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 2013

As at 26 February 2014, the board of directors of Hong Kong Exchanges and Clearing Limited (HKEx) comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mrs LEUNG KO May Yee, Margaret, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2013 $m**	2012 $m
Trading fees and trading tariff	5	**3,509**	2,448
Stock Exchange listing fees	6	**1,016**	916
Clearing and settlement fees		**1,631**	1,406
Depository, custody and nominee services fees		**629**	644
Market data fees		**737**	570
Other revenue	7	**609**	448
REVENUE AND TURNOVER		**8,131**	6,432
Gains on disposal of financial assets measured at amortised cost		**-**	1
Other investment income		**585**	768
Interest rebates to Participants		**(4)**	(3)
Net investment income	8	**581**	766
Sundry income	9	**11**	13
REVENUE AND OTHER INCOME	4	**8,723**	7,211
OPERATING EXPENSES			
Staff costs and related expenses	10	**(1,495)**	(1,178)
Information technology and computer maintenance expenses	11	**(549)**	(299)
Premises expenses		**(302)**	(254)
Product marketing and promotion expenses		**(29)**	(19)
Legal and professional fees		**(146)**	(54)
Other operating expenses	12	**(256)**	(153)
		(2,777)	(1,957)
EBITDA[1]	2(g)	**5,946**	5,254
Depreciation and amortisation		**(507)**	(158)
OPERATING PROFIT	13	**5,439**	5,096
Costs relating to acquisition of LME Group	14	**-**	(138)
Finance costs	15	**(183)**	(55)
Fair value loss on derivative component of convertible bonds	35(b)	**-**	(55)
Share of loss of a joint venture	27(a)(iii)	**(10)**	(3)
PROFIT BEFORE TAXATION		**5,246**	4,845
TAXATION	18(a)	**(700)**	(761)
PROFIT FOR THE YEAR		**4,546**	4,084
PROFIT/(LOSS) ATTRIBUTABLE TO:			
- Shareholders of HKEx	43	**4,552**	4,084
- Non-controlling interests	38(c)(i)	**(6)**	-
		4,546	4,084
Basic earnings per share	19(a)	**$3.95**	$3.75
Diluted earnings per share	19(b)	**$3.94**	$3.74
DIVIDENDS	20	**4,092**	3,671

[1] In 2013, an additional subtotal for EBITDA has been added in the consolidated income statement as a new non-HKFRS measure for monitoring business performance.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

	Note	2013 $m	2012 $m
PROFIT FOR THE YEAR		**4,546**	4,084
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)	**379**	189
OTHER COMPREHENSIVE INCOME		**379**	189
TOTAL COMPREHENSIVE INCOME		**4,925**	4,273
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
- Shareholders of HKEx		**4,931**	4,273
- Non-controlling interests	38(c)(i)	**(6)**	-
TOTAL COMPREHENSIVE INCOME[1]		**4,925**	4,273

[1] Details of the change in presentation of the consolidated statement of comprehensive income is set out in note 2(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2013			At 31 Dec 2012		
		Current	Non-current	Total	Current	Non-current	Total
	Note	$m	$m	$m	$m	$m	$m
ASSETS							
Cash and cash equivalents	21, 22	**41,452**	**-**	**41,452**	34,077	-	34,077
Financial assets measured at fair value through profit or loss	21, 23	**3,761**	**141**	**3,902**	4,369	123	4,492
Financial assets measured at amortised cost	21, 24(a)	**8,986**	**60**	**9,046**	8,442	131	8,573
Accounts receivable, prepayments and deposits	26	**10,940**	**6**	**10,946**	13,689	7	13,696
Taxation recoverable		**7**	**-**	**7**	-	-	-
Interest in a joint venture	27(a)	**-**	**87**	**87**	-	97	97
Goodwill and other intangible assets	28(a)	**-**	**18,680**	**18,680**	-	18,183	18,183
Fixed assets	29(a)	**-**	**1,753**	**1,753**	-	1,675	1,675
Lease premium for land	30	**-**	**23**	**23**	-	24	24
Deferred tax assets	37(d)	**-**	**47**	**47**	-	20	20
Total assets		**65,146**	**20,797**	**85,943**	60,577	20,260	80,837
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits and cash collateral from Clearing Participants	21, 31	**39,793**	**-**	**39,793**	36,786	-	36,786
Accounts payable, accruals and other liabilities	32	**12,815**	**19**	**12,834**	15,818	20	15,838
Deferred revenue		**593**	**-**	**593**	530	-	530
Taxation payable		**379**	**-**	**379**	178	-	178
Other financial liabilities	33	**27**	**-**	**27**	57	-	57
Participants' contributions to Clearing House Funds	21, 34	**3,884**	**-**	**3,884**	1,924	-	1,924
Borrowings	35	**-**	**6,921**	**6,921**	-	6,615	6,615
Provisions	36(a)	**47**	**47**	**94**	44	45	89
Deferred tax liabilities	37(d)	**-**	**900**	**900**	-	1,056	1,056
Total liabilities		**57,538**	**7,887**	**65,425**	55,337	7,736	63,073

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2013			At 31 Dec 2012		
		Current	**Non-current**	**Total**	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m
Equity							
Share capital	39			**1,161**			1,150
Share premium	39			**10,167**			8,731
Shares held for Share Award Scheme	39			**(174)**			(305)
Employee share-based compensation reserve	40			**105**			122
Exchange reserve	2(ad)(iii)			**568**			189
Convertible bond reserve	35(b)			**409**			409
Designated reserves	34, 41			**586**			587
Reserve relating to written put options to non-controlling interests	35(d)			**(217)**			-
Retained earnings	43			**7,800**			6,881
Equity attributable to shareholders of HKEx				**20,405**			17,764
Non-controlling interests	38(c)(i)			**113**			-
Total equity				**20,518**			17,764
Total liabilities and equity				**85,943**			80,837
Net current assets				**7,608**			5,240
Total assets less current liabilities				**28,405**			25,500

Approved by the Board of Directors on 26 February 2014

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

		At 31 Dec 2013			At 31 Dec 2012		
		Current	**Non-current**	**Total**	Current	Non-current	Total
	Note	**$m**	**$m**	**$m**	$m	$m	$m
ASSETS							
Cash and cash equivalents	21, 22	**2,704**	**-**	**2,704**	797	-	797
Financial assets measured at amortised cost	21, 24(b)	**1,338**	**1**	**1,339**	1,213	1	1,214
Accounts receivable, prepayments and deposits	26	**31**	**5**	**36**	31	5	36
Amounts due from subsidiaries	38(b)	**8,494**	**15,503**	**23,997**	5,377	14,943	20,320
Interest in a joint venture	27(a)	**-**	**100**	**100**	-	100	100
Intangible assets	28(b)	**-**	**71**	**71**	-	22	22
Fixed assets	29(b)	**-**	**265**	**265**	-	234	234
Investments in subsidiaries	38(a)	**-**	**5,326**	**5,326**	-	4,843	4,843
Total assets		**12,567**	**21,271**	**33,838**	7,418	20,148	27,566
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable, accruals and other liabilities	32	**315**	**-**	**315**	393	-	393
Amounts due to subsidiaries	38(b)	**5,430**	**3,341**	**8,771**	2,202	3,294	5,496
Taxation payable		**29**	**-**	**29**	15	-	15
Other financial liabilities	33	**287**	**-**	**287**	203	-	203
Borrowings	35	**-**	**3,096**	**3,096**	-	3,100	3,100
Provisions	36(b)	**43**	**2**	**45**	40	2	42
Deferred tax liabilities	37(d)	**-**	**28**	**28**	-	13	13
Total liabilities		**6,104**	**6,467**	**12,571**	2,853	6,409	9,262
Equity							
Share capital	39			**1,161**			1,150
Share premium	39			**10,167**			8,731
Shares held for Share Award Scheme	39			**(174)**			(305)
Employee share-based compensation reserve	40			**105**			122
Convertible bond reserve	35(b)			**409**			409
Merger reserve	42			**694**			694
Retained earnings	43			**8,905**			7,503
Equity attributable to shareholders of HKEx				**21,267**			18,304
Total liabilities and equity				**33,838**			27,566
Net current assets				**6,463**			4,565
Total assets less current liabilities				**27,734**			24,713

Approved by the Board of Directors on 26 February 2014

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx									
	Share capital, share premium and shares held for Share Award Scheme (note 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	Non-controlling interests $m	Total equity $m
At 1 Jan 2012	1,423	106	-	-	577	-	7,053	9,159	-	9,159
Profit for the year	-	-	-	-	-	-	4,084	4,084	-	4,084
Other comprehensive income	-	-	189	-	-	-	-	189	-	189
Total comprehensive income	-	-	189	-	-	-	4,084	4,273	-	4,273
Total contributions by and distributions to shareholders of HKEx, recognised directly in equity:										
- 2011 final dividend at $2.09 per share	-	-	-	-	-	-	(2,252)	(2,252)	-	(2,252)
- 2012 interim dividend at $1.85 per share	-	-	-	-	-	-	(1,996)	(1,996)	-	(1,996)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	7	7	-	7
- Shares issued upon placement of shares	7,708	-	-	-	-	-	-	7,708	-	7,708
- Shares issued upon exercise of employee share options	2	-	-	-	-	-	-	2	-	2
- Shares issued in lieu of cash dividends	442	-	-	-	-	-	-	442	-	442
- Shares purchased for Share Award Scheme	(93)	-	-	-	-	-	-	(93)	-	(93)
- Vesting of shares of Share Award Scheme	93	(88)	-	-	-	-	(5)	-	-	-
- Employee share-based compensation benefits	-	105	-	-	-	-	-	105	-	105
- Substitution of convertible bonds	-	-	-	409	-	-	-	409	-	409
- Transfer of reserves	1	(1)	-	-	10	-	(10)	-	-	-
Total transactions with shareholders recognised directly in equity	8,153	16	-	409	10	-	(4,256)	4,332	-	4,332
At 31 Dec 2012	9,576	122	189	409	587	-	6,881	17,764	-	17,764

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

	Attributable to shareholders of HKEx									
	Share capital, share premium and shares held for Share Award Scheme (note 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	Non-controlling interests $m	Total equity $m
At 1 Jan 2013	9,576	122	189	409	587	-	6,881	17,764	-	17,764
Profit for the year	-	-	-	-	-	-	4,552	4,552	(6)	4,546
Other comprehensive income	-	-	379	-	-	-	-	379	-	379
Total comprehensive income	-	-	379	-	-	-	4,552	4,931	(6)	4,925
Total contributions by and distributions to shareholders of HKEx, recognised directly in equity:										
- 2012 final dividend at $1.46 per share	-	-	-	-	-	-	(1,675)	(1,675)	-	(1,675)
- 2013 interim dividend at $1.82 per share	-	-	-	-	-	-	(2,097)	(2,097)	-	(2,097)
- Unclaimed HKEx dividends forfeited	-	-	-	-	-	-	15	15	-	15
- Shares issued upon exercise of employee share options	1	-	-	-	-	-	-	1	-	1
- Shares issued in lieu of cash dividends	1,433	-	-	-	-	-	-	1,433	-	1,433
- Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	-	(2)	-	(2)
- Vesting of shares of Share Award Scheme	146	(136)	-	-	-	-	(10)	-	-	-
- Employee share-based compensation benefits	-	119	-	-	-	-	-	119	-	119
- Transfer of reserves	-	-	-	-	(1)	-	1	-	-	-
- Put options written to non-controlling interests	-	-	-	-	-	(217)	-	(217)	-	(217)
Total changes in ownership interests in subsidiaries that do not result in a loss of control:										
- Sale of interest in a subsidiary to non-controlling interests (note 48(a))	-	-	-	-	-	-	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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

(Financial figures are expressed in Hong Kong Dollar)

	Note	**2013** **$m**	2012 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	44	**4,988**	6,491
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		**(797)**	(1,042)
Acquisition of subsidiaries, net of cash acquired		**-**	(16,754)
Payment for interest in a joint venture		**-**	(100)
Net (increase)/decrease in financial assets of Corporate Funds:			
(Increase)/decrease in time deposits with original maturities more than three months		**(60)**	534
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		**24**	607
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		**282**	1,103
Interest received from financial assets measured at amortised cost (excluding time deposits)		**1**	18
Interest received from financial assets measured at fair value through profit or loss		**27**	89
Net cash outflow from investing activities		**(523)**	(15,545)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**-**	3,099
Proceeds from issuance of convertible bonds		**-**	3,875
Proceeds from issuance of shares		**1**	7,755
Proceeds from issuance of notes		**769**	-
Payments of transaction costs on bank loans		**-**	(3)
Payments of transaction costs on issuance of convertible bonds		**-**	(30)
Payments of transaction costs on placement of shares		**-**	(45)
Repayments of bank borrowings		**(775)**	-
Payments of financing related costs	15	**-**	(30)
Payments of finance costs		**(89)**	-
Purchases of shares for Share Award Scheme		**(2)**	(93)
Dividends paid to shareholders of HKEx		**(2,320)**	(3,784)
Proceeds from disposal of interest in a subsidiary without loss of control	48(a)	**252**	-
Net cash (outflow)/inflow from financing activities		**(2,164)**	10,744
Net increase in cash and cash equivalents		**2,301**	1,690
Cash and cash equivalents at 1 Jan		**4,035**	2,340
Exchange differences on cash and cash equivalents		**39**	5
Cash and cash equivalents at 31 Dec		**6,375**	4,035
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks	22	**6,531**	4,035
Less:			
Cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	22(a)	**(156)**	-
		6,375	4,035

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 for the trading of base metals futures and options contracts operating in the United Kingdom (UK).

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 26 February 2014.

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), accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules).

(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.

<u>Adoption of new/revised HKFRSs</u>

In 2013, the Group has adopted the following new/revised HKFRSs which were effective for accounting periods beginning on or after 1 January 2013:

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle

The amendments to HKFRS 7 require disclosure of financial assets and financial liabilities that are (i) offset in the statement of financial position; or (ii) subject to master netting arrangements or similar arrangements irrespective of whether they are offset. The adoption of amendments to HKFRS 7 only affects disclosures relating to offsetting financial assets and financial liabilities in the Group's consolidated financial statements (note 52(e)).

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

Adoption of new/revised HKFRSs (continued)

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

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

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

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

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

Early adoption of new/revised HKFRSs

In the fourth quarter of 2013, the Group early adopted the amendments to HKAS 36: Recoverable Amount Disclosures for Non-Financial Assets, where early adoption is permitted. The amendments remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) when it contains goodwill or intangible assets with indefinite useful lives when there has been no impairment. The amendments also expand the disclosure requirements for an individual asset (including goodwill) and a CGU for which an impairment loss has been recognised or reversed during the reporting period. The early adoption of amendments to HKAS 36 removes the requirement to disclose the recoverable amounts of CGUs as there was no impairment of these intangible assets.

Change in presentation of the consolidated statement of comprehensive income

Prior to the proposed acquisition of LME Holdings Limited (LMEH), The London Metal Exchange (LME) and LME Clear Limited (LME Clear) (collectively, LME Group) in December 2012, the Group did not have any other comprehensive income and presented all items of income and expense in a single statement - consolidated statement of comprehensive income. Following this acquisition, more items of other comprehensive income are expected to arise from the Group's enlarged operations and from 2013 onwards, the Group has therefore decided to separately present a consolidated income statement and a consolidated statement of comprehensive income.

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

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

New/revised HKFRSs issued before 31 December 2013 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2013 and are pertinent to its operations but not yet effective:

HK(IFRIC) Interpretation 21	Levies[1]
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9	Financial Instruments: Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[2]

[1]Effective for accounting periods beginning on or after 1 January 2014

[2]The effective date will be determined once the classification and measurement and impairment phases of HKFRS 9 are finalised.

The adoption of those HKFRSs effective from 1 January 2014 is not expected to have any material impact on the Group as it already complies with the requirements of the standards. The amendments to HKFRS 9 are not expected to have any material impact on the Group as it currently does not have any hedging transactions.

(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 uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values 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 value 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.

2. Principal Accounting Policies (continued)

(c) Subsidiaries (continued)

(i) Consolidation (continued)

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 were 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.

(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.

(i) Joint ventures

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.

2. Principal Accounting Policies (continued)

(e) Joint arrangements (continued)

(i) Joint ventures (continued)

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.

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenue and expenses of a joint operation are apportioned between the joint operators in accordance with the agreement.

(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 are recognised in the consolidated income statement on the following basis:

(i) Trading fees and trading tariff are recognised on a trade date basis.

(ii) Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts (CBBCs) and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(iii) Fees for clearing and settlement of trades between Participants in eligible securities transacted on The Stock Exchange of Hong Kong Limited (Stock Exchange) are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for 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. 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.

2. Principal Accounting Policies (continued)

(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 and other non-recurring costs arising from the acquisition of the LME Group. 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.

(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

<u>Equity-settled share-based payment transactions</u>

The Group operates the HKEx Share Award Scheme (Share Award Scheme), under which share awards were 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 the 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.

2. Principal Accounting Policies (continued)

(j) Employee benefit costs (continued)

(ii) Equity compensation benefits (continued)

Cash-settled share-based payment transactions

For share options granted under the LME Shadow Equity Long-Term Incentive Plan (LME Long-Term Incentive Plan), a cash-settled shared-based arrangement, the fair value of employee services received in exchange for the grant of options was credited to the LME Long-Term Incentive Plan payable under accounts payable, accruals and other liabilities on the acquisition date.

At the end of each reporting period and at the date of settlement, the Group remeasures the fair value of the LME Long-Term Incentive Plan payable, with any changes in fair value charged/credited to the employee share-based compensation expense.

(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.

(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

2. Principal Accounting Policies (continued)

(m) Fixed assets (continued)

Expenditures 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 expenditures 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 expenditures 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 expenditures 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 expenditures 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.

(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 CGUs, 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.

2. Principal Accounting Policies (continued)

(o) Intangible assets (continued)

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

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

2. Principal Accounting Policies (continued)

(p) Impairment of non-financial assets

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

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

(q) Margin deposits 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) and OTC Clearing Hong Kong Limited (OTC 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.

The obligation to refund the margin deposits and cash collateral is disclosed as Margin deposits and cash collateral from Clearing Participants under current liabilities. Non-cash collateral (ie, securities and bank guarantees) 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 and OTC Clear.

Participants' contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants (ie, contributions receivable from Clearing Participants fully secured by bank guarantees) is not recognised on the consolidated statement of financial position.

(s) Derivative financial instruments

Derivatives, which may include forward foreign exchange, futures and options contracts, are initially recognised at fair value on trade-date and subsequently remeasured at their fair values. Changes in fair value are recognised in profit or loss, except when the derivatives are designated as cash flow hedges (note 2(t)). 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.

2. Principal Accounting Policies (continued)

(t) Hedge accounting

The Group documents at the inception of the hedge transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in cash flows of the hedged items caused by the risk being hedged.

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in other comprehensive income and accumulated in equity in a hedging reserve. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in profit or loss.

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset, the gains or losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the non-financial asset. In case of business combination, the amounts accumulated in the hedging reserve will be treated as a basis adjustment to goodwill (and as part of the consideration payable).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been retained in hedging reserve at that time remains in hedging reserve and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss retained in hedging reserve is immediately reclassified to profit or loss.

(u) Financial assets

(i) Classification

Financial assets of the Group are maintained for the Corporate Funds, Clearing House Funds, Margin Funds and cash collateral received from the Participants (note 21).

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

<u>Financial assets measured at amortised cost</u>

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

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

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

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

2. Principal Accounting Policies (continued)

(u) Financial assets (continued)

(i) Classification (continued)

Financial assets measured at fair value through profit or loss

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

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

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

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

Financial assets of Corporate Funds, 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 trade-date. Assets classified as financial assets measured at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

(iv) Gains or losses on subsequent measurement, interest income and dividend income

Financial assets measured at fair value through profit or loss

- Financial assets under this category are investments carried at fair value. Gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.
- Interest income is recognised in profit or loss using the effective interest method and included in net fair value gains/(losses) and interest income from these financial assets.
- Dividend income is recognised when the right to receive a dividend is established and included under "others" in net investment income.

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.

2. Principal Accounting Policies (continued)

(u) Financial assets (continued)

(v) Fair value measurement principles

Fair values of quoted investments are based on the most representative prices within the bid-ask spreads which are currently considered as the bid-prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

(vi) Impairment of financial assets measured at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the financial assets and have an impact on their estimated future cash flows that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

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.

2. Principal Accounting Policies (continued)

(v) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are 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.

(w) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled 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.

(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.

2. Principal Accounting Policies (continued)

(y) Convertible bonds

Convertible bonds with conversion options which are not settled by exchanging a fixed amount of cash for a fixed number of HKEx shares comprise a derivative component and a liability component.

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.

At initial recognition the derivative component of the convertible bonds is measured at fair value. Any excess of the proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs relating to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability component. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value, with changes in fair value recognised immediately in profit or loss. The liability component is subsequently 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.

When the obligation to deliver a variable number of shares upon conversion expires, lapses or is cancelled and the convertible bonds with conversion options are to be settled by exchanging a fixed amount of cash for a fixed number of HKEx shares, the conversion option is reclassified from derivative liability to the convertible bond reserve under equity. The convertible bond reserve is not remeasured subsequent to initial recognition.

(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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)

(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 except when deferred in equity as qualifying cash flow hedges (note 2(t)).

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.

(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 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 cash collateral and the Clearing House Funds, 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.

2. Principal Accounting Policies (continued)

(ag) Shares held for Share Award Scheme

Where HKEx shares are acquired by the Share Award Scheme from the market or by electing 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 premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

(ah) Operating Segments

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker (note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as HKEx's Chief Executive. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

(ai) Dividends

Dividends disclosed in note 20 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 28(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 2013, the Group had unrecognised tax losses carried forward amounting to $559 million (31 December 2012: $431 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 $92 million (2012: $71 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.

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

At 31 December 2013, the financial assets that are classified as Level 2 and Level 3 investments under HKFRS 13 amounted to $3,626 million (31 December 2012: $4,276 million). If the fair value of such financial assets dropped by 1 per cent, the Group’s profit before taxation would decrease by $36 million (2012: $43 million).

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.

Following the acquisition of the LME Group in December 2012, the Group underwent an internal reorganisation to better align its business activities to its strategic objectives. As a result, effective from January 2013, the reportable segments have been reorganised into five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group's new reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, sales of 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 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 four clearing houses, namely HKSCC, SEOCH, HKCC and OTC Clear, which are responsible for clearing, settlement and custodian activities of the Stock Exchange and the Futures Exchange, clearing over-the-counter derivatives contracts, and the development and operations of the new clearing house for clearing base metals futures and options contracts traded on LME (LME Clear). Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on Margin Funds, cash collateral and Clearing House Funds.

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". Costs of developing new business initiatives before launch (such as OTC Clear and LME Clear) are included under the respective reportable segments.

In 2012, the Group had five reportable segments:

The **Cash Market** segment mainly referred to the operations of the Stock Exchange, which cover all products traded on the Cash Market platforms, such as equities, CBBCs and DWs. The major sources of revenue of the segment were trading fees, trading tariff and listing fees. Results of the Listing Function were included in the Cash Market.

4. Operating Segments (continued)

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

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

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

The **Market Data** segment referred to activities relating to developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its revenue principally comprised market data fees of the Cash and Derivatives Markets.

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

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

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:

	2013						
	Cash $m	Equity and Financial Derivatives $m	Commodities $m	Clearing $m	Platform and Infrastructure $m	Corporate Items $m	Group $m
Revenue from external customers	2,455	1,662	1,210	2,452	347	5	8,131
Net investment income	-	-	-	393	-	188	581
Sundry income	-	-	-	11	-	-	11
Revenue and other income	2,455	1,662	1,210	2,856	347	193	8,723
Operating expenses	(447)	(422)	(514)	(563)	(137)	(694)	(2,777)
Reportable segment EBITDA	2,008	1,240	696	2,293	210	(501)	5,946
Depreciation and amortisation	(55)	(48)	(287)	(62)	(38)	(17)	(507)
Finance costs	-	-	-	-	-	(183)	(183)
Share of loss of a joint venture	-	(10)	-	-	-	-	(10)
Reportable segment profit before taxation	1,953	1,182	409	2,231	172	(701)	5,246
Interest income	-	-	-	361	-	42	403
Interest rebates to Participants	-	-	-	(4)	-	-	(4)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	-	-	-	11	-	-	11
Employee share-based compensation expenses	(25)	(22)	(4)	(19)	(2)	(47)	(119)
Reversal of provision for/(provision for) impairment losses	1	-	(2)	-	-	-	(1)

4. Operating Segments (continued)

	As restated 2012						
	Cash $m	Equity and Financial Derivatives $m	Commodities $m	Clearing $m	Platform and Infrastructure $m	Corporate Items $m	Group $m
Revenue from external customers	2,203	1,599	74	2,201	354	1	6,432
Net investment income	-	-	-	453	-	313	766
Sundry income	-	-	-	13	-	-	13
Revenue and other income	2,203	1,599	74	2,667	354	314	7,211
Operating expenses	(472)	(399)	(37)	(402)	(171)	(476)	(1,957)
Reportable segment EBITDA	1,731	1,200	37	2,265	183	(162)	5,254
Depreciation and amortisation	(38)	(30)	(22)	(47)	(11)	(10)	(158)
Costs relating to acquisition of LME Group	-	-	-	-	-	(138)	(138)
Finance costs	-	-	-	-	-	(55)	(55)
Fair value loss on derivative component of convertible bonds	-	-	-	-	-	(55)	(55)
Share of loss of a joint venture	-	(3)	-	-	-	-	(3)
Reportable segment profit before taxation	1,693	1,167	15	2,218	172	(420)	4,845
Interest income	-	-	-	328	-	53	381
Interest rebates to Participants	-	-	-	(3)	-	-	(3)
Other material non-cash items:							
Forfeiture of unclaimed cash dividends held by HKSN	-	-	-	13	-	-	13
Employee share-based compensation expenses	(29)	(23)	-	(18)	(1)	(34)	(105)
Reversal of provision for impairment losses	1	-	-	-	-	-	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:

	2013 $m	2012 $m
Hong Kong (place of domicile)	**6,921**	6,358
United Kingdom	**1,210**	74
	8,131	6,432

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 2013 $m	At 31 Dec 2012 $m
Hong Kong (place of domicile)	**2,168**	1,966
United Kingdom	**18,375**	18,018
China	**6**	2
	20,549	19,986

(c) Information about major customers

In 2013 and 2012, 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

	2013 $m	2012 $m
Trading fees and trading tariff were derived from:		
Securities traded on the Stock Exchange (excluding stock options contracts)	**1,815**	1,583
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	**833**	814
Base metals futures and options contracts traded on LME	**861**	51
	3,509	2,448

6. Stock Exchange Listing Fees

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

	2013				2012			
	Equity				Equity			
	Main Board	**GEM**	**CBBCs, DWs & others**	**Total**	Main Board	GEM	CBBCs, DWs & others	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Stock Exchange Listing Fees								
Annual listing fees	**453**	**25**	**2**	**480**	444	24	3	471
Initial and subsequent issue listing fees	**81**	**13**	**437**	**531**	92	10	339	441
Other listing fees	**4**	**1**	**-**	**5**	3	1	-	4
Total	**538**	**39**	**439**	**1,016**	539	35	342	916
Direct costs of listing function	**(309)**	**(89)**	**(27)**	**(425)**	(297)	(85)	(21)	(403)
Contribution before indirect costs	**229**	**(50)**	**412**	**591**	242	(50)	321	513

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. Central overheads have not been allocated to the listing function above.

7. Other Revenue

	2013 **$m**	2012 $m
Network, terminal user, dataline and software sub-license fees	**262**	334
Commodities stock levies and warehouse listing fees	**127**	10
Hosting services	**75**	8
Participants' subscription and application fees	**65**	36
Brokerage on direct IPO allotments	**9**	2
Trading booth user fees	**11**	11
Sales of Trading Rights	**8**	19
Miscellaneous revenue	**52**	28
	609	448

8. Net Investment Income

	2013 $m	2012 $m
Interest income from financial assets measured at amortised cost		
- bank deposits	**402**	369
- listed securities	**-**	5
- unlisted securities	**1**	7
Gross interest income	**403**	381
Interest rebates to Participants	**(4)**	(3)
Net interest income	**399**	378
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss		
- listed securities	**45**	191
- unlisted securities	**149**	179
- exchange differences	**39**	89
	233	459
Net fair value losses on financial liabilities at fair value through profit or loss, held for trading		
- exchange differences	**(48)**	(99)
Gains on disposal of unlisted financial assets measured at amortised cost	**-**	1
Others	**(3)**	27
Net investment income	**581**	766

9. Sundry Income

In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of $11 million (2012: $13 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 claims 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:

	2013 $m	2012 $m
Salaries and other short-term employee benefits	**1,267**	989
Employee share-based compensation benefits of Share Award Scheme (note 40)	**119**	105
Termination benefits	**11**	3
Retirement benefit costs (note (a)):		
- ORSO Plan	**79**	80
- MPF Scheme	**1**	1
- LME Pension Scheme	**18**	-
	1,495	1,178

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 of $1,250 per month). 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 aged over 25 (LME Pension Scheme). The Group contributes 15 per cent to 17 per cent of the employee’s basic salary to the LME Pension Scheme. 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

	2013 **$m**	2012 $m
Costs of services and goods:		
- consumed by the Group	**474**	177
- directly consumed by Participants	**75**	122
	549	299

12. Other Operating Expenses

	2013 **$m**	2012 $m
Insurance	**9**	5
Financial data subscription fees	**16**	9
Custodian and fund management fees	**6**	12
Bank charges	**32**	20
Repairs and maintenance expenses	**27**	12
License fees	**21**	19
Communication expenses	**15**	8
Travel expenses	**40**	10
Security expenses	**10**	7
Premises cleaning expenses	**8**	3
Contribution to Financial Reporting Council	**5**	4
Other miscellaneous expenses	**67**	44
	256	153

13. Operating Profit

	2013 $m	2012 $m
Operating profit is stated after (charging)/crediting:		
Amortisation of intangible assets (note 28(a))	**(309)**	(24)
Auditor's remuneration		
- statutory audit fees	**(9)**	(6)
- warehouse stock count fees	**-**	(1)
- other non-audit fees	**(6)**	(3)
Depreciation of fixed assets (note 29(a))	**(198)**	(134)
Operating lease rentals		
- land and buildings	**(219)**	(199)
- computer systems and equipment	**(19)**	(11)
Net foreign exchange (losses)/gains on financial assets and liabilities (excluding financial assets and financial liabilities measured at fair value through profit or loss)	**(10)**	13
Gain on disposal of fixed assets	**-**	1

14. Costs Relating to Acquisition of LME Group

	2013 $m	2012 $m
Legal and professional fees (note (a))	**-**	129
Others	**-**	9
	-	138

(a) The balance in 2012 included $2 million paid to the auditor for non-audit services.

15. Finance Costs

	2013 $m	2012 $m
Financing related costs for acquisition of LME Group (note (a))	**-**	30
Interest expenses:		
- Bank borrowings not wholly repayable within five years (note 35(a))	**70**	3
- Convertible bonds wholly repayable within five years (note 35(b))	**110**	21
- Notes wholly repayable within five years (note 35(c))	**1**	-
- Written put option to non-controlling interests (note 35(d))	**1**	-
Net foreign exchange losses on financing activities	**1**	1
	183	55

(a) The costs were incurred for the purpose of establishing a banking facility for the acquisition of LME Group. Subsequently, the facility was not used and was cancelled. Accordingly, the costs were charged to profit or loss in 2012.

16. Directors' Emoluments

All Directors, including one Executive Director (HKEx's Chief Executive), received emoluments during the years ended 31 December 2013 and 31 December 2012. The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2013 $'000	2012 $'000
Executive Director:		
Salaries and other short-term employee benefits	**8,828**	7,813
Performance bonus	**9,374**	6,560
Retirement benefit costs	**1,081**	955
	19,283	15,328
Employee share-based compensation benefits (note (a))	**18,925**	9,247
	38,208	24,575
Non-executive Directors:		
Fees	**11,325**	8,921
	49,533	33,496

(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:

	2013 Number of Directors	2012 Number of Directors
$1 – $500,000	**1**	2
$500,001 – $1,000,000	**10**	12
$1,500,001 - $2,000,000	**2**	-
$24,500,001 – $25,000,000	**-**	1
$38,000,001 – $38,500,000	**1**	-
	14	15

16. 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 2013 and 31 December 2012 are set out below:

	2013							
Name of Director	**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 (note (iii))	**1,913**	**-**	**-**	**-**	**-**	**1,913**	**-**	**1,913**
Ronald J Arculli (note (iv))	**175**	**-**	**-**	**-**	**-**	**175**	**-**	**175**
Charles X Li	**-**	**8,653**	**175**	**9,374**	**1,081**	**19,283**	**18,925**	**38,208**
Ignatius T C Chan	**705**	**-**	**-**	**-**	**-**	**705**	**-**	**705**
Timothy G Freshwater (note (iii))	**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 (v))	**538**	**-**	**-**	**-**	**-**	**538**	**-**	**538**
John E Strickland	**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**

	2012							
Name of Director	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 (note (iii))	957	-	-	-	-	957	-	957
Ronald J Arculli (note (iv))	734	-	-	-	-	734	-	734
Charles X Li	-	7,642	171	6,560	955	15,328	9,247	24,575
Laura M Cha (note (vi))	116	-	-	-	-	116	-	116
Ignatius T C Chan	643	-	-	-	-	643	-	643
Moses M C Cheng (note (vi))	116	-	-	-	-	116	-	116
Timothy G Freshwater (note (iii))	532	-	-	-	-	532	-	532
John B Harrison	836	-	-	-	-	836	-	836
Stephen C C Hui	643	-	-	-	-	643	-	643
Bill C P Kwok	757	-	-	-	-	757	-	757
Vincent K H Lee	757	-	-	-	-	757	-	757
Michael T H Lee	643	-	-	-	-	643	-	643
John E Strickland	676	-	-	-	-	676	-	676
John M M Williamson	865	-	-	-	-	865	-	865
Oscar S H Wong	646	-	-	-	-	646	-	646
Total	8,921	7,642	171	6,560	955	24,249	9,247	33,496

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 23 April 2012

(iv) Retired on 24 April 2013

(v) Appointment effective 24 April 2013.

(vi) Retired on 23 April 2012

17. Five Top-paid Employees

One (2012: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 16. Details of the emoluments of the other four (2012: four) top-paid employees were as follows:

	2013 $'000	2012 $'000
Salaries and other short-term employee benefits	**18,714**	18,765
Performance bonus	**17,203**	13,700
Retirement benefit costs	**2,222**	2,210
	38,139	34,675
Employee share-based compensation benefits (note (a))	**10,576**	15,243
	48,715	49,918

(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 (2012: four) employees, including share-based compensation benefits, were within the following bands:

	2013 Number of employees	2012 Number of employees
$10,000,001 – $10,500,000	**1**	1
$10,500,001 - $11,000,000	**1**	-
$12,000,001 – $12,500,000	**-**	1
$13,000,001 – $13,500,000	**1**	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.

18. Taxation

(a) Taxation charge in the consolidated income statement represented:

	2013 $m	2012 $m
Current tax – Hong Kong Profits Tax		
- Provision for the year	**759**	740
- Overprovision in respect of prior years	**(2)**	-
	757	740
Current tax – Overseas Tax		
- Provision for the year	**115**	10
- Underprovision in respect of prior years	**14**	-
	129	10
Total current tax	**886**	750
Deferred tax		
- Origination and reversal of temporary differences	**(78)**	11
- Impact of changes in UK corporation tax rates (note (iii))	**(108)**	-
Total deferred tax (note 37(a))	**(186)**	11
Taxation charge	**700**	761

(i) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2012: 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 weighted average applicable tax rate was 16.0 per cent (2012: 16.5 per cent).

(iii) 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 will be further reduced to 21 per cent effective from 1 April 2014 and to 20 per cent effective from 1 April 2015. As a result of the reduction in UK corporation tax rates, the Group's net deferred tax liabilities decreased by approximately $108 million, with a corresponding deferred tax credit recognised in the consolidated income statement in 2013.

18. 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:

	2013 $m	2012 $m
Profit before taxation	**5,246**	4,845
Tax calculated at domestic tax rates applicable to profits in the respective countries	**839**	798
Income not subject to taxation	**(77)**	(96)
Expenses not deductible for taxation purposes	**41**	44
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	**(7)**	15
Underprovision in respect of prior years	**12**	-
Taxation charge	**700**	761

19. Earnings Per Share

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

(a) Basic earnings per share

	2013	2012
Profit attributable to shareholders ($m)	**4,552**	4,084
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,152,061**	1,088,346
Basic earnings per share ($)	**3.95**	3.75

(b) Diluted earnings per share

	2013	2012
Profit attributable to shareholders ($m)	**4,552**	4,084
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	**1,152,061**	1,088,346
Effect of employee share options (in '000)	**719**	804
Effect of Awarded Shares (in '000)	**2,059**	1,961
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	**1,154,839**	1,091,111
Diluted earnings per share ($)	**3.94**	3.74

(i) The effect of the outstanding convertible bonds (note 35(b)) was not included in the computation of diluted earnings per share for 2013 and 2012 as it was anti-dilutive.

(c) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount (note 39(a)). The effect of the bonus element of the share placement has been included within the calculation of basic and diluted earnings per share for the year ended 31 December 2012. The effect of the share placement was an increase in the weighted average number of ordinary shares for 2012 by 4,589,000.

20. Dividends

	2013 $m	2012 $m
Interim dividend paid:		
$1.82 (2012: $1.85) per share	**2,101**	2,000
Less: Dividend for shares held by Share Award Scheme (note (a))	**(4)**	(4)
	2,097	1,996
Final dividend proposed (note (b)):		
$1.72 (2012: $1.46) per share based on issued share capital at 31 Dec	**1,998**	1,679
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	**(3)**	(4)
	1,995	1,675
	4,092	3,671

(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 was not recognised as a liability at 31 December.

(c) The 2013 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.

21. Financial Assets

As part of its day to day operations, the Group receives margin deposits and cash collateral from Clearing Participants (note 31) and Participants' contributions to Clearing House Funds (note 34). The Group classifies the corresponding assets into the following funds:

Margin Funds and cash collateral - the Margin Funds and cash collateral are established by cash received or receivable from the Clearing Participants of the four clearing houses (i.e. HKSCC, HKCC, SEOCH and OTC Clear) to cover their open positions. 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 and OTC Clear) (together with the accumulated income less related expenses) 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 the liabilities and obligations of defaulting Clearing Participants arising from depositing defective securities into CCASS. 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.

Financial assets belonging to the Group and HKEx, which are funded by share capital and funds generated from operations (other than amounts received by the Margin Funds and cash collateral and the Clearing House Funds), are classified as Corporate Funds (note 25).

The Margin Funds and cash collateral, Clearing House Funds and Corporate Funds are invested into cash and cash equivalents (note 22), financial assets measured at fair value through profit or loss (note 23) and financial assets measured at amortised cost (note 24).

22. Cash and Cash Equivalents

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Cash and cash equivalents:				
- Clearing House Funds (notes (b) and 34)	**4,271**	2,325	**-**	-
- Margin Funds and cash collateral (notes (b) and 31)	**30,650**	27,717	**-**	-
	34,921	30,042	**-**	-
- Corporate Funds (notes (a), (b) and 25)	**6,531**	4,035	**2,704**	797
	41,452	34,077	**2,704**	797

(a) Included in the Group's Corporate Funds was $156 million (31 December 2012: $Nil) which had been earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear.

(b) The cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral, and cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear under the Group's Corporate Funds are held for specific purposes and cannot be used by the Group to finance other activities. Therefore they are not included in cash and cash equivalents of the Group for cash flow purpose in the consolidated statement of cash flows.

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

	Group		
	At 31 Dec 2013		
	Margin Funds and cash collateral (note 31) $m	**Corporate Funds (note 25) $m**	**Total $m**
Mandatorily measured at fair value			
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 52(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**

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

	Group At 31 Dec 2012		
	Margin Funds and cash collateral (note 31) $m	Corporate Funds (note 25) $m	Total $m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
- listed in Hong Kong	-	111	111
- listed outside Hong Kong	-	105	105
- unlisted	-	292	292
	-	508	508
Debt securities:			
- listed in Hong Kong	-	193	193
- listed outside Hong Kong	-	980	980
- unlisted	2,186	622	2,808
	2,186	1,795	3,981
Derivative financial instruments:			
- forward foreign exchange contracts (note 52(b))	-	3	3
	2,186	2,306	4,492
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	2,186	2,183	4,369
More than twelve months	-	123	123
	2,186	2,306	4,492

(a) Includes financial assets maturing after twelve months of $898 million (31 December 2012: $1,796 million) attributable to the Margin Funds and cash collateral that could readily be liquidated to meet liquidity requirements of the Funds (note 52(b)).

24. Financial Assets Measured at Amortised Cost

(a) Group

	At 31 Dec 2013			
	Clearing House Funds (note 34) $m	**Margin Funds and cash collateral (note 31) $m**	**Corporate Funds (note 25) $m**	**Total $m**
Unlisted debt securities	**-**	**-**	**70**	**70**
Time deposits with original maturities over three months	**200**	**7,335**	**1,381**	**8,916**
Other financial assets	**-**	**-**	**60**	**60**
	200	**7,335**	**1,511**	**9,046**
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	**200**	**7,335**	**1,451**	**8,986**
More than twelve months	**-**	**-**	**60**	**60**
	200	**7,335**	**1,511**	**9,046**

	At 31 Dec 2012			
	Clearing House Funds (note 34) $m	Margin Funds and cash collateral (note 31) $m	Corporate Funds (note 25) $m	Total $m
Unlisted debt securities	-	-	94	94
Time deposits with original maturities over three months	217	6,880	1,321	8,418
Other financial assets	-	-	61	61
	217	6,880	1,476	8,573
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	217	6,880	1,345	8,442
More than twelve months	-	-	131	131
	217	6,880	1,476	8,573

24. Financial Assets Measured at Amortised Cost (continued)

(b) HKEx

	Corporate Funds	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Unlisted debt securities	**-**	6
Time deposits with original maturities over three months	**1,338**	1,207
Other financial assets	**1**	1
	1,339	1,214

(c) 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 52(d)(ii).

25. Corporate Funds

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Corporate Funds were invested in the following instruments:				
Cash and cash equivalents (note 22)	**6,531**	4,035	**2,704**	797
Financial assets measured at fair value through profit or loss (note 23)	**2,100**	2,306	**-**	-
Financial assets measured at amortised cost (note 24)	**1,511**	1,476	**1,339**	1,214
	10,142	7,817	**4,043**	2,011

26. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Receivable from Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**9,867**	12,733	**-**	-
- transaction levy, stamp duty and fees receivable	**441**	429	**-**	-
- others	**168**	162	**-**	-
Other receivables, prepayments and deposits	**628**	531	**36**	36
Less : Provision for impairment losses of receivables (note (b))	**(158)**	(159)	**-**	-
	10,946	13,696	**36**	36

(a) The carrying amounts of short-term accounts receivable and deposits approximated their fair values.

26. Accounts Receivable, Prepayments and Deposits (continued)

(b) The movements in provision for impairment losses of receivables were as follows:

	Group	
	2013 $m	2012 $m
At 1 Jan	**159**	160
Provision for/(reversal of provision for) impairment losses of receivables under other operating expenses	**1**	(1)
Receivables written off during the year as uncollectible	**(2)**	-
At 31 Dec	**158**	159

(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.

27. Joint Arrangements

(a) Interest in a joint venture

	Group	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Share of net assets of a joint venture (note (ii))	**87**	97

	HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Investment in unlisted shares, at cost	**100**	100

(i) Details of the joint venture at 31 December 2013 were as follows:

Name	Place of business and country of incorporation	Principal activities	Particulars of shares 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 of $1 each	33.33%	Equity

In 2012, HKEx, the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) (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.

27. Joint Arrangements (continued)

(a) Interest in a joint venture (continued)

(ii) 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 2013			At 31 Dec 2012		
	Current $m	**Non-current $m**	**Total $m**	Current $m	Non-current $m	Total $m
Assets						
Cash and cash equivalents	**163**	**-**	**163**	294	-	294
Time deposits with original maturities over three months	**94**	**-**	**94**	-	-	-
Other assets	**2**	**7**	**9**	-	9	9
Total assets	**259**	**7**	**266**	294	9	303
Liabilities						
Accounts payable, accruals, other liabilities and provisions	**6**	**1**	**7**	12	1	13
Total liabilities	**6**	**1**	**7**	12	1	13
Net assets	**253**	**6**	**259**	282	8	290
Carrying amount of the Group's share of net assets of CESC (@33.33%)			**87**			97

(iii) Summarised statement of comprehensive income of CESC

	For the year ended 31 Dec 2013 $m	For the period from 16 Aug 2012 (date of incorporation) to 31 Dec 2012 $m
Revenue	**1**	-
Net investment income	**4**	-
Operating expenses	**(33)**	(10)
Depreciation and amortisation	**(2)**	-
Loss and total comprehensive loss for the year/period	**(30)**	(10)
Group's share of losses of CESC in 2013 and 2012 (@33.33%)	**(10)**	(3)

(b) Interest in a joint operation

The Group's subsidiary, LME, has entered into an agreement with Singapore Exchange Derivatives Trading Limited (SGX) with the objective of trading, clearing and settling LME mini contracts on systems provided by SGX in Singapore since 2010. On 30 November 2013, LME and SGX mutually agreed to terminate the agreement.

Assets, liabilities, income and expenditure were apportioned in accordance with the agreement and included in the Group's consolidated financial statements. Net costs to the Group incurred for the year ended 31 December 2013 were less than $1 million (2012: less than $1 million from 6 December 2012 to 31 December 2012).

28. Goodwill and Other Intangible Assets

(a) Group

		Other Intangible Assets			
	Goodwill $m	Tradenames $m	Customer Relationships $m	Software Systems $m	Total $m
Cost:					
At 1 Jan 2012	-	-	-	-	-
Exchange differences	147	10	34	4	195
Acquisition of subsidiaries	13,341	902	3,192	351	17,786
Additions	-	-	-	226	226
At 31 Dec 2012	13,488	912	3,226	581	18,207
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**
Accumulated amortisation:					
At 1 Jan 2012	-	-	-	-	-
Amortisation	-	-	11	13	24
At 31 Dec 2012	-	-	11	13	24
At 1 Jan 2013	-	-	**11**	**13**	**24**
Exchange differences	-	-	**7**	**7**	**14**
Amortisation	-	-	**129**	**180**	**309**
At 31 Dec 2013	-	-	**147**	**200**	**347**
Net book value:					
At 31 Dec 2013	**13,750**	**930**	**3,141**	**859**	**18,680**
At 31 Dec 2012	13,488	912	3,215	568	18,183
At 1 Jan 2012	-	-	-	-	-
Cost of software systems under development:					
At 31 Dec 2013	-	-	-	**318**	**318**
At 31 Dec 2012	-	-	-	361	361

Amortisation of $309 million (2012: $24 million) is included in the "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.

28. 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. At 31 December 2012, the Group had not yet completed the allocation of goodwill. In 2013, goodwill was allocated to the CGUs that are expected to benefit from synergies of combination with the LME Group, and it was determined that goodwill should be allocated to the Group's commodities and clearing segments (note 4).

The following is a summary of the allocation of goodwill and tradenames to these operating segments at 31 December 2013:

	Goodwill $m	Tradenames $m
Commodities segment	**10,766**	**728**
Clearing segment	**2,984**	**202**
	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 used for value-in-use calculations at 31 December 2013 are as follows:

	Commodities segment	Clearing segment
EBITDA margin (average of next five years)	**62%**	**63%**
Growth rate	**3%**	**3%**
Discount rate	**10%**	**10%**

Management determined the EBITDA margin based on past performance and its expectations regarding market development. 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 CGUs.

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 2013. Accordingly, no provision for impairment loss for goodwill or tradenames is considered necessary.

If the discount rate rose to 12 per cent, the recoverable amount of the commodities segment would be approximately equal to its carrying amount. Except 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 2013.

28. Goodwill and Other Intangible Assets (continued)

(b) HKEx

	Software systems $m
Cost:	
At 1 Jan 2012	-
Additions	22
At 31 Dec 2012	22
At 1 Jan 2013	**22**
Additions	**54**
At 31 Dec 2013	**76**
Accumulated amortisation:	
At 1 Jan 2012 and 1 Jan 2013	**-**
Amortisation	**5**
At 31 Dec 2013	**5**
Net book value:	
At 31 Dec 2013	**71**
At 31 Dec 2012	22
At 1 Jan 2012	-
Cost of software systems under development:	
At 31 Dec 2013	**37**
At 31 Dec 2012	22

29. 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 2012	70	371	1,410	283	185	324	2,643
Exchange differences	-	-	-	1	-	-	1
Acquisition of subsidiaries	-	-	-	27	-	1	28
Additions	-	340	29	73	206	223	871
Disposals	-	-	(121)	(10)	-	(2)	(133)
At 31 Dec 2012	70	711	1,318	374	391	546	3,410
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**
Accumulated depreciation:							
At 1 Jan 2012	11	13	1,186	203	-	282	1,695
Depreciation	-	9	63	28	8	26	134
Disposals	-	-	(87)	(5)	-	(2)	(94)
At 31 Dec 2012	11	22	1,162	226	8	306	1,735
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**
Net book value:							
At 31 Dec 2013	**58**	**676**	**169**	**188**	**371**	**291**	**1,753**
At 31 Dec 2012	59	689	156	148	383	240	1,675
At 1 Jan 2012	59	358	224	80	185	42	948
Cost of fixed assets in the course of construction:							
At 31 Dec 2013	**-**	**5**	**19**	**97**	**6**	**116**	**243**
At 31 Dec 2012	-	1	9	61	1	80	152

29. 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 2012	82	65	147
Additions	52	148	200
Disposals	(2)	(2)	(4)
At 31 Dec 2012	132	211	343
At 1 Jan 2013	**132**	**211**	**343**
Additions	**32**	**35**	**67**
Disposals	**(8)**	**(9)**	**(17)**
At 31 Dec 2013	**156**	**237**	**393**
Accumulated depreciation:			
At 1 Jan 2012	54	38	92
Depreciation	7	13	20
Disposals	(2)	(1)	(3)
At 31 Dec 2012	59	50	109
At 1 Jan 2013	**59**	**50**	**109**
Depreciation	**12**	**24**	**36**
Disposals	**(8)**	**(9)**	**(17)**
At 31 Dec 2013	**63**	**65**	**128**
Net book value:			
At 31 Dec 2013	**93**	**172**	**265**
At 31 Dec 2012	73	161	234
At 1 Jan 2012	28	27	55
Cost of fixed assets in the course of construction:			
At 31 Dec 2013	**63**	**68**	**131**
At 31 Dec 2012	58	57	115

30. Lease Premium for Land

	Group 2013 $m	Group 2012 $m
Net book value at 1 Jan	**24**	25
Amortisation	**(1)**	(1)
Net book value at 31 Dec	**23**	24

(a) The amount represents a non-Hong Kong Government medium-term lease in Hong Kong.

31. Margin Deposits and Cash Collateral from Clearing Participants

	Group At 31 Dec 2013 $m	Group At 31 Dec 2012 $m
Margin deposits and cash collateral from Clearing Participants comprised (notes (a) and 21):		
SEOCH Clearing Participants' margin deposits	**4,420**	4,125
HKCC Clearing Participants' margin deposits	**33,116**	30,237
HKSCC Clearing Participants' margin deposits and cash collateral	**2,240**	2,424
OTC Clear Clearing Participants' margin deposits	**17**	-
	39,793	36,786
The margin deposits and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds and cash collateral:		
Cash and cash equivalents (note 22)	**30,650**	27,717
Financial assets measured at fair value through profit or loss (note 23)	**1,802**	2,186
Financial assets measured at amortised cost (note 24(a))	**7,335**	6,880
Margin receivable from Clearing Participants	**6**	3
	39,793	36,786

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

32. Accounts Payable, Accruals and Other Liabilities

	Group At 31 Dec 2013 $m	Group At 31 Dec 2012 $m	HKEx At 31 Dec 2013 $m	HKEx At 31 Dec 2012 $m
Payable to Exchange and Clearing Participants:				
- Continuous Net Settlement money obligations	**9,867**	12,733	**-**	-
- others	**1,644**	1,317	**-**	-
Transaction levy payable to the SFC	**81**	80	**-**	-
Unclaimed dividends (note (b))	**226**	215	**137**	133
Stamp duty payable to the Collector of Stamp Revenue	**231**	255	**-**	-
LME Long-Term Incentive Plan payable (note 40(c))	**-**	279	**-**	-
Other payables, accruals and deposits received	**785**	959	**178**	260
	12,834	15,838	**315**	393

32. Accounts Payable, Accruals and Other Liabilities (continued)

(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 $11 million (2012: $13 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 $15 million (2012: $7 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 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Financial liabilities of Clearing House Funds (note 34)	**1**	31	**-**	-
Financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss (note (a))	**6**	6	**125**	-
Financial guarantee contracts (note (b))	**20**	20	**162**	203
	26	26	**287**	203
	27	57	**287**	203

(a) Financial liabilities at fair value through profit or loss

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
<u>Held for trading</u>				
Derivative financial instruments:				
- forward foreign exchange contracts (note 52(b))	**6**	6	**-**	-
- written put options to non-controlling interests (note 35(d))	**-**	-	**125**	-
	6	6	**125**	-

(b) 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)) and the carrying value of the guarantee provided by HKEx for the convertible bonds issued by HKEx International Limited (note 46(b)(ii)). The amounts were eliminated on consolidation.

34. Clearing House Funds

	Group	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
The Clearing House Funds comprised (note 21):		
Clearing Participants' cash contributions (note (a))	**3,884**	1,924
Designated reserves (notes (b) and 41)	**586**	587
	4,470	2,511
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 22)	**4,271**	2,325
Financial assets measured at amortised cost (note 24(a))	**200**	217
	4,471	2,542
Less: Other financial liabilities of Clearing House Funds (note 33)	**(1)**	(31)
	4,470	2,511
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	**2,155**	228
SEOCH Reserve Fund	**588**	414
HKCC Reserve Fund	**1,576**	1,869
OTC Clear Rates and FX Guarantee Fund	**151**	-
	4,470	2,511

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

(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 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Bank borrowings (note (a))	**2,326**	3,100	**2,326**	3,100
Convertible bonds (note (b))	**3,607**	3,515	**-**	-
Notes (note (c))	**770**	-	**770**	-
Written put options to non-controlling interests (note (d))	**218**	-	**-**	-
Total borrowings	**6,921**	6,615	**3,096**	3,100

35. Borrowings (continued)

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

	Group			
	Bank borrowings		Other borrowings	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
After 1 year but within 2 years	**-**	31	**-**	-
After 2 years but within 5 years	**-**	124	**4,595**	3,515
After 5 years	**2,326**	2,945	**-**	-
	2,326	3,100	**4,595**	3,515

	HKEx			
	Bank borrowings		Other borrowings	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
After 1 year but within 2 years	**-**	31	**-**	-
After 2 years but within 5 years	**-**	124	**770**	-
After 5 years	**2,326**	2,945	**-**	-
	2,326	3,100	**770**	-

(a) Bank borrowings

Bank borrowings mature within 9 years (31 December 2012: 10 years) and bear average coupons of 2.2 per cent (2012: 2.2 per cent) per annum. The average effective interest rate of the bank borrowings is 2.3 per cent (2012: 2.3 per cent) per annum. In 2013, US$100 million of the bank borrowings was repaid.

(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.

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$208 accreting at 0.5 per cent per annum). HKEx also has the option to redeem the outstanding Bonds in whole but not in part if the aggregate principal amount of the Bonds outstanding is less than US$50 million.

HKEx used the proceeds of the Bonds to fund part of the acquisition of the LME Group.

Prior to the Substitution described below, 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 treated as a derivative liability with subsequent changes in fair value being recognised in profit or loss.

35. Borrowings (continued)

(b) Convertible bonds (continued)

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 will be unconditionally and irrevocably guaranteed by HKEx and HKEx remains obliged to issue and deliver HKEx shares on conversion of the Bonds. Following the Substitution, both the number of HKEx shares and the amount of cash that would be exchanged upon conversion of the Bonds became fixed. Accordingly, the share conversion option element of the Bonds was remeasured at its fair value on that date and was transferred from derivative liability to the 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 and derivative component of the Bonds:

	Group		
	Liability component $m	**Derivative component $m**	**Total $m**
Issuance of the Bonds	3,521	354	3,875
Transaction costs of the Bonds	(27)	-	(27)
Interest expenses (notes (i) and 15)	21	-	21
Changes in fair value recognised in profit or loss during the period from issuance to Substitution (note (ii))	-	55	55
Transfer to convertible bond reserve	-	(409)	(409)
At 31 Dec 2012	3,515	-	3,515
At 1 Jan 2013	**3,515**	**-**	**3,515**
Interest expenses (notes (i) and 15)	**110**	**-**	**110**
Interest paid	**(19)**	**-**	**(19)**
Exchange difference	**1**	**-**	**1**
At 31 Dec 2013	**3,607**	**-**	**3,607**

	HKEx		
	Liability component $m	**Derivative component $m**	**Total $m**
Issuance of the Bonds	3,521	354	3,875
Transaction costs of the Bonds	(27)	-	(27)
Interest expenses (note (i))	16	-	16
Changes in fair value recognised in profit or loss during the period from issuance to Substitution (note (ii))	-	55	55
Transfer to a subsidiary	(3,510)	-	(3,510)
Transfer to convertible bond reserve	-	(409)	(409)
At 31 Dec 2012 and 31 Dec 2013	-	-	-

(i) The effective interest rate of the liability component is 3.1 per cent (2012: 3.1 per cent) per annum.

(ii) The changes in fair value of the derivative component were included in "fair value loss on derivative component of convertible bonds" in the consolidated income statement.

35. Borrowings (continued)

(c) Notes

	Group and HKEx	
	2013 $m	2012 $m
At 1 Jan	**-**	-
Issuance of senior notes due 2018	**769**	-
Interest expenses (notes (ii) and 15)	**1**	-
At 31 Dec	**770**	-

(i) On 11 December 2013, HKEx issued US$100 million (HK$775 million) 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 coupon interest at rate of 2.7 per cent per annum payable semi-annually in arrears.

The proceeds were used to repay part of the bank borrowings (note (a)).

(ii) The effective interest rate of the senior notes is 2.9 per cent per annum.

(d) Written put options to non-controlling interests

	Group	
	2013 $m	2012 $m
At 1 Jan	**-**	-
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 15)	**1**	-
At 31 Dec	**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) and 48). After the issue, the Group held 75 per cent interest of the subsidiary, while the remaining 25 per cent interest of the subsidiary was held by the non-controlling interests. 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 33(a)). 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 per annum.

36. Provisions

(a) Group

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2013	**48**	**41**	**89**
Provision for the year	**3**	**72**	**75**
Amount used during the year	**-**	**(64)**	**(64)**
Amount paid during the year	**(2)**	**(4)**	**(6)**
At 31 Dec 2013	**49**	**45**	**94**

(b) HKEx

	Reinstatement costs $m	Employee benefit costs $m	Total $m
At 1 Jan 2013	**2**	**40**	**42**
Provision for the year	**-**	**59**	**59**
Amount used during the year	**-**	**(52)**	**(52)**
Amount paid during the year	**-**	**(4)**	**(4)**
At 31 Dec 2013	**2**	**43**	**45**

(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 6 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	
	2013 $m	2012 $m	**2013 $m**	2012 $m
At 1 Jan	**1,036**	32	**13**	(1)
Exchange differences	**3**	10	**-**	-
Acquisition of subsidiaries	**-**	983	**-**	-
(Credited)/ charged to profit or loss (note 18(a))	**(186)**	11	**15**	14
At 31 Dec (note (d))	**853**	1,036	**28**	13

(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 $559 million at 31 December 2013 (31 December 2012: $431 million) that may be carried forward for offsetting against future taxable income indefinitely.

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	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
At 1 Jan	**82**	49	**949**	-	**59**	-	**(48)**	(12)	**(6)**	(5)	**1,036**	32
Exchange differences	**(1)**	-	**7**	10	**(1)**	-	**(2)**	-	**-**	-	**3**	10
Acquisition of subsidiaries	**-**	(10)	**-**	942	**-**	59	**-**	(8)	**-**	-	**-**	983
Charged/(credited) to profit or loss	**58**	43	**(140)**	(3)	**(36)**	-	**(67)**	(28)	**(1)**	(1)	**(186)**	11
At 31 Dec	**139**	82	**816**	949	**22**	59	**(117)**	(48)	**(7)**	(6)	**853**	1,036

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2013	2012	**2013**	2012	**2013**	2012
	$m	$m	**$m**	$m	**$m**	$m
At 1 Jan	**19**	4	**(6)**	(5)	**13**	(1)
Charged/(credited) to profit or loss	**16**	15	**(1)**	(1)	**15**	14
At 31 Dec	**35**	19	**(7)**	(6)	**28**	13

(d) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same taxation authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position:

	Group		HKEx	
	At 31 Dec 2013	At 31 Dec 2012	**At 31 Dec 2013**	At 31 Dec 2012
	$m	$m	**$m**	$m
Net deferred tax assets	**(47)**	(20)	**-**	-
Net deferred tax liabilities	**900**	1,056	**28**	13
	853	1,036	**28**	13

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

	Group		HKEx	
	At 31 Dec 2013	At 31 Dec 2012	**At 31 Dec 2013**	At 31 Dec 2012
	$m	$m	**$m**	$m
Deferred tax liabilities				
Amounts to be recovered or settled after more than 12 months	**878**	997	**35**	19
Amounts to be recovered or settled within 12 months	**22**	59	**(7)**	(6)
	900	1,056	**28**	13

At 31 December 2013 and 31 December 2012, the deferred tax assets were expected to be recovered after more than twelve months.

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

(a) Investments in subsidiaries

	HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Investments in unlisted shares, at cost (note (c))	**4,496**	4,146
Adjustment to carrying value (note (i))	**(2,303)**	(2,303)
	2,193	1,843
Capital contribution to a subsidiary (note (ii))	**2,797**	2,797
Written put options to non-controlling interests (note 35(d))	**133**	-
Financial guarantees granted to subsidiaries (note 33(b)(ii))	**203**	203
	5,326	4,843

(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 2013 and 2012.

The amounts due from subsidiaries under non-current assets represent loans to HKEx Investment (UK) Limited of $15,453 million (31 December 2012: $14,943 million) and OTC Clear of $50 million (31 December 2012: $Nil).

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 2012: US$700 million (HK$5,426 million)) is interest bearing at an average interest rate of 5.0 per cent (2012: 5.0 per cent) per annum, and the remaining balance is interest-free.

In November 2013, HKEx advanced a loan to OTC Clear amounting to $50 million. 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 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 (2012: 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 2013:

Company	Place of incorporation and operation	Issued and fully paid up share/registered capital	Principal activities	Interest held by the Group
Direct subsidiaries:				
The Stock Exchange of Hong Kong Limited	Hong Kong	"A" shares $929	Operates the single Stock Exchange in Hong Kong	100%
Hong Kong Futures Exchange Limited	Hong Kong	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Hong Kong	Ordinary $2	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
OTC Clearing Hong Kong Limited (note (i))	Hong Kong	Ordinary $3,600 Non-voting ordinary $1,200	Operates a clearing house for over-the-counter derivatives	75%
HKEx Hosting Services Limited	Hong Kong	$2	Provision of hosting services	100%
HKEx Property Limited	Hong Kong	Ordinary $2	Property holding	100%
HKEx International Limited	Hong Kong	$1	Investment holding	100%
HKEx (China) Limited	Hong Kong	$2	Promotes HKEx products and services	100%
Indirect subsidiaries:				
The SEHK Options Clearing House Limited	Hong Kong	Ordinary $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	Sales of market data	100%
The Stock Exchange Club Limited	Hong Kong	$8	Property holding	100%
HKFE Clearing Corporation Limited	Hong Kong	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on 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	Principal activities	Interest held by the Group
Indirect subsidiaries (continued):				
HKSCC Nominees Limited	Hong Kong	$20	Act as common nominee in respect of securities held in the CCASS depository	100%
HK Conversion Agency Services Limited	Hong Kong	$2	Conversion agency services	100%
HKEx Investment (UK) Limited	United Kingdom	Ordinary £1	Investment holding	100%
LME Holdings Limited	United Kingdom	Ordinary £1,290,000	Investment holding	100%
The London Metal Exchange	United Kingdom	Ordinary £100	Operates an exchange for the trading of base metals futures and options contracts	100%
LME Clear Limited	United Kingdom	Ordinary £38,000,001	Development of a platform for clearing contracts traded on LME	100%
Ganghui Financial Information Services (Shanghai) Limited	China	US$770,000	Operates a market data hub in China	100%

(i) Subsidiary with non-controlling interests

On 31 October 2013, OTC Clear issued 3,599 ordinary shares to HKEx at a consideration of $350 million and 1,200 non-voting ordinary shares to certain third party shareholders at a consideration of $252 million. After the issue, 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 $6 million and the accumulated non-controlling interests of the subsidiary at 31 December 2013 was $113 million. No summarised financial information of the subsidiary is presented as the non-controlling interests are not material to the Group. Details of transactions with non-controlling interests during the year are disclosed in note 48.

(ii) Significant restrictions

Cash and saving deposits are held by a subsidiary in China and are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2013 was $4 million (31 December 2012: $6 million).

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

(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.

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

	HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Authorised:		
2,000,000,000 shares of $1 each	**2,000**	2,000

Issued and fully paid:

	Group and HKEx				
	Number of shares of $1 each ’000	Share capital $m	Share premium $m	Shares held for Share Award Scheme $m	Total $m
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon placement of shares (note (a))	65,705	66	7,642	-	7,708
Shares issued upon exercise of employee share options (note (b))	122	-	2	-	2
Shares issued in lieu of cash dividends (note (c))	4,004	4	447	(9)	442
Transfer from employee share-based compensation reserve upon exercise of employee share options (note 40)	-	-	1	-	1
Shares purchased for Share Award Scheme (note (d))	(738)	-	-	(93)	(93)
Vesting of shares of Share Award Scheme (note (e))	645	-	-	93	93
At 31 Dec 2012	1,147,408	1,150	8,731	(305)	9,576
At 1 Jan 2013	**1,147,408**	**1,150**	**8,731**	**(305)**	**9,576**
Shares issued upon exercise of employee share options (note (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**

(a) On 7 December 2012, 65,705,000 HKEx shares were issued at $118.00 each to third party independent professional and institutional investors and the Hong Kong Government at a total consideration of $7,753 million. The price for each share represented a discount of 5.4 per cent to the market price of HKEx shares of $124.80 on 29 November 2012, the date on which the terms of the issue were fixed. The related transaction costs amounting to $45 million were netted off against the proceeds. The net proceeds were used to fund part of the consideration for the acquisition of the LME Group.

(b) During the year, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 58,600 shares (2012: 121,500 shares) in HKEx at a consideration of $1 million (2012: $2 million), of which less than $1 million (2012: less than $1 million) was credited to share capital and $1 million (2012: $2 million) was credited to the share premium account.

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:

	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**

	2012					
	Number of shares	Scrip price $	Share capital $m	Share premium $m	Shares held for Share Award Scheme $m	Total $m
Issued as 2011 final scrip dividends:						
- total	860,935	124.46	1	106	-	107
- to Share Award Scheme	(37,053)	124.46	-	-	(5)	(5)
Issued as 2012 interim scrip dividends:						
- total	3,214,012	106.98	3	341	-	344
- to Share Award Scheme	(33,597)	106.98	-	-	(4)	(4)
	4,004,297		4	447	(9)	442

(d) During the year, the Share Award Scheme (note 40(b)) acquired 19,300 HKEx shares (2012: 737,800 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was $2 million (2012: $93 million).

(e) During the year, the Share Award Scheme transferred 1,079,481 HKEx shares (2012: 644,763 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was $141 million (2012: $93 million). During the year, $5 million (2012: $Nil) was credited to share premium in respect of vesting of certain shares whose fair values are higher than the costs.

40. Employee Share-based Arrangements

The movements of employee share-based compensation reserve were as follows:

	Group and HKEx	
	2013 $m	2012 $m
At 1 Jan	**122**	106
Employee share-based compensation benefits (note 10)	**119**	105
Transfer to share premium upon exercise of employee share options (note 39)	**-**	(1)
Vesting of shares of Share Award Scheme	**(136)**	(88)
At 31 Dec	**105**	122

40. Employee Share-based Arrangements (continued)

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. The LME Group also operated a long-term incentive plan for its employees in the UK (LME Long-Term Incentive Plan).

(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.

On exercising the share options, the consideration received is 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 is then transferred from employee share-based compensation reserve to share premium.

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.

(ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2013		2012	
	Average exercise price per share $	**Number of shares issuable under options granted '000**	Average exercise price per share $	Number of shares issuable under options granted '000
HKEx Post-Listing Scheme				
Outstanding at 1 Jan	**18.33**	**863**	18.28	985
Exercised	**18.43**	**(59)**	17.88	(122)
Outstanding at 31 Dec	**18.32**	**804**	18.33	863

At 31 December 2013, all outstanding options (31 December 2012: all) were vested and exercisable at a weighted average exercise price of $18.32 per share (31 December 2012: $18.33 per share).

Options exercised in 2013 resulted in 58,600 shares (2012: 121,500 shares) being issued at a weighted price of $18.43 per share (2012: $17.88 per share). The weighted average closing share price on the dates on which the options were exercised was $133.69 (2012: $117.02) per share.

40. Employee Share-based Arrangements (continued)

(a) HKEx Share Option Scheme (continued)

(iii) Share options outstanding at 31 December had the following remaining contractual lives and exercise prices:

	At 31 Dec 2013		At 31 Dec 2012	
	Remaining contractual life	**Number of shares issuable under options granted ’000**	Remaining contractual life	Number of shares issuable under options granted ’000
Exercise price				
$16.96	**0.24 year**	**288**	1.24 years	309
$15.91	**0.37 year**	**25**	1.37 years	25
$19.25	**1.07 years**	**491**	2.07 years	529
	0.75 year	**804**	1.75 years	863

(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, which, among other things, to (i) facilitate the participation of employees of 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, and the amendments took effect on 17 December 2013.

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 would be vested progressively over the vesting period after the awards are granted, provided that the relevant awardee remained employed by the Group or retired 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.

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

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 premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost. The related cost of dividend shares are credited to Shares held for Share Award Scheme with a corresponding decrease in retained earnings for dividend shares.

Details of the Awarded Shares awarded during 2012 and 2013

Date of approval by Board	Date of award	Awarded Sum $'000	Number of shares purchased	Number of Awarded Shares awarded	Average fair value per share $	Vesting period
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	2 May 2014 – 2 May 2015
14 Dec 2011	5 Sept 2012	975	8,900	8,900	109.00	7 Jul 2014 – 7 Jul 2015
3 Dec 2012	31 Dec 2012	102,398	707,200	810,245[1,2]	126.71	3 Dec 2014 – 3 Dec 2015
14 Dec 2011	27 Mar 2013	316	2,200	2,200	139.86	1 Jan 2015 – 1 Jan 2016
14 Dec 2011	27 Mar 2013	2,400	17,100	17,100	139.86	9 Jan 2015 – 9 Jan 2016

[1] 70,556 shares were awarded to HKEx's Chief Executive on 31 December 2012.

[2] 103,116 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 31 December 2012.

In addition to the above, total Awarded Sums amounting to $169 million were also granted to selected employees in 2013, of which $9 million was granted to HKEx's Chief Executive. At 31 December 2013, the purchase of shares had not yet been completed.

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

Details of the Awarded Shares vested during 2012 and 2013

Date of award	Average fair value per share $	2013 Number of Awarded Shares vested	2013 Fair value of related Awarded Shares $m	2012 Number of Awarded Shares vested	2012 Fair value of related Awarded Shares $m
17 Jul 2007	102.29	**-**	**-**	1,375	<1
4 Feb 2008	163.72	**-**	**-**	25,688	4
3 Feb 2009	81.96	**29,950**	**3**	14,975	1
10 Jun 2010	123.29	**291,524**[3]	**36**	308,250[3]	38
9 Jul 2010	121.88	**3,450**	**1**	3,450	1
31 Dec 2010	176.75	**222,617**[4]	**39**	238,900[4]	42
30 Mar 2011	169.92	**5,100**	**1**	-	-
8 Apr 2011	179.55	**700**	**<1**	-	-
9 Jun 2011	171.59	**1,650**	**<1**	-	-
11 Oct 2011	137.22	**5,900**	**1**	-	-
11 Oct 2011	108.03	**7,200**	**1**	-	-
30 Dec 2011	124.75	**433,716**[5]	**54**	11,524	2
		1,001,807	**136**	604,162	88

[3] 36,609 (2012: 36,608) of the shares vested were for HKEx's Chief Executive

[4] 20,428 (2012: 20,428) of the shares vested were for HKEx's Chief Executive

[5] 35,247 (2012: Nil) of the shares vested were for HKEx's Chief Executive

Dividend shares

During the year, 56,956 HKEx shares (2012: 70,650 shares) were issued to the Scheme in lieu of cash dividends at a total consideration of $8 million (2012: $9 million), of which 54,816 shares (2012: 67,723 shares) were subsequently allocated to awardees.

During the year, 77,674 dividend shares (2012: 40,601 shares), including 6,932 shares (2012: 3,503 shares) for HKEx's Chief Executive, at a cost of $10 million (2012: $5 million) were vested and transferred to the employees at nil consideration.

Movements in the number of Awarded Shares awarded and dividend shares

	2013 Number of Awarded Shares and dividend shares	2012 Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	**2,383,189**	2,211,716
Awarded[6]	**19,300**	840,845
Forfeited	**(70,712)**	(89,455)
Vested	**(1,001,807)**	(604,162)
Dividend shares:		
- allocated to awardees	**54,816**	67,723
- allocated to awardees but subsequently forfeited	**(2,952)**	(2,877)
- vested	**(77,674)**	(40,601)
Outstanding at 31 Dec	**1,304,160**	2,383,189

[6] Average fair value per share was $139.86 (2012: $126.19)

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

Remaining vesting periods of the Awarded Shares awarded and dividend shares outstanding at 31 December

	At 31 Dec 2013		At 31 Dec 2012	
	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				
2009	**N/A**	**N/A**	0.00 year to 1.00 year	29,950
2010	**N/A**	**N/A**	0.37 year to 0.95 year	535,130
2011	**0.04 year to 0.95 year**	**420,656**	0.04 year to 1.95 years	911,393
2012	**0.01 year to 1.92 years**	**815,043**	1.01 years to 2.92 years	831,745
2013	**1.00 year to 2.02 years**	**19,300**	N/A	N/A
Dividend shares	**0.01 year to 2.02 years**	**49,161**	0.00 year to 2.33 years	74,971
		1,304,160		2,383,189

For the $169 million of Awarded Sums granted in 2013 with purchase of shares not yet completed at 31 December 2013, the remaining vesting period ranges from 1.32 years to 2.94 years.

Forfeited or unallocated shares held by the Scheme

At 31 December 2013, 92,469 forfeited or unallocated shares (31 December 2012: 16,665 shares) were held by the Scheme and would be regranted to eligible employees in future.

(ii) Senior Executive Awards

The actual number of shares to be transferred to the awardees under the Senior Executive Awards is conditional on the satisfaction of performance conditions set by the Board. These may relate to the performance of the senior executive concerned and/or the Group, the achievement or contribution by the senior executives of certain business or strategic development objectives or other initiatives, and be relative to the performance of other comparator group companies. The Board has full discretion to determine the actual amount of award to be paid at the end of a performance assessment period (which shall normally be a period of at least three financial years) in accordance with these criteria.

The vesting of Senior Executive Awards is not affected by the awardees ceasing employment with the Group before the end of the performance assessment period. Accordingly, in accordance with prevailing accounting standards, the Senior Executive Awards are considered to be vested immediately upon grant and the performance conditions are considered as non-vesting conditions.

The fair value of the Awarded Shares at the date of the grant, after taking into account all non-vesting conditions, is charged to staff costs and related expenses immediately on the grant date with a corresponding credit to employee share-based compensation reserve.

40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(ii) Senior Executive Awards (continued)

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 premium 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.

In 2013, the Board approved the grant of a sum of $4 million and $9 million to HKEx's Chief Executive as Senior Executive Awards, in respect of the performance periods of 2013-2015 and 2014-2016 respectively. At 31 December 2013, the purchase of shares had not yet been completed.

The fair value of the Senior Executive Awards amounted to $10 million on the grant date. 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.

(c) LME Long-Term Incentive Plan

The LME Long-Term Incentive Plan was set up by the LME Group to provide its chief executive and other selected employees with an entitlement, in the form of share options, to a receipt of cash when the options are exercised, calculated by reference to the unit value price of notional LMEH shares over the exercise price of the options. The options vest in tranches of 25 per cent over four years and vesting is conditional on continuing employment of the awardees. The unit value price was determined by the Remuneration Committee of the LME Group to be £73.90 at 31 December 2012.

In 2013, no share options were granted and all of the options at 31 December 2012 were exercised. Accordingly, the liability (including social security contributions payable) of $279 million at 31 December 2012, which was included in accounts payable, accruals and other liabilities (note 32), was fully settled during the year.

41. Designated Reserves

Clearing House Funds reserves (note 34(b))

	Group				
	HKSCC Guarantee Fund reserve $m	**SEOCH Reserve Fund reserve** $m	**HKCC Reserve Fund reserve** $m	**OTC Clear Rates and FX Guarantee Fund reserve** $m	**Total** $m
At 1 Jan 2012	123	110	344	-	577
Surplus of net investment income net of expenses of Clearing House Funds transferred from retained earnings (note 43)	1	1	8	-	10
At 31 Dec 2012	124	111	352	-	587
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**

42. Merger Reserve

	HKEx	
	2013 **$m**	2012 $m
At 1 Jan and 31 Dec	**694**	694

HKEx has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance 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 2013 (31 December 2012: $694 million).

43. Retained Earnings (Including Proposed Dividend)

	Group		HKEx	
	2013	2012	**2013**	2012
	$m	$m	**$m**	$m
At 1 Jan	**6,881**	7,053	**7,503**	6,581
Profit attributable to shareholders (note (a))	**4,552**	4,084	**5,169**	5,168
Transfer from/(to) Clearing House Funds reserves (note 41)	**1**	(10)	-	-
Dividends:				
2012/2011 final dividend	**(1,675)**	(2,252)	**(1,675)**	(2,252)
2013/2012 interim dividend	**(2,097)**	(1,996)	**(2,097)**	(1,996)
Unclaimed HKEx dividends forfeited (note 32(b))	**15**	7	**15**	7
Vesting of shares of Share Award Scheme	**(10)**	(5)	**(10)**	(5)
Sale of interest in a subsidiary to non-controlling interests (note 48(a))	**133**	-	-	-
At 31 Dec	**7,800**	6,881	**8,905**	7,503
Representing:				
Retained earnings	**5,805**	5,206	**6,910**	5,828
Proposed dividend	**1,995**	1,675	**1,995**	1,675
At 31 Dec	**7,800**	6,881	**8,905**	7,503

(a) Profit attributable to shareholders included a profit of $5,169 million (2012: $5,168 million), which included $4,310 million (2012: $4,926 million) of dividends from subsidiaries, and has been dealt with in the financial statements of HKEx, the holding company of the Group.

44. Notes to the Consolidated Statement of Cash Flows

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

	2013 $m	2012 $m
Profit before taxation	**5,246**	4,845
Adjustments for:		
Net interest income	**(399)**	(378)
Dividend income	**(8)**	(12)
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	**(185)**	(360)
Fair value loss on derivative component of convertible bonds	**-**	55
Transaction costs on issuance of convertible bonds allocated to the derivative component	**-**	3
Gains on disposal of financial assets measured at amortised cost of Corporate Funds	**-**	(1)
Forfeiture of unclaimed cash dividends held by HKSN	**(11)**	(13)
Finance costs	**183**	55
Amortisation of lease premium for land under premises expenses	**1**	-
Depreciation and amortisation	**507**	158
Employee share-based compensation benefits	**119**	105
Gain on disposal of fixed assets	**-**	(1)
Provision for/(reversal of provision for) impairment losses of receivables	**1**	(1)
Share of loss of a joint venture	**10**	3
Changes in provisions	**4**	7
Net increase in financial assets of Margin Funds and cash collateral	**(2,999)**	(2,152)
Net increase in financial liabilities of Margin Funds and cash collateral	**3,007**	2,194
Net increase in Clearing House Fund financial assets	**(1,929)**	(1,051)
Net increase in Clearing House Fund financial liabilities	**1,930**	1,046
Cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	**(156)**	-
Net (increase)/decrease in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	**(7)**	1,804
Decrease/(increase) in accounts receivable, prepayments and deposits	**2,765**	(6,263)
(Decrease)/increase in other current liabilities	**(2,859)**	6,835
Net cash inflow from operations	**5,220**	6,878
Dividends received	**8**	13
Interest received from bank deposits	**402**	369
Interest received from financial assets measured at fair value through profit or loss	**63**	106
Interest paid to Participants	**(4)**	(3)
Income tax paid	**(701)**	(872)
Net cash inflow from operating activities	**4,988**	6,491

45. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Contracted but not provided for:				
- fixed assets	**19**	78	**2**	-
- intangible assets	**92**	125	**5**	2
Authorised but not contracted for:				
- fixed assets	**225**	358	**111**	67
- intangible assets	**542**	271	**83**	32
	878	832	**201**	101

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

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Land and buildings				
- within one year	**191**	216	**3**	2
- in the second to fifth years	**421**	232	**3**	1
- after the fifth year	**98**	-	**-**	-
	710	448	**6**	3
Computer systems, software and equipment				
- within one year	**16**	9	**14**	6
- in the second to fifth years	**46**	49	**46**	49
- after the fifth year	**-**	11	**-**	11
	62	69	**60**	66
	772	517	**66**	69

At 31 December 2013 and 31 December 2012, in respect of computer systems, software and equipment, the Group did not have any purchase options.

(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 providing funding for the FRC's operations.

Under a memorandum of understanding signed in December 2009, the Group has agreed to make recurrent contributions to the FRC from 2010 to 2014. The first three contributions during 2010 to 2012 were $4 million per annum, and the contribution for 2013 was $5 million. The contribution for 2014 will be $5 million.

46. Contingent Liabilities

At 31 December 2013, 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 2012: $71 million). Up to 31 December 2013, 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(b)(i)). In the unlikely event that all of its 504 trading Participants covered by the indemnity at 31 December 2013 (31 December 2012: 511) defaulted, the maximum contingent liability of the Group under the indemnity would amount to $101 million (31 December 2012: $102 million).

(iii) At the date of the approval of these consolidated financial statements, 26 class actions have been filed against LME in the US alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. 19 of the actions also name LMEH, the holding company of LME, as a co-defendant. On 16 December 2013, an order for the consolidation of all the actions to be heard before the court in the Southern District of New York was made. Further to this, a directions hearing was held on 6 February 2014 during which the court ordered the plaintiffs to file consolidated complaints on 12 March 2014.

In addition, LME has been named as a defendant in a judicial review claim filed by United Company Rusal Plc in the English High Court. The judicial review seeks to challenge the LME's decision to introduce changes regarding the delivery out rates of LME approved warehouses as announced in its notice dated 7 November 2013. The judicial review hearing will take place at the end of February 2014, and it is anticipated that the court will hand down its decision before the end of March 2014.

As the proceedings in the US are still at an early stage, LME does not currently have sufficient information to estimate the financial effect (if any) relating to the class action lawsuits, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be. Likewise, at this stage of the judicial review proceedings, LME is not in a position to estimate the financial effect (if any) of the judicial review claim. However, LME management remains of the view that all the US complaints and the English judicial review proceedings are without merit, and will contest them vigorously. Accordingly, no provision has been made in these consolidated financial statements.

(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(b)(ii)).

(ii) The convertible bonds issued by HKEx International Limited are irrevocably and unconditionally guaranteed by HKEx (notes 33(b)(ii) and 35(b)).

(iii) HKEx had issued guarantees to three banks (31 December 2012: two banks) in respect of banking facilities granted to three wholly-owned subsidiaries amounting to $8,000 million (31 December 2012: $7,000 million). At 31 December 2013 and 31 December 2012, the banking facilities had not been drawn down.

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 2013 $m	At 31 Dec 2012 $m
Trading booths, media booths and related facilities		
- within one year	**10**	11
- in the second to fifth years	**-**	10
Total	**10**	21

48. Transactions with non-controlling interests

(a) Disposal of interest in a subsidiary without loss of control

On 31 October 2013, one of the Group's subsidiaries, OTC Clear issued 1,200 non-voting ordinary shares (equivalent to 25 per cent of its issued share capital) to certain third party shareholders at a consideration of $252 million. The Group recognised an increase in non-controlling interests of $119 million and an increase in retained earnings of $133 million. The effect of changes in ownership interest of OTC Clear on the equity attributable to HKEx's shareholders is summarised as follows:

	Group $m
Consideration received from non-controlling interests	**252**
Less: carrying amount of non-controlling interests disposed of	**(119)**
Gain on disposal recognised under retained earnings (note 43)	**133**

(b) Written put options to non-controlling interests

Put options were written by HKEx to the non-controlling interests of OTC Clear to sell some or all of their non-voting ordinary shares in OTC Clear to HKEx, details of which are disclosed in note 35(d).

49. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

Certain Directors of HKEx may be directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants (Exchange Participants) and Clearing Participants of HKSCC, HKCC and SEOCH (Clearing Participants); (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

(b) Material related party transactions

In addition to the above and those disclosed elsewhere in these consolidated financial statements, the Group or HKEx entered into the following material related party transactions:

(i) Transactions with subsidiaries

	HKEx	
	2013 $m	2012 $m
Dividend income (note 43(a))	**4,310**	4,926
Management fees and equipment rental fees charged	**818**	671
Interest income (note 38(b))	**780**	37
Expenses recharged	**1,246**	1,178
Interest expenses (note 38(b))	**62**	3

(ii) Transactions with a joint venture

	Group		HKEx	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Management fee charged to CESC	**3**	1	**3**	1
Licence fee payable to CESC	**<1**	-	**-**	-

(iii) Key management personnel compensation

	Group		HKEx	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Salaries and other short-term employee benefits	**141**	94	**82**	74
Employee share-based compensation benefits	**43**	31	**35**	25
Retirement benefit costs	**9**	6	**5**	5
	193	131	**122**	104

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

(b) Material related party transactions (continued)

(iv) Balances with related parties

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Amounts due from subsidiaries (note 38(b))	**-**	-	**23,997**	20,320
Amounts due to subsidiaries (note 38(b))	**-**	-	**(8,771)**	(5,496)
Amount due from a joint venture	**3**	7	**3**	7
Amount due to a joint venture	**(<1)**	-	**-**	-
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**	3,896

The amount due from/to the joint venture is unsecured, interest-free and repayable on demand.

(v) Post-retirement benefit plans

The Group has sponsored an ORSO Plan, a MPF Scheme and the LME Pension Scheme as its post-retirement benefit plans (note 10(a)).

The retirement benefit costs charged to the consolidated income statement represent contributions paid and payable by the Group to the ORSO Plan, the MPF Scheme and the LME Pension Scheme and related fees. The contributions payable to the respective post-retirement benefit plans at 31 December were as follows:

	Group		HKEx	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
ORSO Plan	**-**	-	**-**	-
MPF Scheme	**<1**	<1	**<1**	<1
LME Pension Scheme	**3**	1	**-**	-
	3	1	**<1**	<1

(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.

50. Banking Facilities with Assets Pledged

The Group did not have any assets pledged at 31 December 2013 and 31 December 2012.

51. 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 optimal capital structure and shareholder returns, taking into consideration the expected capital requirements of the Group 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 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. At 31 December 2013, the Group had set aside $4,000 million (31 December 2012: $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 2013 and 31 December 2012.

The Group monitors capital on the basis of its gearing ratio. The ratio is calculated as net debt divided by adjusted capital. For this purpose, the Group defines 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 gearing ratio at less than 50 per cent.

	Group		**HKEx**	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Total borrowings	**6,921**	6,615	**3,096**	3,100
Less: cash and cash equivalents of Corporate Funds (note 22)	**(6,531)**	(4,035)	**(2,704)**	(797)
Net debt	**390**	2,580	**392**	2,303
Equity attributable to shareholders of HKEx	**20,405**	17,764	**21,267**	18,304
Less: designated reserves	**(586)**	(587)	**-**	-
Adjusted capital	**19,819**	17,177	**21,267**	18,304
Gearing ratio	**2%**	15%	**2%**	13%

52. 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 collateral 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.

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.

52. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

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 collateral, 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.

The Group's non-HKD borrowings by the Hong Kong entities are denominated in USD, which is pegged against HKD, and therefore are not subject to significant foreign currency risks.

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

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.

52. 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 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 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.

52. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		Group		
		At 31 Dec 2012		
	Foreign currency	Gross open position $m	Economic hedges $m	Net open position $m
Financial assets/(financial liabilities)				
Cash and cash equivalents[1]	AUD	1	-	1
	CAD	1	-	1
	EUR	1,672	(1,668)	4
	GBP	535	-	535
	JPY	90	(90)	-
	NZD	2	-	2
	RMB	101	(68)	33
	SGD	2	-	2
	USD	281	(19)	262
Financial assets measured at fair value through profit or loss[1,2]	AUD	243	(236)	7
	CAD	53	(16)	37
	CHF	6	-	6
	EUR	360	(40)	320
	GBP	101	(95)	6
	JPY	27	(17)	10
	NZD	51	(45)	6
	RMB	229	(59)	170
	SGD	30	-	30
	USD	1,468	(230)	1,238
Financial assets measured at amortised cost	RMB	1	-	1
Accounts receivable and deposits	GBP	10	-	10
	RMB	169	-	169
	USD	88	-	88
Margin deposits and cash collateral from Clearing Participants[1]	EUR	(1,668)	1,668	-
	JPY	(90)	90	-
	RMB	(68)	68	-
	USD	(19)	19	-
Accounts payable, accruals and other liabilities	GBP	(67)	-	(67)
	RMB	(171)	-	(171)
	USD	(78)	-	(78)
Borrowings	USD	(3,100)	-	(3,100)
Total net open positions for the Group	AUD			8
	CAD			38
	CHF			6
	EUR			324
	GBP			484
	JPY			10
	NZD			8
	RMB			202
	SGD			32
	USD			1,590
				2,702

1 Foreign currency margin 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.

52. Financial Risk Management (continued)

(a) Market risk management (continued)

(i) Foreign exchange risk management (continued)

		HKEx	
		Gross and net open position	
	Foreign currency	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Financial assets/(financial liabilities)			
Cash and cash equivalents	GBP	**-**	24
	RMB	**3**	3
	USD	**142**	16
Financial assets measured at amortised cost	RMB	**1**	1
Accounts receivable and deposits	GBP	**-**	10
	RMB	**-**	1
	USD	**1**	5
Amounts due from subsidiaries	USD	**15,638**	15,081
Accounts payable and other liabilities	GBP	**(1)**	(67)
	RMB	**(4)**	(2)
	USD	**(27)**	(18)
Amounts due to subsidiaries	USD	**(3,341)**	(3,294)
Borrowings	USD	**(3,096)**	(3,100)
Total net open positions for HKEx	GBP	**1**	33
	RMB	**-**	3
	USD	**9,317**	8,690
		9,318	8,726

(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 Fund's 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 LME's investment in an unlisted company.

The Group was also exposed to equity price risk arising from changes in HKEx's own share price to the extent that HKEx's own equity instruments underline the fair values of derivatives of the Group. During 2012, the Group was exposed to this risk from 23 October 2012 to 17 December 2012 through the conversion rights attached to the convertible bonds issued by HKEx (note 35(b)).

The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(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.

52. 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 2013	At 31 Dec 2012	**At 31 Dec 2013**	At 31 Dec 2012
Highest contractual interest rates	**8.00%**	8.00%	**2.20%**	3.00%
Lowest contractual interest rates	**0.01%**	0.01%	**0.20%**	0.21%

Floating rate financial assets

	Group		**HKEx**	
	At 31 Dec 2013	At 31 Dec 2012	**At 31 Dec 2013**	At 31 Dec 2012
Highest contractual interest rates	**4.07%**	3.75%	**-**	-
Lowest contractual interest rates	**0.44%**	0.55%	**-**	-

(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 cash collateral 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.

52. 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 2013 $m	At 31 Dec 2012 $m	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Foreign exchange risk	**3**	12	**6**	8
Equity price risk	**10**	8	**-**	-
Interest rate risk	**11**	36	**8**	16
Total VaR	**14**	35	**9**	16

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 and possible liquidity requirements of the Clearing House Funds, Margin Funds and cash collateral. 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, Margin Funds and cash collateral.

The LME Group also employs prudent liquidity risk management which involves maintaining sufficient cash to meet ongoing operational commitments and adhere to the regulatory requirements to maintain liquid assets amounting to at least six months' operating costs.

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.

52. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	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	**3,761**	**-**	**-**	**141**	**-**	**3,902**
Financial assets measured at amortised cost	**8,986**	**-**	**18**	**19**	**23**	**9,046**
Accounts receivable and deposits[2]	**10,830**	**37**	**-**	**-**	**-**	**10,867**
	65,029	**37**	**18**	**160**	**23**	**65,267**

	Group					
	At 31 Dec 2012					
	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	34,077	-	-	-	-	34,077
Financial assets measured at fair value through profit or loss	4,200	-	169	123	-	4,492
Financial assets measured at amortised cost	8,512	-	-	56	5	8,573
Accounts receivable and deposits[2]	13,609	33	2	-	-	13,644
	60,398	33	171	179	5	60,786

[1] Amounts included $898 million (31 December 2012: $1,866 million) of financial assets with contractual maturity over one year. They could readily be liquidated whenever liquid funds are required.

[2] Amounts excluded prepayments of $79 million (31 December 2012: $52 million).

	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[3]	**12**	**-**	**-**	**-**	**12**
Amounts due from subsidiaries	**8,488**	**-**	**6**	**15,503**	**23,997**
	12,542	**-**	**6**	**15,504**	**28,052**

52. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	HKEx				
	At 31 Dec 2012				
	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	797	-	-	-	797
Financial assets measured at amortised cost	1,213	-	-	1	1,214
Accounts receivable and deposits[3]	15	-	-	-	15
Amounts due from subsidiaries	5,371	-	6	14,943	20,320
	7,396	-	6	14,944	22,346

[3] Amounts excluded prepayments of $24 million (31 December 2012: $21 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 2013, the Group's total available banking facilities for its daily operations amounted to $15,012 million (31 December 2012: $16,010 million), which included $7,000 million (31 December 2012: $7,000 million) of committed banking facilities that provide for same day borrowing in HKD and/or RMB, $1,000 million (31 December 2012: $Nil) of committed banking facilities that provide for borrowing in HKD and/or RMB within 2 days, and $7,000 million (31 December 2012: $9,000 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. At 31 December 2013, the amount of such facilities was RMB17,000 million (31 December 2012: RMB17,000 million).

The table below analyses the Group's and HKEx's non-derivative financial liabilities 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.

52. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

	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 and cash collateral from Clearing Participants	**39,793**	**-**	**-**	**-**	**-**	**39,793**
Accounts payable, accruals and other liabilities[4]	**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**

	Group					
	At 31 Dec 2012					
	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 and cash collateral from Clearing Participants	36,786	-	-	-	-	36,786
Accounts payable, accruals and other liabilities[4]	15,474	228	114	-	-	15,816
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	28	-	3	-	-	31
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(a)(ii))	102	-	-	-	-	102
Participants' contributions to Clearing House Funds	1,420	457	47	-	-	1,924
Borrowings:						
Bank borrowings	6	11	52	429	3,143	3,641
Convertible bonds	-	-	19	4,053	-	4,072
Total	53,816	696	235	4,482	3,143	62,372

[4] Amounts excluded non-financial liabilities of $21 million (31 December 2012: $22 million).

52. 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**
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 liabilities at fair value through profit or loss:						
- Written put options to non-controlling interests	**-**	**-**	**-**	**252**	**-**	**252**
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**

	HKEx At 31 Dec 2012					
	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
Accounts payable, accruals and other liabilities	383	3	7	-	-	393
Amounts due to subsidiaries	2,202	-	19	3,590	-	5,811
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))	3,896	-	-	-	-	3,896
Borrowings:						
Bank borrowings	6	11	52	429	3,143	3,641
Total	6,537	14	78	4,019	3,143	13,791

52. Financial Risk Management (continued)

(b) Liquidity risk management (continued)

At 31 December 2013, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $1,120 million (31 December 2012: $1,114 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 2013			At 31 Dec 2012		
	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	**935**	**178**	**1,113**	928	186	1,114
- inflows	**939**	**181**	**1,120**	925	186	1,111

(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 2013, the investment in debt securities for Margin Funds and cash collateral, Clearing House Funds and Corporate Funds held were of investment grade and had a weighted average credit rating of Aa3 (Moody) (31 December 2012: 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 and deposit balances are held only with banks with a minimum rating of F1 (Fitch), and the LME Group's only significant concentration risk is with the banks. 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 and OTC Clear, act as the counterparties to eligible trades concluded on the Stock Exchange, the Futures Exchange and the over-the-counter market 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 and the Derivatives 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.

52. Financial Risk Management (continued)

(c) Credit risk management (continued)

(ii) Clearing and settlement-related risk management

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to deposit margins and cash collateral and contribute to the Clearing House Funds set up by HKSCC, SEOCH, HKCC and OTC Clear. Under the CCASS Rules, HKSCC has collected additional cash collateral from its Clearing Participants to increase the level of protection not just for HKSCC but also for the HKSCC Guarantee Fund from the risk of material loss in the event of a sizeable default. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. At 31 December 2013, bank guarantees of $1,352 million (31 December 2012: $1,426 million) were 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 2013, HKSCC has 494 Clearing Participants (31 December 2012: 502) and the total amounts of Margin Credit and Dynamic Contribution Credit granted to Clearing Participants amounted to $770 million (31 December 2012: $592 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.

52. 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 2013		At 31 Dec 2012	
	Carrying amount in consolidated statement of financial position $m	**Maximum exposure to credit risk $m**	Carrying amount in consolidated statement of financial position $m	Maximum exposure to credit risk $m
Financial guarantee contract				
Undertaking to indemnify the Collector of Stamp Revenue (note 46(a)(ii))	**(20)**	**101**	(20)	102

	HKEx			
	At 31 Dec 2013		At 31 Dec 2012	
	Carrying amount in statement of financial position $m	**Maximum exposure to credit risk $m**	Carrying amount in statement of financial position $m	Maximum exposure to credit risk $m
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))	**(151)**	**3,904**	(192)	3,896

(iv) Collateral held for mitigating credit risk

Certain debtors were required to place cash deposits and bank guarantees as collateral with 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 debtor, was as follows:

	Group			
	At 31 Dec 2013		At 31 Dec 2012	
	Carrying amount in consolidated statement of financial position $m	**Collateral held for mitigating credit risk $m**	Carrying amount in consolidated statement of financial position $m	Collateral held for mitigating credit risk $m
Accounts receivable and deposits	**10,867**	**2,960**	13,644	1,784

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

52. Financial Risk Management (continued)

(c) Credit risk management (continued)

(v) Financial assets that were past due but not impaired

At 31 December, the age analysis of the financial assets (which mainly relate to receivables from Participants and listed companies) of the Group that were past due but determined to be not impaired according to the period past due was as follows:

	Group	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Up to six months	**340**	330

No financial assets of HKEx were past due at 31 December 2013 and 31 December 2012.

(vi) Financial assets that were impaired at the end of the reporting period

At 31 December 2013, receivables of the Group amounting to $158 million (31 December 2012: $159 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(u)(vi).

No financial assets of HKEx were impaired at 31 December 2013 and 31 December 2012.

(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 2013, the amount of doubtful deferred revenue amounted to $105 million (31 December 2012: $94 million).

At 31 December 2013 and 31 December 2012, HKEx did not have any doubtful deferred revenue.

52. 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 2013 and 31 December 2012, 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 2013				At 31 Dec 2013
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 3 $m
Recurring fair value measurements:					
Financial assets					
Financial assets measured at fair value through profit or loss:					
- equity securities	**276**	**-**	**141**	**417**	**-**
- debt securities	**-**	**3,472**	**-**	**3,472**	**-**
- forward foreign exchange contracts	**-**	**13**	**-**	**13**	**-**
	276	**3,485**	**141**	**3,902**	**-**
Recurring fair value measurements:					
Financial liabilities					
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss:					
- forward foreign exchange contracts	**-**	**6**	**-**	**6**	**-**
- written put options to non-controlling interests	**-**	**-**	**-**	**-**	**125**
	-	**6**	**-**	**6**	**125**

52. 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 At 31 Dec 2012			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Recurring fair value measurements:				
Financial assets				
Financial assets measured at fair value through profit or loss:				
- equity securities	216	-	292	508
- debt securities	-	3,981	-	3,981
- forward foreign exchange contracts	-	3	-	3
	216	3,984	292	4,492
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
	-	6	-	6

During 2013 and 2012, there were no transfers of instruments between Level 1 and Level 2.

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

The Group's policy is to recognise 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**	
	2013 $m	2012 $m
At 1 Jan	**292**	-
Addition through acquisition of subsidiaries	**-**	289
Gains recognised in profit or loss, under net investment income	**106**	-
Disposals	**(247)**	-
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	**(10)**	3
At 31 Dec	**141**	292
Change in unrealised gains for the year included in profit or loss for assets held at 31 Dec, under net investment income	**4**	-

52. 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
	$m
At 1 Jan 2013	**-**
Issue of written put options	**(133)**
Gains recognised in HKEx's profit or loss	**8**
At 31 Dec 2013	**(125)**
Change in unrealised gains for the year included in HKEx's profit or loss for liabilities held at 31 Dec 2013 (but eliminated on consolidation)	**8**

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

Group						
					Impact on valuation	
Description	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**	**Possible reasonable change**	**At 31 Dec 2013 $m**	At 31 Dec 2012 $m
Investment in shares in an unlisted company	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	**+25/-19**	+72/-53
Fair value at 31 Dec 2013 was $141	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	**-18/+23**	-49/+67
million (31 Dec 2012: $292 million)	Discount for value attributable to a minority stake	5% to 15%	The higher the discount, the lower the fair value.	+/-3%	**-4/+4**	-17/+17

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

52. 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

Description	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**	**Possible reasonable change**	**Impact on valuation at 31 Dec 2013 $m**
Written put options to non-controlling interests	Valuation of shares	$150m to $180m	The higher the valuation of shares, the lower the option value;	+/-$10m	**-3/+3**
Fair value at 31 Dec 2013 was $125 million	Expected volatility	30% to 40%	The higher the volatility, the higher the option value;	+/-5%	**+11/-12**
	Risk free rate	2% to 4%	The higher the risk free rate, the lower the option value.	+/-0.5%	**-7/+9**

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.

(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) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	At 31 Dec 2013		At 31 Dec 2012	
	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**	94	94
- other financial assets maturing over one year[2]	**60**	**57**	61	58
Liabilities				
Borrowings:				
- Liability component of convertible bonds[3]	**3,607**	**3,639**	3,515	3,723
- Notes [3]	**770**	**770**	-	-
- Written put options to non-controlling interests[3]	**218**	**219**	-	-
Financial guarantee to the Collector of Stamp Revenue[4]	**20**	**55**	20	102

52. 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 2013		At 31 Dec 2012	
	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:				
- debt securities[1]	**-**	**-**	6	6
- other financial assets maturing over one year[2]	**1**	**1**	1	1
Amounts due from subsidiaries under non-current assets[3]	**15,503**	**15,854**	14,943	14,943
Liabilities				
Amounts due to a subsidiary under non-current liabilities[3]	**3,341**	**3,225**	3,294	3,294
Borrowings:				
- Notes[3]	**770**	**770**	-	-
Financial guarantee in favour of HKSCC[4]	**11**	**27**	11	50
Financial guarantee for convertible bonds issued by HKEx International Limited[5]	**151**	**154**	192	192

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/liabilities, adjusted by an estimated credit spread. The discount rates used ranged from 0.80 per cent to 3.20 per cent at 31 December 2013 (31 December 2012: 0.81 per cent to 1.51 per cent).

3 The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 2.90 per cent to 4.60 per cent at 31 December 2013 (31 December 2012: 1.88 per cent to 5.30 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 2.29 per cent at 31 December 2013 (31 December 2012: 0.59 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 1.74 per cent at 31 December 2013 (31 December 2012: 0.72 per cent).

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52. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities

At 31 December 2013 and 31 December 2012, 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.

For the net amounts of CNS money obligations receivable or payable (ie, after set-off) and other accounts receivables due from customers (including Participants, information vendors and hosting services customers), they do not meet the criteria for offsetting in the 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 2013					
				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	**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**

52. 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)

	Group					
	At 31 Dec 2012					
				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	115,501	(102,768)	12,733	(2,694)	(903)	9,136
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	242	-	242	-	(62)	180
Total	115,743	(102,768)	12,975	(2,694)	(965)	9,316

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

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

52. 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)

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

(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" and "accounts payable, accruals and other liabilities" presented in the consolidated statement of financial position.

	Group	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Net amount of financial assets after offsetting as stated above	**10,149**	12,975
Financial assets not in scope of offsetting disclosures	**718**	669
Prepayments	**79**	52
Total accounts receivables, prepayments and deposits	**10,946**	13,696

	Group	
	At 31 Dec 2013 $m	At 31 Dec 2012 $m
Net amount of financial liabilities after offsetting as stated above	**9,867**	12,733
Financial liabilities not in scope of offsetting disclosures	**2,946**	3,083
Non-financial liabilities	**21**	22
Total accounts payable, accruals and other liabilities	**12,834**	15,838

The 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.