-	-	(2)	-	(5)
At 31 Dec 2014	70	724	1,362	456	403	697	3,712
<b>Accumulated depreciation:</b>							
At 1 Jan 2013	11	22	1,162	226	8	306	1,735
Depreciation	1	29	47	46	26	49	198
Disposals	-	-	(17)	(16)	-	(15)	(48)
At 31 Dec 2013	12	51	1,192	256	34	340	1,885
At 1 Jan 2014	12	51	1,192	256	34	340	1,885
Depreciation	-	29	42	72	26	73	242
Disposals	-	-	(2)	(2)	-	(14)	(18)
At 31 Dec 2014	12	80	1,232	326	60	399	2,109
<b>Net book value:</b>							
At 31 Dec 2014	58	644	130	130	343	298	1,603
At 31 Dec 2013	58	676	169	188	371	291	1,753
At 1 Jan 2013	59	689	156	148	383	240	1,675
<b>Cost of fixed assets in the course of construction:</b>							
At 31 Dec 2014	-	-	4	23	-	59	86
At 31 Dec 2013	-	5	19	97	6	116	243

## 28. Fixed Assets (continued)

(b) HKEx

	Other computer hardware and software \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
<b>Cost:</b>			
At 1 Jan 2013	132	211	343
Additions	32	35	67
Disposals	(8)	(9)	(17)
At 31 Dec 2013	156	237	393
At 1 Jan 2014	156	237	393
Additions	6	30	36
Disposals	–	(1)	(1)
At 31 Dec 2014	162	266	428
<b>Accumulated depreciation:</b>			
At 1 Jan 2013	59	50	109
Depreciation	12	24	36
Disposals	(8)	(9)	(17)
At 31 Dec 2013	63	65	128
At 1 Jan 2014	63	65	128
Depreciation	32	34	66
Disposals	–	(1)	(1)
At 31 Dec 2014	95	98	193
<b>Net book value:</b>			
At 31 Dec 2014	67	168	235
At 31 Dec 2013	93	172	265
At 1 Jan 2013	73	161	234
<b>Cost of fixed assets in the course of construction:</b>			
At 31 Dec 2014	8	34	42
At 31 Dec 2013	63	68	131



## 29. Lease Premium for Land

	Group	
	2014 \$m	2013 \$m
Net book value at 1 Jan	23	24
Amortisation	-	(1)
Net book value at 31 Dec	23	23

The amount represents a non-Hong Kong Government medium-term lease in Hong Kong.

## 30. Financial Liabilities at Fair Value through Profit or Loss

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>				
Derivative financial instruments:				
- base metals futures and options contracts cleared through LME Clear (note (a))	59,679	-	-	-
<u>Held for trading</u>				
Derivative financial instruments:				
- forward foreign exchange contracts (note 51(b))	1	6	-	-
- written put options to non-controlling interests (note 35(d))	-	-	150	125
	59,680	6	150	125

- (a) The amount represents the fair value of outstanding base metals futures and options contracts of LME Clear that do not qualify for netting under HKAS 32, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME starting from September 2014.

### 31. Margin Deposits, Mainland Security and Settlement Deposits, and Cash Collateral from Clearing Participants

	Group	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised (notes (a) and 20):		
SEOCH Clearing Participants' margin deposits	8,964	4,420
HKCC Clearing Participants' margin deposits	42,356	33,116
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	7,478	2,240
OTC Clear Clearing Participants' margin deposits	40	17
LME Clear Clearing Participants' margin deposits	70,646	–
	<b>129,484</b>	<b>39,793</b>
The margin deposits, Mainland security and settlement deposits, and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 21)	117,903	30,650
Financial assets measured at fair value through profit or loss (note 22)	895	1,802
Financial assets measured at amortised cost (note 23)	10,071	7,335
Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear	611	–
Margin receivable from Clearing Participants	4	6
	<b>129,484</b>	<b>39,793</b>

- (a) Amounts excluded non-cash collateral received and utilised as alternative to cash margin and cash collateral. With effect from 1 September 2014, bank guarantees were no longer accepted as approved collateral.

### 32. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Payable to ChinaClear, Exchange and Clearing Participants:				
– Continuous Net Settlement money obligations	21,029	9,867	–	–
– others	508	1,644	–	–
Transaction levy payable to the SFC	120	81	–	–
Unclaimed dividends (note (b))	216	226	129	137
Stamp duty payable to the Collector of Stamp Revenue	338	231	–	–
Other payables, accruals and deposits received	638	785	148	178
	<b>22,849</b>	<b>12,834</b>	<b>277</b>	<b>315</b>

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair value.

**32. Accounts Payable, Accruals and Other Liabilities (continued)**

- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSX but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, cash dividends held by HKSX which had remained unclaimed for a period of more than seven years amounting to \$15 million (2013: \$11 million) were forfeited and recognised as sundry income (note 9) and dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to \$29 million (2013: \$15 million) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 43).
- (c) Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

**33. Other Financial Liabilities**

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Financial liabilities of Clearing House Funds (note 34)	64	1	–	–
Financial liabilities of Corporate Funds: Financial guarantee contracts (note (a))	20	20	123	162
	<b>84</b>	<b>21</b>	<b>123</b>	<b>162</b>

- (a) Financial guarantee contracts

- (i) Group

The amount represents the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 46(a)(ii).

- (ii) HKEx

The amounts represent the carrying value of an undertaking provided by HKEx in favour of HKSCC amounting to \$50 million (note 46(b)(i)), the carrying value of the guarantee provided by HKEx for the convertible bonds issued by HKEx International Limited (note 46(b)(ii)), and the carrying value of an undertaking provided by HKEx in favour of LME Clear amounting to 10.5 million pounds sterling (GBP or £) (HK\$127 million) (note 46(b)(iv)). All amounts were eliminated on consolidation.

## 34. Clearing House Funds

	Group	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
The Clearing House Funds comprised (note 20):		
Clearing Participants' cash contributions (note (a))	9,426	3,884
Contribution to OTC Clear Rates and FX Guarantee Resources (note 21(a))	156	–
Designated reserves (notes (b) and 41)	643	586
	<b>10,225</b>	<b>4,470</b>
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 21)	10,189	4,271
Financial assets measured at amortised cost (note 23)	100	200
	<b>10,289</b>	<b>4,471</b>
Less: Other financial liabilities of Clearing House Funds (note 33)	(64)	(1)
	<b>10,225</b>	<b>4,470</b>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,234	2,155
SEOCH Reserve Fund	1,326	588
HKCC Reserve Fund	1,879	1,576
OTC Clear Rates and FX Guarantee Fund	203	151
OTC Clear Rates and FX Guarantee Resources	157	–
LME Clear Default Fund	4,426	–
	<b>10,225</b>	<b>4,470</b>

- (a) Amounts excluded non-cash collateral received and utilised as alternatives to cash contributions. With effect from 1 September 2014, bank guarantees were no longer accepted as approved collateral.
- (b) Designated reserves comprise contributions from the clearing houses and accumulated net investment income net of expenses of the Clearing House Funds appropriated from retained earnings.

### 35. Borrowings

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Bank borrowings (note (a))	1,585	2,326	1,585	2,326
Convertible bonds (note (b))	3,701	3,607	–	–
Notes (note (c))	1,515	770	1,515	770
Written put options to non-controlling interests (note (d))	225	218	–	–
<b>Total borrowings</b>	<b>7,026</b>	<b>6,921</b>	<b>3,100</b>	<b>3,096</b>

The Group's and HKEx's borrowings were repayable as follows:

	Group			
	Bank borrowings		Other borrowings	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
After 2 years but within 5 years	–	–	5,441	4,595
After 5 years	1,585	2,326	–	–
	<b>1,585</b>	<b>2,326</b>	<b>5,441</b>	<b>4,595</b>

	HKEx			
	Bank borrowings		Other borrowings	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
After 2 years but within 5 years	–	–	1,515	770
After 5 years	1,585	2,326	–	–
	<b>1,585</b>	<b>2,326</b>	<b>1,515</b>	<b>770</b>

#### (a) Bank borrowings

In January 2014, US\$95 million (HK\$737 million) of the bank borrowings was refinanced with the issuance of an equivalent amount of fixed rate notes (note (c)(ii)). In July 2014, the Group refinanced the remaining bank borrowings with a new bank loan of US\$205 million (HK\$1,589 million) at a lower interest rate.

At 31 December 2014, bank borrowings mature within 7 years (31 December 2013: 9 years). During the year, the bank borrowings bear average coupons of 1.8 per cent (2013: 2.2 per cent) per annum, and the average effective interest rate is 2.0 per cent (2013: 2.3 per cent) per annum.

### 35. Borrowings (continued)

#### (b) Convertible bonds

On 23 October 2012, HKEx issued convertible bonds (the Bonds) in the principal amount of US\$500 million (HK\$3,875 million). The Bonds pay interest at the rate of 0.50 per cent per annum and mature on 23 October 2017. The redemption value of the Bonds at maturity is 102.56 per cent of their principal amount. At any time between 3 December 2012 and 13 October 2017, the Bonds can be converted into ordinary shares of HKEx at an initial conversion price of HK\$160 per share (subject to adjustments) at the option of the holders of the Bonds. With effect from 26 April 2014, the conversion price of the Bonds was adjusted to HK\$157.62 per share as the dividend declared for financial year 2013 exceeded the specific threshold stipulated in the terms of the Bonds.

To the extent that the holders of the Bonds have not previously exercised their conversion option, at any time after 7 November 2014, HKEx may, by giving notice to the holders of the Bonds, elect to redeem the Bonds in whole but not in part, if the closing price of HKEx shares for any 20 out of the 30 consecutive trading days immediately prior to the date upon which notice of such redemption is given, was at least 130 per cent of the applicable early redemption amount (translated into HKD at the fixed exchange rate of HK\$7.7531 = US\$1) divided by the conversion ratio (ie, if the HKEx share price is above the floor price of HK\$204.91 accreting at 0.5 per cent per annum). HKEx also has the option to redeem the outstanding Bonds in whole but not in part if the aggregate principal amount of the Bonds outstanding is less than US\$50 million.

HKEx used the proceeds of the Bonds to fund part of the acquisition of the LME Group.

With effect from 17 December 2012, HKEx has substituted in its place HKEx International Limited, a wholly-owned subsidiary of HKEx whose functional currency is USD, as the issuer and the principal obligor under the Bonds (the Substitution); all payments due under the Bonds are unconditionally and irrevocably guaranteed by HKEx and HKEx remains obliged to issue and deliver HKEx shares on conversion of the Bonds.

After the Substitution, the Bonds comprised two elements and were accounted for as follows:

- The debt element was treated as a financial liability and measured at amortised cost and interest expense was recognised in profit or loss using the effective interest method.
- The share conversion option element was accounted for as convertible bond reserve under equity in the consolidated financial statements of the Group and will not be revalued thereafter.

In the HKEx's financial statements, the amount included in the convertible bond reserve represents the commitment by HKEx to issue shares upon conversion.



**35. Borrowings (continued)****(b) Convertible bonds (continued)**

The movements of the liability component of the Bonds are as follows:

	Group	
	2014 \$m	2013 \$m
At 1 Jan	3,607	3,515
Interest expenses (notes (i) and 14)	113	110
Interest paid	(19)	(19)
Exchange difference	–	1
At 31 Dec	3,701	3,607

(i) The effective interest rate of the liability component is 3.1 per cent (2013: 3.1 per cent) per annum.

**(c) Notes**

	Group and HKEx	
	2014 \$m	2013 \$m
At 1 Jan	770	–
Issuance of senior notes due 2018 (note (i))	–	769
Issuance of senior notes due 2019 (note (ii))	737	–
Transaction costs on issuance of notes	(2)	–
Interest expenses (notes (iii) and 14)	42	1
Interest paid	(32)	–
At 31 Dec	1,515	770

(i) On 11 December 2013, HKEx issued US\$100 million (HK\$775 million) fixed rate senior notes to independent third parties at 99.167 per cent of the principal amount with a maturity of five years due on 11 December 2018. The notes bear a coupon of 2.7 per cent per annum payable semi-annually in arrears.

The proceeds were used to refinance part of the floating rate bank borrowings in 2013.

(ii) On 24 January 2014, HKEx issued US\$95 million (HK\$737 million) fixed rate senior notes to independent third parties with a maturity of five years due on 24 January 2019. The notes bear a coupon of 2.85 per cent per annum payable semi-annually in arrears.

The proceeds were used to refinance part of the floating rate bank borrowings (note (a)).

(iii) The average effective interest rate of the senior notes is 2.9 per cent (2013: 2.9 per cent) per annum.

**(d) Written put options to non-controlling interests**

	Group	
	2014 \$m	2013 \$m
At 1 Jan	218	–
Issuance of written put options to non-controlling interests debited against related reserve under equity attributable to shareholders of HKEx (note (i))	–	217
Interest expenses (notes (ii) and 14)	7	1
At 31 Dec	225	218

### 35. Borrowings (continued)

(d) Written put options to non-controlling interests (continued)

- (i) On 31 October 2013, OTC Clear issued 3,599 ordinary shares to HKEx and 1,200 non-voting ordinary shares to certain third party shareholders (note 38(c)(i)). As part of the arrangement, put options were written by HKEx to the non-controlling interests of OTC Clear to sell part or all of their non-voting ordinary shares in OTC Clear to HKEx at the initial subscription price of HK\$210,000 per share less accumulated dividends received by the non-controlling interests. The put options are exercisable by the non-controlling interests at any time after 31 October 2018 (five years after the shares were issued) if the non-controlling interests can demonstrate to HKEx that they have used reasonable endeavours for at least three months to find a suitable purchaser for their shares at a price equal to or more than their fair market values. The carrying amount of written put options represents the present value of the amount payable by HKEx to acquire the non-controlling interests at the date at which the written put options first become exercisable.

In HKEx's statement of financial position, the initial fair value of the written put options is accounted for as investment in subsidiaries (note 38(a)) with a corresponding credit to written put options to non-controlling interests as derivative financial liabilities which are accounted for at fair value through profit or loss (note 30). Subsequent changes in fair value of the written put options are recognised in HKEx's profit or loss.

- (ii) The effective interest rate of the liabilities is 3.0 per cent (2013: 3.0 per cent) per annum.

### 36. Provisions

(a) Group

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2014	49	45	94
Provision for the year	15	79	94
Amount used during the year	–	(62)	(62)
Amount paid during the year	(3)	(4)	(7)
At 31 Dec 2014	61	58	119

(b) HKEx

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2014	2	43	45
Provision for the year	–	74	74
Amount used during the year	–	(60)	(60)
Amount paid during the year	–	(4)	(4)
At 31 Dec 2014	2	53	55

- (i) The provision for reinstatement costs represents the estimated costs of restoring the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within five years.
- (ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

### 37. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method.

- (a) The movements on the net deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
At 1 Jan	853	1,036	28	13
Exchange differences	(42)	3	–	–
Charged/(credited) to profit or loss (note 17(a))	23	(186)	(6)	15
At 31 Dec (note (d))	834	853	22	28

- (b) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of \$596 million at 31 December 2014 (31 December 2013: \$559 million) that may be carried forward for offsetting against future taxable income indefinitely.

- (c) The movements on the net deferred tax liabilities/(assets) account were as follows:

	Group											
	Accelerated tax depreciation		Intangible assets		Financial assets		Tax losses		Employee benefits		Total	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
At 1 Jan	139	82	816	949	22	59	(117)	(48)	(7)	(6)	853	1,036
Exchange differences	–	(1)	(40)	7	(2)	(1)	–	(2)	–	–	(42)	3
Charged/(credited) to profit or loss	2	58	(29)	(140)	11	(36)	47	(67)	(8)	(1)	23	(186)
At 31 Dec	141	139	747	816	31	22	(70)	(117)	(15)	(7)	834	853

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
At 1 Jan	35	19	(7)	(6)	28	13
(Credited)/charged to profit or loss	(5)	16	(1)	(1)	(6)	15
At 31 Dec	30	35	(8)	(7)	22	28

- (d) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same taxation authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Deferred tax assets	(5)	(47)	–	–
Deferred tax liabilities	839	900	22	28
	834	853	22	28

**37. Deferred Taxation (continued)**

(e) The analysis of deferred tax (assets)/liabilities is as follows:

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
<b>Deferred tax assets</b>				
Amounts to be recovered after more than 12 months	(4)	(47)	–	–
Amounts to be recovered within 12 months	(1)	–	–	–
	(5)	(47)	–	–
<b>Deferred tax liabilities</b>				
Amounts to be recovered or settled after more than 12 months	790	878	30	35
Amounts to be recovered or settled within 12 months	49	22	(8)	(7)
	839	900	22	28
<b>Net deferred tax liabilities</b>	<b>834</b>	<b>853</b>	<b>22</b>	<b>28</b>

**38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity**

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Investments in unlisted shares, at cost (note (c))	4,496	4,496
Adjustment to carrying value (note (i))	(2,303)	(2,303)
	2,193	2,193
Capital contribution to a subsidiary (note (ii))	2,797	2,797
Written put options to non-controlling interests (note 35(d))	133	133
Financial guarantees granted to subsidiaries (note 33(a)(ii))	203	203
	5,326	5,326

- (i) In 2011, it was determined that the subsidiaries would pay substantially all of their annual profits to HKEx prior to the date of their statement of financial position. The subsidiaries had in aggregate retained earnings amounting to \$2,303 million prior to the merger in 2000 and the directors therefore consider that, following the implementation of the new dividend policy by HKEx's subsidiaries, HKEx's investments in its subsidiaries should be reduced by an amount of \$2,303 million.
- (ii) In 2012, HKEx advanced an interest-free loan of US\$1,586 million (HK\$12,290 million) to a subsidiary, HKEx Investment (UK) Limited. The loan is unsecured and repayable in 2017. The fair value of the loan at initial recognition was \$9,493 million and was determined as the present value of all future cash receipts discounted using prevailing market interest rate for a loan with similar credit rating and maturity. The difference of \$2,797 million between the loan amount and the fair value of the loan was accounted for as a capital contribution to the subsidiary and included in the investments in subsidiaries.

### 38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity (continued)

#### (b) Amounts due from/to subsidiaries

The amounts due from/to subsidiaries under current assets and current liabilities are unsecured and repayable on demand. The amounts were interest-free during 2014 and 2013.

The amounts due from subsidiaries under non-current assets represent loans to HKEx Investment (UK) Limited of \$15,986 million (31 December 2013: \$15,453 million) and OTC Clear of \$50 million (31 December 2013: \$50 million).

The loans to HKEx Investment (UK) Limited are unsecured and repayable in 2017. Part of the balance amounting to US\$700 million (HK\$5,428 million) (31 December 2013: US\$700 million (HK\$5,428 million)) is interest bearing at an average interest rate of 4.9 per cent (2013: 5.0 per cent) per annum, and the remaining balance is interest-free.

The loan to OTC Clear is unsecured and repayable in 2017. The loan is interest bearing at an average interest rate of 2.9 per cent (2013: 2.9 per cent) per annum.

The amounts due to subsidiaries under non-current liabilities represent a loan from a subsidiary, HKEx International Limited, which is unsecured and repayable in 2017. The balance is interest bearing at 0.6 per cent (2013: 0.6 per cent) per annum.

#### (c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries at 31 December 2014:

Company	Place of incorporation and operation	Issued and fully paid up share/registered capital and debt securities	Principal activities	Interest held by the Group
<b>Direct subsidiaries:</b>				
The Stock Exchange of Hong Kong Limited	Hong Kong	929 ordinary shares (\$929)	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Hong Kong	230 ordinary shares (\$28,750,000)	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Hong Kong	2 ordinary shares (\$2)	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong and the Shanghai Stock Exchange in China through the Stock Connect and the central securities depository, and provides custody and nominee services for eligible securities listed in Hong Kong and China	100%
OTC Clearing Hong Kong Limited (note (i))	Hong Kong	3,600 ordinary shares (\$350,000,001) 1,200 non-voting ordinary shares (\$252,000,000)	Operates a clearing house for over-the-counter derivatives	75%
HKEx Hosting Services Limited	Hong Kong	2 shares (\$2)	Provision of hosting services	100%
HKEx Property Limited	Hong Kong	2 ordinary shares (\$2)	Property holding	100%
HKEx International Limited	Hong Kong	1 share (\$1) and US\$500 million convertible bonds (note 35 (b))	Investment holding	100%
HKEx (China) Limited	Hong Kong	2 shares (\$2)	Promotes HKEx products and services	100%

### 38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity (continued)

(c) Particulars of subsidiaries (continued)

Company	Place of incorporation and operation	Issued and fully paid up share/ registered capital and debt securities	Principal activities	Interest held by the Group
<b>Indirect subsidiaries:</b>				
The SEHK Options Clearing House Limited	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for options contracts traded on the Stock Exchange in Hong Kong	100%
HKEx Information Services Limited	Hong Kong	100 shares (\$100)	Acts as agent for sales of market data for the Stock Exchange and the Futures Exchange	100%
The Stock Exchange Club Limited	Hong Kong	8 shares (\$8)	Property holding	100%
HKFE Clearing Corporation Limited	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKSCC Nominees Limited	Hong Kong	2 shares (\$20)	Act as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited	Hong Kong	2 shares (\$2)	Conversion agency services	100%
HKEx Investment (UK) Limited	United Kingdom	1 ordinary share of £1 each	Investment holding	100%
LME Holdings Limited	United Kingdom	12,900,000 ordinary shares of 10 pence each	Investment holding	100%
The London Metal Exchange	United Kingdom	100 ordinary shares of £1 each	Operates an exchange for the trading of base metals futures and options contracts	100%
LME Clear Limited	United Kingdom	107,500,001 ordinary shares of £1 each	Operates a clearing house for base metals futures and options contracts	100%
Ganghui Financial Information Services (Shanghai) Limited	China	US\$770,000	Operates a market data hub in China	100%
Gangsheng Information Services (Shanghai) Limited	China	US\$820,000	Provision of routing services of securities orders under the Stock Connect	100%

(i) Subsidiary with non-controlling interests

At 31 December 2014, the Group held 75 per cent interest of the subsidiary, while the remaining 25 per cent interest of the subsidiary was held by non-controlling interests. The non-controlling interests do not have voting power. The loss attributable to non-controlling interests during the year amounted to \$27 million (2013: \$6 million) and the accumulated non-controlling interests of the subsidiary at 31 December 2014 was \$86 million (31 December 2013: \$113 million). No summarised financial information of the subsidiary is presented as the non-controlling interests are not material to the Group.

(ii) Significant restrictions

Cash and saving deposits are held by subsidiaries in China and are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2014 was \$9 million (31 December 2013: \$4 million).

### 38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity (continued)

(d) Controlled structured entity

HKEEx controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
The HKEEx Employees' Share Award Scheme (HKEEx Employee Share Trust)	Purchases, administers and holds HKEEx shares for the Share Award Scheme for the benefit of eligible HKEEx employees (note 40(b))

As the HKEEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEEx shares for the Share Award Scheme (note 40(b)), HKEEx has the power to direct the relevant activities of the HKEEx Employee Share Trust and it has the ability to use its power over the HKEEx Employee Share Trust to affect its exposure to returns. Therefore, the assets and liabilities of HKEEx Employee Share Trust are included in HKEEx's statement of financial position and the HKEEx shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

### 39. Share Capital, Share Premium and Shares Held for Share Award Scheme

	HKEEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Authorised (note (a)): 2,000,000,000 shares of \$1 each	–	2,000

Issued and fully paid:

	Group and HKEEx				
	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 (b))	59	–	1	–	1
Shares issued in lieu of cash dividends (note (c))	11,591	11	1,430	(8)	1,433
Shares purchased for Share Award Scheme (note (d))	(19)	–	–	(2)	(2)
Vesting of shares of Share Award Scheme (note (e))	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 (b))	121	–	2	–	2
Transfer on 3 March 2014 upon adoption of the new CO (note (a))	–	10,169	(10,169)	–	–
Shares issued upon exercise of employee share options on or after 3 March 2014 (note (b))	539	10	–	–	10
Shares issued in lieu of cash dividends (note (c))	5,959	879	–	(5)	874
Transfer from employee share-based compensation reserve upon exercise of employee share options on or after 3 March 2014 (note 40)	–	3	–	–	3
Shares purchased for Share Award Scheme (note (d))	(2,299)	–	–	(405)	(405)
Vesting of shares of Share Award Scheme (note (e))	825	3	–	102	105
At 31 Dec 2014	1,165,264	12,225	–	(482)	11,743



**39. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)**

- (a) On 3 March 2014, the new CO came into effect. It abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. Prior to 3 March 2014, HKEx's shares had a nominal value of \$1 per share. All amounts received for issuing equity shares of a company on or after 3 March 2014 will be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.
- (b) During the year, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 660,500 shares (2013: 58,600 shares) in HKEx at a consideration of \$12 million (2013: \$1 million).
- (c) During the year, the following shares were issued to shareholders who elected to receive HKEx shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	2014					Total \$m
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m		
Issued as 2013 final scrip dividends:						
– total	5,098,366	140.22	715	–		715
– to Share Award Scheme	(17,017)	140.22	–	(2)		(2)
Issued as 2014 interim scrip dividends:						
– total	891,617	183.60	164	–		164
– to Share Award Scheme	(13,913)	183.60	–	(3)		(3)
	<b>5,959,053</b>		<b>879</b>	<b>(5)</b>		<b>874</b>
	2013					
	Number of shares	Scrip price \$	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2012 final scrip dividends:						
– total	4,139,855	130.32	4	536	–	540
– to Share Award Scheme	(26,110)	130.32	–	–	(4)	(4)
Issued as 2013 interim scrip dividends:						
– total	7,508,611	120.06	7	894	–	901
– to Share Award Scheme	(30,846)	120.06	–	–	(4)	(4)
	<b>11,591,510</b>		<b>11</b>	<b>1,430</b>	<b>(8)</b>	<b>1,433</b>

- (d) During the year, the Share Award Scheme (note 40(b)) acquired 2,298,700 HKEx shares (2013: 19,300 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$405 million (2013: \$2 million).
- (e) During the year, the Share Award Scheme transferred 825,261 HKEx shares (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 \$102 million (2013: \$141 million). During the year, \$3 million was credited to share capital (2013: \$5 million was credited to share premium) in respect of vesting of certain shares whose fair values were higher than the costs.

#### 40. Employee Share-based Arrangements

The movements of employee share-based compensation reserve were as follows:

	Group and HKEx	
	2014 \$m	2013 \$m
At 1 Jan	105	122
Employee share-based compensation benefits (note 10)	137	119
Transfer to share capital upon exercise of employee share options (note 39)	(3)	–
Vesting of shares of Share Award Scheme	(97)	(136)
At 31 Dec	142	105

The Group operates a share option scheme (HKEx Share Option Scheme) and a share award scheme (HKEx Share Award Scheme) as part of the benefits to its employees.

(a) HKEx Share Option Scheme

- (i) Under the terms of the HKEx Post-Listing Share Option Scheme (HKEx Post-Listing Scheme), share options were granted to employees during the period from May 2003 to January 2005 respectively. The share options vested progressively from the second to the fifth year after the grant provided that the relevant employee remained employed by the Group. Forfeited share options would be cancelled. Share options for the HKEx Post-Listing Scheme are exercisable up to 10 years after the grant date.

The estimated fair value of share options granted was determined at the date of the grant and is charged as an expense over the projected vesting period being the period for which the services from the employees were rendered with a corresponding credit to employee share-based compensation reserve.

Prior to the adoption of the new CO (note 39(a)), on exercising the share options, the consideration received was credited to share capital in respect of the nominal value of the shares issued with the balance credited to share premium; the original estimated fair value of the relevant share options was then transferred from employee share-based compensation reserve to share premium. Pursuant to the adoption of the new CO, the consideration received is credited to share capital, and the original estimated fair value of the relevant share options is then transferred from employee share-based compensation reserve to share capital upon exercise of the share options.

When vested share options are not exercised on expiry, the original estimated fair value of such share options is transferred from employee share-based compensation reserve to retained earnings.

#### 40. Employee Share-based Arrangements (continued)

(a) HKEx Share Option Scheme (continued)

- (ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2014		2013	
	Average exercise price per share \$	Number of shares issuable under options granted '000	Average exercise price per share \$	Number of shares issuable under options granted '000
<b>HKEx Post-Listing Scheme</b>				
Outstanding at 1 Jan	18.32	804	18.33	863
Exercised <sup>1</sup>	18.12	(660)	18.43	(59)
Outstanding at 31 Dec	19.25	144	18.32	804

<sup>1</sup> The weighted average closing share price on the dates on which the options were exercised was \$137.34 (2013: \$133.69) per share.

At 31 December 2014, all outstanding options (31 December 2013: all) were vested and exercisable at a weighted average exercise price of \$19.25 per share (31 December 2013: \$18.32 per share).

- (iii) Share options outstanding at 31 December had the following remaining contractual lives and exercise prices:

	At 31 Dec 2014		At 31 Dec 2013	
	Remaining contractual life	Number of shares issuable under options granted '000	Remaining contractual life	Number of shares issuable under options granted '000
Exercise price				
\$16.96	–	–	0.24 year	288
\$15.91	–	–	0.37 year	25
\$19.25	0.07 year	144	1.07 years	491
	0.07 year	144	0.75 year	804

(b) HKEx Share Award Scheme

From September 2005, the HKEx Share Award Scheme (the Scheme) has been in effect. The terms of the Scheme provide for shares in HKEx to be awarded to employees of the Group (including the Executive Director) as part of their compensation package.

In 2013, the Board approved amendments to the rules and the related trust deed of the Scheme, effective 17 December 2013 to, among other things, (i) facilitate the participation of employees of the LME Group in the Scheme and (ii) allow the Board 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 Scheme.

Following the Board's decision to award an award sum (Awarded Sum) for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by regrating the forfeited or unallocated shares held by the Scheme. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

#### 40. Employee Share-based Arrangements (continued)

##### (b) HKEx Share Award Scheme (continued)

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from reinvesting the dividends or scrip shares received under the scrip dividend scheme (dividend shares), and the amount is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

##### (i) Employee Share Awards

Employee Share Awards vest progressively over the vesting period after the awards are granted, provided that the relevant awardee remained employed by the Group or retires on reaching normal retirement age. In April 2010, the Board resolved to amend the Scheme and change the vesting period of Employee Share Awards granted on or after 13 May 2010 from 5 years to 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted, as opposed to four equal tranches from the second to fifth year prior to the change.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the Board.

The fair value of the Awarded Shares at the date of the grant is charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based compensation reserve.

Upon vesting and transfer to the awardees, the related costs of the shares are credited to Shares held for Share Award Scheme, and the related fair value of the shares are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share capital (or share premium prior to the adoption of the new CO (note 39(a))) if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost. The related cost of dividend shares are credited to Shares held for Share Award Scheme with a corresponding decrease in retained earnings for dividend shares.

##### Details of the Awarded Shares awarded during 2013 and 2014

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
27 Mar 2013	2,200	139.86	1 Jan 2015 – 1 Jan 2016
27 Mar 2013	17,100	139.86	9 Jan 2015 – 9 Jan 2016
3 Dec 2014	4,530	178.54	15 Apr 2015 – 15 Apr 2016
3 Dec 2014	60,734	178.54	25 Apr 2015 – 25 Apr 2016
3 Dec 2014	66,972	178.54	1 May 2015 – 1 May 2016
3 Dec 2014	7,629	178.54	10 Jun 2015 – 10 Jun 2016
3 Dec 2014	6,245	178.54	1 Aug 2015 – 1 Aug 2016
3 Dec 2014	1,480	178.54	14 Oct 2015 – 14 Oct 2016
3 Dec 2014	782,610 <sup>1,2</sup>	178.54	9 Dec 2015 – 9 Dec 2016
3 Dec 2014	1,790	178.54	6 Jan 2016 – 6 Jan 2017
3 Dec 2014	4,782	178.54	20 Jan 2016 – 20 Jan 2017

<sup>1</sup> 48,681 shares were awarded to HKEx's Chief Executive on 3 December 2014.

<sup>2</sup> 92,469 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 3 December 2014.

**40. Employee Share-based Arrangements (continued)**

## (b) HKEx Share Award Scheme (continued)

## (i) Employee Share Awards (continued)

Details of the Awarded Shares awarded during 2013 and 2014 (continued)

Subsequent to 31 December 2014 on 2 January 2015, 1,386,492 shares were awarded to employees at average fair value of \$171.89 per share. Of these, 88,345 shares were awarded to HKEx's Chief Executive, and 98,608 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme. The vesting period of these Awarded Shares is from 15 December 2016 to 15 December 2017.

Details of the Awarded Shares vested during 2013 and 2014

During the year, 773,155 HKEx shares (2013: 1,001,807 shares) were vested at an aggregate fair value of \$97 million (2013: \$136 million), of which 70,526 shares (2013: 92,284 shares) were for HKEx's Chief Executive.

Dividend shares

During the year, 30,930 HKEx shares (2013: 56,956 shares) were issued to the Scheme in lieu of cash dividends at a total consideration of \$5 million (2013: \$8 million), of which 27,849 shares (2013: 54,816 shares) were subsequently allocated to awardees.

During the year, 52,106 dividend shares (2013: 77,674 shares), including 4,761 shares (2013: 6,932 shares) for HKEx's Chief Executive, at a cost of \$8 million (2013: \$10 million) were vested and transferred to the employees at nil consideration.

Movements in the number of Awarded Shares awarded and dividend shares

	<u>2014</u>	<u>2013</u>
	Number of Awarded Shares and dividend shares	Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	1,304,160	2,383,189
Awarded <sup>3</sup>	936,772	19,300
Forfeited	(91,204)	(70,712)
Vested	(773,155)	(1,001,807)
Dividend shares:		
– allocated to awardees	27,849	54,816
– allocated to awardees but subsequently forfeited	(4,226)	(2,952)
– vested	(52,106)	(77,674)
Outstanding at 31 Dec	<b>1,348,090</b>	1,304,160

<sup>3</sup> Average fair value per share was \$178.54 (2013: \$139.86)

#### 40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

Remaining vesting periods of the Awarded Shares awarded and dividend shares outstanding at 31 December

	At 31 Dec 2014		At 31 Dec 2013	
	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding	Remaining vesting period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2011	N/A	N/A	0.04 year to 0.95 year	420,656
2012	0.01 year to 0.92 years	384,027	0.01 year to 1.92 years	815,043
2013	0.00 year to 1.02 years	19,300	1.00 year to 2.02 years	19,300
2014	0.29 year to 2.05 years	924,085	N/A	N/A
Dividend shares	0.00 year to 1.02 years	20,678	0.01 year to 2.02 years	49,161
		1,348,090		1,304,160

Forfeited or unallocated shares held by the Scheme

At 31 December 2014, 116 forfeited or unallocated shares (31 December 2013: 92,469 shares) were held by the Scheme and would be regranted to eligible employees in future.

(ii) Senior Executive Awards

The actual number of shares to be transferred to the awardees under the Senior Executive Awards is conditional on the satisfaction of performance conditions set by the Board. These may relate to the performance of the senior executive concerned and/or the Group, the achievement or contribution by the senior executives of certain business or strategic development objectives or other initiatives, and be relative to the performance of other comparator group companies. The Board has full discretion to determine the actual amount of award to be paid at the end of a performance assessment period (which shall normally be a period of at least three financial years) in accordance with these criteria.

The vesting of Senior Executive Awards is not affected by the awardees ceasing employment with the Group before the end of the performance assessment period. Accordingly, in accordance with prevailing accounting standards, the Senior Executive Awards are considered to be vested immediately upon grant and the performance conditions are considered as non-vesting conditions.

The fair value of the Awarded Shares at the date of the grant, after taking into account all non-vesting conditions, is charged to staff costs and related expenses immediately on the grant date with a corresponding credit to employee share-based compensation reserve.

Upon transfer to the awardees, the related costs of the Awarded Shares finally transferred are credited to Shares held for Share Award Scheme, and the amount that had been previously credited to employee share-based compensation reserve upon grant of the Awarded Shares is reversed. The difference between these two amounts is credited to share capital (or share premium prior to the adoption of the new CO (note 39(a))) or debited against retained earnings. The related costs of the dividend shares are credited to Shares held for Share Award Scheme with a corresponding decrease in retained earnings for dividend shares.

#### 40. Employee Share-based Arrangements (continued)

##### (b) HKEx Share Award Scheme (continued)

##### (ii) Senior Executive Awards (continued)

Details of the Senior Executive Awards awarded during 2013 and 2014

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Total fair value \$m	Performance period
3 Dec 2014	23,733	133.91	3	2013 – 2015
3 Dec 2014	47,467	133.91	7	2014 – 2016

Subsequent to 31 December 2014 on 2 January 2015, 95,100 shares were awarded at average fair value of \$128.92 per share in relation to the performance period from 2015 to 2017.

The fair value is determined by taking into account various factors including the probability of the performance conditions being satisfied. The actual number of Awarded Shares to be transferred to the HKEx's Chief Executive is determined by the Board at the end of the performance assessment periods.

#### 41. Designated Reserves

Clearing House Funds reserves (note 34(b))

	Group					Total \$m
	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	OTC Clear Rates and FX Guarantee Resources reserve \$m	
At 1 Jan 2013	124	111	352	-	-	587
Surplus/(deficit) of net investment income net of expenses of Clearing House Funds transferred from/(to) retained earnings (note 43)	3	(4)	-	-	-	(1)
At 31 Dec 2013	127	107	352	-	-	586
At 1 Jan 2014	127	107	352	-	-	586
Surplus/(deficit) of net investment income net of expenses of Clearing House Funds transferred from/(to) retained earnings	3	(4)	1	2	1	3
Surplus of reversal of provision for closing-out losses by a defaulting Clearing Participant (note 12(a))	54	-	-	-	-	54
Transfer from/(to) retained earnings (note 43)	57	(4)	1	2	1	57
At 31 Dec 2014	184	103	353	2	1	643



## 42. Merger Reserve

	HKEx	
	2014 \$m	2013 \$m
At 1 Jan and 31 Dec	694	694

HKEx has taken advantage of the merger relief available under section 48C of the predecessor Hong Kong Companies Ordinance (Chapter 32) (now section 196 of the new CO) and treated the premium of \$2,997 million created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve.

As a result of the adjustment to the carrying value of the cost of investments of the subsidiaries in 2011 (note 38(a)(i)), \$2,303 million of the merger reserve became realised and hence distributable in accordance with Accounting Bulletin 4: Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance issued by the HKICPA and was transferred to retained earnings during the year ended 31 December 2011. As a result, the merger reserve amounted to \$694 million at 31 December 2014 (31 December 2013: \$694 million).

## 43. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
At 1 Jan	7,800	6,881	8,905	7,503
Profit attributable to shareholders (note (a))	5,165	4,552	3,655	5,169
Transfer (to)/from Clearing House Funds reserves (note 41)	(57)	1	–	–
Dividends:				
2013/2012 final dividend	(1,996)	(1,675)	(1,996)	(1,675)
2014/2013 interim dividend	(2,133)	(2,097)	(2,133)	(2,097)
Unclaimed HKEx dividends forfeited (note 32(b))	29	15	29	15
Vesting of shares of Share Award Scheme	(8)	(10)	(8)	(10)
Sale of interest in a subsidiary to non-controlling interests	–	133	–	–
At 31 Dec	8,800	7,800	8,452	8,905
Representing:				
Retained earnings	6,295	5,805	5,947	6,910
Proposed dividend	2,505	1,995	2,505	1,995
At 31 Dec	8,800	7,800	8,452	8,905

- (a) Profit attributable to shareholders included a profit of \$3,655 million (2013: \$5,169 million), and has been dealt with in the financial statements of HKEx, the holding company of the Group.

#### 44. Notes to the Consolidated Statement of Cash Flows

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

	2014 \$m	2013 \$m
Profit before taxation	6,038	5,246
Adjustments for:		
Net interest income	(588)	(399)
Dividend income	(8)	(8)
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	(109)	(185)
Forfeiture of unclaimed cash dividends held by HKSX	(15)	(11)
Finance costs	196	183
Amortisation of lease premium for land under premises expenses	–	1
Depreciation and amortisation	647	507
Employee share-based compensation benefits	137	119
(Reversal of provision for)/provision for impairment losses of receivables	(76)	1
Share of loss of a joint venture	10	10
Changes in provisions	13	4
Net increase in financial assets of Margin Funds	(89,695)	(2,999)
Net increase in financial liabilities of Margin Funds	89,691	3,007
Net increase in Clearing House Fund financial assets	(5,662)	(1,929)
Net increase in Clearing House Fund financial liabilities	5,605	1,930
Cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	–	(156)
Increase in cash prepayments for A shares	(619)	–
Net decrease/(increase) in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	8	(7)
(Increase)/decrease in accounts receivable, prepayments and deposits	(10,910)	2,765
Increase/(decrease) in other current liabilities	10,259	(2,859)
Net cash inflow from operations	4,922	5,220
Dividends received	8	8
Interest received from bank deposits	593	402
Interest received from financial assets measured at fair value through profit or loss	59	63
Interest paid to Participants	(6)	(4)
Income tax paid	(903)	(701)
Net cash inflow from operating activities	4,673	4,988

#### 45. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Contracted but not provided for:				
– fixed assets	17	19	16	2
– intangible assets	60	92	25	5
Authorised but not contracted for:				
– fixed assets	175	225	79	111
– intangible assets	322	542	27	83
	574	878	147	201

The Group's capital expenditure commitments were mainly related to the development and enhancement of information technology systems including a market surveillance system, a clearing system for over-the-counter derivatives, a Central Gateway for the Cash Market trading, trading and clearing systems for the Stock Connect and a corporate Enterprises Resource Planning system.

## 45. Commitments (continued)

- (b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Land and buildings				
– within one year	203	191	4	3
– in the second to fifth years	547	421	1	3
– after the fifth year	–	98	–	–
	750	710	5	6
Computer systems, software and equipment				
– within one year	16	16	14	14
– in the second to fifth years	35	46	34	46
	51	62	48	60
	801	772	53	66

At 31 December 2014 and 31 December 2013, the Group did not have any purchase options in respect of computer systems, software and equipment.

- (c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (FRC) is an independent statutory body established to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies. Since the establishment of the FRC in 2006, the Group has been contributing to the funding of the FRC's operations.

Under a memorandum of understanding signed in November 2014, the Group has agreed to make recurrent contributions to the FRC from 2015 to 2019. The first two contributions during 2015 to 2016 will be \$7 million per annum, and the contributions during 2017 to 2019 will be \$8 million per annum.

- (d) Commitments in respect of capital contributions to OTC Clear

To support its future development needs and product expansion plan, a subsidiary, OTC Clear, will raise additional capital in 2015 by issuing 1,680 new shares at \$210,000 per share (the Pre-emption Shares), comprising initially 1,260 ordinary shares to be issued to HKEx and 420 non-voting ordinary shares to be issued to external shareholders.

In October 2014, the HKEx Board approved the subscription of the 1,260 ordinary shares being its pro rata entitlement in OTC Clear at a consideration of \$265 million in the first quarter of 2015. It has also approved the take up of any Pre-emption Shares not subscribed by the external shareholders in the second quarter of 2015, at a maximum consideration of \$88 million.

## 46. Contingent Liabilities

At 31 December 2014, the Group and HKEx's material contingent liabilities were as follows:

(a) Group

- (i) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2013: \$71 million). Up to 31 December 2014, no calls had been made by the SFC in this connection.
- (ii) 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 (note 33(a)(i)). In the unlikely event that all of its 500 trading Participants covered by the indemnity at 31 December 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).

(iii) US litigation

Since August 2013, 26 class actions have been filed against the 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 3 complaints (the "first level" purchasers of primary aluminium complaints, the consumer end-users of aluminium complaints and the commercial end-users of aluminium complaints), with 2 complaints remaining unconsolidated. HKEx was named as a defendant only in the "first level" purchasers of primary aluminium complaints; LMEH was named as a defendant in all 3 of the consolidated complaints, and the LME was named in all 5 of the complaints.

At the end of August 2014, the US District Court for the Southern District of New York (US District Court) dismissed all 5 complaints brought against the LME on the ground of sovereign immunity. The US District Court also dismissed all the claims brought against HKEx and LMEH.

In September 2014, the plaintiffs of the dismissed consumer end-users and commercial end-users of aluminium complaints filed appeals before the US Court of Appeals for the Second Circuit. The appeals are currently stayed.

The plaintiffs in the dismissed "first level" purchasers of primary aluminium complaints moved for reconsideration of the US District Court's decision to dismiss the LME on sovereign immunity grounds. The court denied that motion in November 2014.

The plaintiffs of the "first level" purchasers of primary aluminium complaints also filed a motion for leave to amend their complaints in October 2014, again naming the LME, LMEH, and HKEx as defendants (the Amended First Level Purchasers Complaints). After filing their opposition motions and further replies against the amendment of the complaints in December 2014 and January 2015, HKEx and LMEH are waiting for the US District Court's decision on whether to permit the amendment.

On 3 March 2015, the US District Court issued a judgment dismissing the complaints against, inter alia, HKEx and LMEH on the basis that the court lacked personal jurisdiction over these defendants.

## 46. Contingent Liabilities (continued)

### (a) Group (continued)

#### (iii) US litigation (continued)

Since May 2014, 3 class actions have been filed against the LME, LMEH, and HKEx in the US alleging anti-competitive and monopolistic behaviour in the warehousing market in connection with zinc prices. On 22 September 2014, the US District Court ordered that all the zinc cases be stayed until after it has made a decision on the Amended First Level Purchasers Complaints.

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

As it is not yet clear how any appeals in the US proceedings will be dealt with, 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.

#### (iv) UK litigation

In December 2013, the LME was named as a defendant in a judicial review claim, filed by United Company RUSAL Plc (Rusal) in the English High Court, to challenge the LME's decision to introduce rule changes to the delivery out rates of LME approved warehouses. This case has now been resolved, all claims against the LME have been dismissed and Rusal was ordered to pay the LME's costs. A settlement of approximately \$15 million has been agreed and payment of this amount was made by Rusal to the LME on 11 February 2015. The settlement is recognised as a receivable in the consolidated statement of financial position and the amount offset against legal costs incurred.

### (b) HKEx

- (i) 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 (note 33(a)(ii)).
- (ii) The convertible bonds issued by HKEx International Limited are irrevocably and unconditionally guaranteed by HKEx (notes 33(a)(ii) and 35(b)).
- (iii) HKEx had issued guarantees to four banks (31 December 2013: three banks) in respect of banking facilities granted to three wholly-owned subsidiaries amounting to \$26,213 million (31 December 2013: \$8,000 million). At 31 December 2014 and 31 December 2013, the banking facilities had not been drawn down.
- (iv) HKEx had given an undertaking of £10.5 million (HK\$127 million) in favour of LME Clear for a period of six months commencing 22 September 2014, LME Clear's launch date (note 33(a)(ii)), to meet its regulatory capital requirements in the immediate post-launch period.

#### 47. Future Operating Lease Receipts

At 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Trading booths, media booths and related facilities		
– within one year	6	10
– in the second to fifth years	10	–
<b>Total</b>	<b>16</b>	<b>10</b>

#### 48. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

Certain Directors of HKEx may be directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants of HKSCC, HKCC and SEOCH (Clearing Participants); (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

(b) Material related party transactions

In addition to the above and those disclosed elsewhere in these consolidated financial statements, the Group or HKEx entered into the following material related party transactions:

(i) Transactions with subsidiaries

	HKEx	
	2014 \$m	2013 \$m
Dividend income	2,769	4,310
Management fees and equipment rental fees charged	999	818
Interest income (note 38(b))	804	780
Expenses recharged	1,371	1,246
Interest expenses (note 38(b))	63	62

(ii) Transactions with a joint venture

	Group		HKEx	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Management fee charged to CESC	3	3	3	3

## 48. Connected Transactions and Material Related Party Transactions (continued)

## (b) Material related party transactions (continued)

## (iii) Key management personnel compensation

	Group		HKEx	
	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Salaries and other short-term employee benefits	152	141	88	82
Employee share-based compensation benefits	47	43	37	35
Retirement benefit costs	9	9	5	5
	<b>208</b>	<b>193</b>	<b>130</b>	<b>122</b>

## (iv) Balances with related parties

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Amounts due from subsidiaries (note 38(b))	–	–	18,552	23,997
Amounts due to subsidiaries (note 38(b))	–	–	(3,568)	(8,771)
Amount due from a joint venture	3	3	3	3
Financial guarantee granted to HKSCC (maximum amount guaranteed) (note 46(b)(i))	–	–	50	50
Financial guarantee for convertible bonds issued by HKEx International Limited (maximum amount guaranteed with accrued interest up to 31 Dec) (note 46(b)(ii))	–	–	3,925	3,904
Financial guarantee granted to LME Clear (maximum amount guaranteed) (note 46(b)(iv))	–	–	127	–

The amount due from the joint venture is unsecured, interest-free and repayable on demand.

## (v) Post-retirement benefit plans

The Group has sponsored an ORSO Plan, a MPF Scheme and the LME Pension Scheme as its post-retirement benefit plans (note 10(a)).

The retirement benefit costs charged to the 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. At 31 December 2014, the contributions payable to the LME Pension Scheme by the Group were \$3 million (31 December 2013: \$3 million), and there were no contribution payable to the ORSO Plan and the MPF Scheme.

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



#### 49. Pledge of Assets

One of the Group's subsidiaries, LME Clear, receives debt securities as non-cash collateral for margins posted by its Clearing Participants. It also holds debt securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$10,251 million (HK\$79,495 million) at 31 December 2014 (31 December 2013: HK\$Nil).

This non-cash collateral, which was not recorded on the consolidated statement of financial position of the Group at 31 December 2014, together with certain short-term government bonds accounted for as cash and cash equivalents amounting to US\$590 million (HK\$4,575 million) (note 21) at 31 December 2014 (31 December 2013: HK\$Nil), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

#### 50. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To provide capital for the purpose of strengthening the Group's risk management capability; and
- To ensure that the Group's regulated entities comply with their respective regulatory capital requirements.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and shareholder returns. The Group takes into consideration the expected capital requirements and capital efficiency, regulatory capital requirements of its regulated entities, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

## 50. Capital Management (continued)

The Group has a number of regulated entities that are subject to capital requirements set by the respective regulators. The regulatory capital requirements of the Group's subsidiaries at 31 December 2014 are summarised as follows:

Subsidiaries	Regulatory authority	Regulatory capital requirements
HKSCC, HKCC, SEOCH, OTC Clear	SFC, Hong Kong	Maintain at all times net current assets funded by equity an amount sufficient to cover its projected total operating expenses for at least the following six months (approximately \$440 million), and net current assets funded by equity or long-term loans from HKEx sufficient to cover its projected total operating expenses for at least the following twelve months (approximately \$880 million). Compliance with these requirements will also meet the related regulatory requirements for a Recognised Clearing House under the Principles for Financial Market Infrastructures published by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions.
LME	Financial Conduct Authority, UK	Maintain at all times liquid financial assets amounting to at least six months' operating costs plus a risk based capital charge (approximately US\$54 million (HK\$419 million)), and net capital of at least this amount.
LME Clear	Bank of England, UK	Maintain cash or highly liquid financial instruments with minimal market and credit risk, amounting to US\$69.8 million (HK\$541 million), plus 10 per cent minimum reporting threshold of US\$7 million (HK\$54 million) and US\$17.5 million (HK\$136 million) financial resources available to set off losses in the event of default. Capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

The Group's Recognised Exchanges in Hong Kong (ie, Stock Exchange and Futures Exchange) are expected to comply with certain regulatory capital requirements which are designed to ensure that sufficient capital is maintained by the business to cover not less than six months' operating expenses. An additional amount over and above this minimum, currently equivalent to three months' operating expenses, has also been maintained. Together these amount to approximately \$1,380 million. At 31 December 2014, the final details of these regulatory capital requirements including the additional amount of capital over and above six months' operating expenditure that needs to be maintained within the business were still subject to finalisation with the SFC.

At 31 December 2014, the Group had set aside \$4,000 million (31 December 2013: \$4,000 million) of shareholders' funds for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

All regulated entities of the Group had adequate capital to meet their regulatory requirements at 31 December 2014 and 31 December 2013.

The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use.

## 50. Capital Management (continued)

The Group monitors capital on the basis of its gross gearing ratio (ie, gross debt divided by adjusted capital) and net gearing ratio (ie, net debt divided by adjusted capital). For this purpose, the Group defines gross debt as total borrowings, net debt as total borrowings less cash and cash equivalents of Corporate Funds, and adjusted capital as all components of equity attributable to shareholders of HKEx other than designated reserves. The Group's strategy is to maintain the ratios at less than 50 per cent.

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Total borrowings	7,026	6,921	3,100	3,096
Less: cash and cash equivalents of Corporate Funds (note 21)	(8,067)	(6,531)	(4,446)	(2,704)
Net debt (note (a))	–	390	–	392
Equity attributable to shareholders of HKEx	21,273	20,405	21,440	21,267
Less: designated reserves	(643)	(586)	–	–
Adjusted capital	20,630	19,819	21,440	21,267
Gross gearing ratio	34%	35%	14%	15%
Net gearing ratio	0%	2%	0%	2%

- (a) Net debt is zero when the amount of cash and cash equivalents of Corporate Funds is higher than total borrowings.

## 51. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

- (a) Market risk management

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its financial assets and financial liabilities (including borrowings).

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares received from Participants.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management by HKEx and the Group's subsidiaries in Hong Kong is governed by the HKEx Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly and at least once every three years. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit requirement, counterparty concentration, maturity, foreign exchange exposures and interest rate risks) of the investments.

## 51. Financial Risk Management (continued)

### (a) Market risk management (continued)

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Division is dedicated to the day-to-day management and investment of the funds. External fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US\$10 billion under management.

The LME Group's overall risk management programme is consistent with the Group and focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

### (i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the entity to which the transactions relate) will fluctuate because of changes in foreign exchange rates. 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 and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD securities and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the HKEx Investment Policy, Restrictions and Guidelines, the investment in non-HKD instruments is subject to the following restrictions:

- up to 20 per cent of the externally-managed Corporate Funds may be invested in non-HKD and non-USD investments without economic hedging;
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares, unhedged investments in currencies other than HKD or USD must fully match the respective liabilities or forecast payments for the funds. Unhedged investments in USD may not exceed 20 per cent of the respective funds. Holdings in Renminbi (RMB) are permitted if the currencies have been received in connection with the trading, clearing, settlement or services in respect of the Group's RMB products (including products traded through the Stock Connect).

The Group's non-HKD borrowings by the Hong Kong entities are denominated in USD, which is pegged against HKD, and are not therefore subject to significant foreign currency risks.

## 51. Financial Risk Management (continued)

- (a) Market risk management (continued)
  - (i) Foreign exchange risk management (continued)

The functional currencies of the LME and LME Clear were previously GBP as the primary economic environment in which the companies operate are in the UK. The LME Group was exposed to foreign exchange risk arising from operating activities and investments denominated in foreign currencies (mainly USD and EUR). Its risk management policy in the normal course of events was to convert non-GBP currencies into GBP as soon as deemed appropriate. However, some were held to hedge other GBP/USD exposures within the Group. Forward foreign exchange contracts were also used to hedge the currency exposure resulting from its USD revenue against GBP.

In 2014, as a result of the revised trading tariff announced by the LME where the majority of the LME income will be denominated in USD, the functional currency of the LME has changed from GBP to USD. LME Clear has also changed its functional currency from GBP to USD as, since its launch in September 2014, it has charged clearing fees in USD. After the change in functional currencies of the two entities, the LME Group is exposed to foreign currency risk arising from expenditure (predominantly in GBP) and investments and bank deposits denominated in foreign currencies (mainly GBP and EUR). Its risk management policy is to forecast and monitor the amount of future GBP payments and to retain some GBP bank deposits or convert from USD to GBP as soon as deemed appropriate. Forward foreign exchange contracts may also be used to hedge the currency exposure resulting from its USD revenue against GBP payments.

For LME Clear, investments of Margin Funds will generally take place in the currency in which cash was received.

The following table details the Group's and HKEx's financial assets and financial liabilities denominated in a currency other than the functional currency of the entity to which they relate and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (economic hedges)), at 31 December presented in HKD equivalents.

## 51. Financial Risk Management (continued)

## (a) Market risk management (continued)

## (i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2014		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1,2</sup>	EUR	710	(708)	2
	GBP	1,994	(1,385)	609
	JPY	2,927	(2,926)	1
	NZD	3	-	3
	RMB	3,247	(3,245)	2
	USD	1,404	(46)	1,358
Financial assets measured at fair value through profit or loss <sup>1,3,4</sup>	AUD	123	(94)	29
	CAD	28	(27)	1
	CHF	9	-	9
	EUR	742	(555)	187
	GBP	108	(105)	3
	JPY	560	(557)	3
	NZD	61	(54)	7
	RMB	156	(78)	78
	SGD	21	(13)	8
	USD	1,435	(205)	1,230
Financial assets measured at amortised cost	RMB	26	-	26
Accounts receivable and deposits <sup>2</sup>	GBP	45	-	45
	RMB	1,350	(1,350)	-
	USD	4	-	4
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants <sup>1</sup>	EUR	(708)	708	-
	GBP	(1,385)	1,385	-
	JPY	(2,926)	2,926	-
	RMB	(3,241)	3,241	-
	USD	(46)	46	-
Financial liabilities at fair value through profit or loss <sup>4</sup>	EUR	(479)	479	-
	GBP	(35)	35	-
	JPY	(547)	547	-
Accounts payable, accruals and other liabilities <sup>2</sup>	EUR	(1)	-	(1)
	GBP	(236)	-	(236)
	RMB	(1,366)	1,354	(12)
	USD	(169)	-	(169)
Borrowings	USD	(3,100)	-	(3,100)
<b>Total net open positions for the Group</b>	AUD			29
	CAD			1
	CHF			9
	EUR			188
	GBP			421
	JPY			4
	NZD			10
	RMB			94
	SGD			8
	USD			677
				<b>1,441</b>

<sup>1</sup> Foreign currency margin deposits and Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

<sup>2</sup> RMB exposure of Continuous Net Settlement receivable and cash prepayments for A shares fully offset the Continuous Net Settlement payable.

<sup>3</sup> Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

<sup>4</sup> Foreign currency exposures of base metals futures and options contracts under financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss fully offset each other.

## 51. Financial Risk Management (continued)

## (a) Market risk management (continued)

## (i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2013		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1</sup>	AUD	15	(8)	7
	CAD	1	–	1
	EUR	1,024	(1,024)	–
	GBP	51	(28)	23
	JPY	83	(74)	9
	NZD	8	–	8
	RMB	347	(334)	13
	SGD	7	–	7
	USD	1,930	(1,629)	301
Financial assets measured at fair value through profit or loss <sup>1,2</sup>	AUD	136	(136)	–
	CAD	49	(15)	34
	CHF	5	–	5
	EUR	246	(73)	173
	GBP	64	(64)	–
	JPY	32	(13)	19
	NZD	44	(36)	8
	RMB	217	(114)	103
	SGD	17	(14)	3
	USD	1,602	(182)	1,420
Financial assets measured at amortised cost	RMB	1	–	1
Accounts receivable and deposits	AUD	5	–	5
	RMB	58	–	58
	USD	104	–	104
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants <sup>1</sup>	EUR	(1,024)	1,024	–
	JPY	(74)	74	–
	RMB	(334)	334	–
	USD	(1,629)	1,629	–
Accounts payable, accruals and other liabilities	GBP	(1)	–	(1)
	RMB	(63)	–	(63)
	USD	(137)	–	(137)
Borrowings	USD	(3,096)	–	(3,096)
<b>Total net open positions for the Group</b>	AUD			12
	CAD			35
	CHF			5
	EUR			173
	GBP			22
	JPY			28
	NZD			16
	RMB			112
	SGD			10
	USD			1,408
				<u>1,821</u>

<sup>1</sup> Foreign currency margin deposits, Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

<sup>2</sup> Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.



## 51. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (i) Foreign exchange risk management (continued)

	Foreign currency	HKEx	
		At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
<b>Financial assets/(financial liabilities)</b>			
Cash and cash equivalents	GBP	133	–
	RMB	3	3
	USD	186	142
Financial assets measured at amortised cost	RMB	1	1
Accounts receivable and deposits	USD	1	1
Amounts due from subsidiaries	USD	16,141	15,638
Accounts payable and other liabilities	GBP	–	(1)
	RMB	(5)	(4)
	USD	(15)	(27)
Amounts due to subsidiaries	GBP	(133)	–
	USD	(3,385)	(3,341)
Borrowings	USD	(3,100)	(3,096)
<b>Total net open positions for HKEx</b>	GBP	–	1
	RMB	1	–
	USD	9,828	9,317
		<b>9,829</b>	<b>9,318</b>

#### (ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity index futures and options contracts may be held as part of the externally-managed Corporate Funds' investments in Hong Kong. Equity price risk is capped by an asset allocation limit. The Group sets prudent investment limits and restrictions to control investment in equity securities. The Group is also exposed to equity price risk on the LME's investment in an unlisted company.

The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy. The movements of fair value of base metals futures and options contracts held by LME Clear would not have any financial impact on the Group's results as the assets and liabilities will move by the same amount and fully offset each other.

#### (iii) Interest rate risk management

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## 51. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (iii) Interest rate risk management (continued)

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities (including borrowings) which are interest-bearing. The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

The contractual interest rates of the Group's and HKEx's borrowings and HKEx's loans from/to subsidiaries are disclosed in notes 35 and 38 to the consolidated financial statements respectively.

The following tables present the highest and lowest contractual interest rates of the financial assets held by the Group and HKEx (excluding loans from/to subsidiaries, bank deposits held at savings and current accounts and zero coupon bonds purchased at discounts) at 31 December:

#### Fixed rate financial assets

	Group		HKEx	
	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
Highest contractual interest rates	7.00%	8.00%	2.20%	2.20%
Lowest contractual interest rates	0.01%	0.01%	0.23%	0.20%

#### Floating rate financial assets

	Group		HKEx	
	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
Highest contractual interest rates	3.94%	4.07%	–	–
Lowest contractual interest rates	0.43%	0.44%	–	–

#### (iv) Risk management techniques

Value-at-Risk (VaR) based on historical simulation and portfolio stress testing are used to identify, measure, monitor and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group, as well as individual limit for each fund under management (Clearing House Funds, Margin Funds and Corporate Funds).

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

## 51. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (iv) Risk management techniques (continued)

The VaR for each risk factor and the total VaR of the investments and related economic hedges of the Group and HKEx at 31 December were as follows:

	Group		HKEx	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Foreign exchange risk	3	3	8	6
Equity price risk	8	10	–	–
Interest rate risk	8	11	7	8
Total VaR	11	14	13	9

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

### (b) Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Group in Hong Kong is invested by the Treasury team, and the investments of the Group are kept sufficiently liquid to meet the operating needs, regulatory requirements of the regulated entities in Hong Kong, and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day for the Clearing House Funds and Margin Funds.

The LME Group also employs prudent liquidity risk management which involves maintaining sufficient cash to meet ongoing operational commitments and its adherence to the regulatory requirements of the two regulated entities. As a recognised clearing house, LME Clear has to comply with stringent liquidity requirements set by the European Market Infrastructure Regulation. Surplus cash is invested in high quality short term investments that are classified as cash and cash equivalents and such investments are kept sufficiently liquid to meet operating needs and possible liquidity requirements of the LME Clear's Margin Fund and Default Fund.

## 51. Financial Risk Management (continued)

### (b) Liquidity risk management (continued)

The tables below analyse the Group's and HKEx's financial assets into the relevant maturity buckets based on the following criteria:

- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments, bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket; and
- other financial assets are allocated based on their contractual maturity dates or the expected dates of disposal.

	Group					
	At 31 Dec 2014					
	Up to 1 month <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Cash and cash equivalents	136,778	–	–	–	–	136,778
Financial assets measured at fair value through profit or loss <sup>2</sup>	2,851	–	156	–	–	3,007
Financial assets measured at amortised cost	10,199	–	–	57	–	10,256
Accounts receivable and deposits <sup>3</sup>	22,369	50	4	–	–	22,423
<b>Total</b>	<b>172,197</b>	<b>50</b>	<b>160</b>	<b>57</b>	<b>–</b>	<b>172,464</b>

	Group					
	At 31 Dec 2013					
	Up to 1 month <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Cash and cash equivalents	41,452	–	–	–	–	41,452
Financial assets measured at fair value through profit or loss <sup>2</sup>	3,761	–	–	141	–	3,902
Financial assets measured at amortised cost	8,986	–	18	19	23	9,046
Accounts receivable and deposits <sup>3</sup>	10,830	37	–	–	–	10,867
<b>Total</b>	<b>65,029</b>	<b>37</b>	<b>18</b>	<b>160</b>	<b>23</b>	<b>65,267</b>

<sup>1</sup> Amounts included \$895 million (31 December 2013: \$898 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

<sup>2</sup> Amounts excluded fair value of base metals futures and options contracts of \$59,679 million (31 December 2013: \$Nil), which cannot be realised to meet cash outflows.

<sup>3</sup> Amounts excluded prepayments of \$100 million (31 December 2013: \$79 million).

## 51. Financial Risk Management (continued)

## (b) Liquidity risk management (continued)

	HKEx				
	At 31 Dec 2014				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	4,446	–	–	–	4,446
Financial assets measured at amortised cost	–	–	–	1	1
Accounts receivable and deposits <sup>4</sup>	9	–	–	–	9
Amounts due from subsidiaries	2,510	–	6	16,036	18,552
<b>Total</b>	<b>6,965</b>	<b>–</b>	<b>6</b>	<b>16,037</b>	<b>23,008</b>

	HKEx				
	At 31 Dec 2013				
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	Total \$m
Cash and cash equivalents	2,704	–	–	–	2,704
Financial assets measured at amortised cost	1,338	–	–	1	1,339
Accounts receivable and deposits <sup>4</sup>	12	–	–	–	12
Amounts due from subsidiaries	8,488	–	6	15,503	23,997
<b>Total</b>	<b>12,542</b>	<b>–</b>	<b>6</b>	<b>15,504</b>	<b>28,052</b>

<sup>4</sup> Amounts excluded prepayments of \$25 million (31 December 2013: \$24 million).

Apart from the borrowings drawn to fund the acquisition of the LME Group (note 35), banking facilities have been put in place for contingency purposes. At 31 December 2014, the Group's total available banking facilities for its daily operations amounted to \$17,012 million (31 December 2013: \$15,012 million), which included \$10,000 million (31 December 2013: \$8,000 million) of committed banking facilities that provide for borrowings in HKD and/or RMB, and \$7,000 million (31 December 2013: \$7,000 million) of repurchase facilities.

The Group also put in place foreign exchange facilities for the RMB Equity Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2014, the amount of such facilities was RMB17,000 million (HK\$21,202 million) (31 December 2013: RMB17,000 million (HK\$21,755 million)).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (HK\$16,213 million) for settling payment obligations to ChinaClear at times when there are events that disrupt normal settlement arrangements, e.g. natural disasters or extreme weather conditions in Hong Kong.

The table below analyses the Group's and HKEx's financial liabilities (excluding forward foreign exchange contracts and outstanding base metals futures and options contracts cleared through LME Clear) at 31 December into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

## 51. Financial Risk Management (continued)

## (b) Liquidity risk management (continued)

	Group					
	At 31 Dec 2014					
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	129,484	-	-	-	-	129,484
Accounts payable, accruals and other liabilities <sup>5</sup>	22,722	7	104	-	-	22,833
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	4	-	60	-	-	64
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(a)(ii))	100	-	-	-	-	100
Participants' contributions to Clearing House Funds	8,597	783	46	-	-	9,426
Borrowings:						
Bank borrowings	2	4	16	87	1,612	1,721
Convertible bonds	-	-	19	4,015	-	4,034
Notes	11	-	31	1,648	-	1,690
Written put options to non-controlling interests	-	-	-	252	-	252
<b>Total</b>	<b>160,920</b>	<b>794</b>	<b>276</b>	<b>6,002</b>	<b>1,612</b>	<b>169,604</b>
	Group					
	At 31 Dec 2013					
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	39,793	-	-	-	-	39,793
Accounts payable, accruals and other liabilities <sup>5</sup>	12,701	6	106	-	-	12,813
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	1	-	-	-	-	1
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(a)(ii))	101	-	-	-	-	101
Participants' contributions to Clearing House Funds	3,392	446	46	-	-	3,884
Borrowings:						
Bank borrowings	4	9	38	204	2,455	2,710
Convertible bonds	-	-	19	4,034	-	4,053
Notes	-	-	21	859	-	880
Written put options to non-controlling interests	-	-	-	252	-	252
<b>Total</b>	<b>55,992</b>	<b>461</b>	<b>230</b>	<b>5,349</b>	<b>2,455</b>	<b>64,487</b>

<sup>5</sup> Amounts excluded non-financial liabilities of \$16 million (31 December 2013: \$21 million).

## 51. Financial Risk Management (continued)

## (b) Liquidity risk management (continued)

	HKEx					
	At 31 Dec 2014					
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Financial liabilities at fair value through profit or loss:						
Written put options to non-controlling interests	-	-	-	252	-	252
Accounts payable, accruals and other liabilities	271	3	3	-	-	277
Amounts due to subsidiaries	183	-	20	3,549	-	3,752
Other financial liabilities:						
Other financial liabilities of Corporate Funds:						
Financial guarantee granted to HKSCC (maximum amount guaranteed) (note 46(b)(i))	50	-	-	-	-	50
Financial guarantee for convertible bonds issued by HKEx International Limited (maximum amount guaranteed with accrued interest up to 31 Dec) (note 46(b)(ii))	3,925	-	-	-	-	3,925
Financial guarantee granted to LME Clear (maximum amount guaranteed) (note 46(b)(iv))	127	-	-	-	-	127
Borrowings:						
Bank borrowings	2	4	16	87	1,612	1,721
Notes	11	-	31	1,648	-	1,690
<b>Total</b>	<b>4,569</b>	<b>7</b>	<b>70</b>	<b>5,536</b>	<b>1,612</b>	<b>11,794</b>
	HKEx					
	At 31 Dec 2013					
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Financial liabilities at fair value through profit or loss:						
Written put options to non-controlling interests	-	-	-	252	-	252
Accounts payable, accruals and other liabilities	309	2	4	-	-	315
Amounts due to subsidiaries	5,430	-	19	3,571	-	9,020
Other financial liabilities:						
Other financial liabilities of Corporate Funds:						
Financial guarantee granted to HKSCC (maximum amount guaranteed) (note 46(b)(i))	50	-	-	-	-	50
Financial guarantee for convertible bonds issued by HKEx International Limited (maximum amount guaranteed with accrued interest up to 31 Dec) (note 46(b)(ii))	3,904	-	-	-	-	3,904
Borrowings:						
Bank borrowings	4	9	38	204	2,455	2,710
Notes	-	-	21	859	-	880
<b>Total</b>	<b>9,697</b>	<b>11</b>	<b>82</b>	<b>4,886</b>	<b>2,455</b>	<b>17,131</b>

At 31 December 2014, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$1,042 million (31 December 2013: \$1,120 million). The table below analyses the Group's outstanding forward foreign exchange contracts at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.



**51. Financial Risk Management (continued)**

## (b) Liquidity risk management (continued)

	Group					
	At 31 Dec 2014			At 31 Dec 2013		
	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m
Forward foreign exchange contracts						
– outflows	870	159	1,029	935	178	1,113
– inflows	878	164	1,042	939	181	1,120

## (c) Credit risk management

## (i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers and debtors) and by diversification. At 31 December 2014, the investment in debt securities for Margin Funds, and Corporate Funds held by the Hong Kong entities were of investment grade and had a weighted average credit rating of A1 (Moody) (31 December 2013: Aa3 (Moody)). Deposits in Hong Kong are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty (except certain Hong Kong note-issuing banks). The LME Group's cash, deposit and cash equivalents balances are held only with investment grade licensed banks, and the LME Group's only significant concentration risk is with the banks. Certain cash equivalents are invested in reverse repurchase investments where collateral is held against the default of such investments. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

In the normal course of business, the clearing houses of the Group, HKSCC, SEIOCH, HKCC, OTC Clear and LME Clear, act as the counterparties to eligible trades concluded on the Stock Exchange, the Futures Exchange, the over-the-counter market and the LME through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the over-the-counter market, the Cash Market, the Derivatives Market and the Commodities Market. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these consolidated financial statements.

## 51. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (ii) Clearing and settlement-related risk management

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins, Mainland security and settlement deposits, and cash collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH, HKCC, OTC Clear and LME Clear. Under the CCASS Rules, HKSCC has collected additional cash collateral from its Clearing Participants to increase the level of protection not just for HKSCC but also for the HKSCC Guarantee Fund from the risk of material loss in the event of a sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. At 31 December 2013, bank guarantees of \$1,352 million were accepted to extend Participants' position limits. With effect from 1 September 2014, bank guarantees were no longer accepted for such purpose.

Under the HKSCC Margining and Guarantee Fund arrangements, each HKSCC Clearing Participant is allowed by HKSCC a Margin Credit of \$5 million and a Dynamic Contribution Credit of \$1 million. If a Clearing Participant defaults and any loss arises, HKSCC will absorb the default loss up to the Margin Credit and Dynamic Contribution Credit utilised by the defaulting Clearing Participant, after deducting its collateral and Guarantee Fund contribution kept by HKSCC. After the initial losses, HKSCC is required to absorb further losses after the HKSCC Guarantee Fund reserve and the Guarantee Fund contribution (excluding the Dynamic Contribution portion) of non-defaulting Clearing Participants are depleted. The amount of losses borne by HKSCC will be calculated on a pro rata basis with reference to the non-defaulting Clearing Participants' Dynamic Contributions and Dynamic Contribution Credits granted by HKSCC. At 31 December 2014, HKSCC has 491 Clearing Participants (31 December 2013: 494) and the total amounts of Margin Credit and Dynamic Contribution Credit granted to Clearing Participants amounted to \$872 million (31 December 2013: \$770 million).

Under the HKCC Contingent Advance Capital arrangement, HKCC shares 50 per cent of the daily Participants' Additional Deposits collectible from Clearing Participants. In case of default, the HKCC Contingent Advance Capital would be utilised only after utilisation of the defaulting Clearing Participants' margin and all available resources of the HKCC Reserve Fund (including but not limited to the defaulting Clearing Participants' Reserve Fund contributions, HKCC Reserve Fund reserve and the non-defaulting Clearing Participants' Reserve Fund contribution) as temporary funding. The non-defaulting Clearing Participants will be responsible for sharing the loss of the defaulting participant and replenishing the HKCC Contingent Advance Capital after utilisation.

The HKSCC Margin Credit, Dynamic Contribution Credit and the HKCC Contingent Advance Capital arrangement are supported by the \$4 billion of shareholders' funds set aside by the HKEx Group for risk management purpose.

## 51. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Group and HKEx were equal to their carrying amounts. The maximum exposure to credit risk of the financial guarantee contracts held by the Group and HKEx was as follows:

	Group			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m
<b>Financial guarantee contract</b> Undertaking to indemnify the Collector of Stamp Revenue (note 46(a)(ii))	(20)	100	(20)	101
	HKEx			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in statement of financial position \$m	Maximum exposure to credit risk \$m
<b>Financial guarantee contracts</b>				
Financial guarantee granted to HKSCC (note 46(b)(i))	(11)	50	(11)	50
Financial guarantee granted to HKEx International Limited (note 46(b)(ii))	(112)	3,925	(151)	3,904
Financial guarantee granted to LME Clear (note 46(b)(iv))	–	127	–	–

#### (iv) Collateral held for mitigating credit risk

Certain securities, cash deposits and non-cash collateral are being held by the Group to mitigate the Group's exposure to credit risk. The financial effect of the collateral, which is capped by the amount receivable from each counterparty, was as follows:

	Group			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m
Accounts receivable and deposits	22,423	7,142	10,867	2,960
Fair value of base metals futures and options contracts cleared through LME Clear	59,679	59,679	–	–
Reverse purchase investments	71,262	71,262	–	–

No collateral was held by HKEx to mitigate its exposure to credit risk.

## 51. Financial Risk Management (continued)

### (c) Credit risk management (continued)

#### (v) Financial assets that were past due but not impaired

At 31 December, the age analysis of the financial assets (which mainly relate to receivables from Participants and listed companies) of the Group that were past due but determined to be not impaired according to the period past due was as follows:

	Group	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Up to six months	395	340
Over 3 years <sup>1</sup>	23	–
	<b>418</b>	340

<sup>1</sup> Subsequently settled in January 2015

No financial assets of HKEx were past due at 31 December 2014 and 31 December 2013.

#### (vi) Financial assets that were impaired at the end of the reporting period

At 31 December 2014, receivables of the Group amounting to \$82 million (31 December 2013: \$158 million) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(t)(vi).

No financial assets of HKEx were impaired at 31 December 2014 and 31 December 2013.

#### (vii) Outstanding balances from debtors which were not recognised as income

As soon as a receivable becomes impaired, the Group may continue to allow the debtors concerned to participate in its markets but no further accounts receivable will be recognised in the consolidated statement of financial position as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when cash is received. At 31 December 2014, the amount of doubtful deferred revenue amounted to \$120 million (31 December 2013: \$105 million).

At 31 December 2014 and 31 December 2013, HKEx did not have any doubtful deferred revenue.

## 51. Financial Risk Management (continued)

### (d) Fair values of financial assets and financial liabilities

#### (i) Financial assets and financial liabilities carried at fair value

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

The following tables present the carrying value of financial assets and financial liabilities measured at fair value at 31 December according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

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

	Group			HKEx	
	At 31 Dec 2014			At 31 Dec 2014	
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 3 \$m
<b>Recurring fair value measurements:</b>					
<b>Financial assets</b>					
Financial assets measured at fair value through profit or loss:					
- equity securities	243	-	156	399	-
- debt securities	-	2,594	-	2,594	-
- forward foreign exchange contracts	-	14	-	14	-
- base metals futures and options contracts cleared through LME Clear	-	59,679	-	59,679	-
	243	62,287	156	62,686	-
<b>Recurring fair value measurements:</b>					
<b>Financial liabilities</b>					
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss:					
- forward foreign exchange contracts	-	1	-	1	-
- base metals futures and options contracts cleared through LME Clear	-	59,679	-	59,679	-
- written put options to non-controlling interests	-	-	-	-	150
	-	59,680	-	59,680	150

## 51. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

	Group				HKEx
	At 31 Dec 2013				At 31 Dec 2013
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 3 \$m
<b>Recurring fair value measurements:</b>					
<b>Financial assets</b>					
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	-
<b>Recurring fair value measurements:</b>					
<b>Financial liabilities</b>					
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss:					
- forward foreign exchange contracts	-	6	-	6	-
- written put options to non-controlling interests	-	-	-	-	125
	-	6	-	6	125

During 2014 and 2013, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities, forward foreign exchange contracts and base metals futures and options contracts have been determined based on quotes from market makers or alternative pricing sources supported by observable inputs. The most significant input are market interest rates and market prices of metals.

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

Fair value measurements using significant unobservable inputs (Level 3)

	Group	
	Investment in an unlisted company	
	2014 \$m	2013 \$m
At 1 Jan	141	292
Gains recognised in profit or loss, under net investment income	23	106
Disposals	-	(247)
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	(8)	(10)
At 31 Dec	156	141
Change in unrealised gains for the year included in profit or loss for assets held at 31 Dec, under net investment income	23	4

## 51. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

## Fair value measurements using significant unobservable inputs (Level 3) (continued)

	HKEx	
	Written put options to non-controlling interests	
	2014 \$m	2013 \$m
At 1 Jan	(125)	–
Issue of written put options	–	(133)
(Losses)/gains recognised in HKEx's profit or loss	(25)	8
At 31 Dec	(150)	(125)
Change in unrealised (losses)/gains for the year included in HKEx's profit or loss for liabilities held at 31 Dec (but eliminated on consolidation)	(25)	8

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

As the unlisted investment held by a subsidiary is not traded in an active market, its fair value was 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. The sensitivity of fair value to the possible reasonable changes in unobservable inputs was as follows:

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Possible reasonable change	
					At 31 Dec 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%	+28/-20	+25/-19
Fair value at 31 Dec 2014 was \$156 million (31 Dec 2013: \$141 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-20/+26	-18/+23
	Discount for value attributable to a minority stake	5% to 15%	The higher the discount, the lower the fair value.	+/-3%	-5/+5	-4/+4

The fair value of the put option has been determined by using the Binomial Option Pricing Model. Major inputs to the model include the valuation of the shares which was determined using discounted cash flow valuation techniques, expected volatility and risk free rate. The sensitivity of fair value to the possible reasonable changes in unobservable inputs was as follows:

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					At 31 Dec 2014	At 31 Dec 2013
					\$m	\$m
Written put options to non-controlling interests	Valuation of shares	\$120m to \$180m	The higher the valuation of shares, the lower the option value;	+/- \$10m	-5/+5	-3/+3
Fair value at 31 Dec 2014 was \$150 million (31 Dec 2013: \$125 million)	Expected volatility	30% to 40%	The higher the volatility, the higher the option value;	+/-5%	+8/-8	+11/-12
	Risk free rate	2% to 4%	The higher the risk free rate, the lower the option value.	+/-0.5%	-5/+8	-7/+9



## 51. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

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

Summarised in the following tables are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's statements 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 and financial guarantee maturing within one year) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in consolidated statement of financial position \$m	Fair value \$m	Carrying amount in consolidated statement of financial position \$m	Fair value \$m
<b>Assets</b>				
Financial assets measured at amortised cost:				
– debt securities <sup>1</sup>	–	–	70	70
– other financial assets maturing over one year <sup>2</sup>	57	51	60	57
<b>Liabilities</b>				
Borrowings:				
– Liability component of convertible bonds <sup>3</sup>	3,701	3,812	3,607	3,639
– Notes <sup>3</sup>	1,515	1,521	770	770
– Written put options to non-controlling interests <sup>3</sup>	225	227	218	219
Financial guarantee to the Collector of Stamp Revenue <sup>4</sup>	20	67	20	55
	HKEx			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in statement of financial position \$m	Fair value \$m	Carrying amount in statement of financial position \$m	Fair value \$m
<b>Assets</b>				
Financial assets measured at amortised cost:				
– other financial assets maturing over one year <sup>2</sup>	1	1	1	1
Amounts due from subsidiaries under non-current assets <sup>3</sup>	16,036	16,308	15,503	15,854
<b>Liabilities</b>				
Amounts due to a subsidiary under non-current liabilities <sup>3</sup>	3,385	3,376	3,341	3,225
Borrowings:				
– Notes <sup>3</sup>	1,515	1,521	770	770
Financial guarantee in favour of HKSCC <sup>4</sup>	11	34	11	27
Financial guarantee for convertible bonds issued by HKEx International Limited <sup>5</sup>	112	115	151	154

## 51. Financial Risk Management (continued)

### (d) Fair values of financial assets and financial liabilities (continued)

#### (ii) Fair values of financial assets and financial liabilities not reported at fair values (continued)

- <sup>1</sup> The fair values are determined based on quotes from market makers or alternative pricing sources supported by observable inputs.
- <sup>2</sup> The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 0.83 per cent to 2.78 per cent at 31 December 2014 (31 December 2013: 0.80 per cent to 3.20 per cent).
- <sup>3</sup> The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 2.05 per cent to 4.61 per cent at 31 December 2014 (31 December 2013: 2.90 per cent to 4.60 per cent).
- <sup>4</sup> The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 1.85 per cent at 31 December 2014 (31 December 2013: 2.29 per cent).
- <sup>5</sup> The fair value is based on the total fees charged by financial institutions for guaranteeing the debts discounted using a five-year United States Government bond rate. The discount rate used was 1.65 per cent at 31 December 2014 (31 December 2013: 1.74 per cent).

### (e) Offsetting financial assets and financial liabilities

At 31 December 2014 and 31 December 2013, no financial assets and financial liabilities of HKEx were offset in HKEx's statement of financial position.

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

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

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

LME Clear has a legally enforceable right to set off open positions of contracts within an individual member's account for those securities settling on the same date and it intends to settle on a net basis.

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

## 51. Financial Risk Management (continued)

## (e) Offsetting financial assets and financial liabilities (continued)

## (i) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial assets	Group					
	At 31 Dec 2014					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
			Financial liabilities other than cash collateral \$m	Cash collateral received \$m		
CNS money obligations receivable	203,283	(182,873)	20,410	(6,906)	(4,462)	9,042
Base metals futures and options contracts cleared through LME Clear	1,219,663	(1,159,984)	59,679	(42,782)	(16,897)	-
Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,004	-	1,004	-	(98)	906
<b>Total</b>	<b>1,423,950</b>	<b>(1,342,857)</b>	<b>81,093</b>	<b>(49,688)</b>	<b>(21,457)</b>	<b>9,948</b>

Type of financial assets	Group					
	At 31 Dec 2013					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
			Financial liabilities other than cash collateral \$m	Cash collateral received \$m		
CNS money obligations receivable	117,263	(107,396)	9,867	(1,974)	(2,091)	5,802
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	282	-	282	-	(82)	200
<b>Total</b>	<b>117,545</b>	<b>(107,396)</b>	<b>10,149</b>	<b>(1,974)</b>	<b>(2,173)</b>	<b>6,002</b>

## 51. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities (continued)

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

Type of financial liabilities	Group					
	At 31 Dec 2014					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the consolidated statement of financial position \$m	Net amount of financial liabilities presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
			Financial assets other than cash collateral	Cash collateral pledged		
CNS money obligations payable	203,902	(182,873)	21,029	(6,906)	-	14,123
Base metals futures and options contracts cleared through LME Clear	1,219,663	(1,159,984)	59,679	(42,782)	-	16,897
Total	1,423,565	(1,342,857)	80,708	(49,688)	-	31,020

Type of financial liabilities	Group					
	At 31 Dec 2013					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the consolidated statement of financial position \$m	Net amount of financial liabilities presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
			Financial assets other than cash collateral	Cash collateral pledged		
CNS money obligations payable	117,263	(107,396)	9,867	(1,974)	-	7,893

## 51. Financial Risk Management (continued)

## (e) Offsetting financial assets and financial liabilities (continued)

(iii) The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the “accounts receivables, prepayments and deposits”, “accounts payable, accruals and other liabilities”, “financial assets measured at fair value through profit or loss” and “financial liabilities at fair value through profit or loss” presented in the consolidated statement of financial position.

	Group			
	Accounts receivables, prepayments and deposits		Financial assets measured at fair value through profit or loss	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Net amount of financial assets after offsetting as stated above:				
– CNS money obligations receivable	20,410	9,867	–	–
– Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,004	282	–	–
– Base metals futures and options contracts cleared through LME Clear	–	–	59,679	–
Financial assets not in scope of offsetting disclosures	1,009	718	3,007	3,902
Prepayments	100	79	–	–
Amounts presented in the consolidated statement of financial position	22,523	10,946	62,686	3,902

	Group			
	Accounts payable, accruals and other liabilities		Financial liabilities at fair value through profit or loss	
	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m	At 31 Dec 2014 \$m	At 31 Dec 2013 \$m
Net amount of financial liabilities after offsetting as stated above:				
– CNS money obligations payable	21,029	9,867	–	–
– Base metals futures and options contracts cleared through LME Clear	–	–	59,679	–
Financial liabilities not in scope of offsetting disclosures	1,804	2,946	1	6
Non-financial liabilities	16	21	–	–
Amounts presented in the consolidated statement of financial position	22,849	12,834	59,680	6

Except for the base metals futures and options contracts which are measured at fair value, the remaining gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured at amortised cost. The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

# GLOSSARY

2014 AGM	AGM held on 16 April 2014 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2015 AGM	AGM to be held on 29 April 2015
ADT	Average daily turnover value
AGM(s)	HKEx's annual general meeting(s)
AHFT	After-Hours Futures Trading
AMS	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
CAS	Closing Auction Session
Cash Market	HKEx's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	Central Clearing and Settlement System
CCP(s)	Central counterparty(ies)
CES 120	CES China 120 Index
CES 280	CES China 280 Index
CESC	China Exchanges Services Company Limited
CES SCHK100	CES Stock Connect Hong Kong Select 100 Index
CES SHSC300	CES Shanghai-Hong Kong Stock Connect 300 Index
CFTC	Commodity Futures Trading Commission
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	RMB traded in Hong Kong
CNS	Continuous Net Settlement
Corporate Governance Code and Corporate Governance Report	Refer to Appendix 14 to the Main Board Listing Rules
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
DWs	Derivative warrants
Elected Directors	Directors elected by the Shareholders at general meetings
EMIR	European Market Infrastructure Regulation
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ETF(s)	Exchange Traded Fund(s)
EU	European Union
EUR	The official currency of the Eurozone
FATCA	Foreign Account Tax Compliance Act
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
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
HKEx's Articles	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
H-shares Index	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s) of HKEx
IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
ISO	International Organization for Standardization
IT	Information Technology
IVs	Information Vendors
JP	Justice of the Peace
LBSA	Lehman Brothers Securities Asia Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and GEM Listing Rules
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	LMEH, the LME and LME Clear
LMEH	LME Holdings Limited
LMEselect	The electronic platform for the trading of all LME contracts
London Metal Mini Futures	London Aluminium Mini Futures, London Zinc Mini Futures and London Copper Mini Futures
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MMDH	Mainland Market Data Hub
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOI	Market open interest
MOU	Memorandum of Understanding
MWS	Multi-workstation System
NASAAC	LME North American Special Aluminium Alloy Contract
NSTD	New Securities Trading Device
OCG	HKEx Orion Central Gateway
OMD	HKEx Orion Market Data Platform
OMD-D	OMD for the Derivatives Market
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
OTP-C	Orion Trading Platform – Cash
PFMI	“Principles for financial market infrastructures” published by the Committee on Payment and Settlement Systems (now known as the Committee on Payments and Market Infrastructures) and the International Organization of Securities Commissions
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
PRC	People's Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
RMB	Renminbi
ROM	HKEx's Register of Members



RQFII	RMB Qualified Foreign Institutional Investor
SBS	Silver Bauhinia Star
Senior Management	The Group's senior executives, and the list of Senior Management as at the date of this Annual Report is set out on pages 24 to 27 of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect or 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 of China can trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholder(s)	HKEx's shareholder(s)
Share Award Scheme or the Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010 and 17 December 2013
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSE	Shanghai Stock Exchange
Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
VCM	Volatility Control Mechanism
WVR	Weighted voting right(s)
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million
£/GBP	Pound sterling



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