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

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

Consolidated Financial Statements

For the year ended 31 December 2014

As at 5 March 2015, 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, Dr HU Zulu, Fred, 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 Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(Financial figures are expressed in Hong Kong Dollar)

	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
REVENUE AND TURNOVER		9,127	8,131
Investment income		713	585
Interest rebates to Participants		(6)	(4)
Net investment income	8	707	581
Sundry income	9	15	11
REVENUE AND OTHER INCOME	4	9,849	8,723
OPERATING EXPENSES			
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)
		(2,958)	(2,777)
EBITDA	2(g)	6,891	5,946
Depreciation and amortisation		(647)	(507)
OPERATING PROFIT	13	6,244	5,439
Finance costs	14	(196)	(183)
Share of loss of a joint venture	26(c)	(10)	(10)
PROFIT BEFORE TAXATION	4	6,038	5,246
TAXATION	17(a)	(900)	(700)
PROFIT FOR THE YEAR		5,138	4,546
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEx	43	5,165	4,552
- Non-controlling interests	38(c)(i)	(27)	(6)
PROFIT FOR THE YEAR		5,138	4,546
Basic earnings per share	18(a)	\$4.44	\$3.95
Diluted earnings per share	18(b)	\$4.43	\$3.94
DIVIDENDS	19	4,638	4,092

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **FOR THE YEAR ENDED 31 DECEMBER 2014**

(Financial figures are expressed in Hong Kong Dollar)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2014			At 31 Dec 2013		
	Note	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
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
Total assets		232,188	19,672	251,860	65,146	20,797	85,943
LIABILITIES AND EQUITY							
Liabilities							
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
Total liabilities		222,564	7,937	230,501	57,538	7,887	65,425

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2014

(Financial figures are expressed in Hong Kong Dollar)

	Note	At 31 Dec 2014			At 31 Dec 2013		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
Equity							
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
Total equity				21,359			20,518
Total liabilities and equity				251,860			85,943
Net current assets				9,624			7,608
Total assets less current liabilities				29,296			28,405

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

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2014			At 31 Dec 2013		
	Note	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
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
Total assets		6,991	21,787	28,778	12,567	21,271	33,838
LIABILITIES AND EQUITY							
Liabilities							
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
Total liabilities		829	6,509	7,338	6,104	6,467	12,571
Equity							
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
Equity attributable to shareholders of HKEx				21,440			21,267
Total liabilities and equity				28,778			33,838
Net current assets				6,162			6,463
Total assets less current liabilities				27,949			27,734

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**

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx								Non-controlling interests	Total equity
	Share capital, share premium and shares held for Share Award Scheme (note 39) \$m	Employee share-based compensation reserve (note 40) \$m	Exchange reserve \$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		
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2014**

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx							Total	Non-controlling interests	Total equity
	Share capital, share premium and shares held for Share Award Scheme (note 39)	Employee share-based compensation reserve (note 40)	Exchange reserve	Convertible bond reserve (note 35(b))	Designated reserves (note 41)	Reserve relating to written put options to non-controlling interests (note 35(d))	Retained earnings (note 43)			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
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

(Financial figures are expressed in Hong Kong Dollar)

	Note	2014 \$m	2013 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	44	4,673	4,988
CASH FLOWS FROM INVESTING ACTIVITIES			
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)
CASH FLOWS FROM FINANCING ACTIVITIES			
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)
Net increase in cash and cash equivalents		1,737	2,301
Cash and cash equivalents at 1 Jan		6,375	4,035
Exchange differences on cash and cash equivalents		(45)	39
Cash and cash equivalents at 31 Dec		8,067	6,375
Analysis of cash and cash equivalents			
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)
		8,067	6,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Adoption of new/revised HKFRSs (continued)

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 ¹
HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ³

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 ⁴
Amendments to HKAS 24	Related Party Disclosures – Key Management Personnel ⁴

¹Effective for accounting periods beginning on or after 1 January 2016

²Effective for accounting periods beginning on or after 1 January 2018

³Effective for accounting periods beginning on or after 1 January 2017

⁴Effective for accounting periods beginning on or after 1 July 2014

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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)

(f) Revenue and other income recognition (continued)

- (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 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.

(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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)**(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.

(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;

2. Principal Accounting Policies (continued)

(o) Intangible assets (continued)

(iv) Computer software systems (continued)

- 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.

(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.

2. Principal Accounting Policies (continued)

(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.

(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

2. Principal Accounting Policies (continued)

(t) Financial assets (continued)

(i) Classification (continued)

Financial assets measured at amortised cost (continued)

- 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.

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.

2. Principal Accounting Policies (continued)

(t) Financial assets (continued)

(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.

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.

2. Principal Accounting Policies (continued)

(t) Financial assets (continued)

(vi) Impairment of financial assets measured at amortised cost (continued)

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.

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.

2. Principal Accounting Policies (continued)

(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.

(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.

(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.

2. Principal Accounting Policies (continued)**(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.

2. Principal Accounting Policies (continued)

(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.

3. Critical accounting estimates and assumptions (continued)

(c) Valuation of investments (continued)

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 note 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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						Group \$m
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Operating Segments (continued)

	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)

(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
	9,127	8,131

4. Operating Segments (continued)

(b) Geographical information (continued)

(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
	19,610	20,549

(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
	3,760	3,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Stock Exchange Listing Fees

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

	2014				2013			
	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	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
Total	597	40	465	1,102	538	39	439	1,016
Direct costs of listing function	(314)	(87)	(35)	(436)	(309)	(89)	(27)	(425)
Contribution before indirect costs	283	(47)	430	666	229	(50)	412	591

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
	773	609

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)
	109	185
Others	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
	510	549

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	287	256

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
	196	183

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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							
	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	Total \$'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
Total	13,896	8,653	164	10,095	1,081	33,889	20,915	54,804

Name of Director	2013							
	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	Total \$'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
Total	11,325	8,653	175	9,374	1,081	30,608	18,925	49,533

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)
	2,133	2,097
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)
	2,505	1,995
	4,638	4,092

- (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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Financial Assets (continued)

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

	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	10,264	10,142	4,447	4,043

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)	-	-
	22,523	10,946	34	36

- (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	82	158

25. Accounts Receivable, Prepayments and Deposits (continued)

- (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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
Assets						
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
Total assets	231	5	236	259	7	266
Liabilities						
Accounts payable, accruals, other liabilities and provisions	6	1	7	6	1	7
Total liabilities	6	1	7	6	1	7
Net assets	225	4	229	253	6	259
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)
Loss and total comprehensive loss for the year	(30)	(30)
Group's share of losses of CESC (@33.33%)	(10)	(10)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Goodwill and Other Intangible Assets

(a) Group

	Goodwill \$m	Other Intangible Assets			Total \$m
		Tradenames \$m	Customer Relationships \$m	Software Systems \$m	
Cost:					
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
Accumulated amortisation:					
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
Net book value:					
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
Cost of software systems under development:					
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
	13,170	891	13,750	930

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
Cost:	
At 1 Jan 2013	22
Additions	54
At 31 Dec 2013	76
At 1 Jan 2014	76
Additions	36
At 31 Dec 2014	112
Accumulated amortisation:	
At 1 Jan 2013	-
Amortisation	5
At 31 Dec 2013	5
At 1 Jan 2014	5
Amortisation	23
At 31 Dec 2014	28
Net book value:	
At 31 Dec 2014	84
At 31 Dec 2013	71
At 1 Jan 2013	22
Cost of software systems under development:	
At 31 Dec 2014	23
At 31 Dec 2013	37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
Cost:							
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
Accumulated depreciation:							
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
Net book value:							
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
Cost of fixed assets in the course of construction:							
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
Cost:			
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
Accumulated depreciation:			
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
Net book value:			
At 31 Dec 2014	67	168	235
At 31 Dec 2013	93	172	265
At 1 Jan 2013	73	161	234
Cost of fixed assets in the course of construction:			
At 31 Dec 2014	8	34	42
At 31 Dec 2013	63	68	131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Lease Premium for Land

	Group	
	2014	2013
	\$m	\$m
Net book value at 1 Jan	23	24
Amortisation	-	(1)
Net book value at 31 Dec	23	23

(a) 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	At	At	At
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	\$m	\$m	\$m	\$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	At
	31 Dec 2014	31 Dec 2013
	\$m	\$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	-
	129,484	39,793
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
	129,484	39,793

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	22,849	12,834	277	315

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair value.
- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSN 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 HKSN 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
	84	21	123	162

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	10,225	4,470
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
	10,289	4,471
Less: Other financial liabilities of Clearing House Funds (note 33)	(64)	(1)
	10,225	4,470
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	-
	10,225	4,470

- (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	-	-
Total borrowings	7,026	6,921	3,100	3,096

35. Borrowings (continued)

The Group's and HKEx's borrowings were repayable as follows:

	Group			
	Bank borrowings		Other borrowings	
	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
	\$m	\$m	\$m	\$m
After 2 years but within 5 years	-	-	5,441	4,595
After 5 years	1,585	2,326	-	-
	1,585	2,326	5,441	4,595

	HKEx			
	Bank borrowings		Other borrowings	
	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
	\$m	\$m	\$m	\$m
After 2 years but within 5 years	-	-	1,515	770
After 5 years	1,585	2,326	-	-
	1,585	2,326	1,515	770

(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.

(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.

35. Borrowings (continued)**(b) Convertible bonds (continued)**

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.

The movements of the liability component of the Bonds are as follows:

	Group	
	2014	2013
	\$m	\$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	2013
	\$m	\$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.

35. Borrowings (continued)

(c) Notes (continued)

- (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	2013
	\$m	\$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

- (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 (notes 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.

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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.

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37. Deferred Taxation (continued)

(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	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$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	At	At	At
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	\$m	\$m	\$m	\$m
Deferred tax assets	(5)	(47)	-	-
Deferred tax liabilities	839	900	22	28
	834	853	22	28

(e) The analysis of deferred tax (assets)/liabilities is as follows:

	Group		HKEx	
	At	At	At	At
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
	\$m	\$m	\$m	\$m
Deferred tax assets				
Amounts to be recovered after more than 12 months	(4)	(47)	-	-
Amounts to be recovered within 12 months	(1)	-	-	-
	(5)	(47)	-	-
Deferred tax liabilities				
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
Net deferred tax liabilities	834	853	22	28

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.

(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.

38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity (continued)

(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
Direct subsidiaries:				
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 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%
Indirect subsidiaries:				
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%

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
Indirect subsidiaries (continued):				
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 share 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.

38. Investments in and Amounts Due from/to Subsidiaries and Controlled Structured Entity (continued)

(c) Particulars of subsidiaries (continued)

(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).

(d) Controlled structured entity

HKEx controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEx Employee Share Trust)	Purchases, administers and holds HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 40(b))

As the HKEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEx shares for the Share Award Scheme (note 40(b)), 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. Therefore, the assets and liabilities of HKEx Employee Share Trust are included in HKEx's statement of financial position and the HKEx shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

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

	HKEx				
	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 HKEx				
	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

- (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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. Share Capital, Share Premium and Shares Held for Share Award Scheme (continued)

- (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				
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$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)
	5,959,053		879	(5)	874

	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)
	11,591,510		11	1,430	(8)	1,433

- (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	Average exercise price per share	Number of shares issuable under options granted
	\$	'000	\$	'000
HKEx Post-Listing Scheme				
Outstanding at 1 Jan	18.32	804	18.33	863
Exercised ¹	18.12	(660)	18.43	(59)
Outstanding at 31 Dec	19.25	144	18.32	804

1 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	Remaining contractual life	Number of shares issuable under options granted
		'000		'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

40. Employee Share-based Arrangements (continued)

(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 regranting the forfeited or unallocated shares held by the Scheme. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

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.

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

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 ^{1,2}	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

¹ 48,681 shares were awarded to HKEx's Chief Executive on 3 December 2014.

² 92,469 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 3 December 2014.

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.

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

Movements in the number of Awarded Shares awarded and dividend shares

	2014	2013
	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 ³	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	1,348,090	1,304,160

³ Average fair value per share was \$178.54 (2013: \$139.86)

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.

40. Employee Share-based Arrangements (continued)**(b) HKEx Share Award Scheme (continued)****(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. Designated Reserves

Clearing House Funds reserves (note 34(b))

	Group					
	HKSCC Guarantee Fund reserve \$m	SECH 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	Total \$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

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42. Merger Reserve

	HKEx	
	2014	2013
	\$m	\$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	2013	2014	2013
	\$m	\$m	\$m	\$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) has been dealt with in the financial statements of HKEx, the holding company of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 HKSN	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(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.

45. Commitments (Continued)

(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.

46. Contingent Liabilities (continued)

(a) Group (continued)

(iii) US litigation (continued)

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.

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)).

46. Contingent Liabilities (continued)

(b) HKEx (continued)

- (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	-
Total	16	10

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. Connected Transactions and Material Related Party Transactions (continued)

(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

(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
	208	193	130	122

(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.

48. Connected Transactions and Material Related Party Transactions

(b) Material related party transactions (continued)

(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.

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:

50. Capital Management (continued)

<u>Subsidiaries</u>	<u>Regulatory authority</u>	<u>Regulatory capital requirements</u>
HKSCC, HKCC, SECH, 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.

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.

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50. Capital Management (continued)

	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.

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.

51. Financial Risk Management (continued)

(a) Market risk management (continued)

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.

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.

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51. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2014		
	Foreign currency	Gross open position \$m	Economic hedges \$m	Net open position \$m
Financial assets/(financial liabilities)				
Cash and cash equivalents ^{1,4}	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 ^{2,3}	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 ⁴	GBP	45	-	45
	RMB	1,350	(1,350)	-
	USD	4	-	4
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants ¹	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 ³	EUR	(479)	479	-
	GBP	(35)	35	-
	JPY	(547)	547	-
Accounts payable, accruals and other liabilities ⁴	EUR	(1)	-	(1)
	GBP	(236)	-	(236)
	RMB	(1,366)	1,354	(12)
	USD	(169)	-	(169)
Borrowings	USD	(3,100)	-	(3,100)
Total net open positions for the Group				
	AUD			29
	CAD			1
	CHF			9
	EUR			188
	GBP			421
	JPY			4
	NZD			10
	RMB			94
	SGD			8
	USD			677
				1,441

¹ Foreign currency margin deposits and Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

² Forward foreign exchange contracts have been used as economic hedges for the currency exposures of the Group's investments by external fund managers.

³ 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.

⁴ RMB exposure of Continuous Net Settlement receivable and cash prepayments for A shares fully offset the Continuous Net Settlement payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2013		
	Foreign currency	Gross open position \$m	Economic hedges \$m	Net open position \$m
Financial assets/(financial liabilities)				
Cash and cash equivalents ¹	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 ^{1,2}	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 ¹	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)
Total net open positions for the Group	AUD			12
	CAD			35
	CHF			5
	EUR			173
	GBP			22
	JPY			28
	NZD			16
	RMB			112
	SGD			10
	USD			1,408
				1,821

¹ Foreign currency margin deposits, Mainland security and settlement deposits received by the Group are economically hedged by investments in the same currencies.

² 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
Financial assets/(financial liabilities)			
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)
Total net open positions for HKEx	GBP	-	1
	RMB	1	-
	USD	9,828	9,317
		9,829	9,318

(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.

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.

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51. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	Group					
	At 31 Dec 2014					
	Up to 1 month ¹ \$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 ²	2,851	-	156	-	-	3,007
Financial assets measured at amortised cost	10,199	-	-	57	-	10,256
Accounts receivable and deposits ³	22,369	50	4	-	-	22,423
	172,197	50	160	57	-	172,464

	Group					
	At 31 Dec 2013					
	Up to 1 month ¹ \$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 ²	3,761	-	-	141	-	3,902
Financial assets measured at amortised cost	8,986	-	18	19	23	9,046
Accounts receivable and deposits ³	10,830	37	-	-	-	10,867
	65,029	37	18	160	23	65,267

¹ 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.

² 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.

³ Amounts excluded prepayments of \$100 million (31 December 2013: \$79 million).

	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 ⁴	9	-	-	-	9
Amounts due from subsidiaries	2,510	-	6	16,036	18,552
	6,965	-	6	16,037	23,008

51. Financial Risk Management (continued)**(b) Liquidity risk management (continued)**

	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 ⁴	12	-	-	-	12
Amounts due from subsidiaries	8,488	-	6	15,503	23,997
	12,542	-	6	15,504	28,052

⁴ 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.

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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 ⁵	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
Total	160,920	794	276	6,002	1,612	169,604

	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 ⁵	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
Total	55,992	461	230	5,349	2,455	64,487

⁵ Amounts excluded non-financial liabilities of \$16 million (31 December 2013: \$21 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
Total	4,569	7	70	5,536	1,612	11,794

51. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	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
Total	9,697	11	82	4,886	2,455	17,131

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.

	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

51. Financial Risk Management (continued)

(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, SEOCH, 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.

(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.

51. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management (continued)

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	Maximum exposure to credit risk	Carrying amount in consolidated statement of financial position	Maximum exposure to credit risk
	\$m	\$m	\$m	\$m
Financial guarantee contract				
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	Maximum exposure to credit risk	Carrying amount in statement of financial position	Maximum exposure to credit risk
	\$m	\$m	\$m	\$m
Financial guarantee contracts				
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:

51. Financial Risk Management (continued)

(c) Credit risk management (continued)

(iv) Collateral held for mitigating credit risk (continued)

	Group			
	At 31 Dec 2014		At 31 Dec 2013	
	Carrying amount in consolidated statement of financial position	Collateral held for mitigating credit risk	Carrying amount in consolidated statement of financial position	Collateral held for mitigating credit risk
	\$m	\$m	\$m	\$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 repurchase investments	71,262	71,262	-	-

No collateral was held by HKEx to mitigate its exposure to credit risk.

(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	At 31 Dec 2013
	\$m	\$m
Up to six months	395	340
Over 3 years ¹	23	-
	418	340

¹ 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	Level 2	Level 3	Total	Level 3
	\$m	\$m	\$m	\$m	\$m
Recurring fair value measurements:					
Financial assets					
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	-

Recurring fair value measurements:

Financial liabilities

Other financial liabilities of Corporate Funds:

Financial liabilities at fair value through profit or loss:

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

Group					Impact on valuation	
Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	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	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-20/+26	-18/+23
(31 Dec 2013: \$141 million)	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

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)

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

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:

HKEx						
Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					At 31 Dec 2014 \$m	At 31 Dec 2013 \$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

(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
Assets				
Financial assets measured at amortised cost:				
- debt securities ¹	-	-	70	70
- other financial assets maturing over one year ²	57	51	60	57
Liabilities				
Borrowings:				
- Liability component of convertible bonds ³	3,701	3,812	3,607	3,639
- Notes ³	1,515	1,521	770	770
- Written put options to non-controlling interests ³	225	227	218	219
Financial guarantee to the Collector of Stamp Revenue ⁴	20	67	20	55

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)

	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
Assets				
Financial assets measured at amortised cost:				
- other financial assets maturing over one year ²	1	1	1	1
Amounts due from subsidiaries under non-current assets ³	16,036	16,308	15,503	15,854
Liabilities				
Amounts due to a subsidiary under non-current liabilities ³	3,385	3,376	3,341	3,225
Borrowings:				
- Notes ³	1,515	1,521	770	770
Financial guarantee in favour of HKSCC ⁴	11	34	11	27
Financial guarantee for convertible bonds issued by HKEx International Limited ⁵	112	115	151	154

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

² The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 0.83 per cent to 2.78 per cent at 31 December 2014 (31 December 2013: 0.80 per cent to 3.20 per cent).

³ The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount 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).

⁴ The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 1.85 per cent at 31 December 2014 (31 December 2013: 2.29 per cent).

⁵ 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).

51. Financial Risk Management (continued)**(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.

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

	Group					
	At 31 Dec 2014					
	Related amounts not offset in the consolidated statement of financial position					
Type of financial assets	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	Financial liabilities other than cash collateral \$m	Cash collateral received \$m	Net amount \$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
Total	1,423,950	(1,342,857)	81,093	(49,688)	(21,457)	9,948

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 (continued)

Type of financial assets	Group					
	At 31 Dec 2013					
	Related amounts not offset in the consolidated statement of financial position					
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position	Net amount of financial assets presented in the 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	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
Total	117,545	(107,396)	10,149	(1,974)	(2,173)	6,002

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

Type of financial liabilities	Group					
	At 31 Dec 2014					
	Related amounts not offset in the consolidated statement of financial position					
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Financial assets other than cash collateral	Cash collateral pledged	Net amount
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations payable	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

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 (continued)

Type of financial liabilities	Group					
	At 31 Dec 2013					
	Related amounts not offset in the consolidated statement of financial position					
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Financial assets other than cash collateral	Cash collateral pledged	Net amount
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations payable	117,263	(107,396)	9,867	(1,974)	-	7,893

(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 measured 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	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
	\$m	\$m	\$m	\$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

51. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities (continued)

(iii) (continued)

	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.