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

## **Condensed Consolidated Financial Statements**

**For the three months ended 31 March 2013**

**(Unaudited)**

As at 8 May 2013, the board of directors of Hong Kong Exchanges and Clearing Limited comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mrs LEUNG Ko May Yee, Margaret, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

		Three months ended 31 Mar 2013 \$m	As restated Three months ended 31 Mar 2012 \$m
Trading fees and trading tariff	3	922	659
Stock Exchange listing fees	4	255	244
Clearing and settlement fees		431	389
Depository, custody and nominee services fees		69	81
Market data fees		188	147
Other revenue	5	140	127
<b>REVENUE AND TURNOVER</b>	2	<b>2,005</b>	1,647
Investment income		217	228
Interest rebates to Participants		(1)	(1)
Net investment income	6	216	227
Sundry income		1	1
<b>REVENUE AND OTHER INCOME</b>		<b>2,222</b>	1,875
<b>OPERATING EXPENSES</b>			
Staff costs and related expenses	7	382	294
Information technology and computer maintenance expenses	8	123	80
Premises expenses		74	57
Product marketing and promotion expenses		5	6
Legal and professional fees		27	10
Other operating expenses		58	37
		<b>669</b>	484
<b>EBITDA*</b>		<b>1,553</b>	1,391
Depreciation and amortisation		(116)	(29)
<b>OPERATING PROFIT</b>		<b>1,437</b>	1,362
Costs relating to acquisition of LME Group		-	(19)
Finance costs	9	(49)	-
Share of loss of a joint venture		(2)	-
<b>PROFIT BEFORE TAXATION</b>	2	<b>1,386</b>	1,343
<b>TAXATION</b>	10	<b>(228)</b>	(195)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,158</b>	1,148
<b>Basic earnings per share</b>	11(a)	<b>\$1.01</b>	\$1.06
<b>Diluted earnings per share</b>	11(b)	<b>\$1.01</b>	\$1.06

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

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

(Financial figures are expressed in Hong Kong Dollar)

	<b>Three months ended 31 Mar 2013 \$m</b>	Three months ended 31 Mar 2012 \$m
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>1,158</b>	1,148
<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	<b>(1,142)</b>	-
<b>OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(1,142)</b>	-
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>16</b>	1,148

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	At 31 Mar 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	12	38,883	-	38,883	34,077	-	34,077
Financial assets measured at fair value through profit or loss	13	4,050	131	4,181	4,369	123	4,492
Financial assets measured at amortised cost	14	8,671	131	8,802	8,442	131	8,573
Accounts receivable, prepayments and deposits	15	6,482	7	6,489	13,689	7	13,696
Interest in a joint venture		-	95	95	-	97	97
Goodwill and other intangible assets		-	17,069	17,069	-	18,183	18,183
Fixed assets		-	1,669	1,669	-	1,675	1,675
Lease premium for land		-	24	24	-	24	24
Deferred tax assets		-	23	23	-	20	20
<b>Total assets</b>		<b>58,086</b>	<b>19,149</b>	<b>77,235</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	17	37,767	-	37,767	36,786	-	36,786
Accounts payable, accruals and other liabilities	18	9,169	19	9,188	15,818	20	15,838
Deferred revenue		486	-	486	530	-	530
Taxation payable		196	-	196	178	-	178
Other financial liabilities		67	-	67	57	-	57
Participants' contributions to Clearing House Funds	19	3,969	-	3,969	1,924	-	1,924
Borrowings	20	-	6,653	6,653	-	6,615	6,615
Provisions		44	49	93	44	45	89
Deferred tax liabilities		-	1,007	1,007	-	1,056	1,056
<b>Total liabilities</b>		<b>51,698</b>	<b>7,728</b>	<b>59,426</b>	<b>55,337</b>	<b>7,736</b>	<b>63,073</b>
<b>Equity</b>							
Share capital	21			1,150			1,150
Share premium	21			8,732			8,731
Shares held for Share Award Scheme	21			(297)			(305)
Employee share-based compensation reserve	22(a)			143			122
Exchange reserve				(953)			189
Convertible bond reserve				409			409
Designated reserves	23			586			587
Retained earnings	24			8,039			6,881
<b>Shareholders' funds</b>				<b>17,809</b>			<b>17,764</b>
<b>Total liabilities and equity</b>				<b>77,235</b>			<b>80,837</b>
<b>Net current assets</b>				<b>6,388</b>			<b>5,240</b>
<b>Total assets less current liabilities</b>				<b>25,537</b>			<b>25,500</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Share capital, Share premium and shares held for Share Award Scheme (note 21) \$m	Employee share-based compensation reserve (note 22(a)) \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves (note 23) \$m	Retained earnings (note 24) \$m	Total equity \$m
At 1 Jan 2013	9,576	122	189	409	587	6,881	17,764
Profit attributable to shareholders	-	-	-	-	-	1,158	1,158
Other comprehensive income	-	-	(1,142)	-	-	-	(1,142)
Total comprehensive income	-	-	(1,142)	-	-	1,158	16
Shares issued upon exercise of employee share options	1	-	-	-	-	-	1
Shares purchased for Share Award Scheme	(2)	-	-	-	-	-	(2)
Vesting of shares of Share Award Scheme	10	(9)	-	-	-	(1)	-
Employee share-based compensation benefits	-	30	-	-	-	-	30
Transfer of reserves	-	-	-	-	(1)	1	-
At 31 Mar 2013	9,585	143	(953)	409	586	8,039	17,809

	Share capital, Share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Exchange reserve \$m	Convertible bond reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2012	1,423	106	-	-	577	7,053	9,159
Profit attributable to shareholders	-	-	-	-	-	1,148	1,148
Shares purchased for Share Award Scheme	(1)	-	-	-	-	-	(1)
Vesting of shares of Share Award Scheme	4	(3)	-	-	-	(1)	-
Employee share-based compensation benefits	-	29	-	-	-	-	29
Transfer of reserves	-	-	-	-	3	(3)	-
At 31 Mar 2012	1,426	132	-	-	580	8,197	10,335

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

(Financial figures are expressed in Hong Kong Dollar)

	Note	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	25	1,871	1,203
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchases of fixed assets and intangible assets		(215)	(241)
Net (increase)/decrease in financial assets of the Corporate Funds:			
Increase in time deposits with original maturities more than three months		(15)	(1,180)
Net proceeds from maturity of financial assets measured at amortised cost (excluding time deposits)		24	-
Interest received from financial assets measured at amortised cost (excluding time deposits)		-	7
Interest received from financial assets measured at fair value through profit or loss		8	23
Net cash outflow from investing activities		(198)	(1,391)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares upon exercise of employee share options		1	-
Purchases of shares for Share Award Scheme		(2)	(1)
Payments of finance costs		(17)	-
Net cash outflow from financing activities		(18)	(1)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,655</b>	<b>(189)</b>
Cash and cash equivalents at 1 Jan		4,035	2,340
Exchange differences on cash and cash equivalents		(37)	-
<b>Cash and cash equivalents at 31 Mar</b>		<b>5,653</b>	<b>2,151</b>
<b>Analysis of cash and cash equivalents</b>			
Cash on hand and balances and deposits with banks		5,653	2,151

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

### 1. Basis of Preparation and Accounting Policies

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

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

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

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

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle

The amendments to HKFRS 7 require disclosure of financial assets and financial liabilities that are (i) offset in the statement of financial position; or (ii) subject to master netting arrangements or similar arrangements irrespective of whether they are offset. The adoption of amendments to HKFRS 7 only affects disclosures relating to offsetting financial assets and financial liabilities in the Group's condensed consolidated financial statements (note 31).

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

Amendments to HKAS 16      Property, Plant and Equipment

Amendments to HKAS 32      Financial Instruments: Presentation

Amendments to HKAS 34      Interim Financial Reporting

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

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

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

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

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**1. Basis of Preparation and Accounting Policies (continued)**

Change in presentation of the condensed consolidated statement of comprehensive income

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

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

**2. Operating Segments**

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

In 2012, the Group had five reportable segments:

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

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

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

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

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

Up to May 2012, central income (mainly net investment income of the Corporate Funds) and central costs (mainly costs of support functions that centrally provided services to all of the operating segments and other costs not directly related to any of the operating segments) were allocated to the respective operating segments. From June 2012 onwards, the central income and central costs are included as "Corporate Items" and are no longer allocated to the respective operating segments. Costs of developing new business initiatives incurred before launch (such as hosting services and development of clearing houses for clearing over-the-counter derivatives contracts and base metals futures and options contracts traded on The London Metal Exchange (LME)) were absorbed as support function costs under "Corporate Items".



**2. Operating Segments (continued)**

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

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

The **Equity and Financial Derivatives** segment mainly refers to the derivatives products traded on the Futures Exchange and the Stock Exchange, and includes the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, DWs, CBBCs and warrants and sales of market data of futures and options. Its revenue mainly comprises trading fees, trading tariff and listing fees of derivatives products and market data fees of futures and options.

The **Commodities** segment refers to the operations of the LME Group (excluding its clearing operations), which operates an exchange in the United Kingdom 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 mainly refers to the operations of the three clearing houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities of the Stock Exchange and the Futures Exchange, and the development and operations of the new clearing houses for clearing over-the-counter derivatives contracts (OTC Clear) and clearing base metals futures and options contracts traded on LME (LME Clear). Its revenue and other income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Margin Funds and cash collateral and Clearing House Funds.

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

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

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

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

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

**2. Operating Segments (continued)**

	Three months ended 31 Mar 2013						
	Cash	Equity and Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from external customers	635	446	295	547	81	1	2,005
Net investment income	-	-	-	85	-	131	216
Sundry income	-	-	-	1	-	-	1
Revenue and other income	635	446	295	633	81	132	2,222
Operating expenses	118	115	112	132	30	162	669
Reportable segment EBITDA	517	331	183	501	51	(30)	1,553
Depreciation and amortisation	(12)	(11)	(66)	(14)	(9)	(4)	(116)
Finance costs	-	-	-	-	-	(49)	(49)
Share of loss of a joint venture	-	(2)	-	-	-	-	(2)
Reportable segment profit before taxation	505	318	117	487	42	(83)	1,386

	As restated Three months ended 31 Mar 2012						
	Cash	Equity and Financial Derivatives	Commodities	Clearing	Platform and Infrastructure	Corporate Items	Group
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from external customers	596	439	-	506	106	-	1,647
Net investment income	-	-	-	127	-	100	227
Sundry income	-	-	-	1	-	-	1
Revenue and other income	596	439	-	634	106	100	1,875
Operating expenses	115	106	-	98	49	116	484
Reportable segment EBITDA	481	333	-	536	57	(16)	1,391
Depreciation and amortisation	(10)	(6)	-	(11)	-	(2)	(29)
Costs relating to acquisition of LME Group	-	-	-	-	-	(19)	(19)
Reportable segment profit before taxation	471	327	-	525	57	(37)	1,343

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

**3. Trading Fees and Trading Tariff**

Trading fees and trading tariff were derived from:

	<b>Three months ended 31 Mar 2013 \$m</b>	Three months ended 31 Mar 2012 \$m
Securities traded on the Stock Exchange (excluding stock options contracts)	<b>505</b>	453
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	<b>207</b>	206
Base metals futures and options contracts traded on LME	<b>210</b>	-
	<b>922</b>	659

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**4. Stock Exchange Listing Fees**

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

	Three months ended 31 Mar 2013				As restated Three months ended 31 Mar 2012			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Stock Exchange listing fees</b>								
Annual listing fees	<b>110</b>	<b>6</b>	<b>1</b>	<b>117</b>	109	6	1	116
Initial and subsequent issue listing fees	<b>14</b>	<b>3</b>	<b>120</b>	<b>137</b>	30	3	94	127
Other listing fees	<b>1</b>	-	-	<b>1</b>	1	-	-	1
<b>Total</b>	<b>125</b>	<b>9</b>	<b>121</b>	<b>255</b>	140	9	95	244
<b>Direct costs of listing function</b>	<b>73</b>	<b>21</b>	<b>6</b>	<b>100</b>	72	17	5	94
<b>Contribution to profit before taxation</b>	<b>52</b>	<b>(12)</b>	<b>115</b>	<b>155</b>	68	(8)	90	150

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

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

During the three months ended 31 March 2012, central costs (mainly costs of support functions that centrally provide services to all of the operating segments and other costs not directly related to any of the operating segments) were allocated as indirect costs of the listing function. As a result of the change in the format of management information provided to the chief operating decision-maker from June 2012 onwards (note 2), these costs were no longer included as costs of the listing function. Comparative figures for the three months ended 31 March 2012 have been restated to conform to this revised presentation.

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

**5. Other Revenue**

	Three months ended 31 Mar 2013 \$m	As restated Three months ended 31 Mar 2012 \$m
Network, terminal user, dataline and software sub-license fees	62	103
Commodities stock levies and warehouse listing fees	27	-
Participants' subscription and application fees	16	9
Hosting services	16	-
Trading booth user fees	3	3
Sales of Trading Rights	3	5
Miscellaneous revenue	13	7
	<b>140</b>	<b>127</b>

**6. Net Investment Income**

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Gross interest income	79	90
Interest rebates to Participants	(1)	(1)
Net interest income	78	89
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	149	136
Others	(11)	2
Net investment income	<b>216</b>	<b>227</b>

**7. Staff Costs and Related Expenses**

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Salaries and other short-term employee benefits	325	245
Employee share-based compensation benefits	30	29
Termination benefits	2	-
Retirement benefit costs (note 28(b))	25	20
	<b>382</b>	<b>294</b>

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

**8. Information Technology and Computer Maintenance Expenses**

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Costs of services and goods:		
- consumed by the Group	106	40
- directly consumed by Participants	17	40
	<b>123</b>	<b>80</b>

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**9. Finance Costs**

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Interest expenses on borrowings	44	-
Net foreign exchange losses on financing activities	5	-
	<b>49</b>	<b>-</b>

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**10. Taxation**

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

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Current tax - Hong Kong Profits Tax	192	200
Current tax - Overseas Tax	24	-
	<b>216</b>	<b>200</b>
Deferred taxation	12	(5)
	<b>228</b>	<b>195</b>

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

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

**11. Earnings Per Share**

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

(a) Basic earnings per share

	<b>Three months ended 31 Mar 2013</b>	As restated Three months ended 31 Mar 2012
Profit attributable to shareholders (\$m)	<b>1,158</b>	1,148
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	<b>1,147,449</b>	1,082,254
Basic earnings per share (\$)	<b>1.01</b>	1.06

(b) Diluted earnings per share

	<b>Three months ended 31 Mar 2013</b>	As restated Three months ended 31 Mar 2012
Profit attributable to shareholders (\$m)	<b>1,158</b>	1,148
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	<b>1,147,449</b>	1,082,254
Effect of employee share options (in '000)	<b>748</b>	852
Effect of Awarded Shares (in '000)	<b>2,333</b>	2,182
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	<b>1,150,530</b>	1,085,288
Diluted earnings per share (\$)	<b>1.01</b>	1.06

- (i) The effect of the outstanding convertible bonds (note 20) was not included in the computation of diluted earnings per share for the three months ended 31 March 2013 as it was anti-dilutive.
- (ii) In December 2012, 65,705,000 HKEx shares were issued upon placement at a discount. 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 three months ended 31 March 2012 retrospectively, which increased the weighted average number of ordinary shares for the three months ended 31 March 2012 by 4,563,000.

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

12. Cash and Cash Equivalents

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Cash and cash equivalents:		
- Clearing House Funds (note 19)	4,411	2,325
- Margin Funds and cash collateral (note 17) (note (a))	28,819	27,717
- Corporate Funds (note 16)	33,230	30,042
	5,653	4,035
	<b>38,883</b>	<b>34,077</b>

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

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

	At 31 Mar 2013		
	Margin Funds and cash collateral (note 17) \$m	Corporate Funds (note 16) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
- listed in Hong Kong	-	115	115
- listed outside Hong Kong	-	133	133
- unlisted	-	376	376
	-	624	624
Debt securities:			
- listed in Hong Kong	-	192	192
- listed outside Hong Kong	-	1,040	1,040
- unlisted	1,800	518	2,318
	1,800	1,750	3,550
Derivative financial instruments:			
- forward foreign exchange contracts	-	7	7
	1,800	2,381	4,181
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	1,800	2,250	4,050
More than twelve months	-	131	131
	1,800	2,381	4,181

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

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

	At 31 Dec 2012		
	Margin Funds and cash collateral (note 17) \$m	Corporate Funds (note 16) \$m	Total \$m
<u>Mandatorily measured at fair value</u>			
Equity securities:			
- listed in Hong Kong	-	111	111
- listed outside Hong Kong	-	105	105
- unlisted	-	292	292
	-	508	508
Debt securities:			
- listed in Hong Kong	-	193	193
- listed outside Hong Kong	-	980	980
- unlisted	2,186	622	2,808
	2,186	1,795	3,981
Derivative financial instruments:			
- forward foreign exchange contracts	-	3	3
	2,186	2,306	4,492
The expected recovery dates of the financial assets are analysed as follows:			
Within twelve months (note (a))	2,186	2,183	4,369
More than twelve months	-	123	123
	2,186	2,306	4,492

- (a) Included financial assets maturing after twelve months of \$1,800 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.



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

**14. Financial Assets Measured at Amortised Cost**

	At 31 Mar 2013			
	Clearing House Funds (note 19) \$m	Margin Funds and cash collateral (note 17) \$m	Corporate Funds (note 16) \$m	Total \$m
Unlisted debt securities	-	-	70	70
Time deposits with original maturities over three months	189	7,146	1,336	8,671
Other financial assets	-	-	61	61
	<b>189</b>	<b>7,146</b>	<b>1,467</b>	<b>8,802</b>
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	189	7,146	1,336	8,671
More than twelve months	-	-	131	131
	<b>189</b>	<b>7,146</b>	<b>1,467</b>	<b>8,802</b>

	At 31 Dec 2012			
	Clearing House Funds (note 19) \$m	Margin Funds and cash collateral (note 17) \$m	Corporate Funds (note 16) \$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
	<b>217</b>	<b>6,880</b>	<b>1,476</b>	<b>8,573</b>
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
	<b>217</b>	<b>6,880</b>	<b>1,476</b>	<b>8,573</b>

**15. Accounts Receivable, Prepayments and Deposits**

The Group's accounts receivable, prepayments and deposits mainly represented the Group's Continuous Net Settlement money obligations receivable under the T+2 settlement cycle, which accounted for 85 per cent (31 December 2012: 93 per cent) of the total accounts receivable, prepayments and deposits. Continuous Net Settlement money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 60 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

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

**16. Corporate Funds**

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 12)	5,653	4,035
Financial assets measured at fair value through profit or loss (note 13)	2,381	2,306
Financial assets measured at amortised cost (note 14)	1,467	1,476
	<b>9,501</b>	<b>7,817</b>

**17. Margin Deposits and Cash Collateral from Clearing Participants**

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Margin deposits and cash collateral from Clearing Participants comprised (note (a)):		
SEOCH Clearing Participants' margin deposits	4,834	4,125
HKCC Clearing Participants' margin deposits	30,620	30,237
HKSCC Clearing Participants' margin deposits and cash collateral	2,313	2,424
	<b>37,767</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 12)	28,819	27,717
Financial assets measured at fair value through profit or loss (note 13)	1,800	2,186
Financial assets measured at amortised cost (note 14)	7,146	6,880
Margin receivable from Clearing Participants	2	3
	<b>37,767</b>	<b>36,786</b>

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

**18. Accounts Payable, Accruals and Other Liabilities**

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 60 per cent (31 December 2012: 80 per cent) of the total accounts payable, accruals and other liabilities. Continuous Net Settlement money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

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

**19. Clearing House Funds**

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
The Clearing House Funds comprised:		
Clearing Participants' contributions (note (a))	3,969	1,924
Designated reserves (note 23)	586	587
	<b>4,555</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 12)	4,411	2,325
Financial assets measured at amortised cost (note 14)	189	217
	<b>4,600</b>	<b>2,542</b>
Less: Other financial liabilities of Clearing House Funds	(45)	(31)
	<b>4,555</b>	<b>2,511</b>
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	1,090	228
SEOCH Reserve Fund	610	414
HKCC Reserve Fund	2,855	1,869
	<b>4,555</b>	<b>2,511</b>

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

**20. Borrowings**

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Bank borrowings	3,106	3,100
Convertible bonds	3,547	3,515
Total borrowings	<b>6,653</b>	<b>6,615</b>

During the three months ended 31 March 2013, there were no repayments of the bank borrowings, and none of the convertible bonds were redeemed or converted.

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

**21. Share Capital, Share Premium and Shares Held for Share Award Scheme**

Authorised:

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
2,000,000,000 shares of \$1 each	<b>2,000</b>	2,000

Issued and fully paid:

	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon placement of shares	65,705	66	7,642	-	7,708
Shares issued upon exercise of employee share options (note (a))	122	-	2	-	2
Shares issued in lieu of cash dividends	4,004	4	447	(9)	442
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	1	-	1
Shares purchased for Share Award Scheme (note (b))	(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	<b>1,147,408</b>	<b>1,150</b>	<b>8,731</b>	<b>(305)</b>	<b>9,576</b>
Shares issued upon exercise of employee share options (note (a))	13	-	1	-	1
Shares purchased for Share Award Scheme (note (b))	(19)	-	-	(2)	(2)
Vesting of shares of Share Award Scheme (note (c))	88	-	-	10	10
At 31 Mar 2013	<b>1,147,490</b>	<b>1,150</b>	<b>8,732</b>	<b>(297)</b>	<b>9,585</b>

- (a) During the three months ended 31 March 2013, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 13,500 shares (year ended 31 December 2012: 121,500 shares) in HKEx at an average consideration of \$17.72 per share (year ended 31 December 2012: \$17.88 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the three months ended 31 March 2013, the Share Award Scheme acquired 19,300 HKEx shares (year ended 31 December 2012: 737,800 shares) through purchases on the open market. The total amount paid to acquire the shares during the period was \$2 million (year ended 31 December 2012: \$93 million).
- (c) During the three months ended 31 March 2013, the Share Award Scheme transferred 87,812 HKEx shares (year ended 31 December 2012: 644,763 shares) to the awardees upon vesting of certain Awarded Shares and the shares arising from related dividends reinvested. The total cost of the vested shares was \$10 million (year ended 31 December 2012: \$93 million).

**22. Employee Share-based Arrangements**

(a) Equity-settled share-based arrangement

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

No share options were granted during the three months ended 31 March 2013. Details of Awarded Shares awarded during the three months ended 31 March 2013 are set out below:

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

(b) Cash-settled share-based arrangement

The LME Group operates a long-term incentive plan for its employees in the United Kingdom. The plan was set up by the LME Group to provide selected employees with an entitlement, in the form of share options, to a receipt of cash when the options are exercised. During the three months ended 31 March 2013, no share options were granted and options with total value of £3,004,000 were exercised and settled.

At 31 March 2013, all of the remaining outstanding options (31 December 2012: all) were vested, and the liability of \$226 million (31 December 2012: \$279 million) was included in accounts payable, accruals and other liabilities. Subsequent to the reporting period, in April 2013, all of the options were exercised and the liability was fully settled.

**23. Designated Reserves**

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

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Clearing House Funds reserves		
- HKSCC Guarantee Fund reserve	124	124
- SEOCH Reserve Fund reserve	110	111
- HKCC Reserve Fund reserve	352	352
	<b>586</b>	<b>587</b>

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)****24. Retained Earnings (Including Proposed Dividend)**

	2013 \$m	2012 \$m
At 1 Jan	<b>6,881</b>	7,053
Profit attributable to shareholders	<b>1,158</b>	4,084
Transfer from/(to) Clearing House Funds reserves	<b>1</b>	(10)
Dividends:		
2011 final dividend	-	(2,252)
2012 interim dividend	-	(1,996)
Unclaimed HKEx dividends forfeited	-	7
Vesting of shares of Share Award Scheme	<b>(1)</b>	(5)
At 31 Mar 2013/31 Dec 2012	<b>8,039</b>	6,881
Representing:		
Retained earnings	<b>6,364</b>	5,206
Proposed dividend	<b>1,675</b>	1,675
At 31 Mar 2013/31 Dec 2012	<b>8,039</b>	6,881

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

**25. Notes to the Condensed Consolidated Statement of Cash Flows**

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

	<b>Three months ended 31 Mar 2013 \$m</b>	As restated Three months ended 31 Mar 2012 \$m
Profit before taxation	<b>1,386</b>	1,343
Adjustments for:		
Net interest income	<b>(78)</b>	(89)
Dividend income	<b>(2)</b>	(2)
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	<b>(149)</b>	(136)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	<b>(1)</b>	(1)
Finance costs	<b>49</b>	-
Depreciation and amortisation	<b>116</b>	29
Employee share-based compensation benefits	<b>30</b>	29
Gains on disposal of fixed assets	<b>-</b>	(2)
Provision for impairment losses of trade receivables	<b>-</b>	1
Share of loss of a joint venture	<b>2</b>	-
Changes in provisions	<b>-</b>	2
Net (increase)/decrease in financial assets of Margin Funds and cash collateral	<b>(974)</b>	2,906
Net increase/(decrease) in financial liabilities of Margin Funds and cash collateral	<b>981</b>	(2,878)
Net increase in Clearing House Fund financial assets	<b>(2,058)</b>	(506)
Net increase in Clearing House Fund financial liabilities	<b>2,059</b>	505
Net decrease/(increase) in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	<b>6</b>	(97)
Decrease/(increase) in accounts receivable, prepayments and deposits	<b>7,205</b>	(1,026)
(Decrease)/increase in other current liabilities	<b>(6,593)</b>	1,241
Net cash inflow from operations	<b>1,979</b>	1,319
Dividends received	<b>1</b>	2
Interest received from bank deposits	<b>79</b>	86
Interest received from financial assets measured at fair value through profit or loss	<b>15</b>	26
Interest paid to Participants	<b>(1)</b>	(1)
Income tax paid	<b>(202)</b>	(229)
Net cash inflow from operating activities	<b>1,871</b>	1,203

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)****26. Capital Expenditures and Commitments**

During the three months ended 31 March 2013, the Group incurred capital expenditures of \$164 million (2012: \$285 million) and disposed of fixed assets and intangible assets with net book value of less than \$1 million (2012: \$15 million). The capital expenditures incurred were mainly related to the new Data Centre at Tseung Kwan O, development of a new market data system and a commodities clearing system, and upgrade and enhancement of various information technology systems.

At 31 March 2013, the Group's commitments in respect of capital expenditures were as follows:

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Contracted but not provided for		
- fixed assets	55	78
- intangible assets	324	125
Authorised but not contracted for		
- fixed assets	376	358
- intangible assets	232	271
	<b>987</b>	<b>832</b>

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

Subsequent to the reporting period, in April 2013, total capital commitments of \$350 million were further approved mainly for the development of the remaining phases of the clearing system for commodities.

**27. Contingent Liabilities**

At 31 March 2013, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the Securities and Futures Commission (SFC) to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the Securities Ordinance up to an amount not exceeding \$71 million (31 December 2012: \$71 million). Up to 31 March 2013, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant. In the unlikely event that all of its 509 trading Participants covered by the indemnity at 31 March 2013 (31 December 2012: 511) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$102 million (31 December 2012: \$102 million).
- (c) HKEx had given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs of winding up.



**28. Material Related Party Transactions**

(a) Key management personnel compensation

	Three months ended 31 Mar 2013 \$m	Three months ended 31 Mar 2012 \$m
Salaries and other short-term employee benefits	31	19
Employee share-based compensation benefits	11	7
Retirement benefit costs	2	2
	<b>44</b>	<b>28</b>

(b) Post-employment benefit plans

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

(c) Transactions and balance with a joint venture

During the three months ended 31 March 2013, the Group charged the joint venture, China Exchanges Services Company Limited (CESC), a management fee of \$1 million (2012: \$Nil) in respect of management services provided to the joint venture. The amounts due from CESC at 31 March 2013 amounted to \$9 million (31 December 2012: \$7 million).

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

**29. Change in Group Structure**

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

**30. Fair Value of Assets and Liabilities**

- (a) Assets and liabilities carried at fair value

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

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

	At 31 Mar 2013			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
<b>Recurring fair value measurements:</b>				
<b>Assets</b>				
Financial assets measured at fair value through profit or loss:				
- equity securities	248	-	376	624
- debt securities	-	3,550	-	3,550
- forward foreign exchange contracts	7	-	-	7
	255	3,550	376	4,181
<b>Recurring fair value measurements:</b>				
<b>Liabilities</b>				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	2	-	-	2
	2	-	-	2

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

**30. Fair Value of Assets and Liabilities (continued)**

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

	At 31 Dec 2012			Total \$m
	Level 1 \$m	Level 2 \$m	Level 3 \$m	
<b>Recurring fair value measurements:</b>				
<b>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
	219	3,981	292	4,492
<b>Recurring fair value measurements:</b>				
<b>Liabilities</b>				
Other financial liabilities of Corporate Funds:				
Financial liabilities at fair value through profit or loss:				
- forward foreign exchange contracts	6	-	-	6
	6	-	-	6

During the three months ended 31 March 2013, there were no transfers of instruments between Level 1 and Level 2.

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

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

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

**Fair value measurements using significant unobservable inputs (Level 3)**

	Investment in an unlisted company	
	2013 \$m	2012 \$m
At 1 Jan	292	-
Addition through acquisition of subsidiaries	-	289
Gains recognised in profit or loss under net investment income	107	-
Exchange differences recognised in other comprehensive income, under currency translation differences of foreign subsidiaries	(23)	3
At 31 Mar 2013/31 Dec 2012	376	292
Total gains for the period included in profit or loss under net investment income	107	-
Change in unrealised gains for the period included in profit or loss for assets held at 31 Mar 2013/31 Dec 2012, under net investment income	107	-

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

**30. Fair Value of Assets and Liabilities (continued)**

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

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

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Investment in shares in an unlisted company	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	+52/-39	+72/-53
Fair value at 31 March 2013 was \$376 million (31 Dec 2012: \$292 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	-36/+49	-49/+67
	Dilution effect of capital raise to comply with expected changes in regulatory capital	25% to 35%	The higher the dilution, the lower the fair value;	+/-5%	-21/+21	-22/+22
	Discount for value attributable to a minority stake	10% to 20%	The higher the discount, the lower the fair value;	+/-5%	-17/+17	-17/+17
	Premium for probability of sale of shares at an offer price made by an independent third party	45% to 60% to be sold at the offer price	The higher the probability, the higher the fair value.	+/-5%	+9/-9	N/A

As the unlisted investment is not traded in an active market, its fair value has been determined using discounted cash flow valuation techniques. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimate of weighted average cost of capital (WACC), the effect of expected changes in regulation, an adjustment for the value of the investment attributable to a minority stake. For the valuation at 31 March 2013, it also incorporated a premium to reflect the probability of the sale of shares at an offer price made by an independent third party.

**30. Fair Value of Assets and Liabilities (continued)**

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

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

	At 31 Mar 2013		At 31 Dec 2012	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
<b>Financial 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>	61	58	61	58
<b>Financial liabilities</b>				
Borrowings:				
- liability component of convertible bonds <sup>3</sup>	3,547	3,743	3,515	3,723
Financial guarantee to the Collector of Stamp Revenue <sup>4</sup>	20	102	20	102

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

<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. Assets/liabilities without a contractual maturity date are assumed to mature exactly one year after the end of the reporting period. The discount rates used ranged from 0.81 per cent to 2.09 per cent at 31 March 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 convertible bonds. The discount rate used was 1.91 per cent at 31 March 2013 (31 December 2012: 1.88 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 was 1.12 per cent at 31 March 2013 (31 December 2012: 0.59 per cent).

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

**31. Offsetting Financial Assets and Financial Liabilities**

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

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

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

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

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

Type of financial assets	At 31 Mar 2013					
	Gross amount of recognised financial assets \$m	Gross amount of recognised financial liabilities offset in the condensed consolidated statement of financial position \$m	Net amount of financial assets presented in the condensed consolidated statement of financial position \$m	Financial liabilities other than cash collateral \$m	Cash collateral received \$m	Net amount \$m
CNS money obligations receivable	94,449	(88,942)	5,507	(92)	(1,882)	3,533
Other accounts receivable from Participants, information vendors and hosting customers, net of provision for impairment losses	311	-	311	-	(85)	226
<b>Total</b>	<b>94,760</b>	<b>(88,942)</b>	<b>5,818</b>	<b>(92)</b>	<b>(1,967)</b>	<b>3,759</b>

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

31. Offsetting Financial Assets and Financial Liabilities (continued)

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

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

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

Type of financial liabilities	At 31 Mar 2013					
	Gross amount of recognised financial liabilities \$m	Gross amount of recognised financial assets offset in the condensed consolidated statement of financial position \$m	Net amount of financial liabilities presented in the condensed consolidated statement of financial position \$m	Financial assets other than cash collateral \$m	Cash collateral pledged \$m	Net amount \$m
CNS money obligations payable	94,449	(88,942)	5,507	(92)	-	5,415

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

**31. Offsetting Financial Assets and Financial Liabilities (continued)**

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

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

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

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Net amount of financial assets after offsetting as stated above	<b>5,818</b>	12,975
Financial assets not in scope of offsetting disclosures	<b>568</b>	669
Prepayments	<b>103</b>	52
<b>Total accounts receivables, prepayments and deposits</b>	<b>6,489</b>	13,696

	At 31 Mar 2013 \$m	At 31 Dec 2012 \$m
Net amount of financial liabilities after offsetting as stated above	<b>5,507</b>	12,733
Financial liabilities not in scope of offsetting disclosures	<b>3,681</b>	3,105
<b>Total accounts payable, accruals and other liabilities</b>	<b>9,188</b>	15,838

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