



# 2013 Annual Report



This is a time for us to move boldly into an era of new opportunities. We are guided by our vision of more open markets, continuous development in Hong Kong and Mainland China and the internationalisation of the Renminbi.

As a leading global vertically-integrated multi-asset class exchange group, HKEx is perfectly poised to play a pivotal role in building strong connections between China and the world.

The foundation has been laid and we are ready to ride the wave of progress with our partners across the border. Backed by a solid regulatory environment, robust infrastructure and distinguished track record, we are committed to becoming the exchange of choice for our China clients and the exchange of choice for international clients looking to tap China's remarkable growth.

We have reinforced our strengths and with the launch of new products and services across multiple asset classes, we are positioned to deliver growth in exciting new business areas.

It is a time of new opportunities and we have the conviction to seize them. HKEx is ready to embrace the future with optimism.

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

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# FINANCIAL HIGHLIGHTS

	2013	2012	Change
<b>KEY MARKET STATISTICS</b>			
Average daily turnover value of equity products on the Stock Exchange (\$bn)	50.1	41.0	22%
Average daily turnover value of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	12.5	12.9	(3%)
Average daily turnover value on the Stock Exchange (\$bn)	62.6	53.9	16%
Average daily number of derivatives contracts traded on the Futures Exchange	283,610	259,556	9%
Average daily number of stock options contracts traded on the Stock Exchange	249,295	228,438	9%
Average daily volume of metals contracts traded on LME (lots)	676,283	633,809*	7%

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

	2013 \$m	2012 \$m	Change
<b>RESULTS</b>			
Revenue and other income	8,723	7,211	21%
Operating expenses	(2,777)	(1,957)	42%
EBITDA <sup>1</sup>	5,946	5,254	13%
Depreciation and amortisation	(507)	(158)	221%
Costs relating to acquisition of LME Group	–	(138)	(100%)
Finance costs	(183)	(55)	233%
Fair value loss on derivative component of convertible bonds	–	(55)	(100%)
Share of loss of a joint venture	(10)	(3)	233%
Profit before taxation	5,246	4,845	8%
Taxation	(700)	(761)	(8%)
Profit for the year	4,546	4,084	11%
Loss attributable to non-controlling interests	6	–	N/A
Profit attributable to shareholders	4,552	4,084	11%
Basic earnings per share	\$3.95	\$3.75	5%
Diluted earnings per share	\$3.94	\$3.74	5%
Interim dividend per share	\$1.82	\$1.85	(2%)
Final dividend per share	\$1.72	\$1.46	18%
	\$3.54	\$3.31	7%
Dividend payout ratio	90%	90%	–

	2013	2012	Change
<b>KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
Equity attributable to shareholders of HKEx (\$m)	20,405	17,764	15%
Total assets <sup>2</sup> (\$m)	85,943	80,837	6%
Net assets per share <sup>3</sup> (\$)	17.59	15.48	14%

Notes:

- For the purpose of this Annual Report, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture and other non-recurring costs arising from the acquisition of the LME Group.
- The Group's total assets include the Margin Funds and cash collateral received from Participants.
- Based on 1,160,118,524 shares as at 31 December 2013, being 1,161,515,153 shares issued and fully paid less 1,396,629 shares held for the Share Award Scheme (2012: 1,147,408,233 shares, being 1,149,808,087 shares issued and fully paid less 2,399,854 shares held for the Share Award Scheme)

# HIGHLIGHTS OF THE YEAR

## Corporate News

**15 January**

Guo Shuqing, the then Chairman of the CSRC, visited HKEx and CESC

**6 February**

Launched the Founding Members Programme for the MMDH

**5 April**

Vuk Jeremic, President of the United Nations General Assembly, visited HKEx

**8 April**

Announced founding shareholders of OTC Clear



**24-28 June**

Hosted first LME Week Asia in Hong Kong



**24 June**

Together with LME, signed an MOU with Bank of China Limited to explore clearing of RMB-denominated commodity products

**27 June**

Together with LME, signed an MOU with China Beijing International Mining Exchange on cooperation and exchange of information

**6 August**

Held a ceremony to kick off a series of events to mark the 20<sup>th</sup> anniversary of H-share listings



**7 October**

Held LME Week in London

**25 October**

OTC Clear was granted recognition as a clearing house by the SFC

**28 November**

Hosted a banquet in Beijing to conclude its series of events celebrating the 20<sup>th</sup> anniversary of H-share listings and to mark the 10<sup>th</sup> anniversary of the establishment of HKEx's Beijing Representative Office

**2 December**

Signed an MOU with the China Futures Association on cooperation and exchange of information

**4 December**

Signed an MOU with the Singapore Exchange on collaboration on RMB internationalisation and connectivity

## Market Infrastructure

**31 January**

Opened the Data Centre



**8 April**

Introduced AHFT

**30 September**

Rolled out the first phase of the OMD

**15 October**

Upgraded its derivatives trading and clearing systems to Genium INET

**7 November**

Announced the LME warehouse reforms

**27 December**

Admitted ChinaClear as a Clearing Agency Participant to CCASS

## Products and Services

**28 January**

Introduced stock options on the CSOP FTSE China A50 ETF and ChinaAMC CSI 300 Index ETF

**20 March**

Announced stock options market revamp

**10 June**

Introduced stock futures on the ChinaAMC CSI 300 Index ETF, CSOP FTSE China A50 ETF and iShares FTSE A50 China Index ETF

**18 June**

The iShares RMB Bond Index ETF, Asia's first offshore RMB bond ETF, listed on SEHK

**12 August**

Introduced the CES 120 Futures

**26 August**

The ChinaAMC CES China A80 Index ETF, the first ETF on an index from CESC, was listed on SEHK

**November**

The Ministry of Finance of the PRC for the first time used SEHK's facilities for a public offer of its RMB-denominated sovereign bonds listed on SEHK

**26 November**

The Hang Seng China A Industry Top Index ETF, the world's first RQFII ETF from a fund manager based outside Mainland China, was listed on SEHK

## Regulatory Framework

**15 March**

Published consultation conclusions on trading halts

**23 July**

Published Rule changes to complement the SFC's new regulation on sponsors which became effective on 1 October 2013

**13 September**

Published a new statement on the enforcement of Listing Rules and implemented new procedures for disciplinary action involving the Listing Rules

**27 September**

Published a revised Joint Policy Statement (JPS) with the SFC regarding the listing of overseas companies to replace the JPS issued in March 2007

**20 December**

Published Country Guides for each of the 20 acceptable overseas jurisdictions following the revision of the JPS with the SFC

# CHAIRMAN'S STATEMENT

“The integration of LME into HKEx supports our vision of building the Group into a leading global, vertically integrated multi-asset class exchange group. In 2013, we continued our effort to consolidate our strategic strengths, sharpen our competitive edge and ensure our businesses are sustainable.”

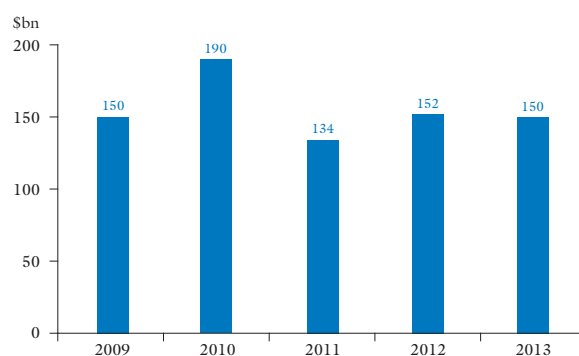


## Group's Performance

There was a positive turning point in the global economic recovery in 2013. The US economy grew at a slow but steady pace, the Eurozone shuffled out of the sovereign debt miasma, and the Mainland economy performed within expectations. All these factors provided positive momentum to the trading and fundraising activities of our securities and derivatives markets in Hong Kong. In addition, LME, our commodities market in the UK, had another record trading year in 2013.

With the LME's contribution for the first full year, the Group's profit attributable to shareholders was \$4,552 million, an increase of 11 per cent year-on-year. Consistent with our 90 per cent dividend payout policy, the Board recommends a final dividend of \$1.72 per share for the year ended 31 December 2013. If the recommendation is approved by Shareholders, the full-year dividend for 2013 will be \$3.54, a rise of 7 per cent from the previous year.

HKEx Shares' Market Capitalisation (as at year-end)\*



\* According to Thomson Reuters, HKEx ranked first in 2010 to 2012 and ranked third in 2013 among the world's listed exchanges.

Note: Figures have been rounded.



## Business Development

According to the Global Financial Centres Index released in September 2013, London and Hong Kong are among the top 3 global financial centres. Our market presence in Hong Kong and London provides us with strategic advantages to pursue our vision of building the Group into a leading global, vertically integrated multi-asset class exchange group. Locally, we will continue our focus on reinforcing Hong Kong's position as an offshore RMB centre and a capital formation centre.

In 2013, we organised extensive outreach activities to showcase our products and services to our market participants in Hong Kong, the Mainland and around the globe. Three of the largest projects, the first ever LME Week Asia in Hong Kong, a series of events in Hong Kong and the Mainland to mark the 20<sup>th</sup> anniversary of H-share listings and the annual LME Week in London, were all held with great success. The 2014 LME Week Asia, one of our major events this year, will be held in Hong Kong on 24 April. We look forward to meeting industry leaders and key market players and sharing insights and views on the future of the commodities industry in Asia, in particular, the growing influence of the Mainland China.

Details of the solid progress we made in 2013 are set out in the Chief Executive's Review and the Business Review sections of this Annual Report.

## Quality Markets

As a recognised exchange controller in Hong Kong, HKEx closely observes its statutory obligations under the SFO. In December 2013, the SFC, upon completion of its review of the Exchange's performance in its regulation of listing matters during 2012, confirmed once again that the operational procedures and decision-making processes reviewed were appropriate to enable the Exchange to discharge its statutory obligations to maintain an orderly, informed and fair market.

HKEx is always mindful of the importance of enhancing the quality of our marketplace. The Listing Rules were amended to complement the introduction of the statutory obligation to disclose inside information, which took effect from January 2013. In addition, with the introduction of the new sponsor regulation by the SFC in October 2013, we made corresponding changes to the Listing Rules with a view to facilitating a more efficient listing process.



Legislative and regulatory changes continue to shape the environment in which the Group operates. We are closely tracking the developments in financial market regulatory framework, including the European Market Infrastructure Regulation requirements and the “Principles for financial market infrastructures” published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions, to ensure our compliance with the latest best practices and legislation applicable to our businesses. We will continue to work with regulatory authorities in Hong Kong, the UK and other parts of the world to promote sound and well-functioning global financial markets.

## Environmental, Social and Governance Performance

Good Environmental, Social and Governance, or ESG, practices have always been an integral part of HKEx's business strategy and management approach.

Since February 2013, HKEx has had a Board Diversity Policy which sets out its approach to achieve diversity on the Board. Details of the implementation of the Board Diversity Policy and other governance practices are set out in the Corporate Governance Report of this Annual Report.

As a good corporate citizen, HKEx also contributes to society indirectly through the Stock Code Balloting for Charity Scheme, which raised \$67 million for charity during 2013.

Our 2013 Corporate Social Responsibility Report underscores the Group's commitment to act responsibly, contribute to the community and help protect the environment. The report includes performance data on the Group's ESG activities and will be available on the HKEx website in mid-March 2014.

We are pleased that our sustainability efforts have received positive external recognition, as HKEx continues to be included in the leading global and regional ESG indices.

In light of the new Companies Ordinance which will take effect on 3 March 2014, the Board has proposed the adoption of a new set of Articles of Association to replace HKEx's current Memorandum and Articles of Association and will seek Shareholders' approval at the 2014 AGM. The new Articles of Association align with the new provisions/requirements under the new Companies Ordinance, details of which and other business to be conducted at the 2014 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the HKEx website. Shareholders are encouraged to attend the 2014 AGM so that we can hear your views and address any concerns you may have.

## Acknowledgments

I would like to take this opportunity to thank my fellow Board and Committee members for their support and contributions throughout the year. On behalf of the Board, I would like to extend thanks to all the Shareholders for their steadfast confidence in HKEx, to the investing public for their interest in our products and services and to our stakeholders, including our regulators and market participants, for their support to our initiatives. I would also like to express our appreciation to all the employees for their hard work, commitment and achievements that provide the foundation for the Group's success and future development.

## Outlook

Despite signs of improving economic data, downside risks remain considerable as recovery of the US economy lays the premise of tapering the quantitative easing measures. The tapering call might result in capital outflows from emerging economies and undue volatility in the global financial markets. At HKEx, we will gear up quickly for any challenges that emerge, and stay vigilant as we pursue the initiatives laid down in our Strategic Plan 2013-2015. We aim to position our exchanges at the forefront of global exchanges, and we are confident of our achievements.

**CHOW Chung Kong**  
Chairman

Hong Kong, 26 February 2014

# CHIEF EXECUTIVE'S REVIEW



2013 marked the opening chapter of our strategic plan for 2013-2015. At the beginning of the year, we set out a goal to build HKEx into a leading global vertically-integrated multi-asset class exchange and prepare ourselves for the managed but accelerating opening of China's capital account. With this vision in mind, we have continued our effort to not only strengthen our core business, but also to enhance our capability to deal with challenges and grasp new opportunities in the years to come, through a number of strategic initiatives.

Over the past year, we continued to enhance the regulatory environment for IPO listings and to attract more issuers, from local, Mainland and international, to list in Hong Kong. We improved market efficiency and integrity by implementing market structure reforms, expanded asset classes by launching OTC Clear, and strengthened our capabilities for further developments by investing and implementing platform infrastructure programmes. While each of our initiatives started to make its own contribution to our business growth, together they lay the foundation for our future strategic initiatives, which I believe will bring us to a new level of competitiveness once all are completed and connected together.

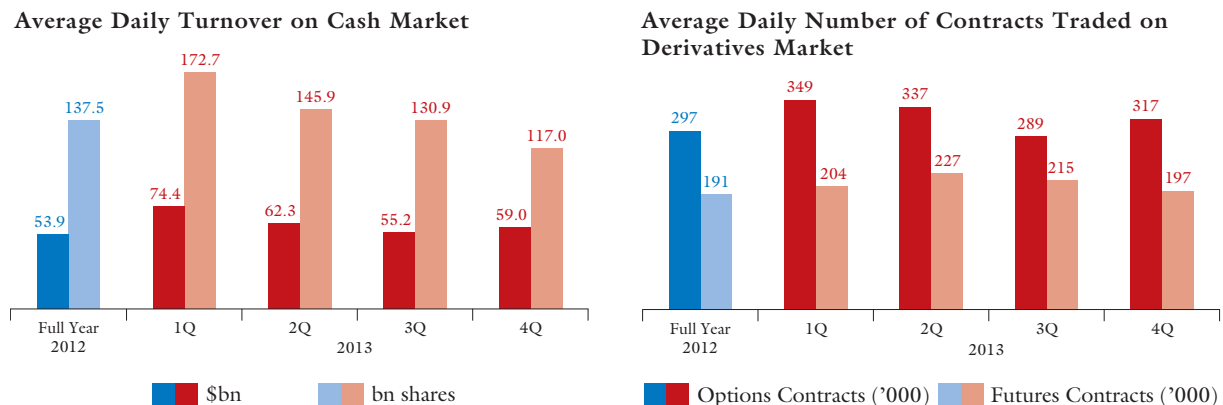
## Market Performance

The world witnessed a pick-up in global growth in 2013; so did our markets both in terms of funds raised and turnover. In the primary market, IPOs in Hong Kong raised \$169.0 billion, an 88 per cent rise from 2012. 110 companies were newly listed on our market, compared to 64 in 2012<sup>1</sup>. Our continuing effort in attracting international issuers continued to make returns, with 5 companies from overseas listing in Hong Kong, raising a total of \$5.6 billion through their IPOs.

<sup>1</sup> Including the number of transfers of listing from GEM to the Main Board in 2012 and 2013

In the secondary market, the year started strongly, with Cash Market average daily turnover (ADT) of \$74.4 billion in the first quarter, but trading activity gradually decreased, reaching a 2013 low of \$55.2 billion in the third quarter. The year ended with a fourth quarter ADT of \$59.0 billion, bringing full-year 2013 ADT to \$62.6 billion.

Derivatives turnover achieved the second best ever with total turnover of 130,028,864 contracts, an increase of about 9 per cent from 2012, largely driven by strong trading in stock options and index futures and options. Open interest at year-end was 6,230,082 contracts, up from 5,317,952 at the previous year-end.



## Business Development Review

### Maintaining Growth Momentum of Equity and Equity Derivatives Business

For primary listings in 2013, we continued our efforts to attract potential issuers from the Mainland and other regions and countries to list in Hong Kong through a wide range of marketing activities. We also worked closely with the SFC to enhance the regulatory environment for IPOs in Hong Kong, resulting in a number of measures including:

- Amendments to Listing Rules to complement the new regulation on sponsors to streamline the regulatory commenting and other aspects of IPO process.
- Issuance of Revised Joint Policy Statement (revised JPS) on listing of overseas companies to enhance regulatory transparency and certainty for overseas companies seeking listing in Hong Kong, and maintain the quality of Hong Kong's financial market.
- Publication of Country Guides for each of the 20 acceptable overseas jurisdictions, following the issuance of revised JPS.

In the secondary market, taking into consideration the evolving changes currently undergoing in the equity markets globally, we have put considerable effort into market structure reforms to preserve market quality, and maximise market efficiency and capability for potential future opportunities. These efforts include:

- **Expanding Market Reach:** AHFT was introduced in April 2013 with the inclusion of HSI and H-shares Index futures. Later in the year, we completed a 6-month post-launch review and subsequently introduced Mini-HSI and Mini H-shares Index futures as well as a Block Trade Facility in the AHFT session from 6 January 2014.



- Enhancing Market Liquidity and Growth:** We rolled out a Stock Options Revamp in May 2013 in a range of areas from product design to market making, with a view to capturing new opportunities created by regulatory changes, which have increasingly required on-exchange trading of derivatives and CCP clearing. The revamp has helped increase market liquidity and secured stock options' dominant position in our Derivatives Market, contributing 47 per cent of the total market turnover in terms of contract volume.
- Maintaining Market Integrity:** The consultation conclusions on Trading Halts published in March 2013 showed market support of our proposal to allow a listed issuer's inside information announcement to be released during trading hours subject to a short trading halt. To minimise the impact to market participants, we will take a holistic approach to implement market structure reforms initiatives in due course.

#### Expanding into Fixed Income and Currency by Launching OTC Clear

After almost 3 years' preparation, OTC Clear was granted recognition as a clearing house pursuant to the SFO on 25 October 2013 and subsequently completed the founding shareholders programme. It was launched in November 2013 and offered clearing services for inter-dealer interest rate swaps as well as non-deliverable forwards referencing RMB, Taiwan Dollars, Korean Won and Indian Rupee.

The development of OTC Clear was driven both by regulatory reform for the Hong Kong OTC derivatives market, and more importantly, the internationalisation of RMB. We strive to build Hong Kong into the premier offshore RMB centre and one of the world's major FIC centres. OTC clearing services for RMB products has provided Hong Kong a breakthrough into the already competitive international FIC arena.

As next steps, we will further develop membership among financial institutions in Hong Kong, monitor international regulatory developments and ensure compliance, and expand the product range of OTC Clear over time.

### Integrating Commodities Business into HKEx Group

Following the acquisition in 2012, LME, as part of HKEx Group, has continued to perform strongly in 2013, with average daily volume up 7 per cent from 2012 to 676,283 lots. Nickel volume experienced the largest growth (up 23 per cent), followed by copper and aluminium (up 11 per cent and 8 per cent respectively).

As part of our commodities strategy, we stepped up building LME's presence in Asia in 2013. LME opened an Asian Helpdesk in Hong Kong to provide full technology support for users throughout the Asian trading day. LME also enhanced its Asian Benchmark pricing, introducing a new and shorter pricing period, thereby further concentrating liquidity and pricing. LME also expanded its warehouse network with the listing of Kaohsiung port in Taiwan as a good delivery point.

In the past year, LME continued to build its own clearing house, LME Clear, with significant milestones completed, including completing the core technology platform, establishing governance structure and incorporating a trade repository reporting service. It is on track to be launched in September 2014.

At the beginning of July 2013, LME published a consultation paper with proposals to tackle the issue of warehouse queues. Following an extensive 3-month market consultation, which ended in September 2013, LME introduced a package of warehouse reforms, aiming to shrink existing queues and prevent the formation of new ones.

As at the date of this Annual Report, 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. LME management continues to take the view that the lawsuits are without merit and will contest them vigorously. Further details are set out in the Business Review section of this Annual Report.

As disclosed in HKEx's announcement on 24 December 2013, LME has been named as a defendant in a judicial review claim filed by United Company RUSAL Plc (Rusal) in the English High Court. The judicial review seeks to challenge the LME's decision to introduce changes to 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. LME management continues to take the view that Rusal's complaint is without merit and will contest the judicial review proceedings vigorously. Further details are set out in the Business Review section of this Annual Report.

### Enhancing Platform Infrastructure Capability

To maintain our long-term growth and enhance our ability to tap new opportunities ahead, we have in 2013 focused our programme of investment on platform infrastructure implementation, including:

- **OMD Rollout:** The first phase of OMD was rolled out in September 2013. The next phases of OMD, scheduled for rollout in the first half of 2014, will extend direct distribution of the HKEx market data to Mainland China through the MMDH and then use OMD for HKEx Derivatives Market data.
- **Derivatives Trading and Clearing Systems Migration to Genium INET:** The migration of the Derivatives Market trading system (HKATS) and clearing system (DCASS) to Genium INET was completed in October 2013. The new system delivers world-class performance and paves the way for sustainable growth of our Derivatives Market.
- **Expansion of Hosting Services:** Hosting Services were expanded to support the Derivatives Market in June 2013, following its launch at the end of 2012. Turnover contribution from its participants for both Cash Market (20 per cent) and Derivatives Market (46 per cent) has been strong.

### Building RMB Product Suite and Mainland Connectivity

Over the course of 2013, we witnessed a rather active and diverse market for RMB products, once again demonstrating our RMB capabilities. Developments included the introduction of CES 120 Futures (the world's first exchange-listed derivatives product offering exposure to both Mainland and Hong Kong stock markets), as well as the listing of the ChinaAMC CES China A80 Index ETF (the first ETF on a CESC index), the Hang Seng China A Industry Top Index ETF (the world's first RQFII ETF from an offshore fund manager) and RMB sovereign bonds through the HKEx platform. As China continues to internationalise its currency, we expect rapid and sustainable growth in the pace and scale of our RMB business in the years to come.

Our joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange, CESC, celebrated its first year anniversary in 2013 with many accomplishments, including the introduction of the CES China Cross Border Index Series and the rollout of futures and ETFs, tracking components of the index series. More importantly, its great achievements have been widely recognised, winning a 2013 Best of the Best Awards from Asia Asset Management. We see great potential in CESC because of its unique position, and will continue to develop new products to connect the rest of the world with Hong Kong and the Mainland's financial markets.

### Strategy Outlook

Our consistent strategy, applied over the years, has helped deliver an efficient, balanced and resilient market place. China's capital account opening and the internationalisation of various markets remain to be one of our biggest strategic drivers. Hong Kong is now at a crossroads, which presents us with not only big challenges but also great opportunities.

Our Strategic Plan 2013-2015 positions us to respond to the evolving environment and react nimbly to opportunities arising from it. Our priorities for 2014 include mutual market access, market structure and integrity reforms as well as continued platform infrastructure development.

As one of the key themes in our Strategic Plan, mutual market access has been at the centre of our focus. We have continued our efforts to work with the Mainland exchanges and authorities to explore approaches and models to connect the 2 markets, with the view to achieving greater cross-border access and integration to serve investors in the Mainland, Hong Kong and the rest of the world.

To enhance our market's efficiency and resilience, we are at the moment looking into a number of market structure reforms, including closing auction and circuit breakers, and we plan to consult the market at an appropriate time.

Over the course of 2011 and 2012, we implemented Risk Management Reform, which marked the most crucial and significant reform to HKEx's clearing house risk management regime. In light of evolving market conditions and global regulatory standards, we will continue to review and refine our risk management measures to further enhance the robustness of our clearing house risk management capabilities and to better comply with international standards.

HKEx continuously monitors changes in the global and Hong Kong regulatory environment, and prudently manages its operations and risk. We continue to work closely with the relevant authorities to ensure that we meet appropriate regulatory standards.

In order to support our strategic goals, we will continue reviewing our platform and infrastructure capability. While it is absolutely crucial for us to maintain the competitiveness of our platform and infrastructure, we will be mindful of the timing, pace and market impacts when we come to the decisions of further enhancements.

As the world economy began to show a modest recovery in 2013, with the right strategic plan in place and successful implementation, I am confident that we will achieve sustainable growth in multi-asset classes and position ourselves in the top notch of global exchanges for the long term.

## Appreciation

In closing, I would like to show my great appreciation to the HKEx Group staff whose hard work and dedication have not only maintained the smooth operation of our markets in 2013 but also made great progress in various initiatives under our Strategic Plan 2013-2015. I would also like to take this opportunity to welcome new colleagues Messrs Garry Jones (LME's Chief Executive), Stuart Sloan (LME's Chief Operating Officer and Head of Strategy), Mao Zhirong (Head of Mainland Development) and Ms Margaret Cheng (Group Head of Human Resources), and to thank Messrs Martin Abbott (LME's former Chief Executive) and Diarmuid O'Hegarty (LME's former Deputy Chief Executive), who left us in 2013, for their great contributions to the HKEx Group.

I would like to thank our market participants and other stakeholders for their support and contributions over the course of the last year as we implemented strategies to improve operational efficiency and pursue growth for HKEx as well as the Hong Kong's markets.

Last but not least, I would like to thank my fellow members of the Board, who provided tremendous support and guidance needed for a successful and fruitful 2013. The year of the galloping horse has begun; I am confident that with our continuous drive and determination, we will continue to deliver and succeed in achieving our goal of leading Hong Kong's markets to new horizons.

**LI Xiaojia, Charles**

Director and Chief Executive

Hong Kong, 26 February 2014

# BOARD AND COMMITTEES



## Board

### INEDs

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

### Executive Director

LI Xiaojia, Charles (Chief Executive)

### Company Secretary

MAU Kam Shing, Joseph

Notes:

\* Government Appointed Director

\*\* Appointed by the Financial Secretary

Δ Established under Section 65 of the SFO

<sup>1</sup> Retired on 24 April 2013

<sup>2</sup> Re-appointment effective 24 April 2013

## Committees

### Audit Committee

John Barrie HARRISON <sup>5</sup> (Chairman)  
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)  
CHAN Tze Ching, Ignatius  
KWOK Chi Piu, Bill  
LEE Tze Hau, Michael <sup>6</sup>  
John Mackay McCulloch WILLIAMSON

### Environmental, Social and Governance Committee

CHOW Chung Kong (Chairman)  
Ronald Joseph ARCULLI <sup>1</sup>  
John Barrie HARRISON <sup>5</sup>  
HUI Chiu Chung, Stephen <sup>7</sup>  
LEE Tze Hau, Michael <sup>5</sup>  
LI Xiaojia, Charles

### Executive Committee

CHOW Chung Kong (Chairman)  
Timothy George FRESHWATER <sup>8</sup>  
KWOK Chi Piu, Bill  
LEE Kwan Ho, Vincent Marshall  
LI Xiaojia, Charles  
John Mackay McCulloch WILLIAMSON <sup>9</sup>

<sup>3</sup> Appointment effective 24 April 2013

<sup>4</sup> Re-elected effective 24 April 2013

<sup>5</sup> Re-appointment effective 25 April 2013

<sup>6</sup> Appointment effective 9 December 2013

<sup>7</sup> Appointment effective 25 April 2013





#### Investment Advisory Committee

John Estmond STRICKLAND <sup>5</sup> (Chairman)  
 WONG Sai Hung, Oscar <sup>5</sup> (Deputy Chairman)  
 HUI Chiu Chung, Stephen <sup>5</sup>  
 LEE Tze Hau, Michael <sup>5</sup>  
 LUI Yin Tat, David

#### Nomination Committee

CHOW Chung Kong (Chairman)  
 CHAN Tze Ching, Ignatius  
 Timothy George FRESHWATER  
 John Estmond STRICKLAND <sup>1</sup>  
 John Mackay McCulloch WILLIAMSON <sup>7</sup>  
 WONG Sai Hung, Oscar <sup>5</sup>

#### Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)  
 KWOK Chi Piu, Bill  
 LEE Kwan Ho, Vincent Marshall  
 LEE Tze Hau, Michael <sup>5</sup>  
 WONG Sai Hung, Oscar <sup>5</sup>

#### Remuneration Committee

CHOW Chung Kong (Chairman)  
 Ronald Joseph ARCULLI <sup>1</sup>  
 Timothy George FRESHWATER <sup>9</sup>  
 John Barrie HARRISON <sup>5,9</sup>  
 KWOK Chi Piu, Bill <sup>8</sup>  
 LEE Kwan Ho, Vincent Marshall <sup>8</sup>  
 LEUNG KO May Yee, Margaret <sup>7</sup>  
 John Mackay McCulloch WILLIAMSON

#### Risk Management Committee <sup>Δ</sup>

CHOW Chung Kong (Chairman)  
 CHAN Ngai Hang <sup>\*\* 10</sup>  
 CHAN Tze Ching, Ignatius <sup>8</sup>  
 HE Guangbei <sup>\*\* 11</sup>  
 HUNG Pi Cheng, Benjamin <sup>\*\* 12</sup>  
 KWOK Chi Piu, Bill <sup>13</sup>  
 LAU Ying Pan, Edmond <sup>\*\* 14</sup>  
 LEE Tat Chi, Howard <sup>\*\* 15</sup>  
 LEE Tze Hau, Michael <sup>5,9</sup>  
 LEUNG KO May Yee, Margaret <sup>7</sup>  
 LIU Swee Long, Michael <sup>\*\* 10</sup>  
 LUI Kei Kwong, Keith <sup>\*\*</sup>

<sup>8</sup> Appointment effective 8 May 2013

<sup>9</sup> Appointment ceased effective 8 May 2013

<sup>10</sup> Re-appointment effective 1 July 2013

<sup>11</sup> Appointment ceased effective 20 January 2014

<sup>12</sup> Appointment effective 20 January 2014 by virtue of being the Chairman of Hong Kong Interbank Clearing Limited

<sup>13</sup> Appointment ceased effective 25 April 2013

<sup>14</sup> Appointment ceased effective 1 May 2013

<sup>15</sup> Appointment effective 1 May 2013 by virtue of being the Executive Director (Monetary Management) of Hong Kong Monetary Authority

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Board of Directors



**CHOW Chung Kong**

Chairman, INED  
Aged 63

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

### Other positions held within the Group

**HKE** – chairman of Environmental, Social and Governance Committee, Executive Committee, Nomination Committee, Remuneration Committee and Risk Management Committee  
**SEHK** – chairman of Listing Appeals Committee and member of Listing Nominating Committee  
**LME** – independent non-executive director and member of Nomination Committee  
**LMEH** – independent non-executive director

### Other major offices

**AIA Group Limited** \* – independent non-executive director (2010~)  
**Anglo American plc** (listed on the London Stock Exchange and Johannesburg Stock Exchange)  
– independent non-executive director (2008~)  
**The Hong Kong General Chamber of Commerce** – chairman (2012~)  
**The Hong Kong Jockey Club** – steward (2011~)  
**World Federation of Exchanges** – director (2012~)

### Past offices

**Brambles Industries plc** – chief executive (2001-2003)  
**GKN plc** – chief executive (1997-2001)  
**MTR Corporation Limited** \* – chief executive officer (2003-2011)

### Public service

**Commission on Strategic Development**  
– non-official member (2013~)  
**Economic Development Commission** – non-official member and convenor of Working Group on Transportation (2013~)  
**Executive Council of the HKSAR** – non-official member (2012~)  
**Hong Kong Trade Development Council** – council member (2012~)  
**ICAC** – chairman of Advisory Committee on Corruption (2013~)  
**Standing Committee on Judicial Salaries and Conditions of Service**  
– member (2010~)

### Qualifications

**Chartered Engineer** (The Institution of Chemical Engineers, UK)  
**Bachelor of Science (Chemical Engineering)**  
(University of Wisconsin, US)  
**Master of Science (Chemical Engineering)**  
(University of California, US)  
**Master of Business Administration**  
(The Chinese University of Hong Kong)  
**Honorary Doctor of Engineering** (The University of Bath, UK)  
**Honorary Fellow** (The Chinese University of Hong Kong, The Hong Kong Institution of Engineers, and The Institution of Engineering and Technology)  
**Fellow** (City & Guilds of London Institute, Hong Kong Academy of Engineering Sciences, The Chartered Institute of Logistics and Transport in Hong Kong, The Institution of Chemical Engineers, and The Royal Academy of Engineering)

\* Currently listed on the Stock Exchange



### LI Xiaojia, Charles

Executive Director, Chief Executive  
Aged 52

Joined on 16 October 2009

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

#### Other positions held within the Group

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

#### Other major office

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

#### Past offices

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

#### Public service

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

#### Qualifications

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



### CHAN Tze Ching, Ignatius

BBS, JP

INED  
Aged 57

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

#### Other positions held within the Group

**HKEx** – chairman of Panel Member Nomination Committee, member of Audit Committee, Nomination Committee and Risk Management Committee, and deputy chairman of Clearing Consultative Panel  
**HKSCC** – member of Disciplinary Appeals Committee

#### Other major offices

**Affin Holdings Berhad** (listed on Bursa Malaysia) – non-executive director (2013~)<sup>1</sup>  
**CVC Capital Partners Limited** – senior adviser (2010~)  
**Larry Jewelry International Company Limited \*** – independent non-executive director (2012~)  
**Mongolian Mining Corporation \*** – independent non-executive director (2010~)  
**Rizal Commercial Banking Corporation** (listed on the Philippine Stock Exchange) – non-executive director (2011~)  
**The Bank of East Asia Limited \*** – senior adviser (2009~)

#### Past offices

**Bank of China (Hong Kong) Limited** – deputy chief executive (2008)  
**Citigroup** (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))

#### Public service

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

#### Qualifications

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


\* Currently listed on the Stock Exchange

<sup>1</sup> Appointment effective 6 August 2013

<sup>2</sup> Appointment effective 1 January 2014

 <p><b>Timothy George FRESHWATER</b></p> <p>INED Aged 69</p> <p>Director since 23 April 2012 Term of office: 23 April 2012 (appointed) to 2014 AGM</p>	Other positions held within the Group	<b>HKEx</b> – member of Executive Committee and Nomination Committee
	Other major offices	<p><b>Aquarius Platinum Limited</b> (listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange) – independent non-executive director (2006~)</p> <p><b>COSCO Pacific Limited</b> * – independent non-executive director (2005~)</p> <p><b>Goldman Sachs (Asia) LLC</b> – advisory director (2012~)</p> <p><b>Savills plc</b> (listed on the London Stock Exchange) – independent non-executive director (2012~)</p> <p><b>Swire Pacific Limited</b> * – independent non-executive director (2008~)</p>
	Past offices	<p><b>Chong Hing Bank Limited</b> * – independent non-executive director (1997-2014) <sup>1</sup></p> <p><b>Goldman Sachs (Asia) LLC</b> – (2001-2012: director (2001-2012); vice chairman (2005-2012); and chairman, corporate finance (2001-2004))</p> <p><b>HKEx</b> – INED (2000-2006)</p> <p><b>Jardine Fleming</b> (1996-2000: chairman (1999-2000))</p> <p><b>Slaughter and May</b> (1967-1996: head of worldwide corporate practice (1993-1996) and partner (1975-1996))</p>
	Qualifications	<p><b>Solicitor</b> (Hong Kong, and England &amp; Wales)</p> <p><b>Bachelor of Laws</b> and <b>Master of Arts</b> (University of Cambridge, UK)</p>

\* Currently listed on the Stock Exchange  
1 Appointment ceased effective 14 February 2014

 <p><b>John Barrie HARRISON</b></p> <p>INED Aged 57</p> <p>Director since 20 April 2011 Term of office: 24 April 2013 (re-appointed) to 2015 AGM</p>	Other positions held within the Group	<p><b>HKEx</b> – chairman of Audit Committee, and member of Environmental, Social and Governance Committee</p> <p><b>LME</b> – independent non-executive director, and chairman of Audit and Risk Committee</p> <p><b>LME Clear</b> – independent non-executive director, chairman of Audit Committee, and member of Nomination Committee and Remuneration Committee <sup>1</sup></p>
	Other major offices	<p><b>AIA Group Limited</b> * – independent non-executive director (2011~)</p> <p><b>AustralianSuper Pty Ltd</b> – member of Asian Advisory Committee (2012~)</p> <p><b>BW Group Limited</b> – independent non-executive director (2010~)</p> <p><b>BW LPG Limited</b> (listed on Oslo Borse) – vice-chairman and independent non-executive director (2013~) <sup>2</sup></p>
	Past offices	<p><b>KPMG</b> (1977-2010: deputy chairman of KPMG International (2008-2010), chairman of KPMG’s Asia Pacific region and chairman of KPMG China and Hong Kong (2003-2009), and partner of KPMG Hong Kong (1987-2009))</p>
	Qualifications	<p><b>Bachelor of Science (Mathematics)</b> (Durham University, UK)</p> <p><b>Fellow</b> (Institute of Chartered Accountants in England &amp; Wales)</p> <p><b>Member</b> (HKICPA)</p>

\* Currently listed on the Stock Exchange  
1 All appointments effective 4 December 2013 except for Nomination Committee which took effect on 16 December 2013  
2 Appointments effective 21 November 2013



**HUI Chiu Chung, Stephen**  
JP

INED

Aged 66

Director since 23 April 2009

Term of office: 24 April 2013  
(re-appointed) to 2015 AGM

**Other positions held within the Group**

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

**SEHK** – member of Disciplinary Appeals Committee

**Other major offices**

**China South City Holdings Limited \***

– independent non-executive director (2011~)

**Chun Wo Development Holdings Limited \***

– independent non-executive director (2006~)

**Gemdale Properties and Investment Corporation Limited \***

– independent non-executive director (2004~)

**Lifestyle International Holdings Limited \***

– independent non-executive director (2005~)

**Luk Fook Financial Services Limited**

– chairman and chief executive officer (2011~)

**Luk Fook Holdings (International) Limited \***

– non-executive director (1997~)

**SINOPEC Engineering (Group) Co Ltd \***

– independent non-executive director (2013~)

**Zhuhai Holdings Investment Group Limited \***

– independent non-executive director (1998~)

**Past offices**

**HKSCC** – director (1992-1996 and 1997-2000)

**OSK Holdings Hong Kong Limited** – vice-chairman (2011) and chief executive officer (2005-2011)

**SEHK** – member of Listing Committee and GEM Listing Committee (2003-2009), and second vice-chairman (1995-1996 and 1997-2000) and member (1991-1996) of Council

**UOB Kay Hian (Asia) Limited** – managing director (2002-2005)

**Public service <sup>2</sup>**

**The Administrative Committee of Hengqin New Area, Zhuhai** – member of Hengqin New Area Development Advisory Committee <sup>1</sup>, and Hong Kong and Macao Legal Issues Expert Group of Hengqin New Area (2013~)

**Zhuhai Municipal Committee of the Chinese People's Political Consultative Conference** – member (2006~)

**Qualifications**

Fellow (HKIoD and HKSI)

\* Currently listed on the Stock Exchange

<sup>1</sup> Appointment effective 1 August 2013

<sup>2</sup> Ceased to be a member of the Appeal Board of the Travel Industry Council of Hong Kong effective 14 August 2013



**KWOK Chi Piu, Bill**  
JP

INED  
Aged 61

Director since 3 April 2000  
Term of office: 20 April 2011  
(re-elected) to 2014 AGM

**Other positions held within the Group**

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

**Other major offices**

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

**Past offices**

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

**Public service**

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

**Qualifications**

**Bachelor of Science (Chemistry)** and **Bachelor of Arts (Economics)** (Stanford University, US)  
**Doctor of Philosophy (Biochemistry)** (University of Chicago, US)  
**Fellow (HKSI)**

\* Currently listed on the Stock Exchange



**LEE Kwan Ho, Vincent Marshall**  
Officer of the Order of the Crown (Belgium)

INED  
Aged 58

Director since 3 April 2000  
Term of office: 20 April 2011  
(re-elected) to 2014 AGM

**Other positions held within the Group**

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

**Other major offices**

**Guangdong Land Holdings Limited** \* 1  
– independent non-executive director (2009~)  
**LT Holdings Limited** \* – non-executive director (2013~)  
**Tung Tai Group of Companies** – chairman (2010~)

**Past offices**

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

**Public service**

**Clearing and Settlement Systems Appeals Tribunal**  
– member (2013~) 2  
**Correctional Services Children’s Education Trust Committee**  
– member (2011~)  
**Financial Services Development Council** – non-official member and member of New Business Committee (2013~)  
**Sir Murray MacLehose Trust Fund Investment Advisory Committee**  
– chairman (2012~)

**Qualifications**

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

\* Currently listed on the Stock Exchange

- 1 Formerly known as Kingway Brewery Holdings Limited
- 2 Appointment effective 4 November 2013



**LEE Tze Hau, Michael**  
JP

INED  
Aged 52

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

**Other positions held within the Group**

**HKEx** – member of Audit Committee <sup>1</sup>, Environmental, Social and Governance Committee, Investment Advisory Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel  
**HKFE** – member of Disciplinary Appeals Committee  
**OTC Clear** – independent non-executive director and chairman, and chairman of Risk Management Committee <sup>2</sup>

**Other major offices**

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

**Past offices**

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

**Public service**

**Beat Drugs Fund Association**  
– member of Investment Sub-committee (2008~)  
**Council of the Queen Elizabeth Foundation for the Mentally Handicapped** – member (2009~)  
**Hong Kong Committee for Pacific Economic Cooperation**  
– member (2008~)  
**Police Children's Education Trust Management Committee**  
– member (2008~) and chairman (2012~)  
**Police Education and Welfare Trust Management Committee**  
– member (2008~) and chairman (2012~)

**Qualifications**

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

\* Currently listed on the Stock Exchange

<sup>1</sup> Appointment effective 9 December 2013

<sup>2</sup> Appointment effective 31 October 2013



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

INED  
Aged 61

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

**Other positions held within the Group**

**HKEx** – member of Remuneration Committee and Risk Management Committee  
**SEHK** – member of Listing Nominating Committee

**Other major offices**

**China Construction Bank Corporation** \*  
– independent non-executive director (2013~) <sup>1</sup>  
**Chong Hing Bank Limited** \* – deputy chairman, managing director and executive director (2014~) <sup>2</sup>  
**First Pacific Company Limited** \*  
– independent non-executive director (2012~)  
**Li & Fung Limited** \* – independent non-executive director (2013~)  
**QBE Insurance Group Limited** (listed on the Australian Securities Exchange) – independent non-executive director (2013~) <sup>3</sup>  
**Sun Hung Kai Properties Limited** \*  
– independent non-executive director (2013~)  
**Yuexiu Financial Holdings Limited** – vice-chairman, executive director and chief executive (2014~) <sup>2</sup>

**Past offices**

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

**Public service** <sup>4</sup>

**Hospital Authority**  
– board member and member of Finance Committee (2011~)  
**Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR** – member (2012~)  
**Standing Committee on Disciplined Services Salaries and Conditions of Service** – member (2009~) and chairman of Police Sub-Committee (2011~)  
**Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development** – member (2012~)  
**The Guangzhou Municipal Committee of the Chinese People's Political Consultative Conference** – member (2008~)  
**The Henan Provincial Committee of the Chinese People's Political Consultative Conference** – member of Standing Committee (2009~)  
**The National Committee of the Chinese People's Political Consultative Conference** – member (2013~)

**Qualifications**

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

\* Currently listed on the Stock Exchange

<sup>1</sup> Appointment effective 12 December 2013

<sup>2</sup> Appointments effective 14 February 2014

<sup>3</sup> Appointment effective 21 August 2013

<sup>4</sup> Ceased to be a member of the Banking Review Tribunal effective 6 January 2014





**John Estmond  
STRICKLAND**

GBS, JP

INED

Aged 74

Director since 3 April 2000 \*\*

Term of office: 24 April 2013  
(re-elected) to 2016 AGM

<b>Other positions held within the Group</b>	<b>HKEx</b> – chairman of Investment Advisory Committee <b>SEHK</b> – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee
<b>Other major offices</b>	<b>Esquel Holdings Inc</b> – non-executive director (2001~) <b>Octopus Holdings Limited</b> – non-executive chairman (2011~)
<b>Past offices</b>	<b>HSBC, Hong Kong &amp; London</b> (1971-1998 and 1966-1969) <b>Integrated Distribution Services Group Limited</b> – non-executive director (2004-2010) <b>The Hongkong and Shanghai Banking Corporation Limited</b> – chairman (1996-1998)
<b>Public service</b>	<b>Financial Reporting Council</b> – member (2012~) <b>Hong Kong Internet Registration Corporation Limited</b> – non-executive director (2008~) and non-executive chairman (2009~)
<b>Qualifications</b>	<b>Degree in Physics</b> (Jesus College, University of Cambridge, UK) <b>Honorary Doctorate in Business Administration</b> (City University of Hong Kong) <b>Honorary Doctorate in Technology</b> (The Hong Kong Polytechnic University) <b>Distinguished fellow</b> (Hong Kong Computer Society) <b>Honorary fellow</b> (The Hong Kong Institute of Bankers) <b>Honorary university fellowship</b> (The University of Hong Kong) <b>Fellow</b> (The Hong Kong Management Association)

\*\* Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board from 8 July 1999. Mr Strickland is currently an Elected Director.



**John Mackay McCulloch  
WILLIAMSON**

INED

Aged 55

Director since 18 June 2008

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

<b>Other positions held within the Group</b>	<b>HKEx</b> – member of Audit Committee, Nomination Committee and Remuneration Committee
<b>Other major offices</b>	<b>SAIL Advisors Limited</b> – chief executive officer (2011~) <b>Search Investment Group Limited</b> – senior managing director (2012~) and chief financial officer (2007~)
<b>Past offices</b>	<b>HKEx</b> – member of Clearing Consultative Panel (2000-2007) <b>Morgan Stanley Dean Witter Asia Limited</b> – managing director, and head of infrastructure and operational risk (1998-2007) <b>NatWest Investment Services, London</b> – managing director (1992-1994) <b>NatWest Securities Asia Holdings Limited</b> – chief operating officer (1994-1998) <b>Search Investment Group Limited</b> – managing director (2007-2011)
<b>Qualifications</b>	<b>Bachelor of Arts (Accountancy &amp; Computer Science)</b> (Heriot-Watt University, UK) <b>Chartered Accountant</b> (The Institute of Chartered Accountants of Scotland) <b>Fellow</b> (Chartered Institute for Securities and Investment, UK and HKSI)



**WONG Sai Hung, Oscar**

INED  
Aged 58

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

**Other positions held within the Group**

**HKEx** – deputy chairman of Investment Advisory Committee, member of Nomination Committee and Panel Member Nomination Committee, and chairman of Clearing Consultative Panel  
**HKSCC** – chairman of Disciplinary Appeals Committee

**Other major offices**

**China Bio-Med Regeneration Technology Limited \***  
– vice-chairman and non-executive director (2013~)  
**LW Management Advisors Limited** – executive director (2013~)  
**Ping An Insurance (Group) Company of China Ltd \***  
– independent non-executive director (2013~)

**Past offices**

**ARN Asian Enterprise Fund Limited** (formerly listed on the Irish Stock Exchange) – non-executive director (2006-2012)  
**ARN Investment Sicav** (listed on the Luxembourg Stock Exchange) – non-executive director (2010-2014)<sup>1</sup>  
**BOCI-Prudential Asset Management Limited**  
– chief executive officer (2001-2005)  
**China Bio-Med Regeneration Technology Limited \***  
– chairman and executive director (2012-2013), vice-chairman (2009-2012), and non-executive director (2008-2012)  
**ICBC (Asia) Investment Management Company Limited**  
– business adviser (2012), and chief executive and executive director (2008-2011)  
**INVESCO Asia Limited** – deputy chief executive (1998)  
**Prudential Portfolio Managers Asia**  
– regional managing director (1999-2000)

**Public service**

**Hong Kong Housing Authority**  
– member of Finance Committee (2008~)

**Qualifications**

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

\* Currently listed on the Stock Exchange  
1 Appointment ceased effective 8 January 2014

**Company Secretary**



**MAU Kam Shing, Joseph**

Company Secretary and  
Head of Secretarial Services  
Aged 55

Joined in June 2000

**Past offices**

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

**Qualifications**

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

## Senior Management



**CHENG Wai Ching, Margaret**

Group Head, Human Resources  
Age 48

Joined in August 2013

### Past offices

**The Hongkong and Shanghai Banking Corporation Limited** (2001-2013: head of human resources, Hong Kong and global businesses, Asia Pacific (2011-2013), head of human resources, regional personal financial services & Hong Kong (2009-2011), head of human resources, China (2004-2009), head of human resources, treasury & capital markets, Asia Pacific (2002-2004), and head of human resources, investment banking division, Asia Pacific (2001-2002))

**Bank of America** – vice president, regional human resources (2001)

**JP Morgan** – vice president, human resources (1997-2001)

**Citibank** – human resources manager (1993-1997)

### Qualifications

**Bachelor of Arts (Business Administration)**  
(California State University, US)

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



**CHOW Tang Bill, Bill**

Chief Technology Officer and  
Co-head of Information Technology  
Age 57

Joined in May 1993

### Past offices

**Systek Information Technology Limited** – senior project manager (1991-1993)

**Westpac Banking Corporation (Australia)** – consultant applications engineer (1987-1991)

**China Light & Power Company Limited** – senior systems analyst (1985-1987)

### Qualifications

**Bachelor of Science (Computer Science & Chemistry)**  
(The University of Hong Kong)

**Master of Science (Electronic Commerce)**  
(City University of Hong Kong)



**David GRAHAM**

Chief Regulatory Officer and  
Head of Listing <sup>1</sup>  
Aged 55

Joined in January 2013

### Other positions held within the Group

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

### Past offices

**Nomura** – global head of legal and general counsel, wholesale division (2011-2013)

**UBS** (2004-2011: global/co-global general counsel (UBS Investment Bank) (2008-2011), group general counsel (Europe, Middle East and Africa) (2009-2011), and general counsel (Asia Pacific) (2004-2008))

**Morgan Stanley** – general counsel, Asia ex-Japan (2001-2004)

**Freshfields Bruckhaus Deringer LLP** (1982-2001: partner (1991-2001))

### Public service

**SFC** – member of Advisory Committee (2013~)

**Standing Committee on Company Law Reform** – member (2013~)

**UK Takeover Panel** – member of the Code Committee (2012~)

### Qualifications

**Master of Arts (Jurisprudence)** (The University of Oxford, UK)

**Solicitor** (Hong Kong, and England & Wales)

<sup>1</sup> Mr Graham became Head of Listing effective 1 March 2013.



**Gerald Dale GREINER**

Head of Global Clearing  
(effective 7 January 2013)  
Aged 57

Joined in May 2004

**Other positions held within the Group**

**HKSCC** – chief executive, and member of Risk Management Committee  
**LME Clear** – member of Audit Committee, Nomination Committee and Remuneration Committee  
**OTC Clear** – chief executive, and chairman of User Committee

**Past offices**

**SEHK** – chief executive (2007-2013), and member of Compensation Committee (2008-2013)  
**HKFE** – chief executive (2004-2013)  
**HKEx** – Chief Operating Officer (2007-2013), Deputy Chief Operating Officer and Head of Exchange Division (2004-2007)  
**SFC** – senior director of supervision of markets division (1989-2004)  
**US Securities and Exchange Commission** – various senior executive positions (1984-1989)

**Qualifications**

**Bachelor of Science (Economics)** (Allegheny College, US)  
**Juris Doctor** (University of Toledo College of Law, US)  
**Fellow** (HKSI)



**James Henry Carre INGROUILLE**

Chief Operating Officer  
(effective 4 January 2013)  
Aged 43

Joined in July 2012

**Past offices**

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

**Qualifications**

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



**Garry Peter JONES**

Co-head of Global Markets  
Aged 55

Joined in September 2013

**Other positions held within the Group**

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

**Past offices**

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

**Qualifications**

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



**Paul Michael KENNEDY**

Group Chief Financial Officer  
(effective 8 May 2013)

Aged 56

Joined in January 2013

**Past offices**

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

**Qualifications**

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



**Romnesh LAMBA**

Co-head of Global Markets  
(effective 7 January 2013)

Aged 50

Joined in February 2010

**Other positions held within the Group**

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

**Past offices**

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

**Qualifications**

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



**LAW Man Wai, Henry**

Chief Communications Officer  
(effective 7 January 2013)

Aged 59

Joined in January 1988

**Past offices**

**HKEx** – Head of Corporate Communications (2000-2013)  
**SEHK** – Head of Corporate Communications (1988-2000)  
**Ogilvy and Mather Public Relations (Hong Kong) Limited**  
 – senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988)  
**Michael Stevenson Limited** – advertising and public relations executive (1974-1982)



**LEUNG Chung Kwong,  
Richard**

Co-head of Information Technology  
Age 50

Joined in October 2011

**Past offices**

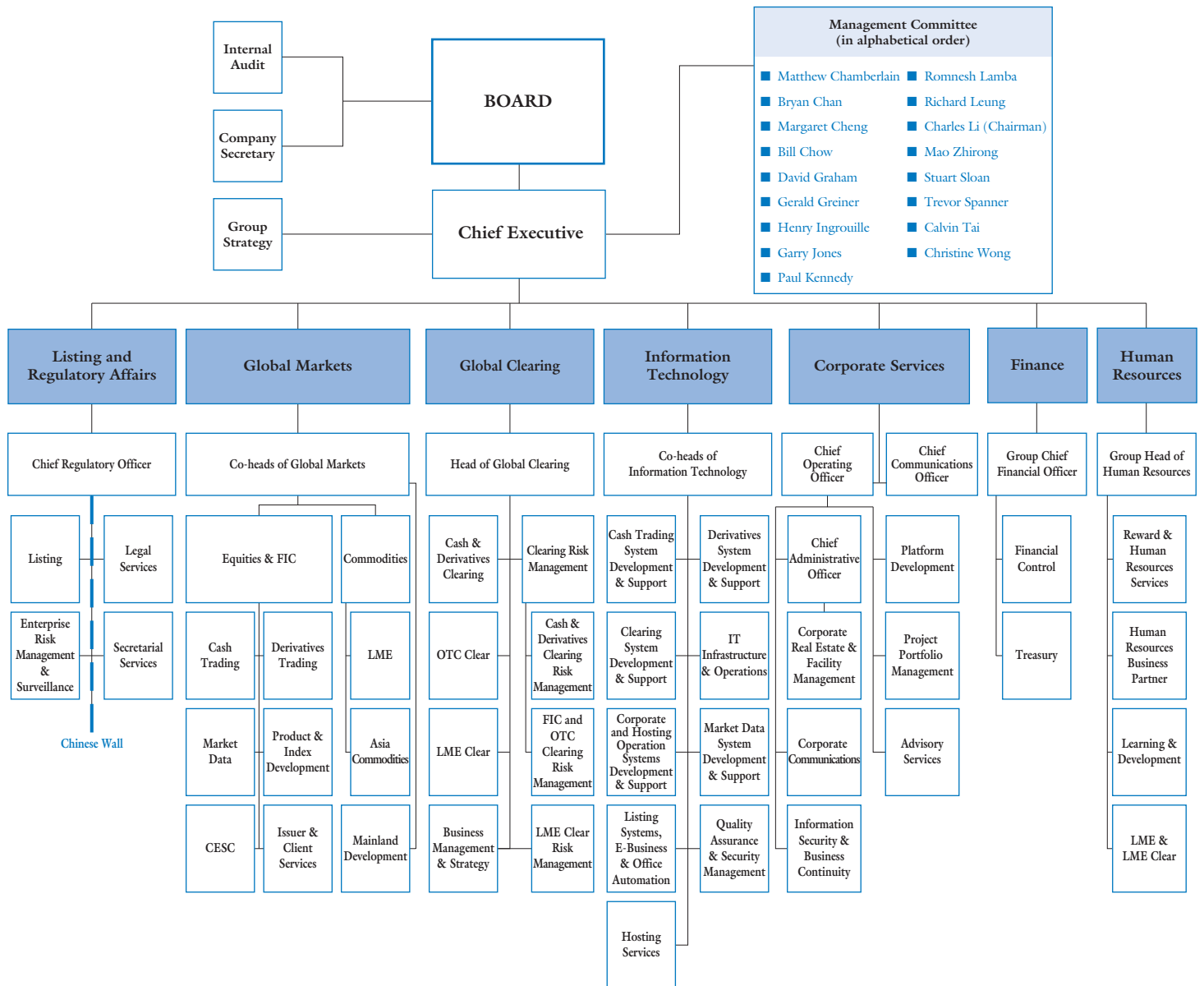
**Chi-X Global** – chief technology officer (2008-2011)  
**Cicada Corporation** – chief technology officer (1999-2008)  
**Telerate Inc** – regional technical development manager, Asia Pacific (1985-1999)

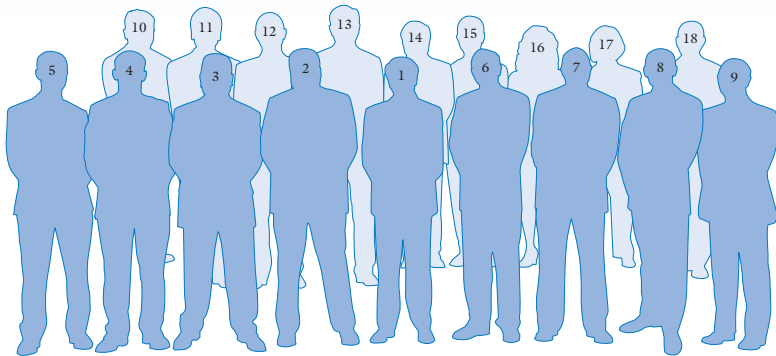
**Qualifications**

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

Messrs David Graham, Gerald Greiner, Garry Jones, Paul Kennedy, Romnesh Lamba and Richard Leung also hold position as a director in certain HKEx's subsidiaries.

# ORGANISATION CHART





- |   |                  |    |                |
|---|------------------|----|----------------|
| 1 | Charles Li       | 10 | Henry Law      |
| 2 | Gerald Greiner   | 11 | Joseph Mau     |
| 3 | Garry Jones      | 12 | Mao Zhirong    |
| 4 | Paul Kennedy     | 13 | Calvin Tai     |
| 5 | Henry Ingrouille | 14 | Richard Leung  |
| 6 | Romnesh Lamba    | 15 | Bryan Chan     |
| 7 | David Graham     | 16 | Christine Wong |
| 8 | Stuart Sloan     | 17 | Margaret Cheng |
| 9 | Bill Chow        | 18 | Pont Chiu      |



# BUSINESS REVIEW

## Major Achievements (2013) and Key Initiatives (2014)

### Listing and Regulatory Affairs

#### Listing

2013

- Published:
  - consultation conclusions on trading halts
  - consultation papers on further review of connected transaction Rules
  - amendments to the Listing Rules and procedures to complement the SFC's reform of the sponsor regime
  - new enforcement statement and implemented new procedures for disciplinary action involving the Listing Rules
  - guidance materials on further simplification of listing documents and application forms
  - a revised Joint Policy Statement regarding listing of overseas companies and Country Guides for each of the 20 acceptable overseas jurisdictions
- Published report on the following topics:
  - key observations and findings from a review of 120 periodic financial reports released by issuers focusing on compliance with the disclosure requirements of the Listing Rules and accounting standards
  - findings and recommendations from a review of all listed issuers' annual reports focusing on compliance with the Listing Rules and disclosure of material events and developments
  - analysis of corporate governance practice disclosure in 2012 annual reports of listed companies
- Reviewed:
  - accounting provisions in the Listing Rules
  - quarterly reporting requirements
  - use of structured contracts
  - capital raising by listed issuers
  - reverse takeover transaction Rules and requirements
  - complaints handling procedures
  - approach to handling long suspended companies

2014

- Publish consultation conclusions on further review of connected transaction Rules
- Implementation review of Rule amendments and procedures to complement the SFC's reform of the sponsor regime
- Review weighted voting rights regimes
- Participate in Auditor Regulatory Reform discussions
- Review listing process for GEM applications
- Review treasury shares and block listing regime
- Review Environmental, Social and Governance Reporting Guide
- Review Corporate Governance Code on risk management and internal control

#### Enterprise Risk Management & Surveillance

2013

- Refined HKEx ERM Framework to help management assess and manage risks from new HKEx business activities and environment
- Enhanced Large Open Position surveillance system to facilitate the monitoring of position limits and large open position reporting for CES 120 Futures
- Reviewed Counterparty Risk Ranking Methodology to enhance ranking of EPs and CPs in this area
- Enhanced SMARTS surveillance system to synchronise with OMD and HKEx's new product development

2014

- Strengthen ERM risk assessment and risk reporting capabilities for more proactive management of risks from new HKEx business activities and environment
- Review financial capability of market makers
- Enhance Large Open Position surveillance system to support HKEx's new products
- Enhance market surveillance systems and capabilities to support HKEx's new products

## Global Markets

### Cash Trading

2013

- Facilitated listing of 16 ETFs on the Exchange, including 7 RQFII A-share ETFs and ETFs tracking regional markets and asset classes
- Held EP briefing sessions and launched web corner on NSTD to introduce project objective, timeline and user interfaces
- Worked with EPs to facilitate launch of OCG for Cash Market
- Organised training courses related to AMS/3

2014

- Launch OCG for Cash Market
- Facilitate EPs' migration from AMS Terminals and Multi-Workstation System, or MWS, to NSTD
- Implement ETF enhancement initiatives to facilitate further growth of Hong Kong's ETF market
- Continue to promote ETF market to retail investors, institutional investors and intermediaries
- Conduct design phase of new trading platform for Cash Market

### Derivatives Trading

2013

- Introduced AHFT session for HSI Futures and H-shares Index Futures
- Introduced Stock Options Revamp, including Primary Market Maker programme, new trading fee structure, reduction of minimum trading spread, and introduction of fourth calendar month contract
- Launched Stock Options Corner, Stock Options Mobile Apps and Podcast
- Introduced HKEx's first futures on A-share ETFs and 7 new stock option classes
- Introduced Tailor-Made Combination function
- Extended Dynamic Price Banding mechanism to cover spot and spot-next calendar contract month of HSI Futures, Mini-HSI Futures and H-shares Index Futures for day session and/or AHFT session
- Held ETF and Stock Options Expo with strong participation and sponsorship by over 22 ETF issuers and EPs

2014

- Introduce Mini-HSI Futures, Mini H-shares Index Futures and block trade facility in and extend closing time of AHFT session
- Continue Stock Options Revamp by increasing position limit and expanding Primary Market Maker programme to cover more stock option classes
- Develop Primary Market Maker programme for stock index options to increase price transparency
- Make real-time prices available on Stock Options Mobile Apps and extend coverage to index options
- Apply class relief from US Securities and Exchange Commission to familiarise US institutional investors with stock options and H-shares Index Options and apply approval from the Taiwan regulator to allow Taiwanese to trade more stock option classes listed in Hong Kong
- Introduce advanced options training courses and briefings related to HKEx's products and services for EPs

### RMB Business

2013

- Facilitated listing of 8 ETFs (7 RQFII A-share ETFs and first offshore RMB bond ETF) under the Dual Counter model and launch of RMB counter of a HKD-denominated ETF
- Focused on educational events and promotional activities for USD/CNH Futures
- Continued working with CPs and other market participants in their preparation for RMB derivatives business

2014

- Continue to facilitate launch of new ETFs including onshore and offshore RMB bond ETFs
- Introduce other currency pairs of RMB Currency Futures
- Formalise market making arrangements for addition of RMB Currency Futures to AHFT
- Explore feasibility of introducing additional calendar spreads

## Global Markets

### Market Data

2013

- Rolled out a suite of market data product feeds for Cash Market after launch of OMD
- Signed up founding members for MMDH in Shanghai
- Implemented commercial package for non-display usage of Cash and Derivatives Market data
- Launched new historical data products including full-book data for Cash Market
- Introduced marketing programme for new derivatives products, including CES 120 Futures and USD/CNH Futures that attracted a total of 32 IV applicants from Japan, Korea, Mainland, Singapore and Taiwan

2014

- Launch OMD market data product feeds for Derivatives Market
- Roll out MMDH in Shanghai
- Study OTC and Asian Commodities market data offerings
- Review and promote commercial package for non-display usage of the Cash and Derivatives Market data
- Enhance vendor information and reporting system
- Continue to promote market data in Mainland and elsewhere

### LME

2013

- Conducted market-wide consultation on proposed warehouse rules
- Enhanced presence in Asia
- Facilitated Members to comply with market infrastructure regulations
- Organised global education programme

2014

- Enhance global reach of LME brand
- Build commodities platform and new product initiatives in Hong Kong
- Increase LME footprint in Asia in various aspects including membership base, brand listings, warehousing, market data and training
- Conduct HKEx and LME joint-marketing programmes with Members and brokers
- Organise commodities-related “expert sessions” in Hong Kong
- Explore Asian connectivity into LME clearing, membership and pricing initiatives

### CESC

2013

- Completed the development of first CES cross-border index series – CES 120, CES A80 and CES HKMI
- Facilitated listing of 3 ETFs tracking CES indices in Hong Kong
- Increased index dissemination frequency from every 15 seconds to every 5 seconds and expanded real-time index dissemination channels

2014

- Continue to work towards launch of CES A80 Futures and Options and other products on CES cross-border index series such as CES HKMI Futures and CES 120 Options
- Explore more cross-border index ideas, such as mid-cap indices, to meet market demand
- Facilitate listing of physical ETFs tracking CES indices in overseas markets
- License issuers to list derivatives tracking CES indices

## Global Markets

### Mainland Development

2013

- Signed 8 MOUs with relevant Mainland entities in line with HKEx's Mainland strategy
- Organised a series of celebration and promotion activities for 20<sup>th</sup> anniversary of H-shares listings
- Organised a total of about 30 seminars, roundtable meetings and training workshops and delivered over 140 presentations to promote Hong Kong listing to Mainland enterprises
- Organised a media workshop in Beijing to educate local media about HKEx's latest developments
- Organised an integrated workshop to promote HKEx's businesses, products and services to Mainland futures brokers in Shenzhen
- Organised Hong Kong exchange programmes tailored to the professional needs of relevant Mainland authorities

2014

- Explore mutual market connectivity
- Identify cooperation opportunities with relevant Mainland entities in line with HKEx's Mainland strategy
- Step up effort to organise marketing events to promote HKEx's businesses, products and services in Mainland
- Further organise exchange programmes to deepen cooperation with relevant Mainland authorities

### Product & Index Development

2013

- Launched CES 120 Futures
- Completed studies on potential RMB fixed income product development opportunities
- Continued work with BRICS Exchanges Alliance and an independent index provider to design a family of BRICSmart indices

2014

- Extend trading hours of CES 120 Futures to AHFT session
- Continue to expand CES product suite, including launch of more CES index derivatives
- Explore new product development in CNH fixed income or short-term CNH interest rate futures
- Support expansion of OTC clearing product and service offering
- Build FIC user community
- Pursue key strategic partnerships on FIC business
- Launch new BRICSmart indices covering equity, fixed income and currency asset classes
- Explore global product licensing programme for new BRICSmart indices with index partner

### Issuer & Client Services

2013

- Organised 30 seminars and conferences and participated in over 70 conferences in Hong Kong and overseas
- Organised about 120 listing ceremonies and 10 market open ceremonies
- Conducted over 500 meetings with issuers, deal influencers, relevant buy-side and sell-side people, vendors, government officials and industry associations

2014

- Expand events management capabilities to build on market open ceremony programme
- Support issuer marketing and marketing of ETFs, stock options and other Global Markets products
- Provide ongoing communication and coordination with relevant buy-side and sell-side people, vendors, government officials and industry associations

## Global Clearing

### Cash & Derivatives Clearing

**2013**

- Allowed HKCC and SEIOCH Participants to select an approved currency other than Settlement Currency to settle margin shortfall
- Enhanced settlement of Transfer Instructions with CMU in CCASS on delivery versus payment basis
- Allowed participating dealers which are not a CCASS Participant to appoint a CCASS Participant to access CCASS on their behalf for ETF-related services
- Admitted ChinaClear as Clearing Agency Participant for the purpose of supporting the conversion of Shenzhen B-shares to H-shares and providing custody and nominee services for the relevant H-shares to Mainland investors
- Performed self-assessment of observance of PFMI
- Facilitated FSAP review of the clearing infrastructure operated by HKSCC, HKCC and SEIOCH in Hong Kong
- Commenced assessment of the business implications of FATCA
- Submitted applications to ESMA for recognition of HKSCC as third country CCP

**2014**

- Continue supporting Government and the SFC's preparation of enabling legislations for an USM in Hong Kong
- Develop improvement plans to ensure compliance with PFMI
- Submit applications to ESMA for recognition of HKCC and SEIOCH as third country CCPs
- Implement operational and system changes to comply with FATCA

### OTC Clear

**2013**

- Finalised clearing rules and procedures, business and operational procedures as well as risk policies
- Completed development of OCASS
- Implemented corporate governance structure for OTC Clear by establishing its board and various committees
- Obtained recognised clearing house status from the SFC
- Completed founding shareholders programme
- Admitted Clearing Members
- Promoted OTC clearing services on interest rate swaps and non-deliverable forwards to market

**2014**

- Admit new Clearing Members
- Introduce client clearing services
- Enhance collateral management service
- Expand product coverage
- Seek recognition as approved clearing house in EU and US

### LME Clear

**2013**

- Completed business and risk policies, secure payment system, collateral management functionality and detailed default management rules and procedures
- Delivered core clearing and risk technology platforms and started functional and member testing
- Implemented required corporate governance arrangements for LME Clear
- Submitted CCP authorisation application to UK and European regulatory authorities

**2014**

- Launch LME Clear clearing service
- Launch LMEwire reporting service

## Global Clearing

### Clearing Risk Management

2013

- Conducted detailed assessment on degree of observance of relevant risk management standards specified in PFMI
- Implemented post-launch enhancements to HKSCC margin and Guarantee Fund systems for better reporting capability and operational flexibility
- Enhanced HKSCC, HKCC and SEOCH collateral policy to achieve desired level of observance of industry standards
- Enhanced monitoring of liquidity requirements of HKSCC, HKCC and SEOCH in line with industry standards
- Initiated study on portfolio margining arrangements and reviewed concentration risk policy applicable to HKCC and SEOCH
- Implemented additional risk management measures to mitigate counterparty risk associated with AHFT
- Conducted on-boarding market rehearsal activities with the first batch of OTC Clear Clearing Members
- Admitted the first batch of OTC Clear Clearing Members based on a prudent on-boarding assessment process
- Enhanced the risk management framework for OTC clearing business:
  - finalised risk management policies in line with local and international regulations
  - implemented various risk management monitoring through use of limits and risk alerts for managing business risks of OTC Clear's clearing business
  - conducted thorough analysis and enhanced margin/pricing model with additional stress scenarios
  - finalised regulatory reporting requirements with the SFC

2014

- Develop improvement plans to ensure compliance with PFMI
- Review existing HKSCC margin methodology and propose appropriate enhancements if necessary
- Review existing Guarantee/Reserve Funds arrangements and stress testing methodologies of HKSCC, HKCC and SEOCH and propose appropriate enhancements if necessary
- Implement enhanced collateral policy and liquidity methodology of HKSCC, HKCC and SEOCH
- Implement portfolio margining and enhance concentration risk policy applicable to HKCC and SEOCH
- Continue delivering appropriate risk management support and solutions to facilitate successful delivery of HKEx's new products and services
- Finalise OTC Clear's ESMA application for recognition as third country CCP
- Develop client clearing risk management framework and incorporate framework into rules and clearing procedures and risk policies of OTC Clear
- Arrange on-boarding and market rehearsal activities for prospective OTC Clear Clearing Members
- Assess feasibility of adding new products to expand OTC clearing services
- Initiate formulation of a Group risk management strategy

## Information Technology

### HKEx Orion Programme

2013

- Completed migration of network circuits for EPs and IVs of Derivatives Market and Cash Clearing to conclude entire SDNet/2 network upgrade exercise
- Launched OMD for Cash Market
- Completed upgrade of HKATS/DCASS to Genium INET platform

2014

- Launch MMDH for distribution of Cash Market data in Mainland
- Launch OMD for Derivatives Market
- Launch OCG for Cash Market
- Complete technical design for new Cash Market trading platform
- Initiate modernisation study for Cash Market clearing platform
- Commence implementation of NSTD for Cash Market

### Hosting Services

2013

- Rolled out Hosting Services for Derivatives Market trading
- Attained ISO27001 information security management system certification
- Received Hong Kong ICT Awards 2013: Best Green ICT Grand Award

2014

- Support access to OMD for Derivatives Market and OCG for Cash Market from Hosting Services environment
- Continue promoting Hosting Services business to market

### Other IT Initiatives

2013

- Completed relocation of data centres for Derivatives Market and Cash Clearing to conclude consolidation of primary data centres at Data Centre
- Continued proceeding with IT security enhancement programme
- Rolled out OCASS to support clearing services for OTC derivatives

2014

- Complete IT security enhancement programme

## Listing and Regulatory Affairs

### Listing

#### Review of Listing Rules

HKEx is committed to providing a quality market for issuers and investors. The Exchange reviews the Listing Rules from time to time to ensure that they address developments in the market and conform to international best practice, and also represent acceptable standards which help strengthen investor confidence.

Proposals and conclusions on Listing Rules amendments made in 2013 and proposals under review in 2014 are set out in the following tables.

Proposals and conclusions made in 2013	Consultation paper *	Consultation conclusions *	Effective date of changes (if any)
<ul style="list-style-type: none"> <li>Trading halts – to allow publication of price sensitive information announcements during trading hours subject to a short halt in trading in shares of the issuer</li> </ul>	Jul 2012	Mar 2013	Not earlier than mid-2014
<ul style="list-style-type: none"> <li>Review of connected transaction Rules – to amend the connected transaction Rules with a view to refining the scope of connected transactions and to fine-tuning the framework for continuing connected transactions</li> </ul>	Apr 2013	first quarter of 2014 (tentative)	Subject to consultation conclusions
<ul style="list-style-type: none"> <li>Proposed changes to align the definitions of connected person and associate in the Listing Rules – to rename the general definitions of “connected person” and “associate” in Chapter 1 to distinguish them from those used in Chapter 14A of the Main Board Listing Rules for the purpose of the connected transaction requirements, and align the definitions in certain parts of the Rules with those used in Chapter 14A of the Main Board Listing Rules</li> </ul>	Apr 2013	first quarter of 2014 (tentative)	Subject to consultation conclusions

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

#### Proposals under Review in 2014

- Implementation review of Rule amendments and procedures to complement the SFC’s reform of the sponsor regime
- Review weighted voting rights regimes
- Review listing process for GEM applications
- Review treasury shares and block listing regime
- Review disclosure requirements of Appendix 16 to the Main Board Listing Rules with reference to the new Companies Ordinance and International Financial Reporting Standards/HKFRSs
- Review Environmental, Social and Governance Reporting Guide
- Review Corporate Governance Code on risk management and internal control
- Review independent financial advisers requirements

#### Rule Changes to Complement the SFC’s New Regulation on Sponsors

In July 2013, the Exchange published Rule changes to complement the SFC’s new sponsor regulation that took effect from 1 October 2013. New and revised guidance materials have been published under the Rules & Regulations (Rules and Guidance on Listing Matters) section of the HKEx website to explain the logistics and key aspects of the Rule amendments and provide templates for action.

#### Revised Joint Policy Statement Regarding Listing of Overseas Companies on the Exchange and Published Country Guides for Each of the 20 Acceptable Jurisdictions

Further to the publication of the revised Joint Policy Statement with the SFC that aims to provide increased transparency and regulatory certainty for overseas companies seeking either primary or secondary listing in Hong Kong, the Exchange published Country Guides for each of the 20 acceptable overseas jurisdictions in December 2013. These Country Guides are aimed at enhancing applicants’ understanding of the Exchange’s expectations, practices, procedures and considerations when applying the Listing Rules to overseas issuers. The Exchange will in the future update a Country Guide when it is informed of a material change in the laws, rules or regulations referred to in the Country Guide by a new applicant or a listed company incorporated in the relevant acceptable jurisdiction.



## Implementation Review of the Corporate Governance Code

In November 2013, the Exchange published the findings of its fifth review of listed issuers' corporate governance practices.

The Corporate Governance Code became effective in 2005, and on 1 April 2012 substantial amendments were implemented, resulting in the addition of 30 new Code Provisions. To determine the effectiveness of the Code's implementation, the Exchange conducted the fifth review which involved analysing the disclosures made by 1,083 issuers in their 2012 annual reports, focusing on the period from 1 April to 31 December 2012 during which the revised Code applied.

The Exchange's latest review shows that issuers have embraced the changes to the Code and have achieved a high rate of compliance. This is a positive sign that issuers recognise the importance of corporate governance and are more ready to adopt a higher standard of governance.

## Further Simplification of Listing Documents/Procedures

Following on the listing document simplification initiative that resulted in the previous publication of guidance materials on how to prepare a formal notice and various sections of a prospectus, the Exchange has published new and revised guidance letters on what information should be included in certain sections of the prospectus as well as simplification of the white and yellow application forms.

The Exchange will continue to work on simplifying listing documents and related procedures, and work with market practitioners to implement the simplified approach.

## IPO Processing, Compliance and Monitoring

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

### Statistics of IPO Work

	2013	2012
• Number of listing applications vetted	227 <sup>1</sup>	205
• Number of first comment letters issued to new listing applicants	144 <sup>2</sup>	111
– Average time (in calendar days) between receipt of application and issuance of first comment letter	14	15
• Number of applications brought to the Listing Committees (or their delegates) for decisions	138	83
– Number of applications reviewed by the Listing Committees (or their delegates) within 120 calendar days	74	27
– Number of applications reviewed by the Listing Committees (or their delegates) within more than 180 calendar days	26	26
• Number of applications to which approval was granted in principle	146 <sup>3</sup>	84
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications to which responses were made	108	106
– Average response time (in calendar days)	7	6
• Number of listing applications for transfer of listing from GEM to the Main Board accepted	14	10

#### Notes:

- 177 were new applications and 50 applications were brought forward from 2012.
- The number was smaller than the total number of new applications accepted because some cases (eg, investment vehicles seeking listing under Chapter 20 of the Main Board Listing Rules and transfer of listing from GEM to the Main Board) had minimum, if any, comments from the Listing Department and proceeded to the SFC's consideration of approval or the Listing Committee hearing directly. Including transfers of listing from GEM to the Main Board, the number of first comment letters issued was 159 and the average number of days taken to issue these letters was 14.
- As at the end of 2013, 20 approved applications had not yet been listed, and 8 approved applications had lapsed during the year.

## Number of IPO Transactions

	2013	2012
• New listing applications accepted	177	141
• Applications listed	132	100
– Companies listed on the Main Board under Chapter 8	79	50
– Investment vehicles listed on the Main Board	18	35
– Transfers of listing from GEM to the Main Board	8	2
– Companies listed on GEM	23	12
– Deemed new listings	4	1
• New listing applications rejected	6	8
• New listing applications withdrawn	2	12
• Applications in process at year-end	38	50
• Active applications with approval granted but not yet listed at year-end	20	15

Under the SFC's new sponsor regulation which took effect from 1 October 2013, the Exchange streamlined the IPO vetting process by reducing the number of comments and the time to issue the comment letters. Between 1 October and 31 December 2013, the Exchange received 7 new listing applications under the new sponsor regulation (excluding applications by investment vehicles under Chapters 20 and 21 of the Main Board Listing Rules and applications for transfer of listing from GEM to the Main Board), of which 2 were returned on the grounds that the information in the listing application proof or related documents was not substantially complete and 1 was returned under the initial 3-day check procedure. Regarding the remaining 4 applications, 1 has been listed on the Exchange, 2 were brought to the Listing Committee for consideration, and 1 is still under review.

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

	Service standard	Cases accepted for vetting since 1 Oct 2013	
		Average number of business days taken	% of cases meeting service standard
Issuance of first round of comments	10 business days from date of receipt of listing application	9	100
Issuance of second round of comments	10 business days from receipt of reply to first comment letter	2	100

## Number of Compliance and Monitoring Actions

	2013	2012
• Announcements of issuers vetted	41,726	42,124
– Pre-vetted	151	147
– Post-vetted <sup>1</sup>	41,575	41,977
• Circulars of issuers vetted	1,581	1,643
– Pre-vetted	1,190	1,155
– Post-vetted	391	488
• Share price and trading volume monitoring actions undertaken <sup>2</sup>	5,287	3,947
– Clarification announcements published by issuers in response to enquiries on unusual share price and/or trading volume movements <sup>3</sup>	390	348
• Enquiries raised about press reports <sup>4</sup>	55	77
– Clarification announcements published by issuers in response to enquiries about press reports	32	27
• Complaints handled	454	604
• Cases (including complaints) referred to Listing Enforcement Team for investigation	25	35

## Notes:

- 1 Including clarification announcements published by issuers in response to unusual share price and/or trading volume movements in their securities
- 2 In 2013, monitoring actions undertaken included 1,015 enquiries (2012: 694) on unusual share price and trading volume movements, and the actions undertaken led to 81 resumption announcements (2012: 53) on trading suspensions.
- 3 Including 136 qualified announcements (2012: 160) and 254 standard negative announcements (2012: 188)
- 4 Figures cover written enquiries only. The Exchange also raised verbal enquiries to issuers in relation to press reports. In 2013, there were 142 (2012: 168) verbal enquiries and 46 (2012: 44) of them resulted in clarification announcements published by issuers.

**Post-vetted Announcements**

	2013	2012
Subject to detailed post-vetting <sup>1</sup>	10,452	10,037
Required follow-up actions by the Exchange	3%	3%
Required follow-up actions by issuers (eg, clarification announcements) <sup>2</sup>	23%	21%
Involved Listing Rules non-compliance <sup>2</sup>	16%	14%

Notes:

1 Representing 25 and 24 per cent of all post-vetted announcements in 2013 and 2012 respectively

2 Figures are presented as a percentage of the number of post-vetted announcements which required follow-up actions taken by the Exchange and mainly involved minor Rule non-compliance and voluntary clarifications.

**Key Initiatives by the Exchange in 2013 to Promote Issuers' Self-compliance with the Listing Rules**

- Published a series of listing decisions and frequently asked questions providing further guidance on the Listing Rules including Rule amendments consequential to the statutory backing of the inside information provisions
- Issued letters to issuers on Rule implications arising from the adoption of HKFRS 10 and guidance on issuers' Rule compliance based on the Exchange's review of disclosure in issuers' annual reports
- Published guidance letters on continuing obligations under Chapter 18 of the Main Board Listing Rules, compliance adviser requirement for newly listed issuers and guidance for long suspended companies

Under the Financial Statements Review Programme, the Exchange reviews, on a sample basis, the periodic financial reports published by issuers. The 2013 review included 120 financial reports released by issuers between October 2012 and September 2013. During the year of 2013, the Exchange referred 14 cases to the Financial Reporting Council for its enquiry and/or investigation into issuers' possible non-compliance with accounting requirements, or auditing irregularities in the preparation of published financial statements. In order to enhance transparency and encourage high standards of financial disclosure, the Exchange published a report of key findings and observations from its 2013 review in February 2014. It was the fifth report since the programme began and is available under the Rules & Regulations (Rules and Guidance on Listing Matters) section of the HKEx website.

Issuers should stay alert of changes to the Listing Rules, accounting standards and other regulatory disclosure requirements and should consult with their auditors and other external professional advisers as early as possible to gain insight into the changes and their implications on annual audits or review of financial reporting. The Exchange encourages directors and other persons responsible for financial reporting to take note of the matters discussed in the report and to review their existing financial reporting systems to ensure that the information presented in their financial reports is: (i) specific, relevant and material; (ii) in compliance with the disclosure requirements; and (iii) useful to users in making investment decisions.

In 2013, the Exchange also published a report on its review of disclosure in issuers' annual reports. The review covered annual reports of listed issuers with a particular focus on issuers' Rule compliance and the quality and consistency in disclosure of material events and developments, taking into account issuers' disclosures in corporate communications such as announcements and circulars. The areas of focus included impairment of intangible assets arising from material acquisitions, performance guarantees, connected transactions, significant changes to financial position, and certain categories of listed issuers. The Exchange identified areas which merited better disclosure and published guidance on those areas. A small number of cases of non-compliance with the Rules were noted, and appropriate actions were taken against them. The annual report review programme is an ongoing exercise of the Exchange.

**Communication with Issuers**

The Exchange continues its programme of issuer education and market outreach to issuers and other stakeholders with a view to promoting issuers' self-compliance with the Listing Rules and facilitating mutual understanding of regulatory issues through continued dialogue. Some of the key events held in 2013 are highlighted below.

Event	Place	Purpose
• 3 seminars on the SFC's new regulation on sponsors	Hong Kong	To help sponsors and market practitioners adapt to the new Rules and the streamlined vetting process
• 12 seminars on Environmental, Social and Governance Reporting Guide and listing compliance update for issuers and 1 seminar on listing compliance update for market practitioners	Hong Kong	To promote issuers' self-compliance with the Listing Rules and facilitate mutual understanding of regulatory issues

### Operational Efficiency

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

Service for initial responses	Service standard	% of cases meeting service standard	
		2013	2012
• Pre-vetting activities			
– Initial response to pre-vetted announcements	Same day	98%	90%
– Initial response to pre-vetted circulars (very substantial acquisition)	10 business days	100%	97%
– Initial response to pre-vetted circulars (other than very substantial acquisition)	5 business days	99%	98%
• Issuer enquiries <sup>1</sup>			
– Initial response to issuer's enquiries	5 business days	98%	93%
• Waiver applications <sup>2</sup>			
– Initial response to waiver applications (other than application for delay in despatch of circulars)	5 business days	98%	95%
• Post-vetting activities			
– Initial response to post-vetted results announcements	5 business days	98%	98%
– Initial response to post-vetted announcements (other than results announcements)	1 business day	99%	100%

Notes:

1 In 2013, 415 written enquiries (2012: 435) on Listing Rules interpretations and related matters were handled.

2 In 2013, 344 waiver applications (2012: 256) from strict compliance with requirements under the Listing Rules were processed.

### Long Suspension

#### Status of Long Suspended Companies (as at year-end)

	Main Board		GEM	
	2013	2012	2013	2012
Resumption of trading of securities during the year	19	23	6	4
Cancellation/withdrawal of listing during the year	3	3	2	1
Companies in the third stage of delisting	4	5	N/A	N/A
Companies notified of the Exchange's intention to cancel their listing *	0	1	2	3
Companies suspended for 3 months or more	39	43	8	10

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

### Listing Enforcement

In the enforcement of the Listing Rules, the Exchange adopts the strategy of (i) referring cases of egregious conduct which may involve a breach of the SFO to the SFC; (ii) referring cases of suspected violations of the law and other rules and regulations to the appropriate law enforcement agencies such as the ICAC and the Commercial Crime Bureau of the Hong Kong Police; (iii) taking disciplinary action for serious breaches of the Listing Rules; and (iv) issuing warnings for other less serious conduct, or where appropriate no action.

When the SFC commences the investigation of certain conduct, the Exchange will normally suspend its investigation and provide support to the SFC. After the SFC's completion of an investigation, the Exchange will consider if a reactivation of its investigation is required. Under this arrangement, the Exchange has currently suspended the investigation of 12 cases.

The Exchange will also provide other law enforcement agencies with technical advice on the application of the Listing Rules in given circumstances, and witness statements to support their prosecutions.

In September 2013, the Exchange published a new statement outlining its approach towards enforcement of the Listing Rules and the criteria for assessing the appropriate level of enforcement action. The Exchange also implemented new procedures for disciplinary matters involving breaches of the Listing Rules. These steps represent part of the Exchange's continuing efforts to enhance transparency of the decision-making process involved in its enforcement of the Listing Rules and expedite the resolution of enforcement matters.

Compliance with the Listing Rules is the collective and individual responsibility of directors whether they hold executive or non-executive roles in the management of the issuer. Directors may be subject to disciplinary sanctions should they be held liable for substantive breaches of the Listing Rules by the issuer. Compliance can be achieved through compliance systems and internal controls. As a result, they may also be subject to disciplinary sanctions should they be held liable for failing to create and maintain adequate internal controls by which compliance can be achieved.

During 2013, a number of investigations arising from breaches of the Listing Rules were completed, leading to the imposition of public and private sanctions on the issuers or directors by the Listing Committees. There are also currently 3 cases at different stages of the disciplinary process awaiting consideration and/or decision by the Listing Committees. Eight disciplinary hearings including settlement and review hearings took place in 2013 (20 in 2012). The change is reflective of the nature and substance of cases for discipline in 2013 and was attributable in part to the fact that in 2012 there were more review hearings.

#### Number of Disciplinary Actions

	2013	2012
Investigations <sup>1,2</sup>	69 <sup>3,4</sup>	91
Public censures <sup>5</sup>	5	8
Public statements/criticisms <sup>5</sup>	3	0
Private reprimands	0	4
Warning/caution letters <sup>6</sup>	16	20

#### Notes:

- Figures cover investigations concluded during the year, and investigations which remained active as at year-end.
- The average time for completion of an investigation (at which point in time a decision as to the level of regulatory action (if any) is taken) was 12 months for cases in which the investigation commenced in 2012 and 2013 (10.8 months, as disclosed last year, for cases in which investigations commenced in 2011 and 2012).
- There were 27 outstanding investigations (82 per cent of which commenced in 2013) as at the end of 2013 as compared to 37 investigations (89 per cent of which commenced in 2012) as at the end of 2012.
- In 2013, 5 cases originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings after investigation.
- Figures represent only the primary regulatory action from a disciplinary matter. They exclude any other actions taken at a lower level, eg, private reprimand in the same case.
- The warning and caution letters were primarily delivered by the Listing Department in circumstances where action before the Listing Committees was not considered appropriate.

#### Number of Directors Subject to Disciplinary Sanctions as a Result of Concluded Contested or Settlement Cases

	2013	2012
Executive directors	35	37
Non-executive directors	3	12
Independent non-executive directors	19	17
Total	57*	66

- \* As at the end of 2013, a further 17 executive directors, non-executive directors and independent non-executive directors were subject to ongoing disciplinary action in which their cases were at various stages of the process or subject to settlement negotiations.

To further improve the efficiency of investigations, training on investigation techniques by an external service provider was offered to staff of the Listing Enforcement Team in 2013. Improvements also continue to be made to the internal decision-making structures so as to enable earlier identification of serious misconduct and breaches of the Listing Rules. This helps facilitate the delivery of regulatory outcomes as quickly as possible while observing the principles of natural justice and due process.

In addition, the Exchange continues to make recommendations to the Listing Committees for remedial action to correct breaches and to improve corporate governance in the future, including: (i) an obligation to retain external assistance in the creation of adequate and effective compliance structures or revisions to existing structures; and (ii) a requirement for directors to undergo training at recognised professional bodies for specific periods of time to improve their knowledge of, and performance in, compliance matters.

#### Number of Concluded Contested or Settlement Cases

	2013	2012
Involving “Internal Control Review” direction	6	4
Involving “Retention of Compliance Adviser” direction	7	7
Involving “Training of Directors” direction	8	10

In July 2013, the Listing Committees considered a paper which (i) contained a high level review of the existing range of sanctions and directions the Listing Committees may impose and their application in recent years; and (ii) explored deployment of further possible sanctions and directions on remedial actions. The paper was prepared to facilitate consideration of the tools available to the Listing Committees to perform its regulatory function. Following discussion by the Listing Committees, the Exchange will conduct further study and will report back in due course with further recommendations.

#### Structured Products, Fixed Income and Primary Market Information

During 2013, a total of 7,372 DW listing applications (2012: 5,982) and 8,990 CBBC listing applications (2012: 6,090) were processed. In addition, a total of 170 new debt securities (2012: 109), including Exchange Fund Notes and Government Bonds, were listed.

#### Number of DWs

	2013	2012
Newly listed DWs	7,264	5,886
Further issues of DWs	108	96
Delisted DWs	6,296	6,166
DWs listed as at year-end	4,715	3,747
Percentage change in number of listed DWs	26%	(7%)

#### Number of CBBCs

	2013	2012
Newly listed CBBCs	8,948	6,056
Further issues of CBBCs	42	34
CBBC knockouts	7,004	4,432
Delisted CBBCs	1,538	1,311
CBBCs listed as at year-end	1,620	1,214
Percentage change in number of listed CBBCs	33%	35%

The Latest Listed Company Information section of the HKExnews website, which housed a total of 1,762,309 archived issuer documents for public access free of charge as at the end of 2013, remained one of the most popular sections of the website during 2013. The Exchange also administers the filing and publication of Disclosure of Interests (DI) notices through the HKExnews website in accordance with the SFC’s requirements and specifications under Part XV of the SFO.

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

	2013	2012
Number of issuer news filings processed by the Exchange	239,004 <sup>1</sup>	224,050
Hit rates for HKExnews website (m)	409	341
Number of searches for issuer documents (m)	49 <sup>2</sup>	44
Number of DI filings processed by the Exchange	52,658	49,905
Hit rates for DI filings (m)	143	168

#### Notes:

- 1 The majority of issuers’ submissions were uploaded within 2 seconds (excluding the Internet transmission time which is beyond HKEx’s control).
- 2 Eighty per cent of searches were responded to within 0.11 seconds (excluding the Internet transmission time which is beyond HKEx’s control).

## Enterprise Risk Management & Surveillance

### Enterprise Risk Management Framework

In 2013, HKEx conducted a Group-wide exercise based on the ERM Framework to review the identified risks and assess the potential risks which might arise from both existing and new businesses. The HKEx Group Risk Report for 2013 was completed and the top risks were reported to the Management Committee, the Risk Management Committee and the Board with associated action plans and controls designed to mitigate the risks, where applicable, at appropriate levels.

### Counterparty Surveillance

During the year, the Large Open Position surveillance system was enhanced to facilitate more efficient monitoring of position limits and reporting of large open positions for CES 120 Futures. In October 2013, HKEx enhanced the Counterparty Risk Ranking Methodology, a risk-based participant surveillance tool, to rank EPs and CPs and determine its level of financial review for each Participant.

HKEx has continued to perform due diligence checks on new applications for registration as EPs, CPs and market makers, including reviewing applicants' financial and internal control capability and their compliance with HKEx requirements on market making affiliates and corporate entities.

### Market Surveillance

In 2013, HKEx enhanced the capacity of its SMARTS surveillance system to synchronise it with the OMD and support new products.

HKEx has conducted a number of investigations on the trading activities of EPs during the year to ensure their compliance with its rules.

Under the MOU between the SFC and HKEx on matters relating to market surveillance, HKEx will refer cases to the SFC for further investigation of possible violations of the codes, rules and regulations made by the SFC relating to HKEx's securities and derivatives markets.

## Global Markets

### Cash Trading

#### Market Performance

In 2013, 87 companies were newly listed on the Main Board (including 8 transfers from GEM), and 23 on GEM. Total capital raised, including post-listing funds, in 2013 reached \$378.9 billion. As at 31 December 2013, 1,451 companies were listed on the Main Board with a total market capitalisation of \$23,908.8 billion and 192 companies on GEM with a total market capitalisation of \$134 billion. In addition, there were 4,715 DWs, 1,620 CBBCs, 116 ETFs, 11 REITs and 403 debt securities listed as at 31 December 2013. The average daily turnover value in 2013 was \$62.2 billion on the Main Board and \$323 million on GEM, an increase of 16 per cent and 138 per cent respectively compared with 2012.

#### Number of Failures to Comply with Financial Requirements and Position Limit Requirements

	2013*	2012
<b>Financial requirements</b>		
EPs	3	5
CPs	2	8
<b>Position limits requirements</b>		
Derivatives contracts	2	0
Stock options contracts	0	3

\* In 2013, 2 cases involving suspected violation of the SFO were referred to the SFC, and HKEx issued compliance advice letters in other cases.

#### Number of New Applications Checked

	2013	2012
EPs and CPs	24	43
Market makers	26	28

#### Number of Surveillance and Investigation Cases

	2013	2012
• Irregular order and trading activities of EPs	38	30
• Material defaulted settlement with significant buy-in	22	14
• Erroneous trades by EPs due to system/human errors	6	1
• Short selling input error by EPs	17	9

#### Number of Cases Referred to SFC

	2013	2012
Suspected market misconduct	20	24
Suspected illegal short selling	1	0

## Closing Indices (as at year-end)

	2013	2012	Change
HSI	23306	22656	3%
HSCEI	10816	11436	(5%)
Hang Seng China-affiliated Corporations Index	4553	4531	0%
S&P/HKEx LargeCap Index	28109	27082	4%
S&P/HKEx GEM Index	461	381	21%

## ETF Market Development

Hong Kong's ETF market saw significant growth in number of listings, product variety and trading volume in 2013.

As at 31 December 2013, HKEx had 116 listed ETFs, 24 ETF managers, and 33 ETF market makers. Of the 16 newly listed ETFs (2012: 35), 7 are RQFII ETFs and 1 is Asia's first offshore RMB bond ETF. These new ETFs provide investors with additional investment choice and access to different underlying markets including A-share, Hong Kong and overseas equities and offshore RMB fixed income markets.

Underlying benchmark of ETF newly listed in 2013	Number
A-share markets	7
Regional markets	6
Hong Kong market	2
Offshore RMB bonds	1

In 2013, the total turnover of ETFs increased significantly to \$903.1 billion (2012: \$522.1 billion). The increase was due to the general elevation in trading of the overall ETF market as well as the further development of RQFII A-share ETFs introduced in July 2012.

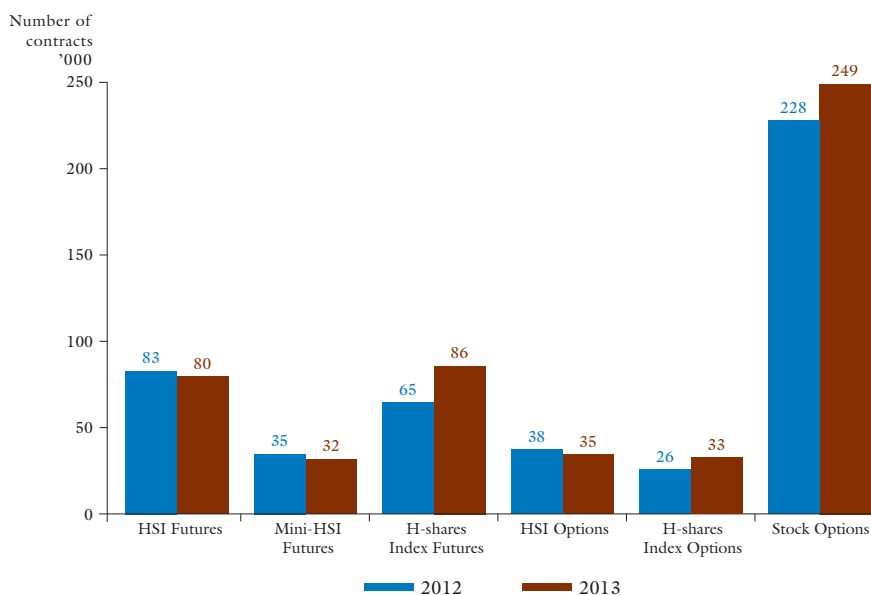
HKEx has been awarded the "Best Asian Exchange for Listing ETFs" for the third consecutive year from "etfexpress", a website that covers the ETF industry.

## Derivatives Trading

## Market Performance

There were 130,028,864 futures and options contracts traded in 2013, including 51,374,854 futures contracts and 78,654,010 options contracts. Total trading volume and year-end open interest increased by 9 per cent and 17 per cent respectively compared to 2012. It was a record year in terms of total futures volume and options year-end open interest. The 2013 growth in volume of H-shares Index products was also noteworthy that total trading volume of H-shares Index Futures and H-shares Index Options increased 31 per cent and 27 per cent respectively year-on-year, with all-time highs in both products. At year's end, the HSI Volatility Index Futures was 13.54 index points, down 4.28 index points compared to the year-end level in 2012.

## Average Daily Turnover of Major Derivatives





## Record High Volume and Open Interest for Major Derivatives in 2013

	Volume		Open interest	
	Date	Number of contracts	Date	Number of contracts
HSI Futures	25 Jun	271,426	–	–
H-shares Index Futures	25 Jun	389,031	24 Dec	334,575
Mini H-shares Index Futures	–	–	23 Sept	6,951
HSI Dividend Point Index Futures	–	–	30 Dec	9,409
HSCEI Dividend Point Index Futures	–	–	19 Nov	95,673
CES 120 Futures *	26 Aug	2,086	29 Oct	1,040
Stock Futures	–	–	27 Mar	47,050
USD/CNH Futures	31 May	2,455	31 Dec	18,701
Flexible HSI Options	8 Jan	4,730	–	–
H-shares Index Options	19 Nov	113,156	19 Dec	1,437,711
Flexible H-shares Index Options	–	–	27 Dec	31,255

\* Launched on 12 August 2013

## Derivatives Market Statistics

	2013		2012	
	Volume	Year-end open interest	Volume	Year-end open interest
	Number of contracts	Number of contracts	Number of contracts	Number of contracts
<b>Futures</b>				
HSI Futures	19,580,330	107,304	20,353,069	139,344
Mini-HSI Futures	7,853,800	5,835	8,545,847	6,638
H-shares Index Futures	20,871,257	217,646	15,923,813	181,909
Mini H-shares Index Futures	2,252,621	3,608	1,560,515	2,276
HSI Dividend Point Index Futures	11,214	4,599	20,793	1,969
HSCEI Dividend Point Index Futures	156,496	51,075	184,786	48,879
HSI Volatility Index Futures <sup>1</sup>	978	21	1,526	8
IBOVESPA Futures <sup>2</sup>	0	0	7	0
MICEX Index Futures <sup>2</sup>	0	0	8	0
S&P BSE SENSEX Index Futures <sup>2,3</sup>	0	0	190	0
FTSE/JSE Top40 Futures <sup>2</sup>	0	0	0	0
CES 120 Futures <sup>4</sup>	50,213	203	N/A	N/A
Stock Futures	459,190	18,409	322,715	19,516
1-Month HIBOR Futures	20	0	10	0
3-Month HIBOR Futures	2	1	150	0
3-Year Exchange Fund Note Futures	25	0	0	0
USD/CNH Futures <sup>5</sup>	138,708	18,701	20,277	3,673
Gold Futures	0	0	2	0
Total	51,374,854	427,402	46,933,708	404,212
<b>Options</b>				
HSI Options	8,601,509	173,176	9,230,145	260,785
Mini-HSI Options	1,157,266	4,665	1,230,997	12,363
H-shares Index Options	8,027,274	858,416	6,300,889	589,342
Flexible HSI Options	9,197	506	14,183	9,468
Flexible H-shares Index Options	30,789	25,099	11,171	9,821
Stock Options	60,827,975	4,740,818	56,081,545	4,031,961
Total	78,654,010	5,802,680	72,868,930	4,913,740
Total Futures and Options	130,028,864	6,230,082	119,802,638	5,317,952

Notes:

- 1 Launched on 20 February 2012
- 2 Launched on 30 March 2012
- 3 Change of name (formerly known as Sensex Index Futures) effective 26 June 2013
- 4 Launched on 12 August 2013
- 5 Launched on 17 September 2012

### After-hours Futures Trading

AHFT was introduced for HSI Futures and H-shares Index Futures in April 2013. Investors have benefited from AHFT which provides a platform to hedge or adjust their positions in response to market news and events in the European and US time zones. At the end of 2013, 1,187,880 contracts had been traded during the AHFT session (with an average daily volume of 3,240 HSI Futures contracts and 3,396 H-shares Index Futures contracts, or about 4 per cent of the average daily volume traded in the day session). The highest AHFT volume, 18,813 contracts, was on 25 June 2013.

HKEx reviewed the market activities in the AHFT session during the first 6 months' trading and published its findings in November 2013 which show that trading was orderly and operations were smooth during the AHFT session. To further expand AHFT, HKEx offered after-hours trading of Mini-HSI Futures and Mini H-shares Index Futures and extended block trade facility from the day session to the AHFT session on 6 January 2014. HKEx will consider adding more futures contracts such as USD/CNH Futures to the AHFT session and extending AHFT closing hour to around midnight to increase the overlap with the US trading hours.

### Stock Options Revamp

HKEx rolled out several stock options revamp initiatives in May 2013 to improve the competitiveness of its stock options market. They included (i) trading fee reduction for 26 option classes, mainly with small notional value per contract; (ii) a new Primary Market Maker programme for 5 option classes to improve price transparency; (iii) the addition of the fourth calendar expiry month to facilitate trading of institutional investors; and (iv) a market data fee waiver for stock options to encourage EPs and IVs to disseminate stock options prices.

HKEx also reduced the minimum trading spread in 4 selected option classes from \$0.01 to \$0.001 on 9 December 2013 to reduce the spread cost in trading option classes with low-priced underlying stocks. Starting from January 2014, 5 more option classes have been added to the Primary Market Maker programme, making a total of 10 option classes under the programme. As a result of its annual review of the trading fee tier classification, HKEx has reduced the trading fee for 2 option classes, namely CITIC Pacific Ltd and Yanzhou Coal Mining Co Ltd, effective January 2014.

The average daily volume of stock options market increased by 9 per cent to 249,295 contracts in 2013 compared to 228,438 contracts in 2012.

On education and marketing, HKEx launched a Stock Options Corner on the HKEx website ([www.hkex.com.hk/stockoptions](http://www.hkex.com.hk/stockoptions)) in March 2013 and HKEx Stock Options Mobile Apps (available on App store and Google play) in November 2013, which provide over 10 stock options analytical tools and educational videos for beginners as well as experienced investors and brokers. In addition, podcasts with 8 educational videos were launched in the third quarter to promote the stock options market, and an ETF and Stock Options Expo was held in the Hong Kong Convention and Exhibition Centre in November 2013. The event and other stock options seminars held in the year attracted over 6,500 brokers and clients to attend.

### Service Enhancements

Following the upgrade of HKATS to a new Genium INET platform in October 2013, a new combination trade facility, the Tailor-Made Combination function was introduced for investors to conduct combination trades more efficiently by executing option strategies with multiple legs at one net price. The volumes on trading option strategies increased by 55 per cent since the launch of the Tailor-Made Combination function.

In 2013, the Dynamic Price Banding mechanism was extended to spot and spot-next calendar contract month of HSI Futures, Mini-HSI Futures and H-shares Index Futures for the day session and/or AHFT session. It enables HKATS to reject all limit buy/sell orders outside the prevailing upper/lower price bands for those selected contracts to minimise the risk of price input errors.

## Product Developments

To further broaden the stock option classes at HKEx, 7 new classes, CSOP FTSE China A50 ETF, ChinaAMC CSI 300 Index ETF, China Minsheng Banking Corp Ltd, Great Wall Motor Co Ltd, Lenovo Group Ltd, MGM China Holdings Ltd and The People's Insurance Co (Group) of China Ltd, were introduced for trading in 2013. A total number of 1,068,594 contracts were traded on these 7 new classes in 2013, which contributed to 2 per cent of total stock options market volume. In February 2014, 4 new stock option classes, Kunlun Energy Co Ltd, Want Want China Holdings Ltd, Dongfeng Motor Group Co Ltd and Hengan International Group Co Ltd, were introduced for trading. There are currently 74 stock option classes available for trading at HKEx.

Futures contracts on ChinaAMC CSI 300 Index ETF, CSOP FTSE China A50 ETF and iShares FTSE A50 China Index ETF were introduced in June 2013. They were HKEx's first futures on A-share ETFs, allowing investors to manage their risk exposure in A-share ETFs. A total number of 22,017 contracts were traded on these 3 new stock futures contracts in 2013, which contributed to 5 per cent of the total stock futures volume. As of the end of December, there were 41 stock futures available for trading at HKEx.

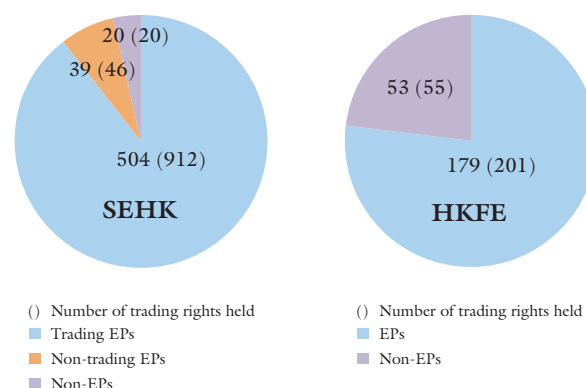
The Commodity Futures Trading Commission of the US certified the HSI Volatility Index Futures contract and the CES 120 Futures contract in the second half of 2013 for offering and selling to persons in the US.

## Participant Services

At the end of 2013, there were 543 SEHK Participants and 179 HKFE Participants, including 10 SEHK Participants and 9 HKFE Participants admitted in 2013.

HKEx and the HKSI jointly organised 3 Continuous Professional Training courses on HKATS operations and trading procedures in 2013. There were also 2 training courses related to AMS/3. In addition, a total of over 7,800 people participated in 64 briefing sessions and 44 seminars on derivatives organised under HKEx's joint promotion programme with EPs.

Number of Participants/Trading Right Holders  
(at the end of 2013)



## RMB Business

The development of the Hong Kong ETF market has helped broadened HKEx's RMB product offerings. Following the introduction of the first series of RQFII A-share ETFs in 2012 (a series of 4), 7 new RQFII A-share ETFs tracking a range of A-share benchmarks were listed on the Exchange in 2013, and all of them are traded under the Dual Counter model. Asia's first offshore RMB bond ETF, the iShares RMB Bond Index ETF listed in June 2013, is also traded under the Dual Counter model. The Value Gold ETF, initially available for trading in a HKD counter only, commenced trading in its RMB counter in November 2013. It was the first case of an ETF that started with a HKD counter and launched a RMB counter after listing. This increased the total number of ETFs with RMB counters to 14 (2012: 5).

The total number of DWs and debt securities denominated in RMB also increased to 7 (2012: 3) and 79 (2012: 47) respectively. The total turnover value in RMB denominated securities increased 50 per cent to RMB23,510 million in 2013 (2012: RMB15,690 million).

HKEx continued to actively engage the market on its RMB Currency Futures (USD/CNH Futures) through various educational programmes and promotional activities with EPs in 2013. The trading volume and open interest in 2013 increased significantly from 2012. The average daily volume increased 96 per cent to 568 contracts (ie, over US\$56 million notional) and open interest reached a then record high of 18,701 contracts (ie, US\$1,870 million notional) on 31 December 2013.

Educational programmes designed to increase investor awareness of RMB Currency Futures covered Hong Kong and other parts of the Asia region including Mainland, Korea and Singapore. In October 2013, HKEx and LME jointly organised a RMB Currency Futures education and promotional programme in Hong Kong targeting qualifying EPs. The 3-day programme included presentations by HKEx and LME executives on the latest exchange developments and applications of HKEx and LME products. HKEx plans to introduce AHFT and some product enhancements for its USD/CNH Futures in 2014 and has started to assess market demand and readiness for other currency pairs to enrich the RMB Currency Futures product universe.

## Market Data

### Market Performance

As at the end of 2013, there were 181 real-time IV and End-User licences along with 89 delayed IV licences (2012: 178 and 87). The licensed IVs altogether offered a total of 1,000 types (2012: 954) of real-time market data services at year's end.

Products subscribed	Number of real-time IVs/End-Users	
	2013	2012
Securities market data	154	148
Derivatives market data	98	89
Issuer Information Feed Service	15	12
More than 1 data product group	83	60

### New Market Data Feeds

Positive responses were received on the 3 new datafeeds, Securities Standard, Securities Premium (SP) and Securities FullTick (SF), which were launched upon the initial rollout of the OMD for securities market data (OMD-C) in September 2013. Over 60 direct connection IVs/End-Users and 150 indirect connection IVs had migrated to the OMD-C as of the end of December 2013. Over 30 direct connection IVs/End-Users were subscribing to the premium products, including SP and SF, at year-end. A number of IVs/End-Users have subscribed to multiple datafeed products.

### Marketing Programme for New Derivatives Products

In September 2013, HKEx introduced a marketing programme to promote Derivatives Market data in Japan, Korea, Singapore, the Mainland and Taiwan, with a focus on new derivatives products including CES 120 Futures and USD/CNH Futures.

The marketing programme covers both eligible IVs and some of their clients. It includes waivers of the redistribution fee and subscriber fee for streaming Level 1 data and the Basic Market Price Service as well as some exemptions for market data vendor licence applicants. As of the end of December 2013, 32 IVs had enrolled in the programme. They included 19 IVs that had started providing real-time Level 1 Derivatives Market data on their services, including terminals, mobile applications and websites by the end of the year.

### Non-display Usage of Market Data

Since the introduction of the Non-display Usage Policy which took effect from January 2013, over 100 local and overseas firms have been reporting in accordance with the policy. Firms that are using HKEx market data for non-display usage include EPs and affiliates, buy-side firms, proprietary trading firms and index compilers.

#### Types of “non-display” usage of real-time market data

- “Automated trading application” – any application that accesses HKEx’s real-time market data for automatic calculation, processing and analysis and is used to determine the quantity, price and timing of order execution
- “Derived data (with tradable products)” – the use of real-time market data to partly or wholly derive (i) the price of a tradable product; or (ii) the value of an underlying instrument of a tradable product
- “Others” – other non-display usages of real-time market data such as the use of data in risk management systems, portfolio management applications, back-office support, and creation of indices, excluding indices for tradable products

HKEx will continue to review market feedback and provide information on proper reporting and compliance with the policy. It is also looking into enhancing the policy by streamlining the declaration process.

### **Extension of Discount Programme for Mainland Users of Real-time Market Data**

The discount programme for Mainland users of HKEx's real-time market data has been extended until the end of 2014. More than 10,700 individual investors and 3,300 institutional investors in the Mainland registered under the programme will continue to enjoy the discounted rates of \$80 and \$120 per terminal respectively for HKEx's securities market data along with a free derivatives data package without price depth.

The discount programme which enables Mainland television subscribers to provide HKEx's real-time securities market data to its viewers in the Mainland has also been extended to the end of 2014. The subscriber fee remains at a flat rate of \$10,000 per month.

### **Extension of Mainland Market Data Collaboration Programmes**

The Mainland Market Data Collaboration Programmes with the Shanghai Stock Exchange (SHSE Programme) and the Shenzhen Stock Exchange (SZSE Programme), which were originally due to expire by the end of 2013, have been extended until the end of 2015. Under these programmes, HKEx and the Shanghai Stock Exchange/Shenzhen Stock Exchange are allowed to redistribute the basic real-time market data of companies dually listed on the other exchange to their own authorised IVs for onward dissemination to IVs' subscribers for internal display purposes. At the end of December 2013, there were 17 IVs and 10 IVs under the SHSE Programme and SZSE Programme respectively.

### **Mainland Market Data Hub and Founding Members Programme**

In view of the substantial growth of demand for Hong Kong market data in the Mainland and the growing number of Mainland IVs offering the data, HKEx will introduce the MMDH in Shanghai in the first quarter of 2014. Initially, it will offer securities market and index datafeed products. This initiative will strengthen HKEx's Mainland connectivity and enable Mainland investors to access HKEx's market data through a reliable, scalable and cost-effective infrastructure. It will give HKEx its first significant technical infrastructure footprint in the Mainland.

HKEx launched the Founding Members Programme for the MMDH in February 2013. Companies enrolled in the programme can participate in joint sales and marketing activities with HKEx for their product promotion and enjoy exclusive benefits including additional free trial units and participation in communication groups. There are currently 5 IVs under the programme.

### **Enhancement of Historical Data Product**

In conjunction with the rollout of the OMD-C, HKEx launched new historical securities and derivatives data products for subscription, including its new Historical Full Book (Securities Market) product that allows subscribers to download complete order book information for every order and trade on the Main Board and GEM beginning 30 September 2013. The enhanced historical data products provide further support for trading in HKEx's markets and market research.

## **LME**

### **Market Performance**

During the year ended 31 December 2013, the average daily volume was 676,283 lots, an increase of 7 per cent from 2012. Along with aluminium and copper, the LME's 2 largest contracts by turnover, zinc, nickel, cobalt and molybdenum all showed record annual volumes. Aluminium and copper average daily volume increased 8 per cent and 11 per cent respectively year-on-year. The greatest positive change, of 23 per cent year-on-year, was posted by nickel. Declines in turnover were experienced by lead, steel billet, aluminium alloy and NASAAC.

The total futures MOI at the end of the year was 2,503,908 lots, a 10 per cent increase from the MOI reported at the end of 2012. Excluding other minor contracts, nickel experienced the strongest growth, with MOI 36 per cent above the level reported at the end of last year. The MOI of zinc and copper for the period was up over 14 per cent and 15 per cent respectively from the end of the previous year, while aluminium was up a more modest 7 per cent since the end of 2012 and MOI of lead was down 15 per cent.

During the year ended 31 December 2013, an average of 148,799 lots per day traded across LMEselect (ticker value), up 8 per cent year-on-year.

### **Warehouse Consultation**

During 2013, LME carried out a consultation on a series of initiatives that would have had the aim of reducing queues at warehouses to 100 days. After taking into account the wide range of responses from the LME community from the consultation, LME approved a series of measures aiming to reduce the queues at warehouses to 50 days. Further details are available on the LME website at [www.lme.com](http://www.lme.com).

### **Presence in Asia**

The LME's presence in Asia continued to expand in 2013. The joining of the Asia Commodities provides LME with a larger pool of resources to reach out to Asian users.

In May 2013, LME opened an Asian Helpdesk in Hong Kong to provide full technology support for users throughout the Asian trading day.

The first LME Week Asia was held in Hong Kong in June 2013. This included a reception, the LME Metals Seminar Asia and the LME Asia Dinner. The event was well received by the industry and LME Week Asia is becoming a major annual event. The 2014 LME Week Asia will be in Hong Kong in April 2014. Further details are available on the HKEx Group website at [www.hkexgroup.com/eng/events/lmeweekasia/index.htm](http://www.hkexgroup.com/eng/events/lmeweekasia/index.htm).

In response to the growth in Asian trading on LMEselect, LME announced an enhancement to its Asian Benchmark pricing in June 2013. The enhancement included a new, shorter, pricing period thereby further concentrating liquidity and pricing.

Responding to the region being a significant consumer of LME metal and the fastest growing industrial region, LME expanded its LME warehouse network with the listing of Kaohsiung port in Taiwan as a good delivery point for primary aluminium, aluminium alloy, copper, lead, nickel, tin and zinc. Three South Korean ports were also approved as good locations for the delivery of lead.

### **Market Infrastructure**

LME has continued to provide support to its Members in response to the EMIR requirements. Significant achievements in 2013 included a proactive Member engagement programme to advise the Members on the new requirements which aim to improve transparency and reduce risk in the derivatives market. Although EMIR does not directly apply to LME, a series of systems modifications was implemented to allow the Members and its current and future clearing house to become EMIR compliant.

### **Education**

Throughout 2013, LME enhanced its educational activities. In September 2013, it embarked on a Latin America roadshow visiting Mexico, Colombia, Chile, Peru and Brazil. LME delivered a series of seminars focusing on issues important to the region's metals and mining industries.

### **Class Actions in the US**

As at the date of this Annual Report, 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 plaintiffs informed the court that they intended to consolidate the class actions into 3 complaints, each to be composed of a different class of plaintiffs. The court ordered the plaintiffs to file their consolidated complaints on 12 March 2014. The defendants, including LME, plan to move to dismiss the complaints on 25 April 2014. Should a trial be necessary, the court has set a preliminary date of September 2015. LME management continues to take the view that the lawsuits are without merit and will contest them vigorously.

### **Judicial Review in the UK**

As disclosed in HKEx's announcement on 24 December 2013, LME has been named as a defendant in a judicial review claim filed by United Company RUSAL Plc (Rusal) in the English High Court. The judicial review seeks to challenge the LME's decision to introduce changes to the delivery out rates of LME approved warehouses as announced in its notice dated 7 November 2013. Rusal has alleged that the market consultation which LME conducted before arriving at the decision was, among others, unfair and procedurally flawed, and constituted a breach of Rusal's human rights. 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. LME management continues to take the view that Rusal's complaint is without merit and will contest the judicial review proceedings vigorously.

### **CESC**

CESC launched 2 sub-indices of its cross-border CES 120, the CES A80 and CES HKMI, in March 2013. In May 2013, CESC licensed HKEx to introduce CES 120 Futures contract. CES 120 Futures were launched on the Futures Exchange on 12 August 2013. Three ETFs, 2 of which track the CES A80 and 1 that tracks the CES 120, were listed on the Exchange in the second half of 2013. CESC has also been working with ETF managers to develop and list more CES index ETFs in Hong Kong and explore product opportunities in the Mainland and overseas. CESC is also in discussions with structured product issuers on the launch of structured products linked to CES indices. CESC will continue to explore the market demand and business case for futures and options tracking other CES indices. These would be important developments in the CES product ecosystem.

### **Mainland Development**

With the continuous opening up of China at an accelerating pace, HKEx has stepped up liaison and promotional efforts in the Mainland in exploring new business opportunities. In 2013, MOUs on cooperation and exchange of information were signed with Financial Affairs/Services Offices of Tianjin and Chongqing municipalities, and Henan, Hubei, Hunan, Jiangxi and Anhui provinces. In December 2013, an MOU on cooperation and information of exchange was signed with the China Futures Association to forge a closer working relationship with the Mainland futures market and its participants.

On the equities side, HKEx has organised a series of events in Hong Kong and the Mainland in 2013 to celebrate the 20<sup>th</sup> anniversary of H-share listings in Hong Kong. The celebration events began with a market opening ceremony in August 2013 with representatives of the first batch of 6 companies that listed H-shares in 1993. It was followed by promotional seminars on listing in Hong Kong in Zhengzhou, Guangzhou and Harbin from September to October 2013. As a new initiative, a training workshop for provincial and municipal financial services officials was also held in Qingdao in September 2013. To conclude the H-share listing celebrations as well as to commemorate the 10<sup>th</sup> anniversary of the establishment of HKEx's Beijing Representative Office, a celebration dinner was organised in Beijing in November and attended by senior representatives from the Mainland authorities, issuers and intermediaries.

Throughout the year, HKEx continued to undertake market promotion activities all over the Mainland in order to attract quality Mainland enterprises to list in Hong Kong. A total of about 30 seminars, roundtable meetings and training workshops were organised/co-organised in the Mainland, and over 140 presentations were conducted on the advantages of listing in Hong Kong.

HKEx also held a media workshop in Beijing in November 2013 for over 40 Mainland journalists to help them gain a better understanding of the Hong Kong securities market. Besides, an integrated workshop promoting HKEx's businesses, products and services targeting at the Mainland futures market and its intermediaries was held during the 9<sup>th</sup> China (Shenzhen) International Derivatives Forum in December 2013.

Besides, HKEx arranged exchange programmes for officials of the CSRC, including the Futures Supervision and the Enforcement Bureau in the last quarter of 2013. In addition, we co-organised 2 training workshops jointly with The Hong Kong Polytechnic University and the Research Institute of Hong Kong and Macao Affairs Office of the State Council on raising corporate governance standards of listed issuers from the Mainland.

### Product & Index Development

The CES 120 Futures contract introduced in August 2013 was the world's first exchange-listed futures contract on a cross-border China stock index. The notional amount traded in 2013 was \$9.8 billion. Four liquidity providers have provided continuous two-way prices from the product launch and 51 EPs had participated in the market at the end of 2013. HKEx has been and will continue to work with industry participants to expand the marketing coverage of the product to reach out to retail and institutional investors in Hong Kong and the region.

The BRICS Exchanges Alliance continues to engage an index provider to design a family of BRICSmart indices covering equity, fixed income and currency asset classes to be launched in 2014.

### Issuer & Client Services

In 2013, HKEx continued to actively coordinate issuer marketing functions and expand its work in promoting its ETF and stock options markets as well as its other products. HKEx's representatives participated in over 70 conferences and seminars organised by different organisations in Hong Kong, London, Seoul, Shenzhen, Tokyo and Toronto to promote listings of shares, ETFs and structured products in Hong Kong.

HKEx maintained ongoing communication and coordination with issuers, brokers, vendors, government officials and industry associations throughout 2013 to reinforce its relationships. Regular meetings were held to disseminate information on new business initiatives and to gather market feedback and intelligence.



## Global Clearing

### Cash & Derivatives Clearing

#### CCASS Statistics

	2013	2012	Change
<b>Average daily Exchange Trades handled by CCASS</b>			
Number of trades	940,454	775,742	21%
Value of trades (\$bn)	62.6	53.9	16%
Share quantity involved (bn)	141.1	137.5	3%
<b>Average daily SIs settled by CCASS</b>			
Number of SIs	83,055	73,247	13%
Value of SIs (\$bn)	216.7	178.5	21%
Share quantity involved (bn)	54.6	44.2	24%
<b>Average daily ISIs settled by CCASS</b>			
Number of ISIs	402	343	17%
Value of ISIs (\$m)	213.7	227.2	(6%)
Share quantity involved (m)	124.1	98.7	26%
<b>Average daily settlement efficiency of CNS stock positions on due day (T+2)</b>			
	99.91%	99.91%	–
<b>Average daily settlement efficiency of CNS stock positions on the day following the due day (T+3)</b>			
	99.99%	99.99%	–
<b>Average daily buy-ins executed on T+3</b>			
Number of brokers involved	4	4	0%
Number of buy-ins	5	4	25%
Value of buy-ins (\$m)	2.2	1.5	47%
<b>Shares deposited in the CCASS depository</b>			
Number of shares (bn)	3,955.2	3,663.7	8%
Percentage of the total issued shares of the admitted securities	71%	70%	–
Value of shares (\$bn)	13,878.9	12,330.1	13%
Percentage of the total market capitalisation of the admitted securities	53%	52%	–

#### Service Enhancements

To further improve efficiency and mitigate the risk in the settlement process, CCASS was enhanced in February 2013 to support delivery versus payment settlement of Transfer Instructions with the CMU on Exchange Fund Notes, Government Bonds, Specified Instruments and CMU Instruments in addition to free of payment basis. Separately, to further align the services of creation and redemption of ETFs with third party clearing arrangements, a participating dealer which is not a CCASS Participant, can now appoint a CCASS Participant to access CCASS on its behalf for ETF-related services.

Since February 2013, HKCC and SEOCH Participants have been able to select an approved currency other than the Settlement Currency to settle their margin shortfall once the minimum requirement in Settlement Currency is met and approved by the respective clearing house.

#### Development of Uncertificated Securities Market

HKEx is actively working with the Government and the SFC on the legislative and operational proposals to prepare for the consultation on subsidiary legislation for an USM in Hong Kong. On 6 January 2014, the Financial Services and the Treasury Bureau provided a briefing to the Panel on Financial Affairs of the Legislative Council on the enabling legislative changes for the USM.

#### Regulatory Review

HKSCC, HKCC, and SEOCH have completed the preliminary assessments on the observance of the PFMI. HKEx is in the process of discussing and finalising the assessments and improvement plans with the SFC. In September 2013, HKEx took part in the FSAP review on the financial stability of Hong Kong commissioned by the World Bank and the International Monetary Fund (IMF), and it had discussions with the assessor regarding its clearing house operations in Hong Kong and PFMI observance. The FSAP review report is expected to be published by the IMF in the first half of 2014.

In January 2013, the US Government issued the final regulations on its FATCA. FATCA aims to prevent the non-compliance with US tax obligations by US taxpayers holding foreign financial accounts and will become effective in 2014. According to the information published by the US Internal Revenue Service, FATCA requires foreign financial institutions to conduct certain due diligence procedures to identify and report to the Internal Revenue Service information in respect of relevant foreign financial accounts. Foreign financial institutions which do not comply with FATCA will be subject to withholding taxes on certain payments received by them. HKEx is now assessing the potential implications of FATCA on its business operations and will consider the need to implement operational and system changes to comply with FATCA.

In September, HKSCC applied to the ESMA to be recognised as a third country CCP under the EMIR in order to continue to provide clearing services to the CCASS CPs established in the EU in accordance with the EU's transitional provisions. Although HKCC and SEOCH do not have any CPs established in the EU, they intend to submit applications to ESMA for recognition as a third country CCP in due course to allow their CPs which are subsidiaries of EU credit institutions and investment firms to benefit from a lower capital requirement under the EU Capital Requirements Regulation, or CRR.

### Participant Services

In December 2013, HKSCC admitted ChinaClear as a Clearing Agency Participant of CCASS. As a result, ChinaClear can perform specific custody functions to enhance its efficiency and strengthen the protection of Mainland investors when acting as the nominee for H-shares resulting from conversions of Shenzhen B-shares to H-shares as approved by the CSRC.

At the end of 2013, there were 24,573 CCASS Participants, including 490 IPs admitted in 2013. HKEx organised 19 training courses related to CCASS or DCASS for CPs and other market participants in 2013.

#### Number of CCASS Participants (at the end of 2013)

Clearing Agency Participants	2
Custodian Participants	36
Direct CPs	485
General CPs	9
IPs	24,036
Stock Pledgee Participants	5

### OTC Clear

OTC Clear became a recognised clearing house pursuant to the SFO on 25 October 2013. In connection with the recognition, HKEx completed the subscription agreement under which 12 financial institutions agreed to subscribe for non-voting ordinary shares of OTC Clear as founding shareholders. The founding shareholders represent a cross-section of financial institutions with local, Mainland Chinese and international interests to provide a good foundation for OTC Clear's future development. A news release on the founding shareholders initiative was issued on 31 October 2013 and posted on the News & Consultations (News Releases) section of the HKEx website.

On 25 November 2013, OTC Clear officially launched its business by offering clearing services for inter-dealer interest rate swaps denominated in 4 currencies: RMB, HKD, USD and EUR. It also offers clearing services for inter-dealer non-deliverable forwards referencing RMB, Taiwan Dollars, Korean Won and Indian Rupee. OTC Clear is a key part of HKEx strategy to develop a fixed income and currency business by leveraging the RMB's accelerating internationalisation and Hong Kong's position as the premier offshore RMB centre.

OTC Clear's Clearing Members currently comprise 4 of its 12 founding shareholders: Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited and The Bank of East Asia Limited. It is expected that the other founding shareholders or their affiliates will join as Clearing Members in due course. OTC Clear is also working with other financial institutions in Hong Kong on membership admission arrangements.

On the regulatory reform for the Hong Kong OTC derivatives market, the Securities and Futures (Amendment) Bill 2013 is under discussion by the Bills Committee of the Legislative Council and is expected to come into effect in 2014. OTC Clear plans to introduce client clearing services by the end of 2014 after the new legislation is in place and relevant amendments to OTC Clear rules have been approved by the SFC, and will expand its clearing services to cover other OTC derivatives when appropriate.

To facilitate the participation of financial institutions incorporated in the EU as its Clearing Members, OTC Clear submitted its application to the ESMA in January 2014 for recognition as a third country CCP under the EMIR. OTC Clear is closely monitoring the latest regulatory developments in the US market and considering the best course of action to ensure compliance in the US.

To prepare for the service launch of OTC clearing services, OTC Clear organised various training and testing with its potential Clearing Members in 2013. Highlights are set out below:

Event	Purpose
• Market rehearsal	To verify the readiness of OTC Clear, Clearing Members and the service providers before the soft launch of the OTC clearing platform to the market
• System testing	To familiarise the potential Clearing Members with the clearing workflow – in terms of system, operations and risk management processes
• Default management drills	To confirm the ability of Clearing Members to carry out the default management procedures
• Treasury Markets Association seminar	To introduce and promote OTC Clear's services to the market

### LME Clear

During 2013, LME continued with its commitment to building its own clearing house, LME Clear, with significant steps being completed during the year. Notably, the agreement between LME and LCH.Clearnet to migrate the clearing of LME contracts to LME Clear on 22 September 2014; and the enhancement of its governance procedures with appointments made to the LME Clear board, which is responsible for overseeing the creation and operation of LME Clear. Further details on LME Clear are available on the LME website at [www.lme.com/trading/post-trade-services/lme-clear](http://www.lme.com/trading/post-trade-services/lme-clear).

The core clearing and risk technology platform is substantially delivered. This will enable LME Clear to complete functional and member testing in 2014. LME Clear launched LMEwire, a trade repository reporting service, for its members and their clients in February 2014. Further details are available on the LME website at [www.lme.com/trading/post-trade-services/lmewire](http://www.lme.com/trading/post-trade-services/lmewire). The completion of the CCP authorisation application for submission to the Bank of England is now at an advanced stage. The LME Clear clearing service is expected to be launched in September 2014.

### Clearing Risk Management

On 19 March 2013, HKSCC declared Salisbury Securities Limited (SSL) a defaulter after the SFC issued a restriction notice on SSL. HKSCC closed out SSL's unsettled positions in CCASS according to the prescribed default procedures and did not suffer any loss in the process.

HKCC has added 2 measures to mitigate the counterparty risk associated with AHFT: (i) hourly capital-based position limit monitoring during the AHFT session based on the latest market prices and positions; and (ii) a mandatory intra-day variation adjustment and margin call to the HSI and H-shares Index markets.

For OTC Clear, applications for clearing membership are subject to internal risk assessment which contains a risk review of the various aspects including financial strength, internal risk framework, and operations readiness.

### Information Technology

All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets continued to perform reliably during 2013.

In an ongoing initiative from 2012, HKEx's IT security enhancement measures have been largely implemented and will be duly completed by the first quarter of 2014.

The relocations of the data centres for the Derivatives Market and the Cash Clearing to the Data Centre were duly conducted in May and December 2013 respectively to complete the entire project.

In November 2013, HKEx rolled out the OCASS to support clearing services for OTC derivatives including inter-dealer interest rate swaps and non-deliverable forwards.

### HKEx Orion Programme

The SDNet/2 network upgrade was concluded with the completion of the SDNet/2 rollout for the Derivatives Market in March 2013 and for the Cash Clearing in August 2013.

In September 2013, HKEx launched the OMD system for the Cash Market. HKEx aims to introduce the market data system for the Derivatives Market in the second quarter of 2014. On the Mainland, HKEx is in the process of implementing a Cash Market data feed via the MMDH. The feed is scheduled for launch in the first quarter of 2014.

In October 2013, HKEx upgraded HKATS/DCASS to a new Genium INET technology platform which significantly improved order processing latency, transaction capacity and clearing capacity for further development of the Derivatives Market.

For the OCG, the open test with enrolled EPs and related Broker Supplied System vendors commenced in December 2013, and end-to-end testing began in January 2014. HKEx plans to implement the system in the Cash Market in the second quarter of 2014.

### Hosting Services

Hosting Services launched support for the Derivatives Market trading in June 2013. Subscriber growth has been steady from all ecosystem segments including EPs, IVs, buy-side firms, technology vendors and telecommunication service providers. As at the end of December 2013, there were over 80 companies, mostly SEHK and HKFE Participants, using Hosting Services. The EPs in the group contributed about 20 per cent of daily securities turnover value and about 46 per cent of the daily derivatives trading volume at year's end.

### Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and cash collateral and Clearing House Funds, totalling \$55.8 billion on average in 2013 (2012: \$46.0 billion).

As compared with 31 December 2012, the overall size of funds available for investment as at 31 December 2013 increased by 15 per cent or \$7.2 billion to \$54.3 billion (31 December 2012: \$47.1 billion). Details of the asset allocation of the investments as at 31 December 2013 against those as at 31 December 2012 are set out below.

	Investment Fund Size \$bn		Bonds		Cash or Bank Deposits		Global Equities	
	2013	2012	2013	2012 <sup>1</sup>	2013	2012	2013	2012
Corporate Funds <sup>2</sup>	10.0	7.8	17%	24%	79%	69%	4%	7%
Margin Funds and cash collateral	39.8	36.8	5%	6%	95%	94%	0%	0%
Clearing House Funds	4.5	2.5	0%	0%	100%	100%	0%	0%
Total	54.3	47.1	6%	9%	93%	90%	1%	1%

Notes:

1 Including certain principal-guaranteed structured notes

2 Includes \$156 million (31 December 2012: \$Nil) which has been earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Margin Funds and cash collateral and Clearing House Funds. Excluding equities held under the Corporate Funds (\$0.4 billion as at 31 December 2013 and \$0.5 billion as at 31 December 2012), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2013 (\$53.9 billion) and 31 December 2012 (\$46.6 billion) were as follows:

	Investment Fund Size \$bn		Overnight to 3 months		>3 months to 1 year		>1 year to 3 years		>3 years	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Corporate Funds <sup>1</sup>	9.6	7.3	70%	59%	17%	21%	6%	10%	7%	10%
Margin Funds and cash collateral	39.8	36.8	82%	82%	15%	12%	2%	3%	1%	3%
Clearing House Funds	4.5	2.5	96%	93%	4%	7%	0%	0%	0%	0%
Total	53.9	46.6	81%	79%	15%	14%	2%	4%	2%	3%

Notes:

- 1 Includes \$156 million (31 December 2012: \$Nil) which has been earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear
- 2 The maturity profiles in the above table are based on contractual maturity.

Credit exposure is well diversified. The Group's bond portfolio held is of investment grade and, as at 31 December 2013, had a weighted average credit rating of Aa3 (31 December 2012: Aa3) and a weighted average maturity of 2.3 years (31 December 2012: 2.7 years). Deposits 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.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. 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 (1 year is used by the Group). The overall risk, as measured by the VaR methodology, during 2013 and 2012 was as follows:

	Average VaR \$m		Highest VaR \$m		Lowest VaR \$m	
	2013	2012	2013	2012	2013	2012
Corporate Funds	9.5	19.4	13.0	27.2	6.8	7.9
Cash collateral <sup>1</sup>	N/A	0.1	N/A	0.2	N/A	<0.1
Margin Funds <sup>1</sup>	N/A	1.4	N/A	3.3	N/A	0.6
Margin Funds and cash collateral <sup>2</sup>	0.6	1.0	1.0	1.5	0.5	0.6
Clearing House Funds	<0.1	0.1	0.1	0.2	<0.1	<0.1

Notes:

- 1 Up to October 2012
- 2 Following the HKEx Clearing House Risk Management Reform in November 2012, HKSCC introduced margining as a measure to safeguard against exposures to future market movements. Thereafter, "Margin Funds" and "Cash collateral" are combined as "Margin Funds and cash collateral".

Details of the Group's net investment income are set out in the Revenue and Other Income section under the Financial Review and note 8 to the Consolidated Financial Statements of this Annual Report.

# FINANCIAL REVIEW

## HKEx Group – Overview of 2013 Results and Financial Position

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

	2013
Average daily turnover value of equity products on the Stock Exchange	\$50.1 bn
Number of newly listed companies on Main Board	87
Number of newly listed companies on GEM	23
Number of Main Board companies at 31 Dec 2013	1,451
Number of GEM companies at 31 Dec 2013	192
Total equity funds raised on Main Board	\$369.8 bn
Total equity funds raised on GEM	\$9.1 bn
<b>Total equity funds raised</b>	<b>\$378.9 bn</b>

### Operating Segment Profit for the Year

	2013						
	Cash	Equity and Derivatives Financial	Commodities	Clearing	Platform and Infra- structure	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue and other income	2,455	1,662	1,210	2,856	347	193	8,723
Operating expenses	(447)	(422)	(514)	(563)	(137)	(694)	(2,777)
Reportable segment EBITDA	1	2	3	4	5		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
Taxation							(700)
Profit for the year							4,546
Loss attributable to non-controlling interests							6
Profit attributable to shareholders of HKEx							4,552

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

	2013
Average daily turnover value of DWs, CBBCs and warrants on the Stock Exchange	\$12.5 bn
Average daily number of derivatives contracts traded on the Futures Exchange	283,610
Average daily number of stock options contracts traded on the Stock Exchange	249,295
Number of newly listed DWs	7,264
Number of newly listed CBBCs	8,948

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

	2013
Average daily volume of metals contracts traded on LME (lots)	676,283

### Consolidated Statement of Financial Position

	At 31 Dec 2012
<b>ASSETS</b>	
Cash and cash equivalents of Corporate Funds	4,035
Cash and cash equivalents of Clearing House Funds, Margin Funds and cash collateral (Funds)	30,042
Financial assets	13,065
Goodwill and other intangible assets	18,183
Fixed assets and lease premium for land	1,699
Other assets	13,813
<b>Total assets</b>	<b>80,837</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits and cash collateral from CPs and Participants' contributions to Clearing House Funds	38,710
Other liabilities	24,363
<b>Total liabilities</b>	<b>63,073</b>
<b>Equity</b>	
Share capital, share premium and reserves	11,188
Shares held for Share Award Scheme	(305)
Retained earnings	6,881
Equity attributable to shareholders of HKEx	17,764
<b>Total liabilities and equity</b>	<b>80,837</b>

### Cash Flows for the Year

	2013 \$m
<b>Operating activities</b>	
Net cash inflow from operating activities	4,988
<b>Investing activities</b>	
Payments for purchases of fixed assets and intangible assets	(797)
Net decrease in financial assets of Corporate Funds	246
Interest received from financial assets	28
<b>Financing activities</b>	
Dividends paid	(2,320)
Payments of finance costs	(89)
Proceeds from disposal of interest in a subsidiary without loss of control	252
Other net outflows	(7)
Net increase in cash and cash equivalents	2,301
Cash and cash equivalents at 1 Jan 2013	4,035
Exchange differences on cash and cash equivalents	39
Cash and cash equivalents at 31 Dec 2013	6,375
Add: Cash earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear	156
Cash and cash equivalents of Corporate Funds	6,531

### Consolidated Statement of Financial Position

	At 31 Dec 2013
<b>ASSETS</b>	
Cash and cash equivalents of Corporate Funds	6,531
Cash and cash equivalents of Funds	34,921
Financial assets	12,948
Goodwill and other intangible assets	18,680
Fixed assets and lease premium for land	1,776
Other assets	11,087
<b>Total assets</b>	<b>85,943</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
Margin deposits and cash collateral from CPs and Participants' contributions to Clearing House Funds	43,677
Other liabilities	21,748
<b>Total liabilities</b>	<b>65,425</b>
<b>Equity</b>	
Share capital, share premium and reserves	12,779
Shares held for Share Award Scheme	(174)
Retained earnings	7,800
Equity attributable to shareholders of HKEx	20,405
Non-controlling interests	113
<b>Total equity</b>	<b>20,518</b>
<b>Total liabilities and equity</b>	<b>85,943</b>

## Notes

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

	2013			Total \$m
	Share capital and share premium \$m	Employee share-based compensation reserve \$m	Various other reserves \$m	
At 1 Jan 2013	9,881	122	1,185	11,188
Issue of shares for employee share options	1	-	-	1
Issue of shares in lieu of cash dividends	1,441	-	-	1,441
Employee share-based compensation benefits	-	119	-	119
Currency translation differences of foreign subsidiaries	-	-	379	379
Transfer to retained earnings	-	-	(1)	(1)
Vesting of shares of Share Award Scheme	5	(136)	-	(131)
Put options written to non-controlling interests	-	-	(217)	(217)
At 31 Dec 2013	11,328	105	1,346	12,779

## Movements in Retained Earnings for the Year

	2013 \$m
Profit attributable to shareholders of HKEx	4,552
Dividends	(3,772)
Unclaimed dividends forfeited	15
Vesting of shares of Share Award Scheme	(10)
Sale of interest in a subsidiary to non-controlling interests	133
Transfer from reserves	1
Net increase in retained earnings	919
Retained earnings at 1 Jan 2013	6,881
Retained earnings at 31 Dec 2013	7,800
Representing:	
Retained earnings	5,805
Proposed dividend	1,995
	7,800

Profit attributable to shareholders increased by 11 per cent to \$4,552 million in 2013. The majority of this increase was attributable to the LME business, acquired in December 2012, which contributed a full year's profit of \$326 million in 2013. Increased trading fees from higher trading volumes on the Stock Exchange and the Futures Exchange were offset by weaker net investment income, higher depreciation and amortisation, and finance costs incurred for funding the acquisition of the LME Group.

The average daily turnover value on the Stock Exchange in 2013 rose by 16 per cent and the average daily number of futures and options contracts traded on the Derivatives Market rose by 9 per cent. Including the full year's effect of LME's contribution, revenue increased by 26 per cent to \$8,131 million in 2013.

Net investment income declined by 24 per cent due to lower fair value gains on investments, which were partially offset by a \$106 million fair value gain on the investment in LCH. Clearnet shares held by LME.

Operating expenses increased by 42 per cent to \$2,777 million mainly due to the inclusion of \$783 million of operating expenses of the LME business for a full year.

Depreciation and amortisation increased to \$507 million in 2013. The increase was due to the fixed assets and IT systems of the LME business, amortisation of customer relationship intangibles arising from the acquisition of the LME Group and the new Data Centre, where phase one was completed in September 2012 and the final phase in December 2013.

In 2013, the Group incurred \$183 million of finance costs for funding the acquisition of the LME Group.

The EBITDA of the Group by operating segment during 2013 was as follows:

- EBITDA of the Cash segment increased by \$277 million mainly due to the higher trading fees and trading tariff as a result of higher average daily turnover value of equity products on the Stock Exchange.
- EBITDA of the Equity and Financial Derivatives segment increased by \$40 million. The increase in listing fees from more newly listed DWs and CBBCs was partly offset by the decrease in trading fees and trading tariff and the rise in operating expenses that included implementation costs for certain strategic projects.
- EBITDA of the Commodities segment increased by \$659 million due to the full-year effect of including LME's fee income.
- EBITDA of the Clearing segment increased by \$28 million mainly due to the increase in clearing and settlement fees resulting from the increase in market volumes, but was partly offset by declines in investment income and increases in operating expenses related to the development of two new clearing houses: OTC Clear and LME Clear.
- EBITDA of the Platform and Infrastructure segment increased by \$27 million mainly due to the contribution from the Hosting Services business.
- Comprised financial assets and cash and cash equivalents of Margin Funds and cash collateral of \$39,787 million (2012: \$36,783 million), Corporate Funds of \$10,142 million (2012: \$7,817 million), and Clearing House Funds of \$4,471 million (2012: \$2,542 million).
- Goodwill and other intangible assets increased by \$497 million due to additions of software systems of \$458 million and exchange gains of \$348 million, but was partly offset by amortisation of \$309 million.
- Fixed assets and lease premium for land increased by \$77 million mainly due to additions of \$272 million, partly offset by depreciation of \$198 million.
- Other assets consisted of money obligations receivable under the CNS System of \$9,867 million (2012: \$12,733 million) and other receivables.
- Represents margin deposits and cash collateral from CPs of \$39,793 million (2012: \$36,786 million) and Participants' contributions to Clearing House Funds of \$3,884 million (2012: \$1,924 million). Margin deposits and cash collateral from CPs at 31 December 2013 increased over the prior year mainly due to the increase in open interest in futures and options contracts and higher margin required per contract at year-end. The increase in Participants' contributions to Clearing House Funds was mainly due to the introduction of a dynamic guarantee fund for HKSCC.
- Other liabilities mainly represent money obligations payable under the CNS System of \$9,867 million (2012: \$12,733 million), borrowings of \$6,921 million (2012: \$6,615 million) and other liabilities.
- Net cash inflow from operating activities decreased by \$1,503 million compared with 2012 as there was a decrease in financial assets measured at fair value through profit or loss of \$1,804 million in 2012 but this was not repeated in 2013, partly offset by higher profit before tax in 2013.

## Overall Performance

	Note	2013 \$m	2012 \$m	Change
<b>RESULTS</b>				
Revenue from segments:				
Cash	(A)	2,455	2,203	11%
Equity and Financial Derivatives	(B)	1,662	1,599	4%
Commodities	(C)	1,210	74	1,535%
Clearing	(D)	2,452	2,201	11%
Platform and Infrastructure	(E)	347	354	(2%)
Corporate Items		5	1	400%
Revenue		8,131	6,432	26%
Net investment income	(F)	581	766	(24%)
Sundry income		11	13	(15%)
Revenue and other income		8,723	7,211	21%
Operating expenses	(G)	(2,777)	(1,957)	42%
EBITDA		5,946	5,254	13%
Depreciation and amortisation	(H)	(507)	(158)	221%
Operating profit		5,439	5,096	7%
Costs relating to acquisition of LME Group	(I)	–	(138)	(100%)
Finance costs	(J)	(183)	(55)	233%
Fair value loss on derivative component of convertible bonds	(K)	–	(55)	(100%)
Share of loss of a joint venture		(10)	(3)	233%
Profit before taxation		5,246	4,845	8%
Taxation	(L)	(700)	(761)	(8%)
Profit for the year		4,546	4,084	11%
Loss attributable to non-controlling interests		6	–	N/A
Profit attributable to shareholders		4,552	4,084	11%

Profit attributable to shareholders increased by 11 per cent or \$468 million from \$4,084 million in 2012 to \$4,552 million in 2013. The majority of this increase was attributable to the LME business, acquired in December 2012, which contributed a full year's profit of \$326 million in 2013 (2012: \$19 million). Increased trading fees from higher trading volumes on the Stock Exchange and the Futures Exchange were offset by weaker net investment income, higher depreciation and amortisation, and finance costs incurred for funding the acquisition of the LME Group.

Positive investor sentiment and market momentum in the first quarter of 2013 were subsequently undermined by uncertainties created by the possible tapering of quantitative easing by the US Federal Reserve. Nevertheless, the average daily turnover value (ADT) on the Stock Exchange in 2013 rose by 16 per cent and the average daily number of futures and options contracts traded on the Derivatives Market rose by 9 per cent. Including the full year's effect of LME's revenue of \$1,210 million (2012: \$74 million), revenue increased by 26 per cent, or \$1,699 million, to \$8,131 million.

Net investment income declined by 24 per cent or \$185 million due to lower fair value gains on investments, which were partially offset by a \$106 million fair value gain on the investment in LCH.Clearnet shares held by LME.

Operating expenses increased by 42 per cent or \$820 million to \$2,777 million mainly due to the inclusion of \$783 million of operating expenses of the LME business for a full year (2012: \$41 million).

Depreciation and amortisation increased from \$158 million in 2012 to \$507 million in 2013. The \$349 million increase was due to the fixed assets and IT systems of the LME business, amortisation of customer relationship intangibles arising from the acquisition of the LME Group and the new Data Centre, where phase one was completed in September 2012 and the final phase in December 2013.



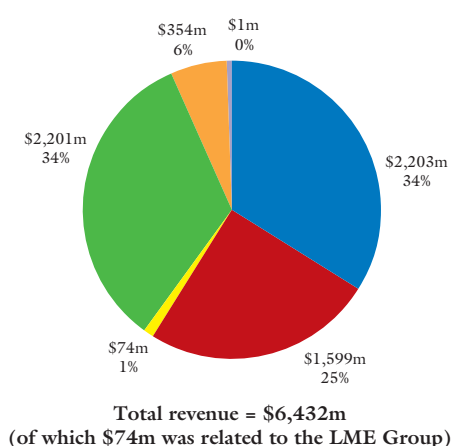
In 2013, the Group incurred \$183 million of finance costs mainly for funding the acquisition of the LME Group (2012: \$55 million).

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, which were aligned with International Financial Reporting Standards in all material respects at 31 December 2013.

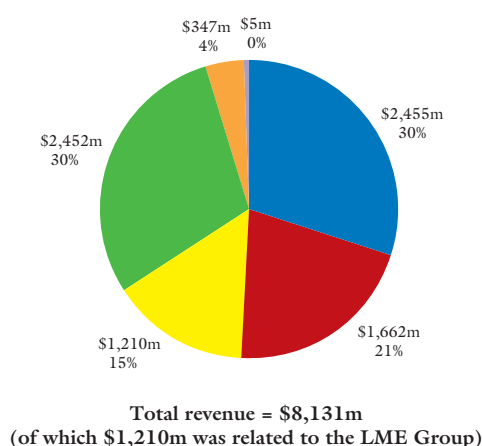
## Revenue and Other Income

### Analysis of Revenue from Segments

Analysis of 2012 Revenue from Segments



Analysis of 2013 Revenue from Segments



- Cash
- Commodities
- Platform and Infrastructure
- Equity and Financial Derivatives
- Clearing
- Corporate Items

#### (A) Revenue from Cash Segment

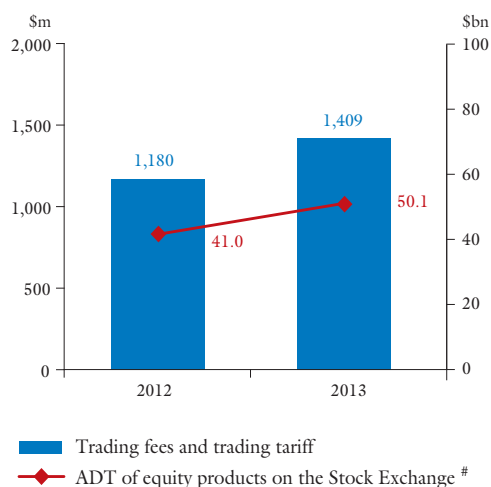
	2013 \$m	2012 \$m	Change
Trading fees and trading tariff #	1,409	1,180	19%
Stock Exchange listing fees #	586	581	1%
Market data fees	402	386	4%
Others	58	56	4%
<b>Total</b>	<b>2,455</b>	<b>2,203</b>	<b>11%</b>

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

The Cash segment covers all equity products listed and traded on the Cash Market platforms, sales of Cash Market data and other related activities.

### Trading Fees and Trading Tariff – Cash Segment

Trading Fees and Trading Tariff – Cash Segment



Trading fees and trading tariff from equity products traded on the Stock Exchange increased by \$229 million or 19 per cent from \$1,180 million in 2012 to \$1,409 million in 2013. The increase was less than the 22 per cent increase in ADT of equity products on the Stock Exchange as the number of trading days was 3 days lower than 2012 and there were more exempt ETF trades from market makers.

### Key Market Indicators

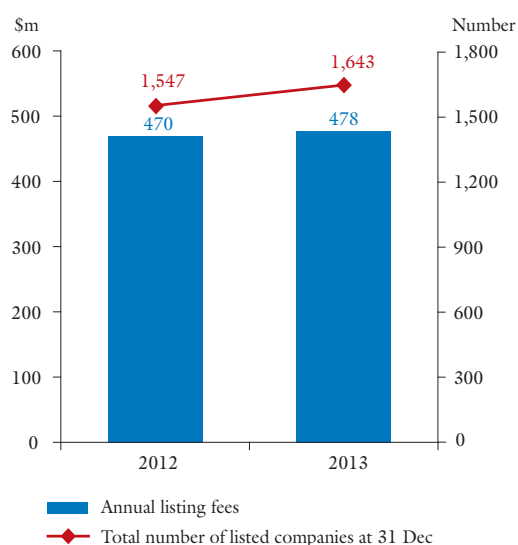
	2013 \$bn	2012 \$bn	Change
ADT of equity products on the Stock Exchange #	50.1	41.0	22%

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

### Stock Exchange Listing Fees – Cash Segment

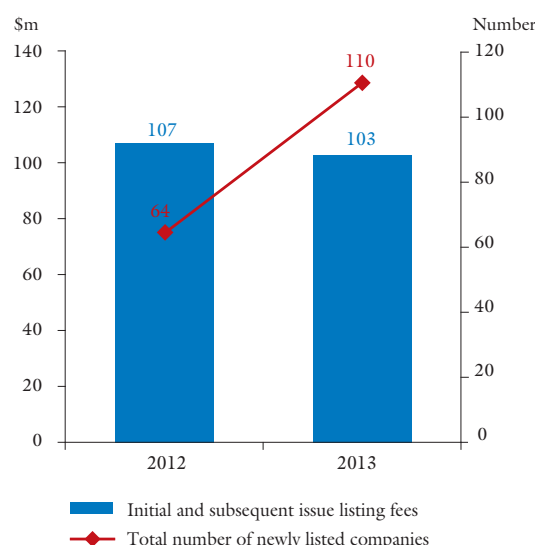
	2013 \$m	2012 \$m	Change
Annual listing fees	478	470	2%
Initial and subsequent issue listing fees	103	107	(4%)
Others	5	4	25%
<b>Total</b>	<b>586</b>	<b>581</b>	<b>1%</b>

#### Annual Listing Fees – Cash Segment



Annual listing fees increased with the rise in the total number of listed companies. The increase was less than the 6 per cent increase in the total number of companies listed at 31 December 2013 compared with 31 December 2012 as nearly 60 per cent of the companies were newly listed in the fourth quarter of 2013.

#### Initial and Subsequent Issue Listing Fees – Cash Segment



Despite the increase in number of newly listed companies, initial and subsequent issue listing fees declined due to a lower number of lapsed and withdrawn IPO applications not listed within 6 months of application.

**Key Drivers for Annual Listing Fees – Cash Segment**

	At 31 Dec 2013	At 31 Dec 2012	Change
Number of companies listed on Main Board	1,451	1,368	6%
Number of companies listed on GEM	192	179	7%
<b>Total</b>	<b>1,643</b>	<b>1,547</b>	<b>6%</b>

**Key Drivers for Initial and Subsequent Issue Listing Fees – Cash Segment**

	2013	2012	Change
Number of newly listed companies on Main Board *	87	52	67%
Number of newly listed companies on GEM	23	12	92%
<b>Total number of newly listed companies</b>	<b>110</b>	<b>64</b>	<b>72%</b>

\* Including 8 transfers from GEM (2012: 2 transfers from GEM)

	2013 \$bn	2012 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	165.8	88.9	87%
– Post-IPO	204.0	211.4	(4%)
Total equity funds raised on GEM			
– IPOs	3.2	1.1	191%
– Post-IPO	5.9	4.0	48%
<b>Total</b>	<b>378.9</b>	<b>305.4</b>	<b>24%</b>

**Market Data Fees – Cash Segment**

Market data fees rose by 4 per cent from \$386 million to \$402 million as a result of the introduction of certain new services (eg, new datafeeds from the OMD and non-display services) in 2013.

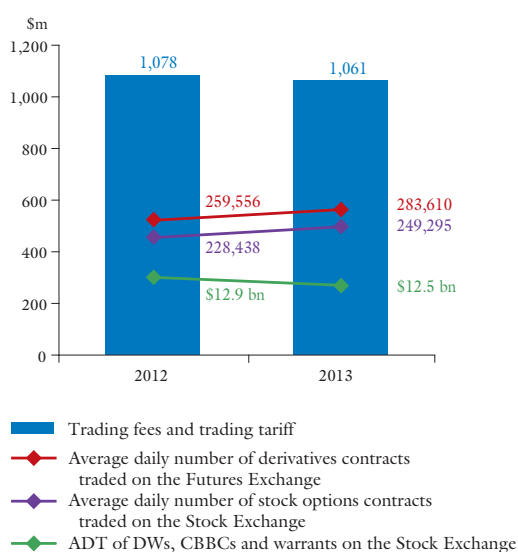
**(B) Revenue from Equity and Financial Derivatives Segment**

	2013 \$m	2012 \$m	Change
Trading fees and trading tariff	1,061	1,078	(2%)
Stock Exchange listing fees	430	335	28%
Market data fees	160	172	(7%)
Others	11	14	(21%)
<b>Total</b>	<b>1,662</b>	<b>1,599</b>	<b>4%</b>

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

## Trading Fees and Trading Tariff – Equity and Financial Derivatives Segment

### Trading Fees and Trading Tariff – Equity and Financial Derivatives Segment



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

Although the number of derivatives contracts traded on the Futures Exchange and stock options traded on the Stock Exchange increased by 9 per cent, trading fees and trading tariff decreased. This was due to a drop in the ADT of DWs and CBBCs and a higher proportion of Futures Exchange contracts in 2013 being lower fee products such as H-shares Index futures and options.

### Key Market Indicators

	2013	2012	Change
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	12.5	12.9	(3%)
Average daily number of derivatives contracts traded on the Futures Exchange	283,610	259,556	9%
Average daily number of stock options contracts traded on the Stock Exchange	249,295	228,438	9%

### Stock Exchange Listing Fees – Equity and Financial Derivatives Segment

Stock Exchange listing fees are mainly derived from the initial and subsequent issue listing fees of DWs and CBBCs. The increase in fees by 28 per cent from \$335 million in 2012 to \$430 million in 2013 was due to higher numbers of newly listed DWs and CBBCs.

### Key Drivers for Initial and Subsequent Issue Listing Fees – Equity and Financial Derivatives Segment

	2013	2012	Change
Number of newly listed DWs	7,264	5,886	23%
Number of newly listed CBBCs	8,948	6,056	48%
Total	16,212	11,942	36%

### (C) Revenue from Commodities Segment

	2013 \$m	2012 \$m	Change
Trading fees and trading tariff	861	51	1,588%
Market data fees	175	12	1,358%
Commodities stock levies and warehouse listing fees	127	10	1,170%
Subscription and application fees	30	–	N/A
Others	17	1	1,600%
Total	1,210	74	1,535%

The Commodities segment refers to the operations of the LME Group (excluding its clearing operations and corporate items). As HKEx only completed the acquisition of the LME Group on 6 December 2012, the revenue generated in 2013 was more than 16 times of that of 2012.

### Trading Fees and Trading Tariff – Commodities Segment

In addition to the full-year effect of inclusion of the LME trading fees, the average daily volume of metal contracts traded on LME recorded a 7 per cent increase in 2013 over 2012.

### Key Market Indicators – Commodities Segment

	2013	2012	Change
Average daily volume of metals contracts traded on LME (lots)	676,283	633,809*	7%

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

### (D) Revenue from Clearing Segment

	2013 \$m	2012 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	178	139	28%
Clearing and settlement fees	1,631	1,406	16%
Depository, custody and nominee services fees	629	644	(2%)
Others	14	12	17%
Total	2,452	2,201	11%

The Clearing segment refers to the operations of the 4 clearing houses in Hong Kong, HKSCC, SEOCH, HKCC and OTC Clear, and the development and operations of the new clearing house in London, LME Clear, for clearing base metals futures and options contracts traded on LME.

### Clearing and Settlement Fees

Clearing and settlement fees are derived predominantly from Stock Exchange transactions. Compared with 2012, the increase in clearing and settlement fees was in line with the increase in ADT on the Stock Exchange.

### Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees, which mainly comprise scrip fees, corporate action fees, stock custody fees, dividend collection fees, and stock withdrawal fees, decreased primarily due to a drop in scrip fees.

### (E) Revenue from Platform and Infrastructure Segment

	2013 \$m	2012 \$m	Change
Network, terminal user, dataline and software sub-license fees	262	334	(22%)
Hosting Services fees	75	8	838%
Others	10	12	(17%)
Total	347	354	(2%)

The Platform and Infrastructure segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group.

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

Network, terminal user, dataline and software sub-license fees declined mainly due to lower sales of additional throttles and a decrease in Stock Exchange trading network line rental income following the migration of the Group's network services in Hong Kong to SDNet/2 in the second half of 2012. As a result of the migration, EPs can contract directly with accredited vendors for Stock Exchange trading network line rental services instead of HKEx. There was a corresponding drop in Stock Exchange trading network line rental costs consumed by Participants under IT and computer maintenance expenses in section (G).

### Hosting Services Fees

As Hosting Services were only launched in December 2012, the revenue increased significantly in 2013 due to a full year's income being earned.

### (F) Net Investment Income

	2013 \$m	2012 \$m	Change
Gross investment income	585	769	(24%)
Interest rebates to Participants	(4)	(3)	33%
Net investment income	581	766	(24%)

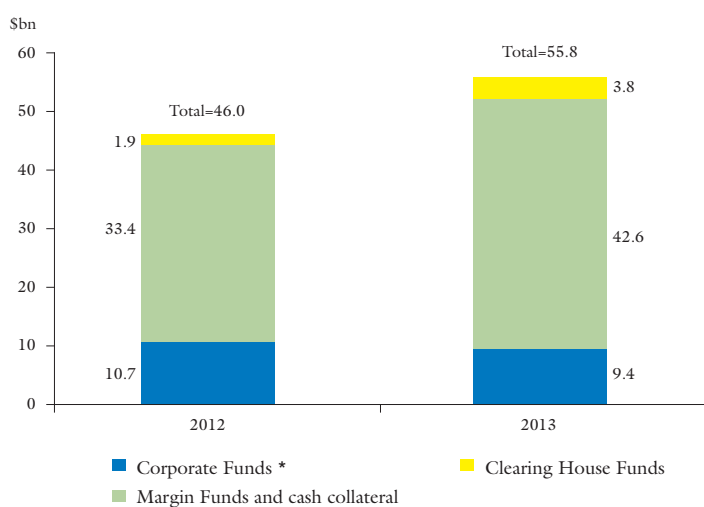
Net investment income was allocated to the following segments:

	2013 \$m	2012 \$m	Change
Clearing segment	393	453	(13%)
Corporate Items	188	313	(40%)
Net investment income	581	766	(24%)

Net investment income declined by 24 per cent due to lower fair value gains on investments, reflecting market movements. This was partly offset by a \$106 million fair value gain on LME's investment in LCH.Clearnet shares.

The average amount of funds available for investment was as follows:

#### Average Amount of Funds Available for Investment



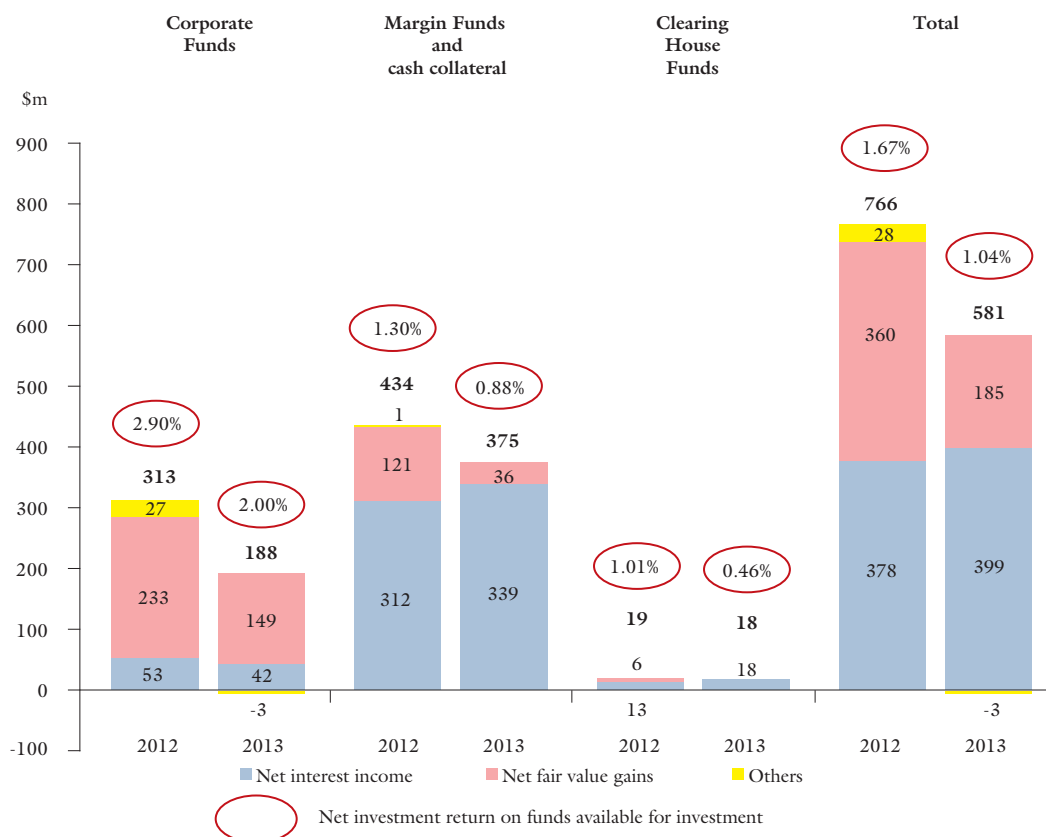
The increase in the average amount of funds available for investment was due to higher margin deposits from CPs arising from increases in margin rates and open interest as well as an increase in Clearing House Funds following the introduction of a dynamic guarantee fund for HKSCC.

The average balance of Corporate Funds has reduced as the acquisition of the LME Group in December 2012 was partly funded by Corporate Funds.

\* Corporate Funds include \$156 million (31 December 2012: \$Nil) which has been earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear since 31 October 2013.

The movements in net investment income by Funds were as follows:

### Net Investment Income by Funds



The lower net investment income and return on Corporate Funds in 2013 was attributable to lower fair value gains on equities and fixed income investments, the absence of gains on structured products following the winding down of those investments, and a drop in interest income from lower bank deposit rates and reduced fund size. This was partly offset by a fair value gain of \$106 million on LME's investment in LCH.Clearnet shares.

The lower net investment income on the Margin Funds and cash collateral in 2013 was mainly due to a decrease in net fair value gains on investments (including certain principal-guaranteed structured notes, all of which matured during 2012). Despite lower interest rates during the year, interest income was higher than 2012 due to an increase in funds available for investment.

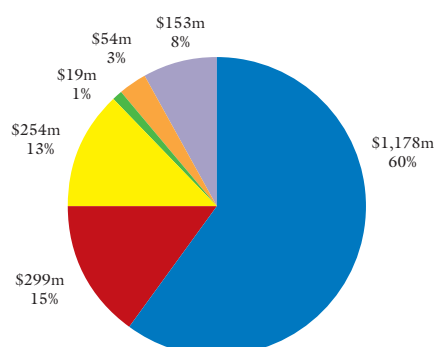
As the valuation of the investments reflects movements in their market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or mature.

Details of the investment portfolio are set out in the Treasury section under the Business Review.

## Expenses, Other Costs and Taxation

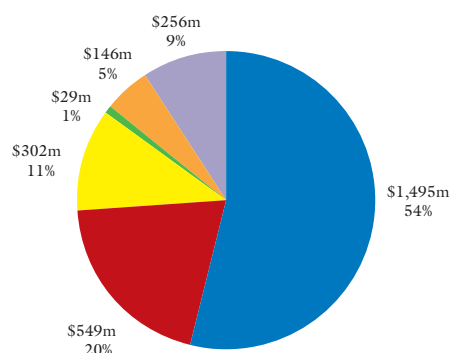
### (G) Operating Expenses

Analysis of 2012 Operating Expenses



Total operating expenses = \$1,957m  
(of which \$41m was related to the LME Group)

Analysis of 2013 Operating Expenses



Total operating expenses = \$2,777m  
(of which \$783m was related to the LME Group)

■ Staff costs and related expenses     
 ■ Premises expenses     
 ■ Legal and professional fees  
■ IT and computer maintenance expenses     
 ■ Product marketing and promotion expenses     
 ■ Other operating expenses

	2013 \$m	2012 \$m	Change
Staff costs and related expenses	1,495	1,178	27%
IT and computer maintenance expenses	549	299	84%
Premises expenses	302	254	19%
Product marketing and promotion expenses	29	19	53%
Legal and professional fees	146	54	170%
Other operating expenses	256	153	67%
<b>Total</b>	<b>2,777</b>	<b>1,957</b>	<b>42%</b>

Staff costs and related expenses increased by \$317 million to \$1,495 million, of which \$288 million (2012: \$4 million) was attributable to the LME business. The balance of the increase was due to payroll adjustments to keep up with the market trend.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by the Participants of \$75 million (2012: \$122 million), was \$474 million (2012: \$177 million), of which \$295 million (2012: \$23 million) was related to the LME business. The decrease in costs of services and goods directly consumed by the Participants was mainly due to lower Stock Exchange trading network line rental costs following the migration of the Group's network services in Hong Kong to SDNet/2 in the second half of 2012. Since the migration, EPs have been able to contract directly with accredited vendors for the Stock Exchange trading network line rental services instead of HKEx. There was a corresponding drop in Stock Exchange trading network line rental income under Revenue from Platform and Infrastructure segment in section (E).

Premises expenses rose by \$48 million to \$302 million, of which \$28 million (2012: \$2 million) was attributable to the LME business. The remainder of the increase reflects higher rent on the renewal of certain leases, the lease of additional office premises to accommodate increased headcount and higher utility costs of the Data Centre.

Legal and professional fees increased by \$92 million to \$146 million, of which \$93 million (2012: \$6 million) was incurred by the LME business for implementing strategic projects and seeking legal advice (\$15 million) in respect of US class action lawsuits alleging anti-competitive and monopolistic behaviour in the warehousing market in connection with aluminium prices and a judicial review filed in the UK relating to the introduction of changes in LME's warehousing policy.



Other operating expenses rose by \$103 million to \$256 million. The increase was mainly due to the inclusion of \$71 million of expenses incurred by the LME business in 2013 (2012: \$5 million), operating and maintenance costs of the Data Centre, where phase one of the construction was completed in September 2012 and the final phase was completed in December 2013, and higher bank facility fees. The higher bank facility fees related to an increase in the amount of committed facilities, from \$4,000 million to \$7,000 million in the fourth quarter of 2012 and to \$8,000 million since April 2013, to further enhance the Group's liquidity.

#### (H) Depreciation and Amortisation

	2013 \$m	2012 \$m	Change
Depreciation and amortisation	507	158	221%

Depreciation and amortisation increased by \$349 million to \$507 million mainly due to depreciation and amortisation of LME's fixed assets and IT systems of \$162 million (2012: \$11 million), amortisation of customer relationship intangibles arising from the acquisition of the LME Group of \$129 million (2012: \$11 million), and depreciation of the Data Centre, where phase one of the construction was completed in September 2012 and the final phase was completed in December 2013.

#### (I) Costs relating to Acquisition of LME Group

	2013 \$m	2012 \$m	Change
Costs relating to acquisition of LME Group	–	138	(100%)

In 2012, the Group incurred legal and professional fees of \$129 million and other costs of \$9 million for the acquisition of the LME Group. No such costs were incurred by the Group in 2013.

#### (J) Finance Costs

	2013 \$m	2012 \$m	Change
Finance costs	183	55	233%

The finance costs relate to the convertible bonds and bank borrowings used to fund part of the consideration for the acquisition of the LME Group, which were obtained by the Group in the fourth quarter of 2012. In December 2013, US\$100 million of fixed rate notes were issued to independent third parties with a maturity of 5 years. The proceeds were used to repay part of the bank borrowings.

#### (K) Fair Value Loss on Derivative Component of Convertible Bonds

	2013 \$m	2012 \$m	Change
Fair value loss on derivative component of convertible bonds	–	55	(100%)

The amount represents the fair value loss of the share conversion option element of the convertible bonds (CB) from the date of the issue (23 October 2012) up to 17 December 2012, the date when HKEx substituted in its place HKEx International Limited as the issuer and the principal obligor under the CB (the Substitution). After the Substitution, the share conversion option element of the CB was classified as equity and will not be revalued thereafter.

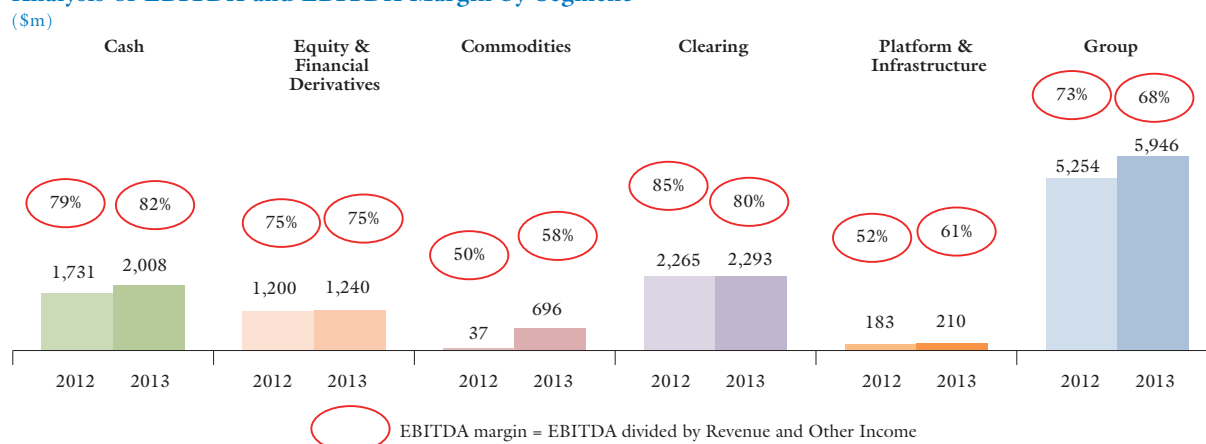
#### (L) Taxation

	2013 \$m	2012 \$m	Change
Taxation	700	761	(8%)

Taxation dropped due to a one-off deferred tax credit arising from a reduction of corporate tax rate in the UK, which was partially offset by a higher profit before taxation.

## Analysis of Results by Segment

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



\* Further details of the results by segment are set out in note 4 to the consolidated financial statements of this Annual Report.

EBITDA of the Cash segment increased by \$277 million, or 16 per cent, to \$2,008 million. This was mainly due to higher trading fees and trading tariff attributable to higher ADT of equity products on the Stock Exchange. This was, however, partly offset by fewer number of trading days in 2013 and more exempt ETF trades by market makers. Revenue of the Cash segment increased by 11 per cent while operating expenses decreased by 5 per cent due to lower IT operating costs. As a result, the EBITDA margin increased from 79 per cent to 82 per cent.

EBITDA of the Equity and Financial Derivatives segment increased by \$40 million to \$1,240 million. The increase in listing fees from more newly listed DWs and CBBCs was partly offset by the decrease in trading fees and trading tariff and the rise in operating expenses that included implementation costs for certain strategic projects. Although the average daily number of derivatives contracts traded increased by 9 per cent, trading fees and trading tariff dropped slightly due to a higher proportion of contracts traded on the Futures Exchange being lower fee products such as H-share Index futures and options and a decrease in ADT of DWs and CBBCs traded on the Stock Exchange. The EBITDA margin remained stable at 75 per cent as revenue and operating expenses increased by similar percentages.

The EBITDA of the Commodities segment of \$696 million was generated entirely from the LME business acquired on 6 December 2012. Compared with 2012, due to the full-year effect of including LME's fee income, trading fees from metals futures and options contracts traded increased significantly. The EBITDA margin increased from 50 per cent to 58 per cent as the percentage increase in revenue arising from higher trading volume exceeded the percentage increase in operating expenses.

EBITDA of the Clearing segment increased by \$28 million over 2012 to reach \$2,293 million. However, the overall EBITDA margin decreased from 85 per cent to 80 per cent. While clearing and settlement fees increased in line with market volumes this has been offset by declines in investment income and increases in operating expenses related to the development of 2 new clearing houses: OTC Clear and LME Clear.

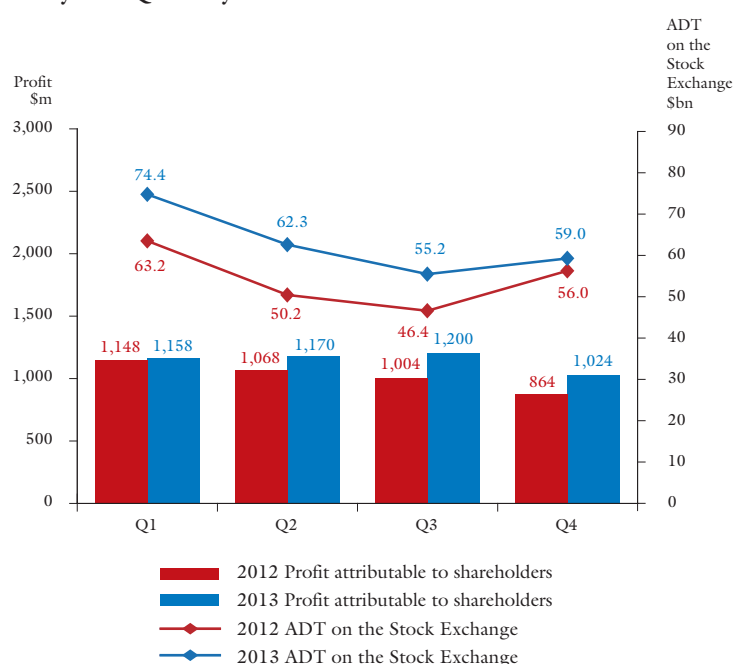
EBITDA of the Platform and Infrastructure segment increased by \$27 million to \$210 million mainly due to the contribution from the Hosting Services business. Following the migration of the Group's network services to SDNet/2 in the second half of 2012, there was a drop in Stock Exchange trading network line rental income, which was offset by a corresponding reduction in line rental costs. The EBITDA margin improved from 52 per cent to 61 per cent as the percentage drop in operating expenses exceeded that for revenue following the migration to SDNet/2.

## Analysis of Results by Quarter

### Quarterly Results

	Q1 2013 \$m	Q2 2013 \$m	Q3 2013 \$m	Q4 2013 \$m	Total 2013 \$m
Revenue and other income	2,222	2,218	2,134	2,149	8,723
Operating expenses	(669)	(672)	(677)	(759)	(2,777)
EBITDA	1,553	1,546	1,457	1,390	5,946
Depreciation and amortisation	(116)	(117)	(119)	(155)	(507)
Operating profit	1,437	1,429	1,338	1,235	5,439
Finance costs	(49)	(43)	(45)	(46)	(183)
Share of loss of a joint venture	(2)	(2)	(3)	(3)	(10)
Profit before taxation	1,386	1,384	1,290	1,186	5,246
Taxation	(228)	(214)	(90)	(168)	(700)
Profit for the year	1,158	1,170	1,200	1,018	4,546
Loss attributable to non-controlling interests	-	-	-	6	6
Profit attributable to shareholders	1,158	1,170	1,200	1,024	4,552
	Q1 2012 \$m	Q2 2012 \$m	Q3 2012 \$m	Q4 2012 \$m	Total 2012 \$m
Profit attributable to shareholders	1,148	1,068	1,004	864	4,084

### Analysis of Quarterly Results



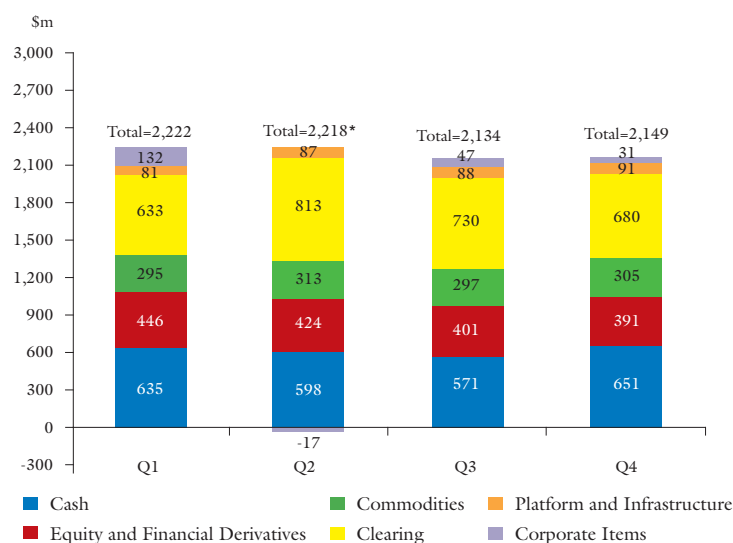
The positive investor confidence and market momentum in the first quarter of 2013 as a result of the quantitative easing policy of the US and bullish sentiment on China stocks with the new leadership changes were subsequently undermined by increasing concerns over the possible tapering of quantitative easing by the US Federal Reserve, which started in the second quarter and resulted in ADT remaining subdued for the rest of the year. The first quarter results also included a one-off fair value gain relating to the partial disposal of LME's investment in LCH.Clearnet shares.

Profit attributable to shareholders in the second quarter remained at similar level to the first quarter, despite lower ADT, due to the record high trading volume on LME, and a seasonal increase in scrip fees.

Profit attributable to shareholders in the third quarter was boosted by a one-off deferred tax credit arising from a reduction of the corporate tax rate in the UK.

Market sentiment improved in the fourth quarter due to optimism about the market reform measures to be announced by the PRC at the Third Plenum. Despite the higher ADT, profit attributable to shareholders in the fourth quarter decreased due to the drop in scrip fees resulting from seasonal fluctuations, an increase in depreciation and amortisation as certain new systems were rolled out during the quarter, and an increase in operating expenses, which is explained under Analysis of 2013 Operating Expenses by Quarter.

## Analysis of 2013 Segment Revenue and Other Income by Quarter



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

Revenue from the Clearing segment was the highest in the second quarter on account of higher scrip fee income due to seasonal factors.

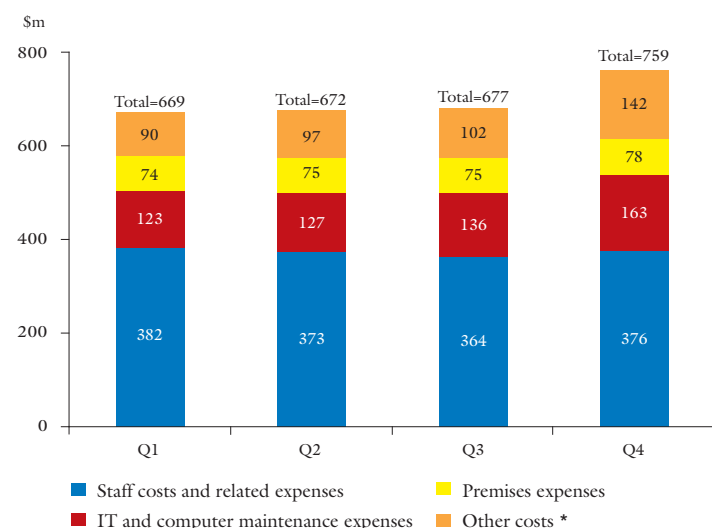
\* Including net loss of Corporate Items of \$17 million for the second quarter of 2013

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

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total 2013
ADT of equity products on the Stock Exchange (\$bn)	58.1	49.7	43.8	49.1	50.1
ADT of DWs, CBBCs and warrants on the Stock Exchange (\$bn)	16.3	12.6	11.4	9.9	12.5
ADT on the Stock Exchange (\$bn)	74.4	62.3	55.2	59.0	62.6
Average daily number of derivatives contracts traded on the Futures Exchange	274,571	307,496	286,136	266,531	283,610
Average daily number of stock options contracts traded on the Stock Exchange	278,115	256,162	217,169	247,867	249,295
Average daily number of metals contracts traded on LME (lots)	666,914	732,811	642,790	664,615	676,283
Number of newly listed DWs	1,880	1,684	1,654	2,046	7,264
Number of newly listed CBBCs	1,922	2,415	2,455	2,156	8,948
Number of newly listed companies on Main Board *	10	7	17	53	87
Number of newly listed companies on GEM	1	5	5	12	23

\* Including 8 transfers from GEM

## Analysis of 2013 Operating Expenses by Quarter



IT and computer maintenance expenses increased in the fourth quarter due to the implementation of new strategic projects by LME and the maintenance expenses of new systems launched during the fourth quarter.

Other costs increased in the fourth quarter mainly attributable to the increase in maintenance costs of the Data Centre at Tseung Kwan O (following the expiry of the warranty period of its fixed assets), increases in legal and professional fees (in connection with the litigation in the US and the UK and various strategic projects), and increases in overseas travelling and marketing expenses.

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

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

### (A) Fixed Assets, Intangible Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets increased to \$20,433 million at 31 December 2013 from \$19,858 million at 31 December 2012 due to additions of \$730 million and exchange gains of \$352 million, which were partly offset by depreciation and amortisation of \$507 million. The additions were mainly related to the Data Centre at Tseung Kwan O, development of a commodities clearing system and a new market data system and the upgrade and enhancement of various IT systems.

The Group's capital expenditure commitments at 31 December 2013, including those authorised by the Board but not yet contracted for, amounted to \$878 million (31 December 2012: \$832 million) and were mainly related to the development and upgrade of IT systems including a new market data system, clearing systems for OTC derivatives and commodities and a Central Gateway for the Cash Market. The Group has adequate resources to fund its capital expenditure commitments.

### (B) Financial Assets and Financial Liabilities by Funds

	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m	Change
<b>Financial assets</b>			
Cash and cash equivalents	41,452	34,077	22%
Financial assets measured at fair value through profit or loss	3,902	4,492	(13%)
Financial assets measured at amortised cost	9,046	8,573	6%
<b>Total</b>	<b>54,400</b>	<b>47,142</b>	<b>15%</b>

The Group's financial assets at 31 December 2013 comprised financial assets of the Corporate Funds, Margin Funds and cash collateral, and Clearing House Funds. The amounts attributable to the respective funds were as follows:

	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m	Change
Corporate Funds <sup>^</sup>	10,142	7,817	30%
Margin Funds and cash collateral *	39,787	36,783	8%
Clearing House Funds	4,471	2,542	76%
<b>Total</b>	<b>54,400</b>	<b>47,142</b>	<b>15%</b>

<sup>^</sup> Corporate Funds include \$156 million (31 December 2012: \$Nil) which has been earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear

\* Excluding margin receivable from CPs

	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m	Change
<b>Financial liabilities</b>			
Margin deposits and cash collateral from CPs	39,793	36,786	8%
Participants' contributions to Clearing House Funds	3,884	1,924	102%
<b>Total</b>	<b>43,677</b>	<b>38,710</b>	<b>13%</b>

Financial assets of Corporate Funds at 31 December 2013 increased as compared to those at 31 December 2012 since profit for 2013 was \$2,232 million higher than the dividends paid during the year which were based on 90 per cent of the profits of the second half of 2012 and first half of 2013, of which 38 per cent opted for scrip dividends.

The increase in financial assets of Margin Funds and cash collateral and the increased margin deposits and cash collateral from CPs at 31 December 2013 against those at 31 December 2012 were mainly due to an increase in open interest in futures and options contracts and higher margin required per contract at the year end.

The increase in financial assets of Clearing House Funds and the increased Participants' contributions to Clearing House Funds at 31 December 2013 against those at 31 December 2012 were mainly due to the introduction of a dynamic guarantee fund for HKSCC.

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

During the year, OTC Clear, a wholly-owned subsidiary, 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's interest in OTC Clear was reduced to 75 per cent and 25 per cent interest is held by external shareholders. The external shareholders do not have any voting rights, but they are given put options to redeem their shares any time after 5 years at cost less any dividends received if they can demonstrate that they have used reasonable endeavours for at least 3 months but could not find a suitable purchaser for their shares at a price equal to or more than their fair market value.

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

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

	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m	Change
CNS money obligations receivable	9,867	12,733	(23%)
Other receivables from Participants	609	591	3%
Other accounts receivable, prepayments and deposits	628	531	18%
Less: provision for impairment losses of receivables	(158)	(159)	(1%)
<b>Total accounts receivable, prepayments and deposits</b>	<b>10,946</b>	<b>13,696</b>	<b>(20%)</b>
CNS money obligations payable	9,867	12,733	(23%)
Other payables to Participants	1,644	1,317	25%
Stamp duty payable to the Collector of Stamp Revenue	231	255	(9%)
Other accounts payable, accruals and other liabilities	1,092	1,533	(29%)
<b>Total accounts payable, accruals and other liabilities</b>	<b>12,834</b>	<b>15,838</b>	<b>(19%)</b>

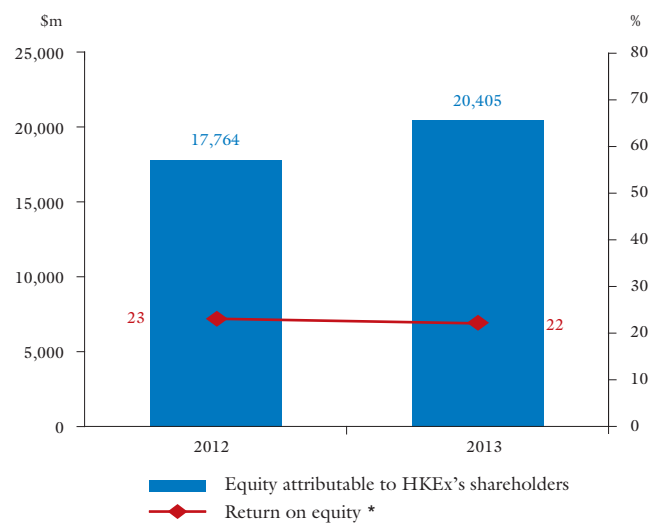
The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities mainly comprised CNS money obligations receivable and payable and other receivables from and payables to EPs and CPs.

The decrease in CNS money obligations receivable and payable was mainly due to higher netting effect of trades transacted by the same Participants.

### (E) Equity attributable to HKEx's shareholders and Return on Equity

Equity attributable to HKEx's shareholders increased to \$20,405 million at 31 December 2013 from \$17,764 million at 31 December 2012 mainly due to \$1,433 million of shares issued in lieu of cash dividends, the increase of exchange reserve of \$379 million, and a \$918 million increase in retained earnings (before transfer to designated reserves which also form part of shareholders' equity).

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



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

Return on equity dropped slightly as the percentage increase in equity attributable to HKEx's shareholders is higher than the percentage increase in profit attributable to shareholders.

## Liquidity, Financial Resources and Gearing

Working capital rose by \$2,368 million to \$7,608 million at 31 December 2013 (31 December 2012: \$5,240 million). The increase was mainly due to profit attributable to shareholders of \$4,552 million, which was partly offset by the 2012 final dividend and 2013 interim dividend, net of scrip dividend of \$2,339 million.

At 31 December 2013, the Group had floating rate borrowings of \$2,326 million from a bank (31 December 2012: \$3,100 million) that mature within 9 years (31 December 2012: 10 years), \$770 million of fixed rate notes issued (31 December 2012: \$Nil) with an annual coupon of 2.7 per cent that mature in 2018, and \$3,607 million from convertible bonds issued (31 December 2012: \$3,515 million) with an annual coupon of 0.5 per cent that mature in 2017, which were denominated in USD and used to fund part of the consideration for the acquisition of LME Group. In addition, the Group also had a financial liability in relation to put options granted to the non-controlling interests of \$218 million (31 December 2012: \$Nil).

At 31 December 2013, the Group had a gearing ratio (ie, net debt divided by adjusted capital) of 2 per cent (31 December 2012: 15 per cent). For this purpose, net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds, and adjusted capital as all components of equity attributable to HKEx's shareholders other than designated reserves.

Banking facilities have been put in place for contingency purposes. In 2013, the Group secured additional committed facilities, bringing the total committed banking facilities for its daily operations at 31 December 2013 to \$8,000 million (31 December 2012: \$7,000 million). The repurchase facilities were reduced to \$7,000 million (31 December 2012: \$9,000 million) as they were in excess of the Group's total bond investments eligible for repurchase transactions and could not therefore be fully utilised. As a result, the Group's total available banking facilities for its daily operations at 31 December 2013 amounted to \$15,012 million (31 December 2012: \$16,010 million).

The Group also put in place foreign exchange facilities for the RMB Equity Trading Support Facility that was established to support the trading of shares in RMB. At 31 December 2013, the total amount of the facilities was RMB17,000 million (31 December 2012: RMB 17,000 million).

At 31 December 2013, 94 per cent (31 December 2012: 92 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within 3 months of maturity when acquired) were denominated in HKD or USD, whereas 2 per cent (31 December 2012: 1 per cent) were denominated in GBP and held by the LME Group.

### **Charges on Assets**

None of the Group's assets was pledged at 31 December 2013 or 31 December 2012.

### **Exposure to Fluctuations in Exchange Rates and Related Hedges**

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 52(a)(i) – Foreign exchange risk management to the Consolidated Financial Statements of this Annual Report.

### **Contingent Liabilities**

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



# 10-YEAR FINANCIAL STATISTICS

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>KEY MARKET STATISTICS</b>										
Average daily turnover value on the Stock Exchange (\$bn)	62.6	53.9	69.7	69.1	62.3	72.1	88.1	33.9	18.3	16.0
Average daily number of derivatives contracts traded on the Futures Exchange	283,610	259,556	269,525	221,487	206,458	207,052	171,440	100,318	68,157	56,752
Average daily number of stock options contracts traded on the Stock Exchange	249,295	228,438	302,750	246,474	191,676	225,074	187,686	73,390	35,385	22,720
Average daily volume of metals contracts traded on LME* (lots)	676,283	633,809	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

## RESULTS

(\$m)

Revenue and other income	8,723	7,211	7,855	7,566	7,035	7,549	8,390	4,147	2,694	2,394
Operating expenses	(2,777)	(1,957)	(1,733)	(1,505)	(1,392)	(1,511)	(1,333)	(1,111)	(994)	(973)
EBITDA	5,946	5,254	6,122	6,061	5,643	6,038	7,057	3,036	1,700	1,421
Depreciation and amortisation	(507)	(158)	(90)	(107)	(101)	(110)	(79)	(100)	(151)	(183)
Costs relating to acquisition of LME Group	-	(138)	-	-	-	-	-	-	-	-
Finance costs	(183)	(55)	-	-	-	-	-	-	-	-
Fair value loss on derivative component of convertible bonds	-	(55)	-	-	-	-	-	-	-	-
Gain on disposal of an associate	-	-	-	-	-	-	206	-	-	-
Share of profits less losses of associates/joint venture	(10)	(3)	-	-	-	-	6	27	18	13
Profit before taxation	5,246	4,845	6,032	5,954	5,542	5,928	7,190	2,963	1,567	1,251
Taxation	(700)	(761)	(939)	(917)	(838)	(799)	(1,021)	(445)	(227)	(194)
Profit for the year	4,546	4,084	5,093	5,037	4,704	5,129	6,169	2,518	1,340	1,057
Loss attributable to non-controlling interests	6	-	-	-	-	-	-	-	-	-
Profit attributable to shareholders	4,552	4,084	5,093	5,037	4,704	5,129	6,169	2,518	1,340	1,057
Dividend per share (\$)	3.54	3.31	4.25	4.20	3.93	4.29	5.19	2.13	1.13	0.90
Basic earnings per share (\$)	3.95	3.75	4.71	4.66	4.36	4.76	5.76	2.36	1.26	1.00

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$m)

Non-current assets	20,797	20,260	1,580	2,350	2,637	425	884	454	1,710	2,839
Current assets	65,146	60,577	52,448	45,534	42,695	62,397	87,070	40,207	21,236	18,629
Current liabilities	(57,538)	(55,337)	(44,809)	(39,160)	(36,985)	(55,220)	(79,273)	(35,134)	(18,336)	(17,168)
Net current assets	7,608	5,240	7,639	6,374	5,710	7,177	7,797	5,073	2,900	1,461
Total assets less current liabilities	28,405	25,500	9,219	8,724	8,347	7,602	8,681	5,527	4,610	4,300
Non-current liabilities	(7,887)	(7,736)	(60)	(47)	(320)	(308)	(305)	(270)	(273)	(269)
Total equity	20,518	17,764	9,159	8,677	8,027	7,294	8,376	5,257	4,337	4,031
Non-controlling interests	(113)	-	-	-	-	-	-	-	-	-
Equity attributable to shareholders of HKEx	20,405	17,764	9,159	8,677	8,027	7,294	8,376	5,257	4,337	4,031
Net assets per share <sup>1</sup> (\$)	17.59	15.48	8.50	8.06	7.46	6.79	7.83	4.94	4.08	3.81

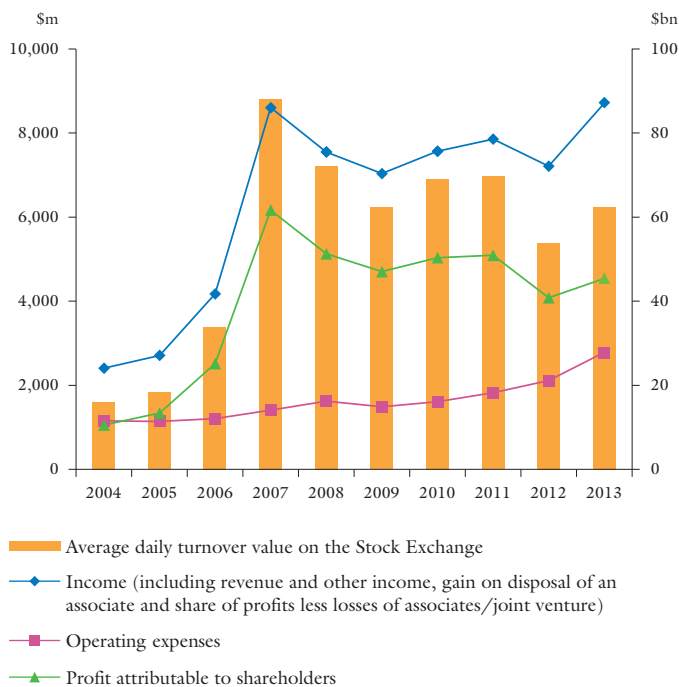
## FINANCIAL RATIOS

Dividend payout ratio	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio <sup>2</sup>	32%	27%	22%	20%	20%	20%	15%	27%	37%	40%
Pre-tax profit margin <sup>2</sup>	60%	67%	77%	79%	79%	79%	84%	71%	58%	52%
Return on equity <sup>3</sup>	22%	23%	56%	58%	59%	70%	74%	48%	31%	26%
Current ratio	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.2	1.1

Notes:

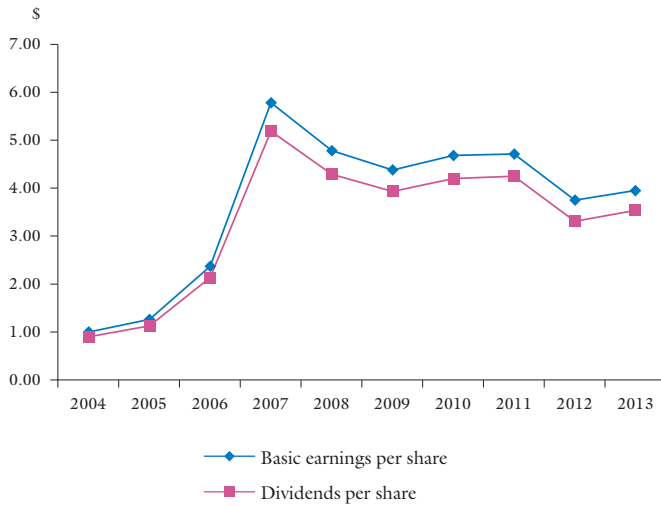
- 1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
- 2 For the purpose of computing cost (i.e. operating expenses) to income ratio and pre-tax profit margin, income includes gain on disposal of an associate and share of profits less losses of associates/joint venture.
- 3 Based on equity attributable to shareholders of HKEx at 31 December

Income, Operating Expenses and Profit



Following the end of the Severe Acute Respiratory Syndrome threat in 2003, activity on the Stock Exchange and the Futures Exchange continued to gather momentum from 2004, in particular in 2006 when shares from various large IPOs were listed. Market sentiment was further boosted in 2007 by the strengthening Mainland economy, the relaxation of rules governing permissible investments under the Mainland’s Qualified Domestic Institutional Investor scheme, and the Mainland’s proposed Pilot Programme for Direct Foreign Portfolio Investments by Domestic Individuals, which culminated in record high turnover on the Stock Exchange and Futures Exchange. In 2008 and 2009, the activity in the Stock Exchange dropped as market sentiment was stricken by the global economic downturn and stock prices tumbled following the financial tsunami which started in the fourth quarter of 2008. Investor sentiment began to recover in 2010 and considerable growth in market turnover was recorded in the fourth quarter due to ample liquidity and continuing economic growth on the mainland of China and in other parts of Asia. Due to worries over the Eurozone sovereign debt crisis and economic uncertainty in the second half of 2011, market activities slowed down particularly in the fourth quarter. Market sentiment remained subdued in 2012 until the fourth quarter with further quantitative easing (QE) in the US and an influx of funds into Hong Kong. In 2013, market sentiment was generally boosted by the positive investor confidence and market momentum brought by the continuing QE policy of the US and bullish sentiment on China stocks with the new leadership changes in the first quarter. Income of the Group increased mainly due to income generated by the LME Group, which was acquired in December 2012. Operating expenses have increased steadily, in particular in recent years, due to the implementation of various strategic initiatives but have been moderated by stringent cost controls on normal operations. Operating expenses in 2013 increased considerably due to the inclusion of a full year’s expenses of the LME Group. Profit attributable to shareholders was predominately affected by the level of income.

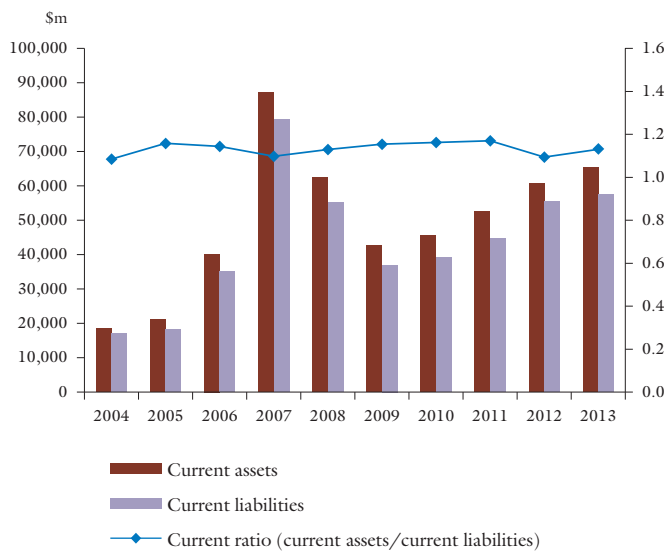
**Basic Earnings and Dividends per Share**



As there were no significant changes in the issued share capital until December 2012, earnings per share followed the same trend as profit attributable to shareholders. In 2013, the percentage increase in earnings per share was lower than the percentage increase in profit attributable to shareholders as a result of the share placement in December 2012 for funding the acquisition of the LME Group.

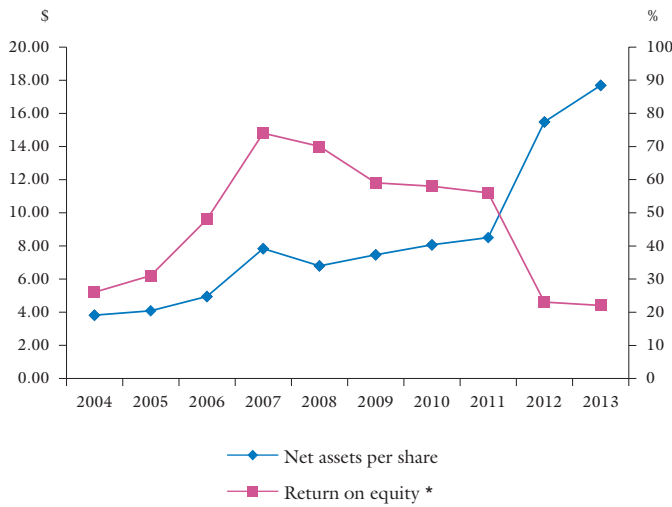
Dividends per share moved in line with earnings per share as the Board has adopted a policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent.

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



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

Net Assets per Share and Return on Equity



\* Based on equity attributable to shareholders of HKEx at year-end

Net assets per share had been increasing steadily as a result of increasing profits up to 2007. Net assets per share dropped in 2008 as total dividends paid (which were based on the higher profit in the second half of 2007 and the first half of 2008) were higher than the profit for the year. Net assets per share have been rising again since 2009 as the total dividends paid during 2009 to 2011 were lower than the profit for the corresponding years. Net assets per share increased significantly in 2012 mainly due to a \$7,708 million share placement (at \$118 per share) in December 2012. Net assets per share continued to increase in 2013 as the total dividends paid were less than the higher profit for the year.

Return on equity generally moved in line with profit attributable to shareholders. The decline in 2008 and 2009 was due to a drop in profit caused by the financial tsunami. In 2010 and 2011, return on equity declined mainly attributable to the increase in equity due to profits retained. In 2012, return on equity fell significantly mainly due to the lower profit for the year and the share placement in December 2012. Return on equity dropped slightly in 2013 as the percentage increase in equity due to more shareholders electing scrips for dividends is higher than the percentage increase in profit attributable to shareholders.

# CORPORATE GOVERNANCE REPORT

Given its dual roles as a controller of exchanges and clearing houses and a listed company, HKEx has always placed great importance on ensuring high governance standards with a view to delivering sustainable returns to Shareholders and fulfilling its obligations towards stakeholders. As the Group moves forward with the expansion of its business into new markets and geographies, it is more vital than ever that effective governance is in place at all levels throughout the organisation in light of the evolving economic environment, and the new and changing regulatory landscape.

In 2013, HKEx devoted considerable attention to strengthening governance structure and promoting best practices at the subsidiary level whilst continuing to implement enhancements to its own governance processes. The reports set out on the right explain how the principles of the Corporate Governance Code were put into practice and highlight areas of focus during the year under review and up to the date of this report. Further details of HKEx's corporate governance structure and practices are set out under the About HKEx (Corporate Governance) section of the HKEx website.

## Governance Practices in 2013

- Corporate Governance Report (pages 83 to 103)
- Audit Committee Report (pages 104 to 105)
- Environmental, Social and Governance Committee Report (page 115)
- Remuneration Committee Report (pages 106 to 114)
- 2013 Corporate Social Responsibility Report

## Compliance with Corporate Governance Code

Throughout the year ended 31 December 2013, HKEx complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exceptions of Code Provisions A.4.1 and A.4.2 as addressed below.

### Code Provision A.4.1 (Re-election of non-executive directors)

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by Section 77 of the SFO. They are normally appointed for a term of approximately 2 years and on expiration of their terms, they shall retire and be eligible for re-appointment pursuant to Article 90(5) of HKEx's Articles.

### Code Provision A.4.2 (Retirement by rotation of directors)

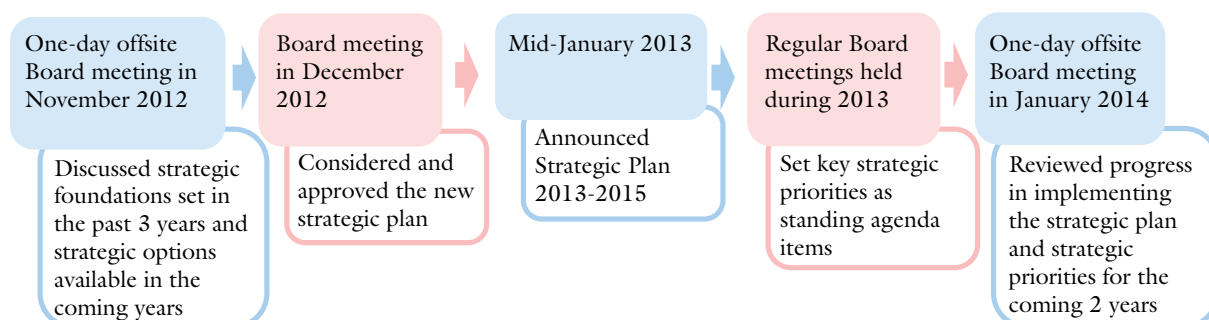
- The term of office of HKEx's Chief Executive in his capacity as a Director is, pursuant to Article 90(4) of HKEx's Articles, coterminous with his employment with HKEx, and he is not subject to retirement by rotation.
- HKEx's Chief Executive is appointed under an employment contract for a fixed term, normally not more than 3 years, with no automatic renewal provision, and shall be eligible for re-appointment. Pursuant to Articles 111(1) and (3) of HKEx's Articles, his appointment has to be approved by the Board and is subject to the SFC's approval under Section 70 of the SFO.

Details of HKEx's compliance with the Corporate Governance Code are set out under the About HKEx (Corporate Governance) section of the HKEx website.

## Strategic Planning

Rigorous strategic planning is a key and ongoing process in identifying and assessing the opportunities and challenges the Group might face, and developing a planned course of action for the Group to generate and preserve long-term value.

### Development and Implementation of Strategic Plan 2013-2015



The year 2013 was the first year of implementation of the Group’s Strategic Plan 2013-2015, details of which are available under the About HKEx (Corporate Information) section of the HKEx website. While this new, 3-year strategic plan carries many of the strategic themes from the previous strategic plan, new activities and enhancements have been identified and added in order to pursue the Group’s mission and goals.

**Work Done in 2013 under Strategic Plan 2013-2015**

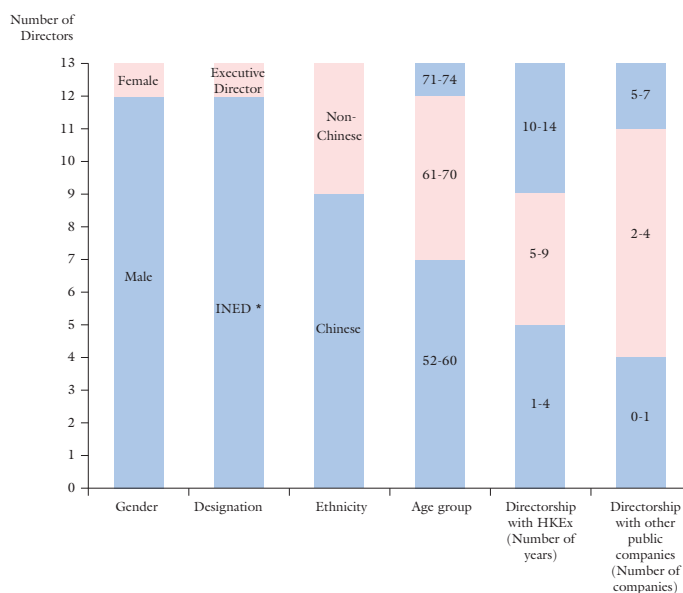
- Chief Executive’s Review (pages 8 to 13)
- Business Review (pages 31 to 59)
- Financial Review (pages 60 to 78)

**The Board**

**Board Composition**

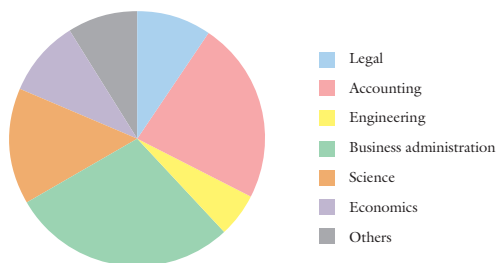
The Board structure is governed by Article 90 of HKEx’s Articles and Section 77 of the SFO. There are currently 13 Directors, all with professional backgrounds and/or extensive expertise for the direction and oversight of the Group’s strategic priorities and public responsibilities. In April 2013, HKEx was pleased to welcome Mrs Margaret Leung to the Board. She adds diversity to the Board and has a wealth of financial services and risk management experience.

The composition, experience and balance of skills on the Board are regularly reviewed to ensure that the Board retains a core of members with longstanding and deep knowledge of the Group alongside new Directors who bring fresh perspectives and diverse experiences to the Board. The process for the nomination of Directors is led by the Nomination Committee and is set out on page 91 of this report.

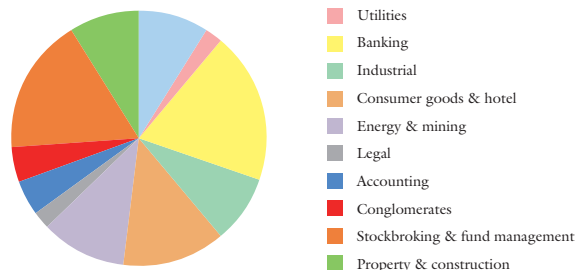


\* 6 Government Appointed Directors and 6 Elected Directors

**Academic Background**



**Business Experience**



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

## Appointment and Election of Directors

### Changes in Directors during 2013

- In April 2013, the Government announced the appointment of Mrs Margaret Leung and the re-appointment of Messrs John Harrison, Stephen Hui and Michael Lee as Directors each for a term of approximately 2 years from the close of the 2013 AGM until the conclusion of the AGM to be held in 2015.
- At the 2013 AGM, Messrs John Strickland and Oscar Wong were re-elected as Directors by Shareholders, each for a term of approximately 3 years from 24 April 2013 until the conclusion of the AGM to be held in 2016.
- Mr Ronald Arculli retired from the Board after the conclusion of the 2013 AGM.

The service terms of 2 Government Appointed Directors, namely Messrs C K Chow and Tim Freshwater, and 2 Elected Directors, namely Dr Bill Kwok and Mr Vincent Lee, will expire at the conclusion of the 2014 AGM. Pursuant to Articles 90(5) and 93(5) of HKEx's Articles, they are all eligible for re-appointment. Regarding the nomination of candidates as Elected Directors, details are set out on page 91 of this report. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as practicable.

### Chairman and Chief Executive

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

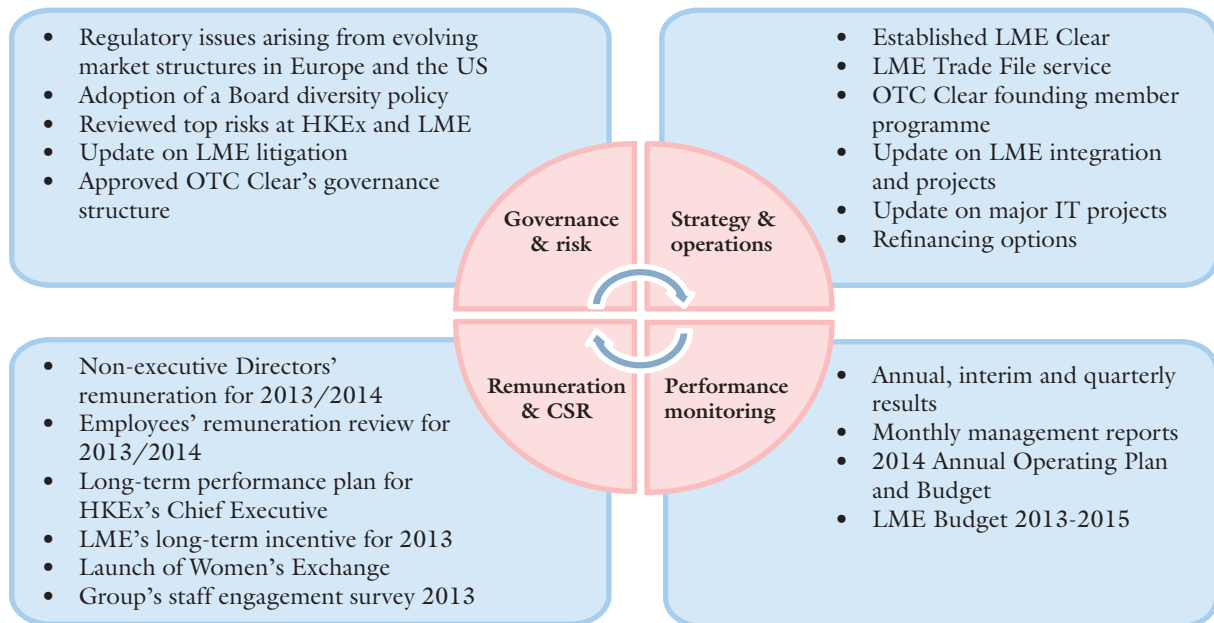


### Roles and Responsibilities

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

The Board has a formal schedule of matters reserved for its own decisions, as defined in its terms of reference, which are available under the About HKEx (Organisation) section of the HKEx website.

### Key Matters Addressed by the Board during 2013



### Independence of Non-executive Directors

HKEx has been steered by a Board with a majority of INEDs since its listing, with HKEx's Chief Executive being the only Executive Director on the Board. To ensure that the Board has a strong independent element to provide objective and constructive challenge to the viewpoints presented by management, assessments of Non-executive Directors' independence are carried out upon appointment, annually and at any other time where the circumstances warrant reconsideration.

#### Assessments of Non-executive Directors' Independence for 2013

Assessment upon Director's appointment
<p>Mrs Margaret Leung, the Non-executive Director newly appointed in April 2013, confirmed in writing to the SFC upon her appointment –</p> <ul style="list-style-type: none"> <li>her independence having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules; and</li> <li>she has no past or present financial or other interest in the Group's business and no connection with any of HKEx's connected persons (as defined in the Main Board Listing Rules).</li> </ul>
Annual assessment
<p>On 21 February 2014, the Nomination Committee held a meeting to assess the annual confirmation of independence received from each of the INEDs having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules.</p> <ul style="list-style-type: none"> <li>As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence.</li> <li>Particular review was applied in assessing the independence of Mr C K Chow since he is a Government Appointed Director and an Executive Councillor whilst the Government is a Minority Controller of HKEx.</li> <li>Consideration was given to the independence of Dr Bill Kwok and Messrs Vincent Lee and John Strickland, who have served on the Board for more than 13 years, and the independence of Mr Oscar Wong, who has served for more than 10 years.</li> <li>The Nomination Committee affirmed that all INEDs continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.</li> </ul>
Ongoing assessment
<ul style="list-style-type: none"> <li>Each INED is required to inform HKEx as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2013.</li> <li>None of the Directors have any financial, business, family or other material/relevant relationships with each other. In particular, there are none of the above relationships between HKEx's Chairman and Chief Executive.</li> <li>Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections on pages 95 to 96 of this report.</li> </ul>



## Induction and Development

The Company provides an induction programme for newly appointed Directors to further their knowledge and understanding of the Group's operations as well as their associated role and responsibilities. An induction programme was held for Mrs Margaret Leung who joined the Board in April 2013.

### Induction Programme in 2013

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

Every Board member receives a copy of the Director's Handbook upon joining the Board, which contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct and information on other key governance issues. The Director's Handbook is reviewed and updated regularly, and is available under the About HKEx (Corporate Governance) section of the HKEx website.

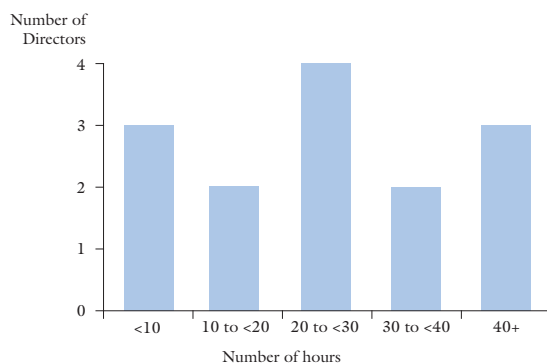
Development and training of Directors is an ongoing process to ensure the continued enhancement of their skills and knowledge. In-house training is arranged as necessary so that Directors can perform their roles and duties at the Group. The Company Secretary regularly circulates details of training courses (including those on economic, environmental and social topics) which may be of interest to Directors. All Directors are encouraged to attend relevant training courses provided by external bodies at the Company's expense. In 2013, Directors visited LME and the LME warehouses in Malaysia and Singapore, with a view to increasing their knowledge of the LME's operations.

### Topics of Internal Training for Directors in 2013

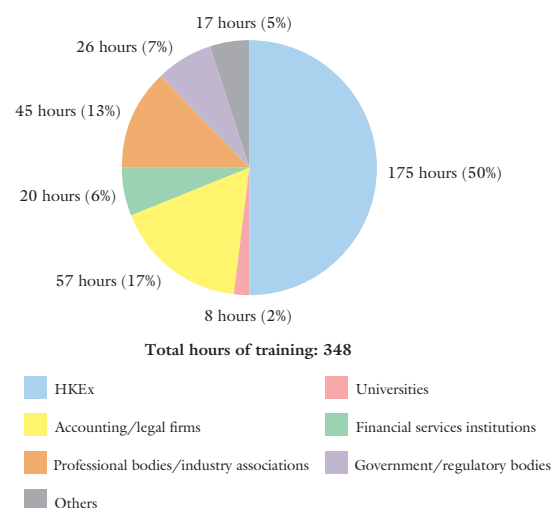
- LME and its warehousing arrangements
- Regulatory changes affecting LME
- LME Clear
- New Companies Ordinance
- Electronic platform for Board papers

All Directors are required to provide the Company with their training records on a quarterly basis, and such records are maintained by the Company Secretary for regular review by the ESG Committee. Save for Mr Ronald Arculli, who attended about 2 hours of training during his service term up to 24 April 2013, each Director received at least 8 hours of training in 2013. The training records of the Directors were reviewed by the ESG Committee in January 2014.

### Training for Directors in 2013 \*



### Analysis of Directors' Training in 2013 by Training Organiser \*



\* Including Mr Ronald Arculli who retired from the Board on 24 April 2013

## Analysis of Directors' Training in 2013 by Training Topic

	HKEx's strategy/ business	Director's duties/ governance practices	Economy/ financial markets and products	Induction programme	Risk management	Legislative/ regulatory compliance	Electronic platform for Board papers	Others
C K Chow (Chairman)	✓					✓	✓	
Ronald Arculli							✓	
T C Chan	✓	✓			✓	✓	✓	✓
Timothy Freshwater	✓					✓	✓	
John Harrison	✓	✓	✓			✓	✓	✓
Stephen Hui	✓	✓				✓	✓	
Bill Kwok	✓	✓	✓			✓	✓	
Michael Lee	✓	✓	✓		✓	✓	✓	✓
Vincent Lee	✓	✓	✓			✓	✓	
Margaret Leung	✓	✓	✓	✓		✓	✓	
Charles Li	✓	✓	✓				✓	✓
John Strickland	✓	✓	✓			✓	✓	✓
John Williamson	✓	✓				✓	✓	
Oscar Wong	✓	✓				✓	✓	
<b>Total Number of Hours Attended by all Directors</b>	<b>124</b>	<b>76</b>	<b>53</b>	<b>12</b>	<b>6</b>	<b>29</b>	<b>21</b>	<b>27</b>

## Board Process

Directors are expected to devote sufficient time and attention to performing their duties and responsibilities towards the Group. The high attendance record at the Board and its committee meetings in 2013, which was reviewed by the Nomination Committee in February 2014, demonstrates Directors' strong commitment to the Company.

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning and processes. Given that there were no significant changes in the composition of the Board and its committees in 2013, the Board considered that it would be more appropriate to conduct a Board evaluation in 2014.

## Key Features of Board Process in 2013

- A total of 9 Board meetings were held, all of which were scheduled well before the start of the year. The Board had a standing agenda of items to ensure that matters relating to strategy, finance, major projects, governance, risk management and compliance were covered in its meetings at appropriate intervals during the year.
- To gain further insights into the LME's operations, 1 Board meeting was held in London in October 2013.
- To supplement the formal Board meetings, HKEx's Chairman had regular gatherings with Directors, and occasionally without the presence of HKEx's Chief Executive, to consider issues in an informal setting.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense. No such advice was sought during 2013.
- Directors' and Officers' liability insurance has been arranged. The terms and extent of the cover for 2013/2014 was reviewed and renewed.
- The Company has put in place procedures to deal with Directors' conflicts of interest which are set out in the Director's Handbook. To safeguard their independence, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from meeting/voting. In 2013, Mr Tim Freshwater recused himself from discussions on an item of business where there was a potential conflict of interest.
- An Escalation and Incident Reporting Policy and guidelines on reporting and disseminating inside information are in place to ensure that critical concerns for the Group's operations and performance are communicated and addressed by the Board in a timely manner.
- As part of the Company's commitment to best practices, all Directors were provided with a tablet computer to gain access to papers of the Board and its committees (save for the Risk Management Committee) through an electronic platform. A reading room was added to the platform to provide Directors with electronic access to a library of information relevant to their duties. The electronic platform ensures fast, timely and secure provision of information to Directors whilst at the same time reducing the environmental impact of Board and committee meetings.

## Attendance Record of Directors and Committee Members in 2013

	2013		Environmental, Social and Governance Committee		Investment Advisory Committee		Panel Member Nomination Committee		Remuneration Committee		Risk Management Committee
	AGM	Board	Audit Committee	Executive Committee	Nomination Committee	Nomination Committee	Remuneration Committee	Management Committee			
Number of Meetings	1	9	5	1	5	4	1	1	9	12	
Total Duration (approximate number of hours)	1	27	9	1	2	5	1	1	10	8	
<b>INEDs</b>											
C K Chow (Chairman)	1/1	9/9		1/1	5/5		1/1		9/9	12/12	
Ronald Arculli <sup>1</sup>	1/1	2/2		1/1					1/2		
T C Chan <sup>2</sup>	1/1	9/9	5/5				1/1	1/1		6/8	
Timothy Freshwater <sup>3</sup>	1/1	9/9			2/3		1/1		3/3		
John Harrison <sup>4</sup>	1/1	9/9	5/5	1/1					2/3		
Stephen Hui <sup>5</sup>	1/1	9/9		-		3/4					
Bill Kwok <sup>6</sup>	1/1	9/9	5/5		5/5			1/1	6/6	4/4	
Michael Lee <sup>7</sup>	1/1	8/9	-	1/1		4/4		1/1		4/4	
Vincent Lee <sup>8</sup>	1/1	9/9	4/5		5/5			1/1	6/6		
Margaret Leung <sup>9</sup>		7/7							7/7	7/8	
John Strickland <sup>10</sup>	1/1	9/9				4/4	1/1				
John Williamson <sup>11</sup>	1/1	9/9	5/5		2/2		-		8/9		
Oscar Wong	1/1	9/9				4/4	1/1	1/1			
<b>Executive Director</b>											
Charles Li	1/1	9/9		1/1	4/5						
<b>Market Professionals</b>											
Chan Ngai Hang										8/12	
He Guangbei <sup>12</sup>										10/12	
Edmond Lau <sup>13</sup>										4/4	
Howard Lee <sup>14</sup>										8/8	
Michael Liu										8/12	
Keith Lui <sup>15</sup>										12/12	
David Lui						3/4					
Average Attendance Rate	100%	99%	96%	100%	92%	90%	100%	100%	93%	86% <sup>16</sup>	

## Notes:

- Mr Arculli retired from the Board and its committees on 24 April 2013.
- Mr Chan was appointed as a member of the Risk Management Committee effective 8 May 2013.
- Mr Freshwater was appointed as a member of the Executive Committee and ceased to be a member of the Remuneration Committee effective 8 May 2013.
- Mr Harrison ceased to be a member of the Remuneration Committee effective 8 May 2013.
- Mr Hui was appointed as a member of the ESG Committee effective 25 April 2013. No meeting of the ESG Committee took place during the period between 25 April and 31 December 2013.
- Dr Kwok ceased to be a member of the Risk Management Committee effective 25 April 2013, and was appointed as a member of the Remuneration Committee effective 8 May 2013.
- Mr Lee ceased to be a member of the Risk Management Committee effective 8 May 2013, and was appointed as a member of the Audit Committee effective 9 December 2013. No meeting of the Audit Committee took place during the period between 9 and 31 December 2013.
- Mr Lee was appointed as a member of the Remuneration Committee effective 8 May 2013.
- Mrs Leung was appointed as a Director effective 24 April 2013. She was appointed as a member of the Remuneration Committee and the Risk Management Committee effective 25 April 2013.
- Mr Strickland retired from the Nomination Committee on 24 April 2013.
- Mr Williamson was appointed as a member of the Nomination Committee effective 25 April 2013, and ceased to be a member of the Executive Committee effective 8 May 2013. No meeting of the Nomination Committee took place during the period between 25 April and 31 December 2013.
- All 10 meetings were attended by Mr He's alternate.
- Mr Lau ceased to be a member of the Risk Management Committee effective 1 May 2013. One meeting was attended by his alternate.
- Mr Lee was appointed as a member of the Risk Management Committee effective 1 May 2013. One meeting was attended by his alternate.
- Two meetings were attended by Mr Lui's alternate.
- The attendance rate took into account the attendance by alternate committee members.

## Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to HKEx's Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management. The Company Secretary heads the Secretarial Services Department, which is under the Listing and Regulatory Affairs Division led by HKEx's Chief Regulatory Officer.

The Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2013, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

## Board Delegation

### Board Committees

The Board has delegated authority to its 8 standing committees with specific roles and responsibilities. The effective functioning of these committees is a critical element in the Board's overall effectiveness. Their terms of reference and composition are reviewed and updated regularly to ensure that they remain appropriate and reflect the expansion of the Group's business and changes in governance practices.

#### Changes in Terms of Reference of Committees in 2013

- Given that the Management Committee was delegated by the Board with an enhanced executive role, certain duties of the Executive Committee were reallocated to the Management Committee.
- With the adoption of the Board Diversity Policy, the Nomination Committee's role was expanded to include monitoring the implementation of the policy.
- To ensure consistency of the remuneration policy across the Group, the Remuneration Committee's role was expanded to cover remuneration matters in relation to HKEx's subsidiaries.

The committees' member lists are set out in the Board and Committees section of this Annual Report, and together with their major roles and functions and terms of reference are available under the About HKEx (Corporate Governance) section of the HKEx website. The attendance record of the committee members is set out on page 89 of this report.

### The Nomination Committee

The Nomination Committee is delegated by the Board with the primary responsibility to formulate and implement the policy for nominating candidates for election by Shareholders, to assess the independence of INEDs, and to review the time required from Directors to perform their responsibilities. The Committee, comprising 5 members who are all INEDs, held 2 meetings in 2013 and up to 26 February 2014.

#### Summary of Work Done in 2013/2014

- Nominated candidates to stand for election by Shareholders at the 2013 and 2014 AGMs
- Reviewed and confirmed the independence of the 12 INEDs
- Reviewed time commitment from Directors to perform their responsibilities
- Endorsed the Board Diversity Policy, and proposed amendments to the Committee's terms of reference and the Nomination Policy taking into account the Board Diversity Policy
- Reviewed the objectives set for implementing the Board Diversity Policy as well as the composition and diversity of the Board

On 21 February 2014, the Committee considered the current Board composition and nominated Dr Bill Kwok and Mr Vincent Lee to the Board for it to recommend them to stand for election by Shareholders at the 2014 AGM. The nominations were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out in the Board Diversity Policy which is available under the About HKEx (Corporate Governance) section of the HKEx website. An analysis of the current Board composition based on these objective criteria is set out on page 84 of this report. The Committee had also taken into account their respective contributions to the Board and their firm commitment to their roles.

On 26 February 2014, the Committee's nominations were accepted by the Board. As a good governance practice, Dr Kwok and Mr Lee each abstained from voting at the Board meeting on their nominations for election by Shareholders. Dr Kwok and Mr Lee do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with this Annual Report and posted under the About HKEx (Investor Relations) section of the HKEx website.

### Consultative Panels

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

Meetings Held in 2013	
	Number of meetings
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	2
Clearing Consultative Panel	1

### Management Functions

The executive management under the leadership of HKEx's Chief Executive is responsible for the day-to-day management of the Group's businesses and implementation of the strategy and direction set by the Board. The Management Committee, chaired by HKEx's Chief Executive, is the management decision making body of the Group and aims to hold meetings at least two times every month. Its member list is set out in the Organisation Chart section of this Annual Report, and together with details of its duties is available under the About HKEx (Organisation) section of the HKEx website.

#### Major Changes to Organisational Structure in 2013

- A new organisational structure was put in place to better support the Group's strategic objectives, and the Group's business and operations functions are organised along 6 verticals: Listing and Regulatory Affairs, Global Markets, Global Clearing, IT, Corporate Services and Finance.
- Ms Rebecca Brosnan, who was Head of Business Development & Strategy under the Global Markets Division, was appointed as Head of Asia Commodities following the departure of Ms Liz Milan.
- Ms Margaret Cheng was appointed as the Group Head of Human Resources following the departure of Ms Sylvia Hoosen.
- Mr James Fok was appointed as Head of Group Strategy in addition to his responsibilities as Chief of Staff.
- Mr David Graham was appointed as Head of Listing following the retirement of Mr Mark Dickens.
- Mr Garry Jones succeeded Mr Martin Abbott as the chief executive and a director of LME and became HKEx's Co-head of Global Markets.
- Mr Paul Kennedy was appointed as the Group Chief Financial Officer following the departure of Mr Stephen Marzo.
- Mr Mao Zhirong was appointed as Head of Mainland Development to succeed Ms Yang Qiumei.

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

### Senior Management Succession Planning

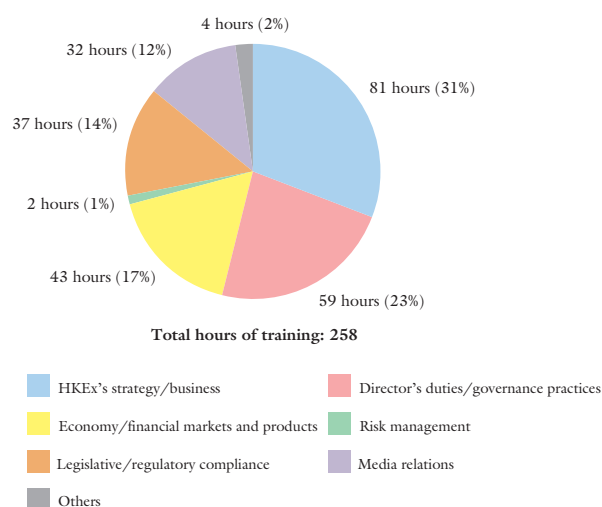
The Board recognises the importance of having continuity in the executive management, and leaders with appropriate skills and experience to support the delivery of the Group's strategic priorities. Senior management succession plan is a regular Board agenda item. During 2013, the Board had reviewed the succession plan to ensure that ongoing talent management and development initiatives designed to further develop senior executives are in place.

### Management Training

Ongoing professional development is important to Senior Management given the competitive business environment in which the Group operates. To ensure that members of the Senior Management continue to cultivate skills and knowledge for the fulfilment of their duties and responsibilities, the ESG Committee reviewed their training records in January 2014.

Further information about training attended by the Group's employees during 2013 will be set out in the 2013 Corporate Social Responsibility Report.

Analysis of Senior Management's Training in 2013 by Training Topic



### Subsidiary Board and Committees

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

With a view to fostering the governance linkages between HKEx and its subsidiaries and ensuring that the Board receives timely and accurate updates as to the subsidiaries' activities, there are some common memberships between the Board and the board and committees of HKEx's subsidiaries.

LME follows the code provisions of the UK Corporate Governance Code, where appropriate, to demonstrate its commitment to high governance standards. In 2013, LME's board commissioned an independent consultant to review its governance, structure, operation and effectiveness for the 12-month period ended 6 December 2013. The review was carried out in response to a requirement of The Financial Conduct Authority of the UK imposed in order that they might be satisfied with the LME's governance structure being fit for the purpose of enabling LME to meet its regulatory obligations as a recognised investment exchange. The review process comprised a series of interviews with LME's directors, company secretary and senior executives, observation of a board meeting, and examination of a case study. The review report concluded that LME's board had met its regulatory obligations for the period under review.

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

## Remuneration of Directors and Senior Management

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

## Directors' Securities Transactions and Interests in HKEx

### Compliance with Model Code

HKEx has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they had complied with the Model Code at all applicable times during the year ended 31 December 2013.

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

As at 31 December 2013, the interests and short positions of Directors, including HKEx's Chief Executive, in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange (in the case of HKEx, the SFC) pursuant to the Model Code were as set out below.

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

Name of Director	Number of shares/underlying shares held				Total	% of issued <sup>1</sup> share capital
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Margaret Leung	–	5,000 <sup>3</sup>	–	–	5,000	0.00
Charles Li	270,059 <sup>4</sup>	–	–	–	270,059	0.02
John Strickland	18,000 <sup>5</sup>	–	–	–	18,000	0.00

Notes:

- 1 Based on 1,161,515,153 HKEx shares in issue as at 31 December 2013
- 2 Mr Chow was the beneficial owner of those shares.
- 3 Mrs Leung's spouse was the beneficial owner of those shares.
- 4 It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 109,862 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report of this Annual Report.
- 5 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2013, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange (in the case of HKEx, the SFC) pursuant to the Model Code.

Apart from the Awarded Shares as disclosed in the Remuneration Committee Report of this Annual Report, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of HKEx or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights, during the year ended 31 December 2013.

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

### Minority Controllers

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

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

As at the date of this report, the SFC has granted approval to 8 entities to be Minority Controllers on the basis that the shares were held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2013, the 8 approved Minority Controllers in aggregate held approximately 60 per cent of HKEx's issued share capital.

As at 31 December 2013, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Stock Exchange, were as set out below.

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

Name	Capacity	Number of shares/underlying shares held	Total	% of issued <sup>1</sup> share capital
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>2</sup>	66,730,300	5.74

Notes:

1 Based on 1,161,515,153 HKEx shares in issue as at 31 December 2013

2 Based on a confirmation to HKEx by the Government in respect of its holding immediately following completion of placing of new HKEx shares as announced on 30 November 2012

Save for those disclosed above, as at 31 December 2013, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Stock Exchange.

### Senior Management

Members of the Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2013, Senior Management's interests in the shares and underlying shares of HKEx were as set out below.



Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of * Awarded Shares	Derivatives (number of underlying shares)
Bill Chow	397,254	–	24,673	–
David Graham	–	–	10,983	–
Gerald Greiner	107,234	125,000	37,775	–
Henry Ingrouille	–	–	24,162	–
Romnesh Lamba	68,798	–	45,811	–
Henry Law	119,212	–	16,951	–
Richard Leung	14,293	–	29,082	–

\* They included shares acquired out of the dividends from the Awarded Shares which remained unvested under the Share Award Scheme. The beneficial interest of these shares will be vested in accordance with the terms and conditions of the Scheme.

## Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEx from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The waiver has remained valid since then. During the year ended 31 December 2013 and subject to the waiver, the Group had the following continuing connected transactions.

### Continuing Connected Transactions for the Year ended 31 December 2013

<p>A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:</p> <ul style="list-style-type: none"> <li>• Mr Ronald Arculli, an ex-INED who retired on 24 April 2013, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a CP, in which his sister and his brother-in-law each have a 50 per cent interest.</li> <li>• Dr Bill Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.</li> <li>• Mr Vincent Lee, an INED, was interested in the transactions entered into by Hang Tai Securities Limited, Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.</li> </ul>
<p>B. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with (i) the listing, or proposed listing, of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:</p> <ul style="list-style-type: none"> <li>• Mrs Laura Cha, an ex-INED who retired on 23 April 2012, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both companies are listed on the Stock Exchange.</li> <li>• Dr Bill Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.</li> </ul>
<p>C. Transactions between HKEx or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for (i) carrying out "buy-in" when a CCASS Participant has failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):</p> <ul style="list-style-type: none"> <li>• Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. For the year ended 31 December 2013, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$1,854.</li> </ul>

The Audit Committee (AC) comprising 6 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the AC respectively, abstained from reviewing the respective transactions in which they had an interest. The AC confirmed that:

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

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.38 of the Main Board Listing Rules. The Company provided a copy of the said letter to the SFC and the Stock Exchange.

## Material Related Party Transactions

During the year ended 31 December 2013, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. None constitutes a discloseable connected transaction as defined under the Main Board Listing Rules. Details of the material related party transactions are disclosed in note 49 to the Consolidated Financial Statements of this Annual Report.

## Accountability and Audit

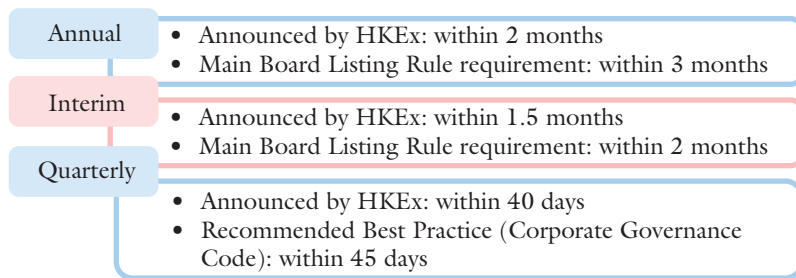
### Financial Reporting

The Board is responsible for overseeing the preparation of annual financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year. Management provides the Board with management accounts and updates on a monthly basis, with a view to giving a balanced and understandable assessment of the Group's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties. In preparing the financial statements for the year ended 31 December 2013, the Board:

- (i) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;
- (ii) selected suitable accounting policies and applied them consistently;
- (iii) made prudent and reasonable judgements and estimates; and
- (iv) ensured that the financial statements were prepared on a going concern basis.

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

#### Results Announcement Timeline in 2013 (after the relevant period-end)



### Internal Controls and Their Effectiveness

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

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

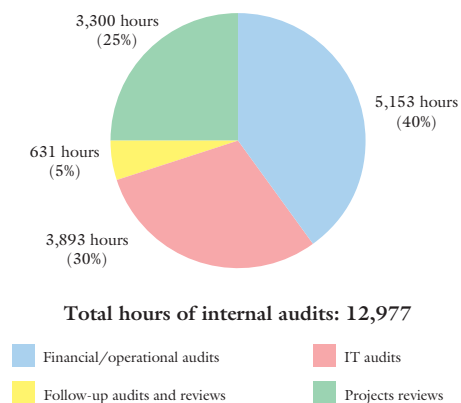
### Key Control Measures Undertaken in 2013

- Since January 2013, a new organisational and management structure reflecting the Group's strategic plan for 2013-2015 has been in place to facilitate effective management and efficient resource allocation.
- Given a series of new business initiatives and projects undertaken under the strategic plan, HKEx's project management framework, which comprises Project Steering Committees and Project Working Teams to manage and run the respective projects, has been further enhanced by establishing a Project Review Committee to oversee major project developments for better management of project inter-dependencies and resource allocation.
- Different policies, procedures and guidelines have been adopted with defined authority for effective segregation of duties and controls, and are kept under regular review. For example, the endorsement of Investment Policy, Restrictions and Guidelines for OTC Clear by the Investment Advisory Committee for the approval by the board of OTC Clear.
- All division/department Heads confirmed that appropriate internal control policies and procedures had been established and properly complied with in 2013.
- Regular reviews were conducted to identify and assess risks in different areas across the organisation using a common platform and standardised process. More information in this regard is set out in the Business Review section of this Annual Report. Details of the key risks as identified and the procedures and controls for mitigating the risks will be set out in the 2013 Corporate Social Responsibility Report.
- Information about the Group's management of its financial risks is set out in note 52 to the Consolidated Financial Statements of this Annual Report.
- An Escalation and Incident Reporting Policy is in place to facilitate swift action and timely communication with stakeholders. A review of the policy was conducted in 2013 to further refine the incident escalation and reporting processes for the Group.
- Guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions are in place for employees to follow. HKEx's Continuous Disclosure and Communication Policy was amended to ensure that the Group's employees comply with the obligations under the Securities and Futures (Amendment) Ordinance 2012, which established the statutory disclosure regime for inside information.
- A Whistle-blowing Policy is in place to facilitate internal reporting of any malpractice without fear of reprisal or victimisation.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability and stability. For example, an independent review of LME's core IT systems was commissioned in the fourth quarter of 2013, and a number of initiatives, as recommended in an independent IT security risk and infrastructure review of HKEx's IT systems in 2012, were carried out in 2013 to enhance IT security.
- To promote information security within HKEx and drive continuous security improvements in an independent manner, a new Chief Information Security Officer role was created outside the IT Division with responsibilities for HKEx's information security policy and the coordination of information security efforts across HKEx.

### Internal Audit

The Internal Audit Department (IAD) is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management system and reporting the review results regularly to the Board through the AC. Its work covers all material controls, including the financial, operational and compliance controls and risk management functions.

#### Analysis of Internal Audit Hours in 2013



During 2013, there were class action lawsuits in the US against LME and LMEH with respect to alleged anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices, and a lawsuit was filed in the UK, seeking a judicial review with respect to the LME's decision to introduce changes to the delivery out rates of LME approved warehouses as announced in its notice dated 7 November 2013. Save as aforesaid, no suspected cases of fraud, irregularities, or infringement of laws, rules and regulations, or material control failures within the Group were identified during 2013.

Further details of the IAD's role and its internal audit methodology and process are available in the About HKEx (Corporate Governance) section of the HKEx website.

### Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing the IAD's work and findings.

Further details of the AC's work done in 2013/2014 and its reviews of the internal control system and the accounting and financial reporting function of the Group are set out in the Audit Committee Report of this Annual Report.

### Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. All services provided by the external auditor are required to be approved by the AC. To ensure that the policy of restricting the non-audit work done by the external auditor is strictly applied by all entities within the Group, the AC in 2013 approved the policies and procedures for approval of engagement of the Group's independent external auditor, PricewaterhouseCoopers (PwC), to provide services to the Group, which set out (i) the classification of services as pre-approved services, prohibited services and non pre-approved services; and (ii) the approval process for non pre-approved services.

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

Prior to the commencement of the audit of the Group's 2013 financial statements, the AC received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The AC reviewed the external auditor's statutory audit scope and non-audit services and approved its fees.

External Auditor's Services and Fees		
	2013	2012
	\$m	\$m
<b>Audit and audit-related services</b>		
• Audit	9	6
• Warehouse stock count fees	–	1
<b>Non-audit services</b>		
• Tax advisory and compliance	5	3
• Other services	1	2
<b>Total</b>	<b>15</b>	<b>12</b>

HKEx has adopted a policy of rotating the engagement partner of the external auditor every 5 years since 2005 and the current engagement partner is due for rotation after completing the audit for the year ending 31 December 2014. However, due to recent changes to the Group's business operations, in particular the acquisition of the LME Group, the AC has decided that a degree of flexibility over the timing of rotation is necessary to safeguard the quality of the audit. The service period of the current audit engagement partner has therefore been extended from 5 years to a maximum of 7 years. This one-off extension has been agreed with PwC, and complies with the Code of Ethics for Professional Accountants issued by the HKICPA.

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

## Shareholder Relations

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

### Investor Engagement and Communications

The Corporate & Investor Communications Department is the primary contact point for communications with investors and analysts. The Company has a comprehensive and well-established programme of engagement for institutional shareholders which provides the opportunity for current and potential investors to meet with HKEx's Chief Executive, Co-head of Global Markets, Group Chief Financial Officer and other senior executives.

#### Key Investor Relation Activities

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

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

To foster institutional investors' understanding of the Group's governance performance, the Company continues to address the views and concerns raised by international ESG rating agencies such as GMI Ratings and Institutional Shareholder Services Inc, or ISS, by providing feedbacks and additional information in relation to the Group's governance principles and practices. Additional information about engagement with investors during 2013 will be set out in the 2013 Corporate Social Responsibility Report.

## Shareholder Engagement and Communications

### Key Shareholder Engagement and Communications

#### Announcements and financial statements

- HKEx ensures prompt dissemination of corporate communications with contingency measures in place to enable Shareholders and other stakeholders to keep abreast of the Group's business affairs and developments. Given the approach of a tropical cyclone, an announcement was made in August 2013 relating to the contingency arrangement for the approval of the 2013 interim results.
- HKEx's commitment to pursuing quality and transparency in governance disclosure and financial reporting gained continued recognition from external professional organisations with its 2012 Annual Report received awards from the HKICPA and The Hong Kong Management Association in 2013.

#### HKEx website

- The HKEx website has become the primary channel of communication with the investing public. As at 31 December 2013, about 80 per cent of Shareholders opted to receive corporate communications via electronic means. The About HKEx (Investor Relations) section of the website is kept under regular review to ensure that a wide range of information of interest to Shareholders is provided in an accurate and timely manner.

#### Scrip dividend scheme

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

#### General meetings

- Pursuant to Article 90(2) of HKEx's Articles, if a Shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination which shall be given to the Company Secretary at HKEx's registered office within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). Details of the procedures for nominating candidates to stand for election as a Director at the 2014 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report.
- Shareholder(s) holding not less than one-twentieth of HKEx's paid-up capital may request the Board to convene an extraordinary general meeting. The related requisition must state the objects of the meeting and must be signed by the requisitionists and addressed to the Company Secretary at HKEx's registered office. Pursuant to the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which will take effect on 3 March 2014, the request can also be addressed to the Company Secretary via email at [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk). Details of Shareholders' rights in relation to HKEx's general meetings are set out in the About HKEx (Corporate Governance) section of the HKEx website.

#### Policies and guidelines

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

#### Shareholding analysis

- Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs, and the analysis for 2013 is set out in the Shareholding Analysis section of this Annual Report. HKEx's market capitalisation and public float as at 31 December 2013 are set out in the Information for Stakeholders and Directors' Report sections of this Annual Report respectively.

The important dates for Shareholders in 2013 and the results announcement schedule in 2014 are set out in the Financial Calendar under the About HKEx (Investor Relations) section of the HKEx website.

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

### 2013 Annual General Meeting

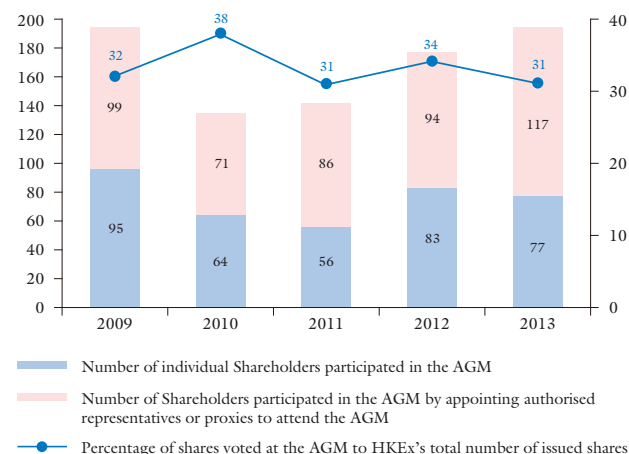
The Board and the management are committed to the constructive use of the AGM as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business.

All the Directors, including HKEx's Chairman who was also chairing the Nomination Committee and Remuneration Committee as well as the chairman of the AC, on the Board when the 2013 AGM was held attended the meeting along with key executives and the external auditor.

At the 2013 AGM, HKEx continued its practice of proposing separate resolutions on each substantially separate issue. All resolutions were passed by way of a poll conducted by the Company's registrar and verified by an independent scrutineer. The poll voting results and the minutes of the meeting are available under the About HKEx (Investor Relations) section of the HKEx website.

To enhance efficiency and transparency in the vote counting process, the Company adopted an electronic poll voting system at the 2013 AGM. The results of the voting in respect of each resolution were instantaneously displayed at the meeting.

Participation in Annual General Meetings



### Matters Resolved at the 2013 AGM

- Received the audited financial statements for the year ended 31 December 2012 together with the Reports of the Directors and the Auditor
- Payment of the final dividend of \$1.46 per share (with scrip alternative) for the year ended 31 December 2012
- Election of Messrs John Strickland and Oscar Wong as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation to the Directors to fix the Auditor's remuneration
- Approval of a general mandate for the Directors to repurchase shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2013 AGM
- Approval of a general mandate for the Directors to allot, issue and deal with new shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2013 AGM, provided any shares to be allotted and issued (whether for cash or otherwise) under such authority are not at a discount of more than 10 per cent to the "benchmark price" (as described in Rule 13.36(5) of the Main Board Listing Rules)



### 2014 Annual General Meeting

All Shareholders are encouraged to attend the 2014 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will have an opportunity to meet with Directors and the management after the conclusion of the meeting.

Apart from usual business at the 2014 AGM, the Board has proposed general mandates for the repurchase of HKEx shares and the issue of HKEx shares, and to adjust the remuneration of Non-executive Directors and members (excluding HKEx's Executive Director) of certain Board Committees. The Board has also proposed to adopt a new set of Articles of Association in substitution for, and the exclusion of, HKEx's Memorandum and Articles of Association in light of the new Companies Ordinance which will come into operation effective 3 March 2014. Further details of business to be conducted at the 2014 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report and posted under the About HKEx (Investor Relations) section of the HKEx website. The poll results of each of the proposed resolutions will be published on the HKEx website shortly after the 2014 AGM is held.

### Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2013 to the date of the approval of this report.

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

Hong Kong, 26 February 2014

# AUDIT COMMITTEE REPORT

## The Audit Committee

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

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

The AC holds at least 4 regular meetings a year and convenes additional meetings when necessary. The external auditor, HKEx's Chief Executive and other senior executives are invited to attend the AC meetings as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC held 6 meetings in 2013 and up to 19 February 2014. Each member's attendance record in 2013 is shown on page 89 of this Annual Report.

### Summary of Work Done in 2013/2014

- Reviewed the financial statements for disclosure on a quarterly basis
- Reviewed the internal audit activities summary and approved the internal audit annual plan
- Reviewed significant findings of the internal audit, external auditor and regulators and management's response to the recommendations raised
- Reviewed the continuing connected transactions
- Reviewed the effectiveness of the internal control system and the adequacy of the accounting and financial reporting function
- Reviewed the external auditor's statutory audit scope for 2013 and the letter of representation to be given by the Board
- Considered and approved the 2013 external audit fees and engagement letters
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Reviewed changes in accounting principles and practices proposed by management
- Reviewed the finance, accounting and audit matters in relation to the acquisition of the LME Group

## Review of Internal Control System

The Group's internal control system is reviewed regularly by management and the IAD. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2013: (i) the Group's internal control system was effective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) the Group had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of internal controls.

## Review of 2013 Consolidated Financial Statements

The AC reviewed the 2013 Consolidated Financial Statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2013. The AC therefore recommended the Consolidated Financial Statements for the year ended 31 December 2013 be approved by the Board.

## Review of Group's Accounting and Financial Reporting Function

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

## Review of Continuing Connected Transactions

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

## Recommendation for Re-appointment of External Auditor

The AC was satisfied with the external auditor's work, its independence, and objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (which has indicated its willingness to continue in office) as the Group's external auditor for 2014 for Shareholders' approval at the 2014 AGM.

### Members of the Audit Committee

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

Hong Kong, 19 February 2014

# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

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

The RC held 10 meetings in 2013 and up to 20 February 2014. Members' attendance records in 2013 are shown on page 89 of this Annual Report.

### Summary of Work Done in 2013/2014

- Reviewed and endorsed the revisions of the RC's terms of reference to incorporate the additional responsibilities in relation to remuneration matters of HKEx's subsidiaries
- Engaged an external professional consultant to conduct a compensation study to review the pay structures of HKEx and LME, their overall market positioning, and identify areas for improvement
- Reviewed and endorsed the amendments of the Share Award Scheme to facilitate the participation of LME's employees in the Scheme and allow the Board to grant awards as long-term incentives for selected senior executives
- Recommended the 2013 performance bonus and share award pools for the Group's employees
- Recommended the 2013 performance bonus and share award for HKEx's Chief Executive
- Recommended the 2013 salary adjustment rates for the Group's employees
- Adopted the annual RC Report
- Reviewed the remuneration structure for Non-executive Directors and recommended increases for 2014/2015

## Non-executive Directors' Remuneration

### Objective

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

### Policy

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

### Annual review for 2013/2014

Taking into consideration the increase in Non-executive Directors' remuneration for 2012/2013, various macroeconomic factors and the market environment in 2013, the RC recommended and the Board endorsed that the remuneration level for Non-executive Directors for 2013/2014 should remain unchanged.

### Annual review for 2014/2015

- McLagan, a professional firm specialising in performance and rewards for financial services industry, has been appointed to conduct an independent and overall review of the non-executive directors' remuneration for HKEx and its certain subsidiaries. The consultant conducted a detailed analysis of market practices and advised on any adjustments required to ensure our non-executive directors' remuneration is competitive and appropriate. The analysis included a benchmarking exercise covering listed exchanges, banks, the FTSE100 constituent companies and HSI constituent companies.

## Annual review for 2014/2015

- After having considered the findings in the consultant's review, the RC (none of the RC members participated in the decision on his or her remuneration changes) concluded that the remuneration for non-executive directors of LME, LME Clear and OTC Clear remains unchanged and recommended increasing the remuneration of HKEx's Chairman and Non-executive Directors. The Board (none of the Board members participated in the decision on his or her remuneration changes) endorsed and proposed the following recommendation for Shareholders' approval at the 2014 AGM:

	Current Fee (\$)	Proposed Fee (\$)
Board*		
– Chairman	900,000	1,500,000
– Other member	600,000	700,000
Audit Committee		
– Chairman	120,000	180,000
– Other member	90,000	100,000
– Attendance fee per meeting	3,000	3,000
Executive Committee*, Investment Advisory Committee and RC		
– Chairman	120,000	150,000
– Other member	90,000	100,000
– Attendance fee per meeting	3,000	3,000

\* Excluding the Executive Director

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

## Non-executive Directors' Remuneration

	2013/2014
	\$
Board Chairman	900,000
Board member	600,000
Audit Committee/Executive Committee/Investment Advisory Committee/RC	
– chairman	120,000
– member	90,000
– attendance fee per meeting	3,000

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

	2013	2012
	\$	\$
Ronald Arculli <sup>1</sup>	175,500	733,500
T C Chan	705,000	642,750
C K Chow	1,912,751 <sup>2</sup>	957,527 <sup>3</sup>
Timothy Freshwater	705,000	532,500
John Harrison	1,630,592 <sup>4</sup>	835,777 <sup>3</sup>
Stephen Hui	699,000	642,750
Bill Kwok	892,306	756,750
Michael Lee	892,726 <sup>5</sup>	643,250
Vincent Lee	889,306	756,750
Margaret Leung <sup>6</sup>	538,500	–
John Strickland	732,000	675,750
John Williamson	850,694	865,250
Oscar Wong	702,000	645,750
<b>Total <sup>7</sup></b>	<b>11,325,375</b>	<b>8,920,804</b>

Notes:

- 1 Mr Arculli retired on 24 April 2013.
- 2 Including the remuneration of \$730,751 (£60,000) arising from being a non-executive director (£48,000 per annum), the chairman of Remuneration Committee (£9,600 per annum) and a member of Nomination Committee (£7,200 per annum) of LME
- 3 Including the remuneration of \$57,527 (£4,616) arising from being a non-executive director of LME
- 4 Including the remuneration of \$863,898 (£70,932) arising from being a non-executive director (£48,000 per annum), the chairman of Audit and Risk Committee (£9,600 per annum) and a member of Remuneration Committee (£7,200 per annum) of LME, and a non-executive director (£48,000 per annum), the chairman of Audit Committee (£9,600 per annum) and a member of Nomination Committee (£7,200 per annum) and Remuneration Committee (£7,200 per annum) of LME Clear
- 5 Including the remuneration of \$185,161 arising from being the board chairman (\$350,000 per annum) and the chairman of Risk Management Committee (\$60,000 per annum and attendance fee \$3,000 per meeting) of OTC Clear
- 6 Mrs Leung was appointed effective 24 April 2013.
- 7 Including the fees of Non-executive Directors who retired in that year

## Employees' Remuneration

Objective
To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals as well as the key business objectives at corporate level
Policy
<ul style="list-style-type: none"> <li>• To recommend, based on up-to-date market information, the appropriate salary adjustments, if any, for the Board's approval</li> <li>• To evaluate the corporate performance based on a set of pre-determined measurements and recommend to the Board the appropriate level of performance bonus and share award pools, if any, for the year</li> <li>• To consult HKEx's Chief Executive about the individual performance of the Senior Management and ensure that they are remunerated equitably and in accordance with the established guidelines</li> <li>• To review and recommend to the Board the remuneration of HKEx's Chief Executive and ensure that he is not involved in the discussion and decision on his own compensation</li> </ul>
Review for 2013/2014
<ul style="list-style-type: none"> <li>• The RC recommended and the Board approved in November 2013:                             <ol style="list-style-type: none"> <li>(i) a base salary adjustment and promotion increase effective January 2014. The salary adjustment took into consideration the cost of living and the projected pay increase in the financial services industry;</li> <li>(ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2013; and</li> <li>(iii) a sum of \$180.91 million for the purchase of the HKEx shares pursuant to the Share Award Scheme for 183 selected employees, including HKEx's Chief Executive, and for selected employees to be recruited in 2014.</li> </ol> </li> <li>• In addition, during 2013, the RC recommended and the Board approved a sum of \$4.33 million and \$8.65 million to HKEx's Chief Executive as Senior Executive Awards, which are performance-based, as defined below in respect of the performance periods between 2013 and 2015 and between 2014 and 2016 respectively.</li> <li>• The performance cash bonus and share award pools for the Group's employees were determined based on the overall achievements with respect to the following on the corporate performance scorecard:                             <ol style="list-style-type: none"> <li>(i) financial performance measures including 1-year revenue and EBITDA growth relative to peers of global exchanges, and absolute revenue, EBITDA performance, profit margin and cost to income ratio relative to the budget;</li> <li>(ii) strategic initiatives achievement per various business lines, eg, cash equity, equity derivatives, commodities, fixed income and currency;</li> <li>(iii) market and regulatory measures, eg, system stability and reliability, primary market and listing regulations; and</li> <li>(iv) organisation development measures including talent recruitment and retention and CSR achievements.</li> </ol> </li> <li>• The applicable performance cash bonus and share awards were allocated to individual employees according to a matrix which was defined per job grade, performance rating (a 5-point scale) and job function. Management was allowed to adjust individual amounts after considering factors including internal relativity and external comparison with market benchmarks.</li> </ul>

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

As at 31 December 2013, the Group had 1,202 permanent employees and 76 temporary employees.

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked and their training and development opportunities are identified. Employee training details will be set out in the 2013 Corporate Social Responsibility Report.

## Emoluments for 2013

## Executive Director

	2013					2012	2013	
	Salary \$	Cash bonus \$	Other <sup>1</sup> benefits \$	Retirement <sup>2</sup> benefits cost \$	Director's fee \$	Total <sup>3</sup> \$	Total <sup>3</sup> \$	Share <sup>4</sup> award benefits \$
HKEx's Chief Executive Charles Li	8,652,600	9,373,650	174,980	1,081,576	-	19,282,806	15,327,856	18,924,718

## Senior Management

	2013					2012	2013	
	Salary \$	Cash bonus \$	Other <sup>1</sup> benefits \$	Retirement <sup>2</sup> benefits cost \$	Compensation for loss of office \$	Total <sup>3</sup> \$	Total <sup>3</sup> \$	Share <sup>4</sup> award benefits \$
Margaret Cheng <sup>5</sup>	1,062,500	2,000,000	11,202	132,813	-	3,206,515	-	231,422
Bill Chow	2,937,600	5,253,000	47,429	367,200	-	8,605,229	6,045,029	2,057,127
David Graham <sup>6</sup>	4,371,523	4,150,000	664,483	546,440	-	9,732,446	-	688,603
Gerald Greiner	6,000,000	2,600,000	126,077	750,000	-	9,476,077	9,876,250	3,810,123
Henry Ingrouille <sup>7</sup>	3,000,000	2,500,000	80,361	375,000	-	5,955,361	3,924,834	1,225,623
Garry Jones <sup>8</sup>	1,353,763	2,435,838	-	232,927	-	4,022,528	-	53,166
Paul Kennedy <sup>9</sup>	3,600,000	3,500,000	57,667	297,782	-	7,455,449	-	39,369
Romnesh Lamba	4,467,600	5,200,000	98,877	558,450	-	10,324,927	8,833,266	4,020,509
Henry Law	2,754,000	1,800,000	57,166	344,250	-	4,955,416	4,531,798	1,444,980
Richard Leung	3,120,000	1,500,000	40,484	390,000	-	5,050,484	4,590,484	1,444,035

## Notes:

- 1 Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- 2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of 7 years of service.
- 3 Excluding the shares awarded or reference awarded sums to HKEx's Chief Executive and the Senior Management during the relevant years, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
- 4 The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEx's Chief Executive and the respective members of the Senior Management that were charged to the Consolidated Income Statement for the year ended 31 December 2013.
- 5 Ms Cheng joined HKEx on 1 August 2013.
- 6 Mr Graham joined HKEx on 9 January 2013.
- 7 Mr Ingrouille joined HKEx on 7 July 2012.
- 8 Mr Jones joined the Group on 30 September 2013 and is a member of the LME pension scheme operating in the UK. The vesting scale of HKEx's provident fund scheme as specified in note 2 above is not applicable to him.
- 9 Mr Kennedy joined HKEx on 1 January 2013.

Further details of Directors' emoluments and the 5 top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 to the Main Board Listing Rules are set out in notes 16 and 17 respectively to the Consolidated Financial Statements of this Annual Report.

## Long-term Incentive Schemes

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

### Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme. The unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the exercise periods.

Movements in the outstanding share options granted under the Post-Listing Scheme during the year ended 31 December 2013 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise <sup>2</sup> period
		As at 1 Jan 2013	Issued upon <sup>1</sup> subscription during the year	Cancelled/lapsed during the year	As at 31 Dec 2013	
<b>Employees</b>						
31 Mar 2004	16.96	309,500	21,000	–	288,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	528,600	37,600	–	491,000	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$133.29.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the second anniversary and became fully vested on the fifth anniversary of the grant.

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

### Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of the HKEx shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Scheme is 1 per cent (ie, 10,623,858 shares).

On 9 December 2013, the Board approved a sum of \$180.91 million for the purchase of the HKEx shares for awards to the selected employees, including HKEx's Chief Executive (\$8.65 million) and a sum of \$35 million for the purchase of the HKEx shares for selected employees to be recruited in 2014. Based on the Board's recommendation, the Scheme's trustee will apply 92,469 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy such award.

During the year, the Board also approved amendments to the rules and the trust deed of the Scheme to (i) facilitate participation of LME's employees in the Scheme; (ii) allow the Board to grant awards as long-term incentives for selected senior executives of the Group (Senior Executive Awards); and (iii) reflect the appointment of Computershare Hong Kong Trustees Limited as the new trustee of the Scheme. The amendments took effect on 17 December 2013. The rules and trust deed of the Scheme are available under the About HKEx (Organisation) section of the HKEx website.



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

Since the Adoption Date, a total of 4,558,505 shares had been awarded under the Scheme up to the date of this report, representing 0.4 per cent of the HKEx shares in issue as at the Adoption Date.

Details of the awards (save for those which had been fully vested or lapsed as of 31 December 2012), including the number of shares which were awarded and vested according to the terms of the Scheme during the year ended 31 December 2013, are set out below.

Date of approval by Board	Date of <sup>1</sup> award	Awarded sum \$'000	Number of shares purchased	Number of Awarded Shares	Average <sup>2</sup> fair value per share \$	Number of Awarded Shares vested during the year	Vesting period <sup>3</sup>
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	29,950 <sup>4</sup>	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054	123.29	291,524 <sup>4</sup>	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	3,450	10 Jun 2012 – 10 Jun 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039	176.75	222,617 <sup>4</sup>	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	1,650	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	1,170	6,900	6,900	169.92	3,450	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	700	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	1,650	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	5,900	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	7,200	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 <sup>5</sup>	124.75	433,716 <sup>4</sup>	14 Dec 2013 – 14 Dec 2014
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	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 <sup>5</sup>	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

Notes:

- 1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 2 The fair value of the Awarded Shares is based on the average purchase cost per share.  
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares is based on the average fair value calculated from the weighted average of the following:
  - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
  - (b) for shares purchased from the market: average cost per share.
- 3 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant, as opposed to 4 equal tranches from the second to fifth year, the arrangement prior to the change.
- 4 They included certain Awarded Shares which, according to the terms of the Scheme, became vested in the selected employees who retired prior to the vesting periods.
- 5 The Scheme's trustee applied 344,706 shares and 103,116 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy the awards allocated on 30 December 2011 and 31 December 2012 respectively.

As at 31 December 2013, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 1,396,629 shares held in trust under the Scheme.

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

### Share Options

	Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise period <sup>1</sup>
			As at 1 Jan 2013	Subscribed during the year	Lapsed during the year	As at 31 Dec 2013	
<b>Senior Management</b>							
Gerald Greiner	17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	26 Jan 2007 – 25 Jan 2015

Note:

- 1 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the second anniversary and became fully vested on the fifth anniversary of the grant.

### Awarded Shares

	Date of <sup>2</sup> award	Number of Awarded Shares	Average <sup>3</sup> fair value per share \$	Number of shares <sup>1</sup>				Reference <sup>4</sup> awarded sum \$	Vesting <sup>5</sup> period
				As at 1 Jan 2013	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
<b>HKEx's Chief Executive</b>									
Charles Li	10 Jun 2010	73,217	123.29	39,491	442	39,933	–	–	13 May 2012 – 13 May 2013
	31 Dec 2010	40,856	176.75	21,727	575	22,302	–	–	14 Dec 2012 – 14 Dec 2013
	30 Dec 2011	70,495	124.75	72,921	1,932	37,423	–	37,430	14 Dec 2013 – 14 Dec 2014
	31 Dec 2012	70,556	126.71	70,556	1,876	–	–	72,432	3 Dec 2014 – 3 Dec 2015
	–	–	–	–	–	–	–	8,652,600	9 Dec 2015 – 9 Dec 2016
	–	–	–	–	–	–	–	4,326,300 <sup>6</sup>	End of a performance period of 2013-2015
	–	–	–	–	–	–	–	8,652,600 <sup>6</sup>	End of a performance period of 2014-2016

	Date of <sup>2</sup> award	Number of Awarded Shares	Average <sup>3</sup> fair value per share \$	Number of shares <sup>1</sup>			Reference <sup>4</sup> awarded sum \$	Vesting <sup>5</sup> period		
				As at 1 Jan 2013	Shares acquired during the year out of the dividends	Vested during the year			Lapsed during the year	As at 31 Dec 2013
<b>Senior Management</b>										
Margaret Cheng	-	-	-	-	-	-	-	1,100,000	1 Aug 2015 – 1 Aug 2016	
	-	-	-	-	-	-	-	1,500,000	9 Dec 2015 – 9 Dec 2016	
Bill Chow	10 Jun 2010	16,415	123.29	8,857	99	8,956	-	-	13 May 2012 – 13 May 2013	
	31 Dec 2010	10,177	176.75	5,416	142	5,558	-	-	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	15,419	124.75	15,956	422	8,184	-	8,194	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	16,051	126.71	16,051	428	-	-	16,479	3 Dec 2014 – 3 Dec 2015	
	-	-	-	-	-	-	-	1,000,000	9 Dec 2015 – 9 Dec 2016	
David Graham	27 Mar 2013	10,700	139.86	-	283	-	-	10,983	9 Jan 2015 – 9 Jan 2016	
	-	-	-	-	-	-	-	3,000,000	9 Dec 2015 – 9 Dec 2016	
Gerald Greiner	10 Jun 2010	35,700	123.29	19,256	215	19,471	-	-	13 May 2012 – 13 May 2013	
	31 Dec 2010	16,601	176.75	8,834	233	9,067	-	-	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	48,185	124.75	49,845	1,320	25,579	-	25,586	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	11,870	126.71	11,870	319	-	-	12,189	3 Dec 2014 – 3 Dec 2015	
	-	-	-	-	-	-	-	1,000,000	9 Dec 2015 – 9 Dec 2016	
Henry Ingrouille	5 Sept 2012	8,900	109.00	8,900	234	-	-	9,134	7 Jul 2014 – 7 Jul 2015	
	31 Dec 2012	14,639	126.71	14,639	389	-	-	15,028	3 Dec 2014 – 3 Dec 2015	
	-	-	-	-	-	-	-	1,850,000	9 Dec 2015 – 9 Dec 2016	
Garry Jones	-	-	-	-	-	-	-	-	2,025,664	9 Dec 2015 – 9 Dec 2016
Paul Kennedy	-	-	-	-	-	-	-	-	1,500,000	9 Dec 2015 – 9 Dec 2016
Romnesh Lamba	10 Jun 2010	25,626	123.29	13,820	154	13,974	-	-	13 May 2012 – 13 May 2013	
	31 Dec 2010	23,832	176.75	12,674	335	13,009	-	-	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	29,312	124.75	30,323	802	15,560	-	15,565	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	29,461	126.71	29,461	785	-	-	30,246	3 Dec 2014 – 3 Dec 2015	
	-	-	-	-	-	-	-	5,000,000	9 Dec 2015 – 9 Dec 2016	
Henry Law	10 Jun 2010	15,832	123.29	8,540	95	8,635	-	-	13 May 2012 – 13 May 2013	
	31 Dec 2010	7,362	176.75	3,920	103	4,023	-	-	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	10,841	124.75	11,219	295	5,752	-	5,762	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	10,896	126.71	10,896	293	-	-	11,189	3 Dec 2014 – 3 Dec 2015	
Richard Leung	11 Oct 2011	14,400	108.03	14,892	394	7,643	-	7,643	3 Oct 2013 – 3 Oct 2014	
	30 Dec 2011	12,528	124.75	12,961	342	6,650	-	6,653	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	14,402	126.71	14,402	384	-	-	14,786	3 Dec 2014 – 3 Dec 2015	
	-	-	-	-	-	-	-	2,000,000	9 Dec 2015 – 9 Dec 2016	

Notes:

- 1 It included shares acquired out of the dividends from the Awarded Shares according to the Scheme.
- 2 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 3 The fair value of the Awarded Shares is based on the average purchase cost per share.  
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares is based on the average fair value calculated from the weighted average of the following:
  - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
  - (b) for shares purchased from the market: average cost per share.
- 4 This refers to the amount approved by the Board in 2012 and 2013 respectively for the purchase of the HKEx shares. The purchase had not been made by the trustee as of 31 December 2013.
- 5 The Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant.
- 6 The awards granted are the Senior Executive Awards. The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the RC and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.

**Members of the Remuneration Committee**

CHOW Chung Kong (Chairman)

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

LEUNG KO May Yee, Margaret

John Mackay McCulloch WILLIAMSON

Hong Kong, 20 February 2014

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

## The Environmental, Social and Governance Committee

The Board has delegated the day-to-day responsibility for all corporate governance and CSR-related matters to the ESG Committee. The ESG Committee comprises 5 Board members, including HKEx's Chairman, who acts as the ESG Committee's chairman, and HKEx's Chief Executive. The ESG Committee reports to the Board on a regular basis.

The ESG Committee's main functions are: (i) to review and monitor the Company's ESG policies and practices to ensure compliance with legal and regulatory requirements; and (ii) to monitor and respond to emerging ESG issues. It considers the feedback received during the stakeholder engagement processes from time to time to identify and manage the economic, environmental and social impacts, related risks and opportunities, and makes recommendations to the Board where appropriate to further the Group's ESG performance. The ESG Committee's terms of reference are available under the About HKEx (Organisation) section of the HKEx website.

The ESG Committee held 2 meetings regarding HKEx's corporate governance and CSR-related matters in 2013 and up to 20 January 2014. The attendance record of members in 2013 is shown on page 89 of this Annual Report.

### Summary of Work Done in 2013/2014

- Reviewed the training and continuous professional development of the Directors and Senior Management
- Approved the annual Corporate Governance Report
- Approved the annual Corporate Social Responsibility Report

## CSR Performance and Reporting

To achieve its vision of being a responsible corporate citizen, HKEx has continued to work on enhancing the sustainable development of its marketplace, workplace and community as well as the environment, and promoting the development of socially responsible practices in its marketplace and community in accordance with its CSR policy and strategy. Details of the CSR policy, strategy, governance structure and management system are available under the About HKEx (Corporate Social Responsibility) section of the HKEx website.

HKEx's Chief Executive, a member of the ESG Committee, provides a CSR progress report on a monthly basis to the Board and reports directly to the Board on all ESG matters as he considers necessary. The report covers the development, implementation and results of the relevant initiatives carried out by different divisions and departments which have integrated the CSR objectives into their operations and activities. The CSR practices adopted and the initiatives achieved in 2013 are reported in the 2013 Corporate Social Responsibility Report, which will be available on the HKEx website in mid-March 2014.

HKEx remains a constituent company in the Dow Jones Sustainability Asia Pacific Index, the Euronext Vigeo World 120 Index, the FTSE4Good Index Series, the Hang Seng Corporate Sustainability Index Series and the STOXX® Global ESG Leaders Indices. The Company is pleased that its efforts in promoting sustainability within the organisation have been recognised and aims to have greater achievements and improvements on its journey towards sustainability.

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

CHOW Chung Kong (Chairman)  
John Barrie HARRISON  
HUI Chiu Chung, Stephen  
LEE Tze Hau, Michael  
LI Xiaojia, Charles

Hong Kong, 20 January 2014

# SHAREHOLDING ANALYSIS

## Share Capital (as at 31 December 2013)

Authorised Share Capital  
Issued Share Capital

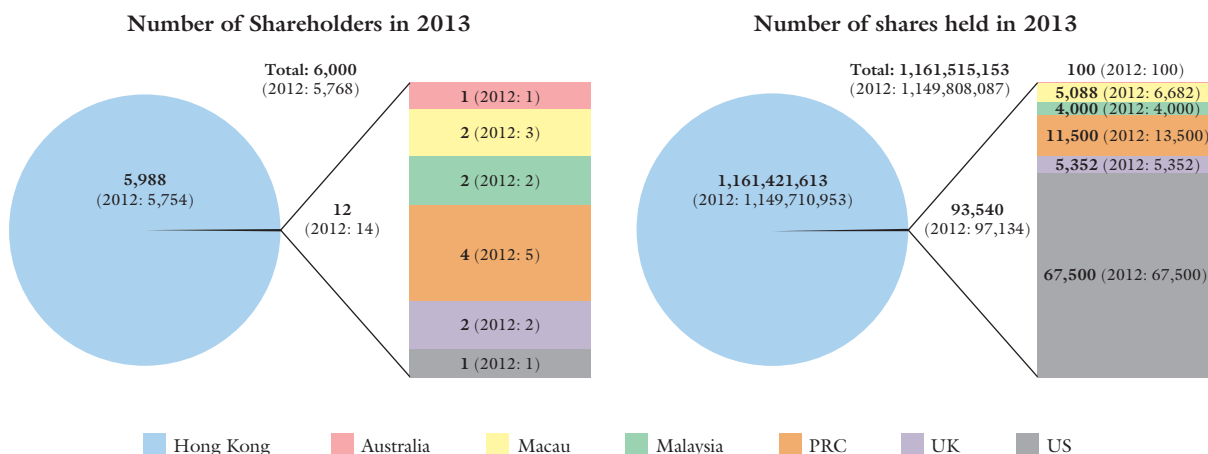
\$2 billion with shares of \$1 each  
\$1,161,515,153 with shares of \$1 each

An analysis of Shareholders based on ROM as at 31 December 2013 and 31 December 2012 is as follows:

## Shareholding Distribution

Size of shareholding	Number of Shareholders		% of Shareholders		Number of <sup>1</sup> shares held ('000)		% of <sup>2</sup> issued share capital	
	2013	2012	2013	2012	2013	2012	2013	2012
1 – 1,000	2,846	2,769	47.4	48.0	1,497	1,509	0.1	0.1
1,001 – 5,000	1,987	1,881	33.1	32.6	4,992	4,820	0.4	0.4
5,001 – 10,000	497	497	8.3	8.6	3,765	3,886	0.3	0.3
10,001 – 100,000	527	482	8.8	8.4	14,836	14,199	1.3	1.2
100,001 and above	143	139	2.4	2.4	1,136,425	1,125,395	97.8	97.9
Total	6,000	5,768	100.0	100.0	1,161,515	1,149,808	100.0	100.0

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



## Share Ownership by Type

Type of Shareholders	Number of Shareholders		Number of <sup>1</sup> shares held ('000)		% of <sup>2</sup> issued share capital	
	2013	2012	2013	2012	2013	2012
Individual	5,906	5,675	65,379	63,756	5.6	5.5
Non-Individual	94	93	1,096,136	1,086,052	94.4	94.5
HKSCC Nominees Limited	1	1	1,066,244	1,055,590	91.8	91.8
Direct CPs			195,981	204,544	16.9	17.8
General CPs						
– Broker Participants			4,742	11,124	0.4	1.0
– Custodian Participants			382,368	445,666	32.9	38.8
Custodian Participants			467,682	381,169	40.3	33.2
IPs			13,332	11,495	1.1	1.0
Defaulting Participant			1,489	1,489	0.1	0.1
			1,065,592 <sup>4</sup>	1,055,487 <sup>4</sup>	91.7	91.8
Other corporate/incorporated bodies	93	92	29,892	30,462	2.6	2.6
Total	6,000	5,768	1,161,515	1,149,808	100.0	100.0

Notes:

- Figures have been rounded up/down to the nearest thousand, and may not add up to the total or sub-group total due to rounding.
  - Percentage is for reference only, and may not add up to the total or sub-group total due to rounding.
  - According to the addresses shown on the ROM
  - The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the records shown in the Participant Shareholding Report (PSH Report). The number of shares registered in HKSCC Nominees Limited as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.
- For 2013, the shares were held for 413 Direct CPs (2012: 420); 8 General CPs (2012: 8), of which 3 were Broker Participants (2012: 3) and 5 were Custodian Participants (2012: 5); 26 Custodian Participants (2012: 28); 1,172 IPs (2012: 1,175); and 1 Defaulting Participant (2012: 1).

# INFORMATION FOR STAKEHOLDERS

## Annual Report

This Annual Report is printed in English and Chinese, and is available under the About HKEx (Financial Statements) section of the HKEx website. Shareholders can elect to receive a printed version or an electronic version. Should Shareholders elect the electronic version, HKEx will donate \$50 to a charity with a focus on environmental protection, subject to a cap of \$100,000 per annum. Shareholders are encouraged to access HKEx's corporate communications electronically via the HKEx website, which helps conserve the environment. Shareholders may at any time change their choice of language or means of receiving HKEx's corporate communications free of charge by giving not less than 7 days' notice in writing to HKEx's registrar, Hong Kong Registrars Limited (by post to 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at [hkex.com@computershare.com.hk](mailto:hkex.com@computershare.com.hk)).

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

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

## Annual General Meeting

The 2014 AGM will be held on Wednesday, 16 April 2014. The Notice of the 2014 AGM, which constitutes part of the circular to Shareholders, will be sent together with this Annual Report. The Notice of the 2014 AGM and the proxy form will be available under the About HKEx (Investor Relations) section of the HKEx website.

## 2013 Dividends

Interim dividend	\$1.82 per share
Proposed final dividend	\$1.72 per share

## Scrip Dividend Alternative

Subject to Shareholders' approval of the proposed final dividend and a general mandate to issue shares at the 2014 AGM, the final dividend will be payable in cash with a scrip dividend alternative to Shareholders whose names appear on the ROM on Friday, 25 April 2014. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEx to be issued pursuant thereto.

A circular containing details of the scrip dividend alternative, where available, together with an election form is expected to be despatched to Shareholders on or about Friday, 2 May 2014. Definitive share certificates in respect of the scrip dividend and dividend warrants are expected to be despatched to Shareholders on or about Tuesday, 27 May 2014.

## Closure of ROM

### For determining Shareholders' eligibility to attend, speak and vote at 2014 AGM

Latest time to lodge transfer documents for registration	4:30 pm on 11 April 2014
Closure of ROM	14 to 16 April 2014 (both dates inclusive)
Record date	16 April 2014

### For determining Shareholders' entitlement to final dividend

Latest time to lodge transfer documents for registration	4:30 pm on 23 April 2014
Closure of ROM	24 to 25 April 2014 (both dates inclusive)
Record date	25 April 2014

## Financial Calendar

Announcement of 2013 final results	26 February 2014
2014 AGM	16 April 2014
Ex-dividend date for final dividend	22 April 2014
Expected despatch of scrip dividend circular and election form	on or about 2 May 2014
Expected despatch of dividend warrants/definitive share certificates	on or about 27 May 2014
Announcement of 2014 first quarter results (tentative)	May 2014
Announcement of 2014 interim results (tentative)	August 2014
Announcement of 2014 third quarter results (tentative)	November 2014

## Share Information

### Listing

First listed on the Stock Exchange	27 June 2000
Board lot	100 shares
As at 31 December 2013	
– Number of issued shares	1,161,515,153 shares
– Closing price	\$129.3 per share
– Market capitalisation	\$150.2 billion

### Index Constituent

FTSE4Good Index Series	Since September 2005
HSI	Since 11 September 2006
Hang Seng Corporate Sustainability Index Series	Since 26 July 2010
Dow Jones Sustainability Asia Pacific Index	Since 20 September 2010
STOXX® Global ESG Leaders Indices	Since September 2011
Euronext Vigeo World 120 Index	Since 1 December 2012

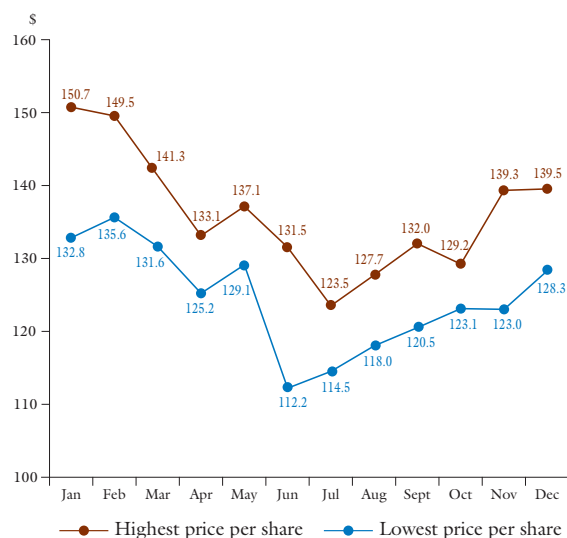
### Stock Codes

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

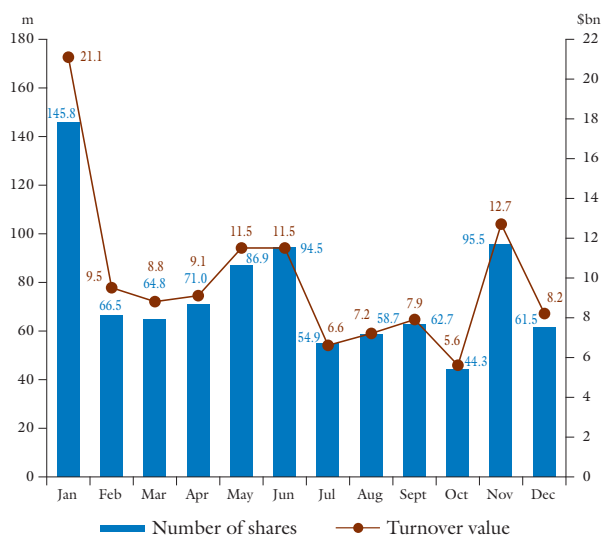
### American Depositary Receipts

Ticker Symbol	HKXCY
CUSIP	43858F109

Price of HKEx shares in 2013



Turnover of HKEx shares in 2013



Note: Figures have been rounded.



## HKEx's Registrar and Transfer Office

Hong Kong Registrars Limited

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

Tel: +852 2862 8555

Fax: +852 2865 0990/+852 2529 6087

## HKEx Contact Information

### Registered Office

12<sup>th</sup> Floor, One International Finance Centre,  
1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122

Fax: +852 2295 3106

Email: [info@hkex.com.hk](mailto:info@hkex.com.hk)

HKEx website: [www.hkex.com.hk](http://www.hkex.com.hk)

HKEx Group website: [www.hkexgroup.com](http://www.hkexgroup.com)

### Corporate and Investor Communications

Henry Ingrouille, Chief Operating Officer

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Tel: +852 2840 3219

Fax: +852 2295 0980

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Henry Law, Chief Communications Officer

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Email: [info@hkex.com.hk](mailto:info@hkex.com.hk)

### Global Clearing

Gerald Greiner, Head of Global Clearing

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Tel: +852 2840 3312

Fax: +852 2295 0935

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### Global Markets

Romnesh Lamba, Co-head of Global Markets

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Fax: +852 2537 1168

Email: [ics@hkex.com.hk](mailto:ics@hkex.com.hk)

Garry Jones, Co-head of Global Markets and  
LME's Chief Executive

The London Metal Exchange

56 Leadenhall Street, London EC3A 2DX,  
United Kingdom

Tel: +44 20 7264 5501

Fax: +44 20 7680 0259

Email: [garry.jones@lme.com](mailto:garry.jones@lme.com)

### Listing and Regulatory Affairs

David Graham, Chief Regulatory Officer

11<sup>th</sup> Floor, One International Finance Centre,  
1 Harbour View Street, Central, Hong Kong

Tel: +852 2840 3321

Fax: +852 2812 2862

Email: [cro@hkex.com.hk](mailto:cro@hkex.com.hk)

Joseph Mau, Company Secretary and

Head of Secretarial Services Department

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### Mainland Representatives

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Anderson Han, Representative, Eastern China

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Tel: +8621 6058 6130

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Franky Chung, Special Representative, Southern China

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Tel: +8620 8718 1000

Fax: +8620 8550 1035

Email: [frankychung@hkex.com.hk](mailto:frankychung@hkex.com.hk)

# DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited consolidated financial statements for the year ended 31 December 2013.

## Principal Activities

HKEx is a recognised exchange controller under the SFO. HKEx operates the only recognised stock market and futures market in Hong Kong through its wholly-owned subsidiaries, SEHK and HKFE. HKEx also operates 4 clearing houses, which are the only recognised clearing houses in Hong Kong. They are HKSCC, HKCC, SEOCH and OTC Clear. HKSCC, HKCC and SEOCH provide integrated clearing, settlement, depository and nominee activities to their participants, while OTC Clear provides OTC interest rate derivatives and non-deliverable forwards clearing and settlement services to its members. HKEx provides market data through its data dissemination entity, HKEx Information Services Limited. HKEx also owns LME in the UK, the world's premier base metals market. LME is a recognised investment exchange under the UK Financial Services and Markets Act 2000 (as amended).

The Group's revenue is derived from business activities conducted in Hong Kong and the UK. An analysis of the Group's revenue and other income, and profit before taxation for the year ended 31 December 2013 is set out in note 4 to the Consolidated Financial Statements of this Annual Report.

Particulars of HKEx's subsidiaries as at 31 December 2013 are set out in note 38 to the Consolidated Financial Statements of this Annual Report.

## Results and Appropriations

The Group's results for the year ended 31 December 2013 are set out in the Consolidated Income Statement on page 124 of this Annual Report.

The Board declared an interim dividend of \$1.82 per share (2012: \$1.85 per share), amounting to a total of \$2.1 billion (2012: \$2.0 billion) which was paid to Shareholders on 30 September 2013. This included dividends of \$4 million (2012: \$4 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$1.72 per share (2012: \$1.46 per share) to Shareholders whose names appear on the ROM on 25 April 2014, and the retention of the remaining profit for the year. The proposed final dividend together with the interim dividend payment amounts to a total of about \$4.1 billion (2012: \$3.7 billion), which represents a payout ratio of 90 per cent (2012: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2013 and includes dividends of about \$7 million (2012: \$8 million) for shares held in trust under the Share Award Scheme. The Board also proposed to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares instead of in cash.

## Distributable Reserves

HKEx's distributable reserves as at 31 December 2013, calculated under Section 79B of the Companies Ordinance and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA, amounted to \$8.3 billion (31 December 2012: \$7.3 billion).

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

## Donations

The Group's charitable and other donations during the year amounted to \$1,928,000 (2012: \$718,000). No donations were made to political parties.

## Intangible Assets and Fixed Assets

Details of the movements in intangible assets and fixed assets of the Group and HKEx during the year are set out in notes 28 and 29 respectively to the Consolidated Financial Statements of this Annual Report.

## Share Capital

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

## Convertible Bonds

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

## Borrowings

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

## Group Financial Summary

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

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

During 2013, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Exchange a total of 19,300 HKEx shares at a total consideration of about \$2.7 million.

## Public Float

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, approximately 100 per cent of HKEx's issued share capital was held by the public. HKEx share information, including the Company's market capitalisation as at 31 December 2013, is set out in the Information for Stakeholders section of this Annual Report.

## Directors

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

## Biographical Details of Directors and Senior Management

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

## Management Contracts

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

## Directors' Interests in Contracts

Details of the continuing connected transactions and material related party transactions are set out in the Corporate Governance Report and note 49 to the Consolidated Financial Statements of this Annual Report.

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

## Directors' Rights to Acquire Shares or Debentures

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

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

## Loans to Officers

No loans to the Company's officers (within the meaning of the Companies Ordinance) were made and outstanding at any time during the year or at the end of the year.

## Major Customers and Suppliers

During the year ended 31 December 2013, the combined value of the Group's contracts with its 5 largest suppliers which were not of a capital nature was less than 30 per cent of the total value of supplies purchased. HKEx's 5 largest customers combined contributed less than 30 per cent of the Group's total revenue and other income during the year ended 31 December 2013.

## Provident Fund Schemes

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

## Corporate Governance

HKEx's principal corporate governance practices are set out in the Corporate Governance Report, Audit Committee Report, Remuneration Committee Report and Environmental, Social and Governance Committee Report of this Annual Report and will also be included in the 2013 Corporate Social Responsibility Report.

## Auditor

The financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers which retires and, being eligible, offers itself for re-appointment at the 2014 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2014 AGM.

On behalf of the Board

**CHOW Chung Kong**  
Chairman

Hong Kong, 26 February 2014

# AUDITOR'S REPORT

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

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 124 to 225, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 26 February 2014

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	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
<b>REVENUE AND TURNOVER</b>		<b>8,131</b>	<b>6,432</b>
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
<b>REVENUE AND OTHER INCOME</b>	4	<b>8,723</b>	<b>7,211</b>
<b>OPERATING EXPENSES</b>			
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)
<b>EBITDA<sup>1</sup></b>	2(g)	<b>5,946</b>	<b>5,254</b>
Depreciation and amortisation		(507)	(158)
<b>OPERATING PROFIT</b>	13	<b>5,439</b>	<b>5,096</b>
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)
<b>PROFIT BEFORE TAXATION</b>		<b>5,246</b>	<b>4,845</b>
<b>TAXATION</b>	18(a)	<b>(700)</b>	<b>(761)</b>
<b>PROFIT FOR THE YEAR</b>		<b>4,546</b>	<b>4,084</b>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
– Shareholders of HKEx	43	4,552	4,084
– Non-controlling interests	38(c)(i)	(6)	–
		4,546	4,084
<b>Basic earnings per share</b>	19(a)	<b>\$3.95</b>	<b>\$3.75</b>
<b>Diluted earnings per share</b>	19(b)	<b>\$3.94</b>	<b>\$3.74</b>
<b>DIVIDENDS</b>	20	<b>4,092</b>	<b>3,671</b>

<sup>1</sup> 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

	Note	2013 \$m	2012 \$m
<b>PROFIT FOR THE YEAR</b>		<b>4,546</b>	4,084
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Currency translation differences of foreign subsidiaries recorded in exchange reserve	2(ad)(iii)	379	189
<b>OTHER COMPREHENSIVE INCOME</b>		<b>379</b>	189
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,925</b>	4,273
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
- Shareholders of HKEx		4,931	4,273
- Non-controlling interests	38(c)(i)	(6)	-
<b>TOTAL COMPREHENSIVE INCOME <sup>1</sup></b>		<b>4,925</b>	4,273

<sup>1</sup> 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

	Note	At 31 Dec 2013			At 31 Dec 2012		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>							
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
<b>Total assets</b>		<b>65,146</b>	<b>20,797</b>	<b>85,943</b>	<b>60,577</b>	<b>20,260</b>	<b>80,837</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
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
<b>Total liabilities</b>		<b>57,538</b>	<b>7,887</b>	<b>65,425</b>	<b>55,337</b>	<b>7,736</b>	<b>63,073</b>
<b>Equity</b>							
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
<b>Equity attributable to shareholders of HKEx</b>				<b>20,405</b>			<b>17,764</b>
Non-controlling interests	38(c)(i)			113			–
<b>Total equity</b>				<b>20,518</b>			<b>17,764</b>
<b>Total liabilities and equity</b>				<b>85,943</b>			<b>80,837</b>
<b>Net current assets</b>				<b>7,608</b>			<b>5,240</b>
<b>Total assets less current liabilities</b>				<b>28,405</b>			<b>25,500</b>

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

	Note	At 31 Dec 2013			At 31 Dec 2012		
		Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
<b>ASSETS</b>							
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
<b>Total assets</b>		<b>12,567</b>	<b>21,271</b>	<b>33,838</b>	<b>7,418</b>	<b>20,148</b>	<b>27,566</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
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
<b>Total liabilities</b>		<b>6,104</b>	<b>6,467</b>	<b>12,571</b>	<b>2,853</b>	<b>6,409</b>	<b>9,262</b>
<b>Equity</b>							
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
<b>Equity attributable to shareholders of HKEx</b>				<b>21,267</b>			<b>18,304</b>
<b>Total liabilities and equity</b>				<b>33,838</b>			<b>27,566</b>
<b>Net current assets</b>				<b>6,463</b>			<b>4,565</b>
<b>Total assets less current liabilities</b>				<b>27,734</b>			<b>24,713</b>

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

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

	Note	2013 \$m	2012 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	44	4,988	6,491
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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
<b>Net increase in cash and cash equivalents</b>		<b>2,301</b>	<b>1,690</b>
Cash and cash equivalents at 1 Jan		4,035	2,340
Exchange differences on cash and cash equivalents		39	5
<b>Cash and cash equivalents at 31 Dec</b>		<b>6,375</b>	<b>4,035</b>
<b>Analysis of cash and cash equivalents</b>			
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)	–
		<b>6,375</b>	<b>4,035</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

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

#### Adoption of new/revised HKFRSs

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
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#### 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 <sup>1</sup>
Amendments to HKAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKFRS 9	Financial Instruments: Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 <sup>2</sup>

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

<sup>2</sup> 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 values at the acquisition date. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

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

## 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

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

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 share-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.

## 2. Principal Accounting Policies (continued)

### (m) Fixed assets (continued)

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

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.

## 2. Principal Accounting Policies (continued)

### (o) Intangible assets (continued)

#### (i) Goodwill (continued)

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.

#### (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;

## 2. Principal Accounting Policies (continued)

### (o) Intangible assets (continued)

#### (iv) Computer software systems (continued)

- 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.

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

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

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

## 2. Principal Accounting Policies (continued)

### (q) Margin deposits 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.

### (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.

## 2. Principal Accounting Policies (continued)

### (t) Hedge accounting (continued)

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:

#### Financial assets measured at amortised cost

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

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

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

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

## 2. Principal Accounting Policies (continued)

### (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.



## 2. Principal Accounting Policies (continued)

### (u) Financial assets (continued)

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

##### Financial assets measured at amortised cost

- Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised in profit or loss using the effective interest method and disclosed as interest income.

#### (v) Fair value measurement principles

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

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

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

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

## 2. Principal Accounting Policies (continued)

### (u) Financial assets (continued)

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

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

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

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be shown to relate objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in profit or loss.

### (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.

## 2. Principal Accounting Policies (continued)

### (v) Financial liabilities (continued)

#### (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.

### (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.

## 2. Principal Accounting Policies (continued)

### (y) Convertible bonds (continued)

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.

### (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.

## 2. Principal Accounting Policies (continued)

### (aa) Current and deferred tax (continued)

#### (ii) Deferred tax (continued)

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.

### (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.

## 2. Principal Accounting Policies (continued)

### (ad) Foreign currency translation (continued)

#### (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.

### (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.

## 2. Principal Accounting Policies (continued)

### (ag) Shares held for Share Award Scheme (continued)

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.

### 3. Critical accounting estimates and assumptions (continued)

#### (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.



#### 4. Operating Segments (continued)

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.

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.

#### 4. Operating Segments (continued)

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.

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
	<b>20,549</b>	<b>19,986</b>

##### (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
	<b>3,509</b>	<b>2,448</b>

#### 6. Stock Exchange Listing Fees

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

	2013				2012			
	Equity		CBBCs, DWs & others \$m	Total \$m	Equity		CBBCs, DWs & others \$m	Total \$m
	Main Board \$m	GEM \$m			Main Board \$m	GEM \$m		
<b>Stock Exchange Listing Fees</b>								
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
<b>Total</b>	<b>538</b>	<b>39</b>	<b>439</b>	<b>1,016</b>	<b>539</b>	<b>35</b>	<b>342</b>	<b>916</b>
<b>Direct costs of listing function</b>	<b>(309)</b>	<b>(89)</b>	<b>(27)</b>	<b>(425)</b>	<b>(297)</b>	<b>(85)</b>	<b>(21)</b>	<b>(403)</b>
<b>Contribution before indirect costs</b>	<b>229</b>	<b>(50)</b>	<b>412</b>	<b>591</b>	<b>242</b>	<b>(50)</b>	<b>321</b>	<b>513</b>

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

## 6. Stock Exchange Listing Fees (continued)

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
	<b>609</b>	<b>448</b>

## 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	<b>581</b>	<b>766</b>

## 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 HKSX, 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	–
	<b>1,495</b>	<b>1,178</b>

### (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 Mandatory Provident Fund Schemes Ordinance (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
	<b>549</b>	<b>299</b>

**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
	<b>256</b>	<b>153</b>

**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
	<b>–</b>	<b>138</b>

(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
	<b>183</b>	<b>55</b>

- (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
	<b>19,283</b>	<b>15,328</b>
Employee share-based compensation benefits (note (a))	<b>18,925</b>	<b>9,247</b>
	<b>38,208</b>	<b>24,575</b>
Non-executive Directors:		
Fees	11,325	8,921
	<b>49,533</b>	<b>33,496</b>

- (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	–
	<b>14</b>	<b>15</b>



## 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:

Name of Director	2013							
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	Total \$'000
C K Chow (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
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
<b>Total</b>	<b>11,325</b>	<b>8,653</b>	<b>175</b>	<b>9,374</b>	<b>1,081</b>	<b>30,608</b>	<b>18,925</b>	<b>49,533</b>

Name of Director	2012							
	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
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
<b>Total</b>	<b>8,921</b>	<b>7,642</b>	<b>171</b>	<b>6,560</b>	<b>955</b>	<b>24,249</b>	<b>9,247</b>	<b>33,496</b>

## Notes:

- (i) Other benefits included leave pay, insurance premium and club membership.
- (ii) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (iii) Appointment effective 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
	<b>38,139</b>	<b>34,675</b>
Employee share-based compensation benefits (note (a))	10,576	15,243
	<b>48,715</b>	<b>49,918</b>

- (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
	<b>4</b>	<b>4</b>

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)	–
	<b>757</b>	<b>740</b>
Current tax – Overseas Tax		
– Provision for the year	115	10
– Underprovision in respect of prior years	14	–
	<b>129</b>	<b>10</b>
Total current tax	<b>886</b>	<b>750</b>
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))	<b>(186)</b>	<b>11</b>
Taxation charge	<b>700</b>	<b>761</b>

**18. Taxation (continued)**

(a) (continued)

- (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.

(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

**19. Earnings Per Share (continued)**

## (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 (ie, 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
<u>Mandatorily measured at fair value</u>			
Equity securities:			
– listed in Hong Kong	–	127	127
– listed outside Hong Kong	–	149	149
– unlisted	–	141	141
	–	417	417
Debt securities:			
– listed in Hong Kong	–	299	299
– listed outside Hong Kong	–	912	912
– unlisted	1,802	459	2,261
	1,802	1,670	3,472
Derivative financial instruments:			
– forward foreign exchange contracts (note 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
	<b>1,339</b>	<b>1,214</b>

(c) The carrying amounts of short-term time deposits approximated their fair values. 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
	<b>10,142</b>	<b>7,817</b>	<b>4,043</b>	<b>2,011</b>

**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)	–	–
	<b>10,946</b>	<b>13,696</b>	<b>36</b>	<b>36</b>

(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, and help promote the development of China's capital markets and the internationalisation of the Group.

The three JV investors have an equal shareholding interest in CESC and have joint control over CESC as unanimous consent is required from all investors for all activities that significantly affect the returns of the arrangement. The joint arrangement also provides the three JV investors with rights to the net assets of CESC. Therefore, CESC is classified as a joint venture of the Group.

CESC is a private company and there is no quoted market price available for its shares.

## 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
<b>Assets</b>						
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
<b>Total assets</b>	<b>259</b>	<b>7</b>	<b>266</b>	<b>294</b>	<b>9</b>	<b>303</b>
<b>Liabilities</b>						
Accounts payable, accruals, other liabilities and provisions	6	1	7	12	1	13
<b>Total liabilities</b>	<b>6</b>	<b>1</b>	<b>7</b>	<b>12</b>	<b>1</b>	<b>13</b>
<b>Net assets</b>	<b>253</b>	<b>6</b>	<b>259</b>	<b>282</b>	<b>8</b>	<b>290</b>
<b>Carrying amount of the Group's share of net assets of CESC (@33.33%)</b>			<b>87</b>			<b>97</b>

## (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)	–
<b>Loss and total comprehensive loss for the year/period</b>	<b>(30)</b>	<b>(10)</b>
<b>Group's share of losses of CESC in 2013 and 2012 (@33.33%)</b>	<b>(10)</b>	<b>(3)</b>

## (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				Total \$m
	Goodwill \$m	Tradenames \$m	Customer relationships \$m	Software systems \$m	
<b>Cost:</b>					
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
<b>Accumulated amortisation:</b>					
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
<b>Net book value:</b>					
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	–	–	–	–	–
<b>Cost of software systems under development:</b>					
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
	<b>13,750</b>	<b>930</b>

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The key assumptions 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
<b>Cost:</b>	
At 1 Jan 2012	–
Additions	22
At 31 Dec 2012	22
At 1 Jan 2013	22
Additions	54
At 31 Dec 2013	76
<b>Accumulated amortisation:</b>	
At 1 Jan 2012 and 1 Jan 2013	–
Amortisation	5
At 31 Dec 2013	5
<b>Net book value:</b>	
At 31 Dec 2013	71
At 31 Dec 2012	22
At 1 Jan 2012	–
<b>Cost of software systems under development:</b>	
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
<b>Cost:</b>							
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
<b>Accumulated depreciation:</b>							
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
<b>Net book value:</b>							
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
<b>Cost of fixed assets in the course of construction:</b>							
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
<b>Cost:</b>			
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
<b>Accumulated depreciation:</b>			
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
<b>Net book value:</b>			
At 31 Dec 2013	93	172	265
At 31 Dec 2012	73	161	234
At 1 Jan 2012	28	27	55
<b>Cost of fixed assets in the course of construction:</b>			
At 31 Dec 2013	63	68	131
At 31 Dec 2012	58	57	115

## 30. Lease Premium for Land

	Group	
	2013 \$m	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	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	–
	<b>39,793</b>	<b>36,786</b>
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
	<b>39,793</b>	<b>36,786</b>

- (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		HKEx	
	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m	At 31 Dec 2013 \$m	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
	<b>12,834</b>	<b>15,838</b>	<b>315</b>	<b>393</b>

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair values.
- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSX but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, cash dividends held by HKSX which had remained unclaimed for a period of more than seven years amounting to \$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
Held for trading				
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
	<b>4,470</b>	<b>2,511</b>
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
	<b>4,471</b>	<b>2,542</b>
Less: Other financial liabilities of Clearing House Funds (note 33)	(1)	(31)
	<b>4,470</b>	<b>2,511</b>
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	–
	<b>4,470</b>	<b>2,511</b>

- (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	<b>6,921</b>	<b>6,615</b>	<b>3,096</b>	<b>3,100</b>

### 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.

### 35. Borrowings (continued)

#### (b) Convertible bonds (continued)

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.

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		Total \$m
	Liability component \$m	Derivative component \$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

**35. Borrowings (continued)**

## (b) Convertible bonds (continued)

	HKEx		Total \$m
	Liability component \$m	Derivative component \$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.

## (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	–

### 35. Borrowings (continued)

#### (d) Written put options to non-controlling interests (continued)

- (i) On 31 October 2013, OTC Clear issued 3,599 ordinary shares to HKEx and 1,200 non-voting ordinary shares to certain third party shareholders (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 six 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.

(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 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$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 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$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



### 37. Deferred Taxation (continued)

- (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 \$m	At 31 Dec 2012 \$m	At 31 Dec 2013 \$m	At 31 Dec 2012 \$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 \$m	At 31 Dec 2012 \$m	At 31 Dec 2013 \$m	At 31 Dec 2012 \$m
<b>Deferred tax liabilities</b>				
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.

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

(a) Investments in subsidiaries (continued)

- (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.

(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
<b>Direct subsidiaries:</b>				
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%

### 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
<b>Direct subsidiaries (continued):</b>				
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%
<b>Indirect subsidiaries:</b>				
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%
HKSCC Nominees Limited	Hong Kong	\$20	Acts 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

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

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

As the HKEEx Employee Share Trust is set up solely for the purpose of purchasing, administering and holding HKEEx shares for the Share Award Scheme (note 40(b)), HKEEx has the power to direct the relevant activities of the HKEEx Employee Share Trust and it has the ability to use its power over the HKEEx Employee Share Trust to affect its exposure to returns. Therefore, the assets and liabilities of HKEEx Employee Share Trust are included in HKEEx's statement of financial position and the HKEEx shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

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

	HKEEx	
	At 31 Dec 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 HKEEx				
	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 (c))	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 (c))	1,080	-	5	141	146
At 31 Dec 2013	1,160,119	1,161	10,167	(174)	11,154

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

- (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.
- (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)
	<b>11,591,510</b>		<b>11</b>	<b>1,430</b>	<b>(8)</b>	<b>1,433</b>
	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)
	<b>4,004,297</b>		<b>4</b>	<b>447</b>	<b>(9)</b>	<b>442</b>

- (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

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.

#### 40. Employee Share-based Arrangements (continued)

(a) HKEx Share Option Scheme (continued)

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

	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
<b>HKEx Post-Listing Scheme</b>				
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.

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

#### 40. Employee Share-based Arrangements (continued)

##### (b) HKEx Share Award Scheme (continued)

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from reinvesting the dividends or scrip shares received under the scrip dividend scheme (dividend shares), and the amount is debited to Shares held for Share Award Scheme. The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

##### (i) Employee Share Awards

Employee Share Awards 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.

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 <sup>1,2</sup>	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

<sup>1</sup> 70,556 shares were awarded to HKEx's Chief Executive on 31 December 2012.

<sup>2</sup> 103,116 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 31 December 2012.



#### 40. Employee Share-based Arrangements (continued)

##### (b) HKEx Share Award Scheme (continued)

##### (i) Employee Share Awards (continued)

##### Details of the Awarded Shares awarded during 2012 and 2013 (continued)

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.

##### Details of the Awarded Shares vested during 2012 and 2013

Date of award	Average fair value per share \$	2013		2012	
		Number of Awarded Shares vested	Fair value of related Awarded Shares \$m	Number of Awarded Shares vested	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 <sup>3</sup>	36	308,250 <sup>3</sup>	38
9 Jul 2010	121.88	3,450	1	3,450	1
31 Dec 2010	176.75	222,617 <sup>4</sup>	39	238,900 <sup>4</sup>	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 <sup>5</sup>	54	11,524	2
		<b>1,001,807</b>	<b>136</b>	<b>604,162</b>	<b>88</b>

<sup>3</sup> 36,609 (2012: 36,608) of the shares vested were for HKEx's Chief Executive.

<sup>4</sup> 20,428 (2012: 20,428) of the shares vested were for HKEx's Chief Executive.

<sup>5</sup> 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.

**40. Employee Share-based Arrangements (continued)**

(b) HKEx Share Award Scheme (continued)

(i) Employee Share Awards (continued)

Movements in the number of Awarded Shares awarded and dividend shares

	<u>2013</u>	<u>2012</u>
	Number of Awarded Shares and dividend shares	Number of Awarded Shares and dividend shares
Outstanding at 1 Jan	2,383,189	2,211,716
Awarded <sup>6</sup>	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	<b>1,304,160</b>	2,383,189

<sup>6</sup> Average fair value per share was \$139.86 (2012: \$126.19)Remaining vesting periods of the Awarded Shares awarded and dividend shares outstanding at 31 December

	<u>At 31 Dec 2013</u>		<u>At 31 Dec 2012</u>	
	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
		<b>1,304,160</b>		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.

#### 40. Employee Share-based Arrangements (continued)

(b) HKEx Share Award Scheme (continued)

(ii) Senior Executive Awards

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

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

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

Upon transfer to the awardees, the related costs of the Awarded Shares finally transferred are credited to Shares held for Share Award Scheme, and the amount that had been previously credited to employee share-based compensation reserve upon grant of the Awarded Shares is reversed. The difference between these two amounts is credited to share 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.

#### 40. Employee Share-based Arrangements (continued)

##### (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				Total \$m
	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	
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 \$m	2012 \$m	2013 \$m	2012 \$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
	<b>878</b>	<b>832</b>	<b>201</b>	<b>101</b>

The Group's capital expenditure commitments were mainly related to the development and upgrade 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	–	–	–
	<b>710</b>	<b>448</b>	<b>6</b>	<b>3</b>
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
	<b>62</b>	<b>69</b>	<b>60</b>	<b>66</b>
	<b>772</b>	<b>517</b>	<b>66</b>	<b>69</b>

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)).



#### 46. Contingent Liabilities (continued)

(b) HKEx (continued)

- (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.

## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the entity to which the transactions relate) will fluctuate because of changes in foreign exchange rates. In respect of its funds available for investment in Hong Kong, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency bank deposits have been used to hedge the currency exposure of the Group's non-HKD securities and liabilities to mitigate risks arising from fluctuations in exchange rates.

Under the HKEx Investment Policy, Restrictions and Guidelines, the investment in non-HKD instruments is subject to the following restrictions:

- up to 20 per cent of the externally-managed Corporate Funds may be invested in non-HKD and non-USD investments without economic hedging;
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash 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)

	Foreign currency	Group		
		At 31 Dec 2013		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1</sup>	AUD	15	(8)	7
	CAD	1	-	1
	EUR	1,024	(1,024)	-
	GBP	51	(28)	23
	JPY	83	(74)	9
	NZD	8	-	8
	RMB	347	(334)	13
	SGD	7	-	7
	USD	1,930	(1,629)	301
Financial assets measured at fair value through profit or loss <sup>1,2</sup>	AUD	136	(136)	-
	CAD	49	(15)	34
	CHF	5	-	5
	EUR	246	(73)	173
	GBP	64	(64)	-
	JPY	32	(13)	19
	NZD	44	(36)	8
	RMB	217	(114)	103
	SGD	17	(14)	3
	USD	1,602	(182)	1,420
Financial assets measured at amortised cost	RMB	1	-	1
Accounts receivable and deposits	AUD	5	-	5
	RMB	58	-	58
	USD	104	-	104
Margin deposits and cash collateral from Clearing Participants <sup>1</sup>	EUR	(1,024)	1,024	-
	JPY	(74)	74	-
	RMB	(334)	334	-
	USD	(1,629)	1,629	-
Accounts payable, accruals and other liabilities	GBP	(1)	-	(1)
	RMB	(63)	-	(63)
	USD	(137)	-	(137)
Borrowings	USD	(3,096)	-	(3,096)
<b>Total net open positions for the Group</b>	AUD			12
	CAD			35
	CHF			5
	EUR			173
	GBP			22
	JPY			28
	NZD			16
	RMB			112
	SGD			10
	USD			1,408
				<b>1,821</b>

<sup>1</sup> Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

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

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

## (a) Market risk management (continued)

## (i) Foreign exchange risk management (continued)

	Foreign currency	Group		
		At 31 Dec 2012		
		Gross open position \$m	Economic hedges \$m	Net open position \$m
<b>Financial assets/(financial liabilities)</b>				
Cash and cash equivalents <sup>1</sup>	AUD	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 <sup>1,2</sup>	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 <sup>1</sup>	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)
<b>Total net open positions for the Group</b>	AUD			8
	CAD			38
	CHF			6
	EUR			324
	GBP			484
	JPY			10
	NZD			8
	RMB			202
	SGD			32
	USD			1,590
				<u>2,702</u>

<sup>1</sup> Foreign currency margin deposits received by the Group are economically hedged by investments in the same currencies.

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



## 52. Financial Risk Management (continued)

### (a) Market risk management (continued)

#### (i) Foreign exchange risk management (continued)

	Foreign currency	HKEx	
		Gross and net open position	
		At 31 Dec 2013 \$m	At 31 Dec 2012 \$m
<b>Financial assets/(financial liabilities)</b>			
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)
<b>Total net open positions for HKEx</b>	GBP	1	33
	RMB	–	3
	USD	9,317	8,690
		<b>9,318</b>	<b>8,726</b>

#### (ii) Equity and commodity price risk management

The Group is exposed to equity price risk as mutual funds, equities, equity index futures and options contracts may be held as part of the externally-managed Corporate 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 underlie 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 <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Cash and cash equivalents	41,452	-	-	-	-	41,452
Financial assets measured at fair value through profit or loss	3,761	-	-	141	-	3,902
Financial assets measured at amortised cost	8,986	-	18	19	23	9,046
Accounts receivable and deposits <sup>2</sup>	10,830	37	-	-	-	10,867
	65,029	37	18	160	23	65,267

	Group					
	At 31 Dec 2012					
	Up to 1 month <sup>1</sup> \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	Total \$m
Cash and cash equivalents	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 <sup>2</sup>	13,609	33	2	-	-	13,644
	60,398	33	171	179	5	60,786

<sup>1</sup> 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.

<sup>2</sup> Amounts excluded prepayments of \$79 million (31 December 2012: \$52 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	Total \$m
Cash and cash equivalents	2,704	–	–	–	2,704
Financial assets measured at amortised cost	1,338	–	–	1	1,339
Accounts receivable and deposits <sup>3</sup>	12	–	–	–	12
Amounts due from subsidiaries	8,488	–	6	15,503	23,997
	12,542	–	6	15,504	28,052

	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 <sup>3</sup>	15	–	–	–	15
Amounts due from subsidiaries	5,371	–	6	14,943	20,320
	7,396	–	6	14,944	22,346

<sup>3</sup> 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 two 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 <sup>4</sup>	12,701	6	106	-	-	12,813
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	1	-	-	-	-	1
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 46(a)(ii))	101	-	-	-	-	101
Participants' contributions to Clearing House Funds	3,392	446	46	-	-	3,884
Borrowings:						
Bank borrowings	4	9	38	204	2,455	2,710
Convertible bonds	-	-	19	4,034	-	4,053
Notes	-	-	21	859	-	880
Written put options to non-controlling interests	-	-	-	252	-	252
<b>Total</b>	<b>55,992</b>	<b>461</b>	<b>230</b>	<b>5,349</b>	<b>2,455</b>	<b>64,487</b>

	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 <sup>4</sup>	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
<b>Total</b>	<b>53,816</b>	<b>696</b>	<b>235</b>	<b>4,482</b>	<b>3,143</b>	<b>62,372</b>

<sup>4</sup> 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
<b>Total</b>	<b>9,697</b>	<b>11</b>	<b>82</b>	<b>4,886</b>	<b>2,455</b>	<b>17,131</b>

	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
<b>Total</b>	<b>6,537</b>	<b>14</b>	<b>78</b>	<b>4,019</b>	<b>3,143</b>	<b>13,791</b>

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.

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

## (b) Liquidity risk management (continued)

	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
<b>Financial guarantee contract</b> 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
<b>Financial guarantee contracts</b> Financial guarantee granted to HKSCC (note 46(b)(i))	(11)	50	(11)	50
Financial guarantee granted to HKEx International Limited (note 46(b)(ii))	(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.

### (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:

## 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)

- 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
<b>Recurring fair value measurements:</b>					
<b>Financial assets</b>					
Financial assets measured at fair value through profit or loss:					
– equity securities	276	–	141	417	–
– debt securities	–	3,472	–	3,472	–
– forward foreign exchange contracts	–	13	–	13	–
	<b>276</b>	<b>3,485</b>	<b>141</b>	<b>3,902</b>	<b>–</b>
<b>Recurring fair value measurements:</b>					
<b>Financial liabilities</b>					
Other financial liabilities of Corporate Funds:					
Financial liabilities at fair value through profit or loss:					
– forward foreign exchange contracts	–	6	–	6	–
– written put options to non-controlling interests	–	–	–	–	125
	<b>–</b>	<b>6</b>	<b>–</b>	<b>6</b>	<b>125</b>

	Group			
	At 31 Dec 2012			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Recurring fair value measurements:</b>				
<b>Financial assets</b>				
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
	<b>216</b>	<b>3,984</b>	<b>292</b>	<b>4,492</b>
<b>Recurring fair value measurements:</b>				
<b>Financial liabilities</b>				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
– forward foreign exchange contracts	–	6	–	6
	<b>–</b>	<b>6</b>	<b>–</b>	<b>6</b>

## 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)

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	–
		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

## 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)

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

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					At	At
					31 Dec 2013 \$m	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 million (31 Dec 2012: \$292 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-18/+23	-49/+67
	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.

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	HKEx
					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.

## 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

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
<b>Assets</b>				
Financial assets measured at amortised cost:				
– debt securities <sup>1</sup>	70	70	94	94
– other financial assets maturing over one year <sup>2</sup>	60	57	61	58
<b>Liabilities</b>				
Borrowings:				
– Liability component of convertible bonds <sup>3</sup>	3,607	3,639	3,515	3,723
– Notes <sup>3</sup>	770	770	–	–
– Written put options to non-controlling interests <sup>3</sup>	218	219	–	–
Financial guarantee to the Collector of Stamp Revenue <sup>4</sup>	20	55	20	102
	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
<b>Assets</b>				
Financial assets measured at amortised cost:				
– debt securities <sup>1</sup>	–	–	6	6
– other financial assets maturing over one year <sup>2</sup>	1	1	1	1
Amounts due from subsidiaries under non-current assets <sup>3</sup>	15,503	15,854	14,943	14,943
<b>Liabilities</b>				
Amounts due to a subsidiary under non-current liabilities <sup>3</sup>	3,341	3,225	3,294	3,294
Borrowings:				
– Notes <sup>3</sup>	770	770	–	–
Financial guarantee in favour of HKSCC <sup>4</sup>	11	27	11	50
Financial guarantee for convertible bonds issued by HKEx International Limited <sup>5</sup>	151	154	192	192

**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)

- <sup>1</sup> The fair values are determined based on quotes from market makers or alternative pricing sources supported by observable inputs.
- <sup>2</sup> The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/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).
- <sup>3</sup> The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 2.90 per cent to 4.60 per cent at 31 December 2013 (31 December 2012: 1.88 per cent to 5.30 per cent).
- <sup>4</sup> The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 2.29 per cent at 31 December 2013 (31 December 2012: 0.59 per cent).
- <sup>5</sup> The fair value is based on the total fees charged by financial institutions for guaranteeing the debts discounted using a five-year United States Government bond rate. The discount rate used was 1.74 per cent at 31 December 2013 (31 December 2012: 0.72 per cent).

## (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.



## 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

Type of financial assets	Group					
	At 31 Dec 2013					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
			Financial liabilities other than cash collateral	Cash collateral received		
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations receivable	117,263	(107,396)	9,867	(1,974)	(2,091)	5,802
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	282	-	282	-	(82)	200
Total	117,545	(107,396)	10,149	(1,974)	(2,173)	6,002

Type of financial assets	Group					
	At 31 Dec 2012					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position \$m	Net amount of financial assets presented in the consolidated statement of financial position \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
	\$m	\$m	Financial liabilities other than cash collateral	Cash collateral received		
	\$m	\$m	\$m	\$m	\$m	\$m
CNS money obligations receivable	115,501	(102,768)	12,733	(2,694)	(903)	9,136
Other accounts receivable from Participants, information vendors and hosting services customers, net of provision for impairment losses	242	-	242	-	(62)	180
Total	115,743	(102,768)	12,975	(2,694)	(965)	9,316

## 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

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

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

## 52. Financial Risk Management (continued)

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

- (iii) The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the “accounts receivables, prepayments and deposits” 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.

# GLOSSARY

2013 AGM	AGM held on 24 April 2013 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2014 AGM	AGM to be held on 16 April 2014
AGM(s)	HKEx's annual general meeting(s)
AHFT	After-Hours Futures Trading
AMS	The Automatic Order Matching and Execution System
AMS/3	The Automatic Order Matching and Execution System/Third Generation
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
Board	HKEx's board of directors
BRICS	Refers to Brazil, Russia, India, China and South Africa, in connection with the BRICS Exchanges Alliance
Cash Market	HKEx's securities related business excluding stock options
CBBC(s)	Callable Bull/Bear Contract(s)
CCASS	The Central Clearing and Settlement System
CCP	Central counterparty
CES 120	CES China 120 Index
CES A80	CES China A80 Index
CES HKMI	CES China HK Mainland Index
CESC	China Exchanges Services Company Limited
ChinaClear	China Securities Depository and Clearing Corporation Limited
CMU	Central Moneymarkets Unit
CNH	RMB traded in Hong Kong
CNS	Continuous Net Settlement
Corporate Governance Code	Refers to Appendix 14 to the Main Board Listing Rules
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
Data Centre	HKEx's data centre in Tseung Kwan O, Hong Kong
DCASS	The Derivatives Clearing and Settlement System
Derivatives Market	HKEx's derivatives related business including stock options
Director(s)	HKEx's director(s)
Dual Counter	Two counters (one RMB counter and one HKD counter) for trading and settlement purposes
DW(s)	Derivative Warrant(s)
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EMIR	European Market Infrastructure Regulation
EP(s) or Participant(s)	Exchange Participant(s)
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ETF(s)	Exchange Traded Fund(s)
EU	European Union
EUR	The official currency of the Eurozone
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
FATCA	Foreign Account Tax Compliance Act
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
FSAP	Financial Sector Assessment Program
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited

GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKIoD	The Hong Kong Institute of Directors
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
HKSI	Hong Kong Securities and Investment Institute
H-shares Index or HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
INED(s)	Independent Non-executive Director(s) of HKEx
IPs	Investor Participants
IPO(s)	Initial Public Offering(s)
ISIs	Investor SIs
IT	Information Technology
IV(s)	Information Vendor(s)
JP	Justice of the Peace
LCH.Clearnet	LCH.Clearnet Group Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s) or Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	LMEH, LME and LME Clear
LMEH	LME Holdings Limited
LMeselect	The electronic platform for the trading of all LME contracts
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MMDH	Mainland Market Data Hub
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MOI	Market open interest
MOU(s)	Memorandum(s) of Understanding
NASAAC	LME North American Special Aluminium Alloy Contract
NSTD	New Securities Trading Device
OCASS	OTC Clearing and Settlement System
OCG	HKEx Orion Central Gateway
OMD	HKEx Orion Market Data Platform
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited

PFMI	“Principles for financial market infrastructures” published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
PRC	People’s Republic of China
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
REITs	Real Estate Investment Trusts
RMB	Renminbi
ROM	HKEx’s Register of Members
RQFII	RMB Qualified Foreign Institutional Investor
SBS	Silver Bauhinia Star
SDNet	The Securities and Derivatives Network
Senior Management	The Group’s senior executives, and the list of Senior Management as at the date of this Annual Report is set out on pages 25 to 28 of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SIs	Settlement Instructions
Shareholders	HKEx’s shareholders
Share Award Scheme or the Scheme	The Employees’ Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010 and 17 December 2013
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SMARTS	Securities Markets Automated Research, Training & Surveillance
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
USM	Uncertificated securities market, formerly known as scripless securities market
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m/m	Hong Kong dollar in million/million
£/GBP	Pound sterling



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