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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

(Unaudited)

As at 15 August 2013, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEx) comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mrs LEUNG KO May Yee, Margaret, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2013 \$m	As restated Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	As restated Three months ended 30 Jun 2012 \$m
Trading fees and trading tariff	3	1,816	1,239	894	580
Stock Exchange listing fees	4	496	462	241	218
Clearing and settlement fees		839	723	408	334
Depository, custody and nominee services fees		345	419	276	338
Market data fees		370	286	182	139
Other revenue	5	297	244	157	117
REVENUE AND TURNOVER	2	4,163	3,373	2,158	1,726
Investment income		274	393	57	165
Interest rebates to Participants		(2)	(1)	(1)	-
Net investment income	6	272	392	56	165
Sundry income		5	5	4	4
REVENUE AND OTHER INCOME		4,440	3,770	2,218	1,895
OPERATING EXPENSES					
Staff costs and related expenses	7	(755)	(593)	(373)	(299)
Information technology and computer maintenance expenses	8	(250)	(158)	(127)	(78)
Premises expenses		(149)	(120)	(75)	(63)
Product marketing and promotion expenses		(14)	(13)	(9)	(7)
Legal and professional fees		(55)	(23)	(28)	(13)
Other operating expenses		(118)	(69)	(60)	(32)
		(1,341)	(976)	(672)	(492)
EBITDA*		3,099	2,794	1,546	1,403
Depreciation and amortisation		(233)	(56)	(117)	(27)
OPERATING PROFIT		2,866	2,738	1,429	1,376
Costs relating to acquisition of LME Group	9	-	(110)	-	(91)
Finance costs	10	(92)	-	(43)	-
Share of loss of a joint venture		(4)	-	(2)	-
PROFIT BEFORE TAXATION	2	2,770	2,628	1,384	1,285
TAXATION	11	(442)	(412)	(214)	(217)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		2,328	2,216	1,170	1,068
Basic earnings per share	12(a)	\$2.03	\$2.05	\$1.02	\$0.99
Diluted earnings per share	12(b)	\$2.02	\$2.04	\$1.02	\$0.98

* EBITDA represents earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and non-recurring costs arising from the acquisition of the LME Group.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
PROFIT ATTRIBUTABLE TO				
SHAREHOLDERS	2,328	2,216	1,170	1,068
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently				
to profit or loss:				
Currency translation differences of foreign subsidiaries recorded in exchange reserve	(1,178)	-	(36)	-
OTHER COMPREHENSIVE INCOME				
ATTRIBUTABLE TO SHAREHOLDERS	(1,178)	-	(36)	-
TOTAL COMPREHENSIVE INCOME				
ATTRIBUTABLE TO SHAREHOLDERS	1,150	2,216	1,134	1,068

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

	Note	At 30 Jun 2013			At 31 Dec 2012		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	14	42,285	-	42,285	34,077	-	34,077
Financial assets measured at fair value through profit or loss	15	3,789	131	3,920	4,369	123	4,492
Financial assets measured at amortised cost	16	10,327	132	10,459	8,442	131	8,573
Accounts receivable, prepayments and deposits	17	10,272	7	10,279	13,689	7	13,696
Interest in a joint venture		-	93	93	-	97	97
Goodwill and other intangible assets		-	17,033	17,033	-	18,183	18,183
Fixed assets		-	1,668	1,668	-	1,675	1,675
Lease premium for land		-	24	24	-	24	24
Deferred tax assets		-	32	32	-	20	20
Total assets		66,673	19,120	85,793	60,577	20,260	80,837
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	19	43,191	-	43,191	36,786	-	36,786
Accounts payable, accruals and other liabilities	20	12,258	18	12,276	15,818	20	15,838
Deferred revenue		358	-	358	530	-	530
Taxation payable		474	-	474	178	-	178
Other financial liabilities		121	-	121	57	-	57
Participants' contributions to Clearing House Funds	21	3,836	-	3,836	1,924	-	1,924
Borrowings	22	-	6,665	6,665	-	6,615	6,615
Provisions		45	49	94	44	45	89
Deferred tax liabilities		-	944	944	-	1,056	1,056
Total liabilities		60,283	7,676	67,959	55,337	7,736	63,073
Equity							
Share capital	23			1,154			1,150
Share premium	23			9,268			8,731
Shares held for Share Award Scheme	23			(261)			(305)
Employee share-based compensation reserve	24(a)			131			122
Exchange reserve				(989)			189
Convertible bond reserve				409			409
Designated reserves	25			585			587
Retained earnings	26			7,537			6,881
Shareholders' funds				17,834			17,764
Total liabilities and equity				85,793			80,837
Net current assets				6,390			5,240
Total assets less current liabilities				25,510			25,500

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

	Share capital, share premium and shares held for Share Award Scheme (note 23) \$m	Employee share-based compensation reserve (note 24(a)) \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves (note 25) \$m	Retained earnings (note 26) \$m	Total equity \$m
At 1 Jan 2013	9,576	122	189	409	587	6,881	17,764
Profit attributable to shareholders	-	-	-	-	-	2,328	2,328
Other comprehensive income	-	-	(1,178)	-	-	-	(1,178)
Total comprehensive income	-	-	(1,178)	-	-	2,328	1,150
2012 final dividend at \$1.46 per share	-	-	-	-	-	(1,675)	(1,675)
Unclaimed HKEx dividends forfeited	-	-	-	-	-	5	5
Shares issued upon exercise of employee share options	1	-	-	-	-	-	1
Shares issued in lieu of cash dividends	536	-	-	-	-	-	536
Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	(2)
Vesting of shares of Share Award Scheme	50	(46)	-	-	-	(4)	-
Employee share-based compensation benefits	-	55	-	-	-	-	55
Transfer of reserves	-	-	-	-	(2)	2	-
At 30 Jun 2013	10,161	131	(989)	409	585	7,537	17,834

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2012	1,423	106	-	-	577	7,053	9,159
Profit attributable to shareholders	-	-	-	-	-	2,216	2,216
2011 final dividend at \$2.09 per share	-	-	-	-	-	(2,252)	(2,252)
Unclaimed HKEx dividends forfeited	-	-	-	-	-	3	3
Shares issued upon exercise of employee share options	1	-	-	-	-	-	1
Shares issued in lieu of cash dividends	102	-	-	-	-	-	102
Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	(2)
Vesting of shares of Share Award Scheme	44	(41)	-	-	-	(3)	-
Employee share-based compensation benefits	-	55	-	-	-	-	55
Transfer of reserves	-	-	-	-	6	(6)	-
At 30 Jun 2012	1,568	120	-	-	583	7,011	9,282

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	27	2,638	2,503
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(363)	(627)
Net decrease in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		831	673
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		24	80
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		247	453
Interest received from financial assets measured at amortised cost (excluding time deposits)		1	10
Interest received from financial assets measured at fair value through profit or loss		14	44
Net cash inflow from investing activities		754	633
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		1	1
Purchases of shares for Share Award Scheme		(2)	(2)
Payments of finance costs		(44)	-
Dividends paid		(1,130)	(2,137)
Net cash outflow from financing activities		(1,175)	(2,138)
Net increase in cash and cash equivalents		2,217	998
Cash and cash equivalents at 1 Jan		4,035	2,340
Exchange differences on cash and cash equivalents		(41)	-
Cash and cash equivalents at 30 Jun		6,211	3,338
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks		6,211	3,338

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. Basis of Preparation and Accounting Policies

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

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

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

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

Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and
Financial Liabilities

Annual Improvements to HKFRSs 2009 – 2011 Cycle

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

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

Amendments to HKAS 16 Property, Plant and Equipment

Amendments to HKAS 32 Financial Instruments: Presentation

Amendments to HKAS 34 Interim Financial Reporting

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

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

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

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

1. Basis of Preparation and Accounting Policies (continued)

Change in presentation of the condensed consolidated statement of comprehensive income

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

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

2. Operating Segments

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

In 2012, the Group had five reportable segments:

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

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

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

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

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

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

2. Operating Segments (continued)

Following the acquisition of the LME Group in December 2012, the Group underwent an internal reorganisation to better align its business activities to its strategic objective of becoming a vertically and horizontally integrated multi-asset class exchange. As a result, the reportable segments have been reorganised. After the reorganisation, effective from January 2013, the Group has five reportable segments (“Corporate Items” is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group’s new reportable segments are as follows:

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

The **Equity and Financial Derivatives** segment refers to derivatives products traded on the Futures Exchange and the Stock Exchange and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, DWs, CBBCs and warrants and sales of market data of futures and options. The major sources of revenue are trading fees, trading tariff and listing fees of derivatives products and market data fees of futures and options.

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

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

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

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

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

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

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

2. Operating Segments (continued)

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

	As restated Six months ended 30 Jun 2012						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	1,115	840	-	1,214	204	-	3,373
Net investment income	-	-	-	232	-	160	392
Sundry income	-	-	-	5	-	-	5
Revenue and other income	1,115	840	-	1,451	204	160	3,770
Operating expenses	(235)	(209)	-	(202)	(102)	(228)	(976)
Reportable segment EBITDA	880	631	-	1,249	102	(68)	2,794
Depreciation and amortisation	(18)	(12)	-	(22)	-	(4)	(56)
Costs relating to acquisition of LME Group	-	-	-	-	-	(110)	(110)
Reportable segment profit before taxation	862	619	-	1,227	102	(182)	2,628

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

3. Trading Fees and Trading Tariff

Trading fees and trading tariff were derived from:

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Securities traded on the Stock Exchange (excluding stock options contracts)	950	822	445	369
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	430	417	223	211
Base metals futures and options contracts traded on The London Metal Exchange	436	-	226	-
	1,816	1,239	894	580

4. Stock Exchange Listing Fees

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

	Six months ended 30 Jun 2013				Six months ended 30 Jun 2012			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	222	12	1	235	218	12	2	232
Initial and subsequent issue listing fees	28	6	225	259	48	5	175	228
Other listing fees	2	-	-	2	2	-	-	2
Total	252	18	226	496	268	17	177	462
Direct costs of listing function	(140)	(39)	(13)	(192)	(140)	(34)	(10)	(184)
Contribution to profit before taxation	112	(21)	213	304	128	(17)	167	278

	Three months ended 30 Jun 2013				Three months ended 30 Jun 2012			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	112	6	-	118	109	6	1	116
Initial and subsequent issue listing fees	14	3	105	122	18	2	81	101
Other listing fees	1	-	-	1	1	-	-	1
Total	127	9	105	241	128	8	82	218
Direct costs of listing function	(67)	(18)	(7)	(92)	(68)	(17)	(5)	(90)
Contribution to profit before taxation	60	(9)	98	149	60	(9)	77	128

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

4. Stock Exchange Listing Fees (continued)

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

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

5. Other Revenue

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Network, terminal user, dataline and software sub-license fees	129	198	67	95
Commodities stock levies and warehouse listing fees	60	-	33	-
Participants' subscription and application fees	32	18	16	9
Hosting services	34	-	18	-
Brokerage on direct IPO allotments	6	-	5	-
Trading booth user fees	6	6	3	3
Sales of Trading Rights	4	9	1	4
Miscellaneous revenue	26	13	14	6
	297	244	157	117

6. Net Investment Income

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Gross interest income	165	182	86	92
Interest rebates to Participants	(2)	(1)	(1)	-
Net interest income	163	181	85	92
Net fair value gains/(losses) including interest income on financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	117	203	(32)	67
Others	(8)	8	3	6
Net investment income	272	392	56	165

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

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Salaries and other short-term employee benefits	650	496	325	251
Employee share-based compensation benefits	55	55	25	26
Termination benefits	3	2	1	2
Retirement benefit costs (note 30(b))	47	40	22	20
	755	593	373	299

8. Information Technology and Computer Maintenance Expenses

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Costs of services and goods:				
- consumed by the Group	215	77	109	37
- directly consumed by Participants	35	81	18	41
	250	158	127	78

9. Costs Relating to Acquisition of LME Group

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Legal and professional fees	-	108	-	90
Others	-	2	-	1
	-	110	-	91

10. Finance Costs

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Interest expenses on borrowings	90	-	46	-
Net foreign exchange losses/(gains) on financing activities	2	-	(3)	-
	92	-	43	-

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

11. Taxation

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

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Current tax - Hong Kong Profits Tax	401	412	209	212
Current tax - Overseas Tax	100	-	76	-
	501	412	285	212
Deferred taxation	(59)	-	(71)	5
	442	412	214	217

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

12. Earnings Per Share

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

(a) Basic earnings per share

	Six months ended 30 Jun 2013	As restated Six months ended 30 Jun 2012	Three months ended 30 Jun 2013	As restated Three months ended 30 Jun 2012
Profit attributable to shareholders (\$m)	2,328	2,216	1,170	1,068
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,148,265	1,082,497	1,149,072	1,082,740
Basic earnings per share (\$)	2.03	2.05	1.02	0.99

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

12. Earnings Per Share (continued)

(b) Diluted earnings per share

	Six months ended 30 Jun 2013	As restated Six months ended 30 Jun 2012	Three months ended 30 Jun 2013	As restated Three months ended 30 Jun 2012
Profit attributable to shareholders (\$m)	2,328	2,216	1,170	1,068
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,148,265	1,082,497	1,149,072	1,082,740
Effect of employee share options (in '000)	734	838	719	822
Effect of Awarded Shares (in '000)	2,221	2,083	2,110	1,984
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,151,220	1,085,418	1,151,901	1,085,546
Diluted earnings per share (\$)	2.02	2.04	1.02	0.98

- (i) The effects of the outstanding convertible bonds (note 22) were not included in the computation of diluted earnings per share for the six months and three months ended 30 June 2013 as they were anti-dilutive.
- (ii) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount. The effects of the bonus element of the share placement have been included within the calculation of basic and diluted earnings per share for the six months and three months ended 30 June 2012 retrospectively, which increased the weighted average number of ordinary shares for the six months and three months ended 30 June 2012 by 4,564,000 and 4,565,000 respectively.

13. Dividends

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Interim dividend declared of \$1.82 (2012: \$1.85) per share at 30 Jun	2,100	2,000	2,100	2,000
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(4)	(4)	(4)	(4)
	2,096	1,996	2,096	1,996

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

14. Cash and Cash Equivalents

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Cash and cash equivalents:		
- Clearing House Funds (note 21)	4,311	2,325
- Margin Funds and cash collateral (note 19) (note (a))	31,763	27,717
- Corporate Funds (note 18)	36,074	30,042
	6,211	4,035
	42,285	34,077

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

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

	At 30 Jun 2013		
	Margin Funds and cash collateral (note 19) \$m	Corporate Funds (note 18) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
- listed in Hong Kong	-	86	86
- listed outside Hong Kong	-	126	126
- unlisted	-	131	131
	-	343	343
Debt securities:			
- listed in Hong Kong	-	206	206
- listed outside Hong Kong	-	1,014	1,014
- unlisted	1,792	536	2,328
	1,792	1,756	3,548
Derivative financial instruments:			
- forward foreign exchange contracts	-	29	29
	1,792	2,128	3,920
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	1,792	1,997	3,789
More than twelve months	-	131	131
	1,792	2,128	3,920

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

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

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

- (a) Includes financial assets maturing after twelve months of \$1,792 million (31 December 2012: \$1,796 million) attributable to the Margin Funds and cash collateral that could readily be liquidated to meet liquidity requirements of the Funds.

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

16. Financial Assets Measured at Amortised Cost

	At 30 Jun 2013			Total \$m
	Clearing House Funds (note 21) \$m	Margin Funds and cash collateral (note 19) \$m	Corporate Funds (note 18) \$m	
Unlisted debt securities	-	-	70	70
Time deposits with original maturities over three months	209	9,628	490	10,327
Other financial assets	-	-	62	62
	209	9,628	622	10,459

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

Within twelve months	209	9,628	490	10,327
More than twelve months	-	-	132	132
	209	9,628	622	10,459

	At 31 Dec 2012			Total \$m
	Clearing House Funds (note 21) \$m	Margin Funds and cash collateral (note 19) \$m	Corporate Funds (note 18) \$m	
Unlisted debt securities	-	-	94	94
Time deposits with original maturities over three months	217	6,880	1,321	8,418
Other financial assets	-	-	61	61
	217	6,880	1,476	8,573

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

Within twelve months	217	6,880	1,345	8,442
More than twelve months	-	-	131	131
	217	6,880	1,476	8,573

17. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 90 per cent (31 December 2012: 93 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

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

18. Corporate Funds

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 14)	6,211	4,035
Financial assets measured at fair value through profit or loss (note 15)	2,128	2,306
Financial assets measured at amortised cost (note 16)	622	1,476
	8,961	7,817

19. Margin Deposits and Cash Collateral from Clearing Participants

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Margin deposits and cash collateral from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,945	4,125
HKCC Clearing Participants' margin deposits	34,890	30,237
HKSCC Clearing Participants' margin deposits and cash collateral	3,356	2,424
	43,191	36,786
The margin deposits and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds and cash collateral:		
Cash and cash equivalents (note 14)	31,763	27,717
Financial assets measured at fair value through profit or loss (note 15)	1,792	2,186
Financial assets measured at amortised cost (note 16)	9,628	6,880
Margin receivable from Clearing Participants	8	3
	43,191	36,786

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

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 75 per cent (31 December 2012: 80 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

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

21. Clearing House Funds

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
The Clearing House Funds comprised:		
Clearing Participants' contributions (note (a))	3,836	1,924
Designated reserves (note 25)	585	587
	4,421	2,511
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 14)	4,311	2,325
Financial assets measured at amortised cost (note 16)	209	217
	4,520	2,542
Less: Other financial liabilities of Clearing House Funds	(99)	(31)
	4,421	2,511
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,037	228
SEOCH Reserve Fund	474	414
HKCC Reserve Fund	1,910	1,869
	4,421	2,511

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

22. Borrowings

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Bank borrowings	3,103	3,100
Convertible bonds	3,562	3,515
Total borrowings	6,665	6,615

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

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

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

Authorised:

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
2,000,000,000 shares of \$1 each	2,000	2,000

Issued and fully paid:

	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon placement of shares	65,705	66	7,642	-	7,708
Shares issued upon exercise of employee share options (note (a))	122	-	2	-	2
Shares issued in lieu of cash dividends (note (b))					
- total	4,075	4	447	-	451
- to Share Award Scheme	(71)	-	-	(9)	(9)
	4,004	4	447	(9)	442
Transfer from employee share-based compensation reserve upon exercise of employee share options		-	1	-	1
Shares purchased for Share Award Scheme (note (c))	(738)	-	-	(93)	(93)
Vesting of shares of Share Award Scheme (note (d))	645	-	-	93	93
At 31 Dec 2012	1,147,408	1,150	8,731	(305)	9,576
At 1 Jan 2013	1,147,408	1,150	8,731	(305)	9,576
Shares issued upon exercise of employee share options (note (a))	35	-	1	-	1
Shares issued in lieu of cash dividends (note (b))					
- total	4,140	4	536	-	540
- to Share Award Scheme	(26)	-	-	(4)	(4)
	4,114	4	536	(4)	536
Shares purchased for Share Award Scheme (note (c))	(19)	-	-	(2)	(2)
Vesting of shares of Share Award Scheme (note (d))	410	-	-	50	50
At 30 Jun 2013	1,151,948	1,154	9,268	(261)	10,161

- (a) During the six months ended 30 June 2013, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 34,500 shares (year ended 31 December 2012: 121,500 shares) in HKEx at an average consideration of \$17.99 per share (year ended 31 December 2012: \$17.88 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the six months ended 30 June 2013, 4,139,855 new fully paid HKEx shares (year ended 31 December 2012: 4,074,947 shares) were issued and allotted at \$130.32 per share (year ended 31 December 2012: weighted average price of \$110.67 per share) to the shareholders (including 26,110 new shares (year ended 31 December 2012: 70,650 shares) allotted to the Share Award Scheme) who elected to receive HKEx shares in lieu of cash pursuant to the scrip dividend scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**23. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)**

- (c) During the six months ended 30 June 2013, the Share Award Scheme acquired 19,300 HKEx shares (year ended 31 December 2012: 737,800 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$2 million (year ended 31 December 2012: \$93 million).
- (d) During the six months ended 30 June 2013, the Share Award Scheme transferred 410,425 HKEx shares (year ended 31 December 2012: 644,763 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$50 million (year ended 31 December 2012: \$93 million).

24. Employee Share-based Arrangements

- (a) Equity-settled share-based arrangement

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

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

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

- (b) Cash-settled share-based arrangement

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**25. Designated Reserves**

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

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Clearing House Funds reserves		
- HKSCC Guarantee Fund reserve	124	124
- SEOCH Reserve Fund reserve	109	111
- HKCC Reserve Fund reserve	352	352
	585	587

26. Retained Earnings (Including Proposed Dividend)

	2013 \$m	2012 \$m
At 1 Jan	6,881	7,053
Profit attributable to shareholders	2,328	4,084
Transfer from/(to) Clearing House Funds reserves	2	(10)
Dividends:		
2012/2011 final dividend	(1,675)	(2,252)
2012 interim dividend	-	(1,996)
Unclaimed HKEx dividends forfeited	5	7
Vesting of shares of Share Award Scheme	(4)	(5)
At 30 Jun 2013/31 Dec 2012	7,537	6,881
Representing:		
Retained earnings	5,441	5,206
Proposed dividend	2,096	1,675
At 30 Jun 2013/31 Dec 2012	7,537	6,881

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

27. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 Jun 2013 \$m	As restated Six months ended 30 Jun 2012 \$m
Profit before taxation	2,770	2,628
Adjustments for:		
Net interest income	(163)	(181)
Dividend income	(5)	(7)
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	(117)	(203)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(5)	(5)
Finance costs	92	-
Depreciation and amortisation	233	56
Employee share-based compensation benefits	55	55
Gain on disposal of fixed assets	-	(1)
Provision for impairment losses of trade receivables	1	1
Share of loss of a joint venture	4	-
Changes in provisions	2	4
Net (increase)/decrease in financial assets of Margin Funds and cash collateral	(6,406)	4,403
Net increase/(decrease) in financial liabilities of Margin Funds and cash collateral	6,405	(4,371)
Net increase in Clearing House Fund financial assets	(1,978)	(36)
Net increase in Clearing House Fund financial liabilities	1,980	34
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	-	(218)
Decrease in accounts receivable, prepayments and deposits	3,431	2,285
Decrease in other current liabilities	(3,656)	(1,945)
Net cash inflow from operations	2,643	2,499
Dividends received	4	7
Interest received from bank deposits	164	174
Interest received from financial assets measured at fair value through profit or loss	31	54
Interest paid to Participants	(2)	(1)
Income tax paid	(202)	(230)
Net cash inflow from operating activities	2,638	2,503

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)**28. Capital Expenditures and Commitments**

During the six months ended 30 June 2013, the Group incurred capital expenditures of \$277 million (2012: \$572 million) and disposed of fixed assets and intangible assets with net book value of less than \$1 million (2012: \$16 million). The capital expenditures incurred were mainly related to the Data Centre at Tseung Kwan O, development of a new market data system and a commodities clearing system, and upgrade and enhancement of various information technology systems.

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

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Contracted but not provided for		
- fixed assets	64	78
- intangible assets	241	125
Authorised but not contracted for		
- fixed assets	307	358
- intangible assets	474	271
	1,086	832

The Group's capital expenditure commitments were mainly related to the relocation of the primary data centres to the Data Centre at Tseung Kwan O, the development of hosting services, a new market data system, clearing systems for over-the-counter derivatives and commodities, and a Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market trading and clearing systems as well as various information technology systems.

29. Contingent Liabilities

At 30 June 2013, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2012: \$71 million). Up to 30 June 2013, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 507 trading Participants covered by the indemnity at 30 June 2013 (31 December 2012: 511) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$101 million (31 December 2012: \$102 million).
- (c) HKEx had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.

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

30. Material Related Party Transactions

(a) Key management personnel compensation

	Six months ended 30 Jun 2013 \$m	Six months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2013 \$m	Three months ended 30 Jun 2012 \$m
Salaries and other short-term employee benefits	60	38	29	19
Employee share-based compensation benefits	18	15	7	8
Retirement benefit costs	5	3	3	1
	83	56	39	28

(b) Post-employment benefit plans

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

(c) Transactions and balance with a joint venture

During the six months ended 30 June 2013, the Group charged the joint venture, China Exchanges Services Company Limited (CESC), a management fee of \$2 million (2012: \$Nil) in respect of management services provided to the joint venture. The amount due from CESC at 30 June 2013 amounted to \$2 million (31 December 2012: \$7 million).

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

31. Change in Group Structure

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

32. Fair Value of Assets and Liabilities

(a) Assets and liabilities carried at fair value

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

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

	At 30 Jun 2013			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
Recurring fair value measurements:				
Assets				
Financial assets measured at fair value through profit or loss:				
- equity securities	212	-	131	343
- debt securities	-	3,548	-	3,548
- forward foreign exchange contracts	29	-	-	29
	241	3,548	131	3,920
Recurring fair value measurements:				
Liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	2	-	-	2
	2	-	-	2

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

32. Fair Value of Assets and Liabilities (continued)

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

	At 31 Dec 2012			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
Recurring fair value measurements:				
Assets				
Financial assets measured at fair value through profit or loss:				
- equity securities	216	-	292	508
- debt securities	-	3,981	-	3,981
- forward foreign exchange contracts	3	-	-	3
	219	3,981	292	4,492
Recurring fair value measurements:				
Liabilities				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	6	-	-	6
	6	-	-	6

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

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

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

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

Fair value measurements using significant unobservable inputs (Level 3)

	Investment in an unlisted company	
	2013 \$m	2012 \$m
At 1 Jan	292	-
Addition through acquisition of subsidiaries	-	289
Gains recognised in profit or loss under net investment income	108	-
Disposals	(247)	-
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	(22)	3
At 30 Jun 2013/31 Dec 2012	131	292
Total gains for the period included in profit or loss under net investment income	108	-
Change in unrealised gains for the period included in profit or loss for assets held at 30 Jun 2013/31 Dec 2012, under net investment income	6	-

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

32. Fair Value of Assets and Liabilities (continued)

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

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

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Investment in shares in an unlisted company	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	+32/-24	+72/-53
Fair value at 30 Jun 2013 was \$131 million (31 Dec 2012: \$292 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-22/+30	-49/+67
	Dilution effect of capital raise to comply with expected changes in regulatory capital	25% to 35%	The higher the dilution, the lower the fair value;	+/-5%	-10/+10	-22/+22
	Discount for value attributable to a minority stake	10% to 20%	The higher the discount, the lower the fair value.	+/-5%	-8/+8	-17/+17

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

32. Fair Value of Assets and Liabilities (continued)

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

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

	At 30 Jun 2013		At 31 Dec 2012	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
- debt securities ¹	70	70	94	94
- other financial assets maturing over one year ²	62	58	61	58
Financial liabilities				
Borrowings:				
- liability component of convertible bonds ³	3,562	3,651	3,515	3,723
Financial guarantee to the Collector of Stamp Revenue ⁴	20	63	20	102

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

² The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.85 per cent to 2.87 per cent at 30 June 2013 (31 December 2012: 0.81 per cent to 1.51 per cent).

³ The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the convertible bonds. The discount rate used was 2.54 per cent at 30 June 2013 (31 December 2012: 1.88 per cent).

⁴ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate was 2.00 per cent at 30 June 2013 (31 December 2012: 0.59 per cent).

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

33. Offsetting Financial Assets and Financial Liabilities

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

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

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

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

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

Type of financial assets	At 30 Jun 2013					
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the condensed consolidated statement of financial position	Net amount of financial assets presented in the condensed consolidated statement of financial position	Financial liabilities other than cash collateral	Cash collateral received	Net amount
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations receivable	105,856	(96,603)	9,253	(48)	(2,674)	6,531
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	384	-	384	-	(118)	266
Total	106,240	(96,603)	9,637	(48)	(2,792)	6,797

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

33. Offsetting Financial Assets and Financial Liabilities (continued)

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

Type of financial assets	At 31 Dec 2012						Net amount
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the condensed consolidated statement of financial position	Net amount of financial assets presented in the condensed consolidated statement of financial position	Financial liabilities other than cash collateral	Cash collateral received	Net amount	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations receivable	115,501	(102,768)	12,733	(2,694)	(903)	9,136	
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	242	-	242	-	(62)	180	
Total	115,743	(102,768)	12,975	(2,694)	(965)	9,316	

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

Type of financial liabilities	At 30 Jun 2013						Net amount
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets offset in the condensed consolidated statement of financial position	Net amount of financial liabilities presented in the condensed consolidated statement of financial position	Financial assets other than cash collateral	Cash collateral pledged	Net amount	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations payable	105,856	(96,603)	9,253	(48)	-	9,205	

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

33. Offsetting Financial Assets and Financial Liabilities (continued)

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

Type of financial liabilities	At 31 Dec 2012					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the condensed consolidated statement of financial position \$m	Net amount of financial liabilities presented in the condensed consolidated statement of financial position \$m	Financial assets other than cash collateral \$m	Cash collateral pledged \$m	Net amount \$m
CNS money obligations payable	115,501	(102,768)	12,733	(2,694)	-	10,039

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

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Net amount of financial assets after offsetting as stated above	9,637	12,975
Financial assets not in scope of offsetting disclosures	554	669
Prepayments	88	52
Total accounts receivables, prepayments and deposits	10,279	13,696

	At 30 Jun 2013 \$m	At 31 Dec 2012 \$m
Net amount of financial liabilities after offsetting as stated above	9,253	12,733
Financial liabilities not in scope of offsetting disclosures	3,023	3,105
Total accounts payable, accruals and other liabilities	12,276	15,838

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

34. Events after the Reporting Period

LME, a wholly-owned subsidiary of HKEx, has, at the date of approval of these condensed consolidated financial statements, been named as a co-defendant in four class actions filed in the United States (“US”) in early August 2013 (with LME Holdings Limited named as co-defendant in one lawsuit). The claims are similar in nature and seek damages and injunctive relief with respect to anti-competitive and monopolistic behaviour in the warehousing market in connection with aluminium prices. In light of the class action nature of the complaints, it is not uncommon for additional follow-up suits of a similar nature to be filed in the US once a class action has commenced.

LME is currently seeking legal advice in relation to the legal proceedings.

Due to the preliminary nature of the proceedings, LME does not currently have sufficient information to estimate the financial effect (if any) relating to the class actions, the timing of the ultimate resolution of the actions, or what the eventual outcomes might be. However, LME management’s initial assessment is that the suits are without merit and LME will contest them vigorously.