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

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

Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

(Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Trading fees and trading tariff	3	1,239	1,465	580	700
Stock Exchange listing fees	4	462	467	218	221
Clearing and settlement fees		723	827	334	409
Depository, custody and nominee services fees		419	394	338	322
Market data fees		286	332	139	164
Other revenue	5	244	246	117	119
REVENUE AND TURNOVER		3,373	3,731	1,726	1,935
Investment income		393	242	165	130
Interest rebates to Participants		(1)	(1)	-	-
Net investment income	6	392	241	165	130
Other income		5	-	4	-
	2	3,770	3,972	1,895	2,065
OPERATING EXPENSES					
Staff costs and related expenses	7	593	518	299	274
Information technology and computer maintenance expenses	8	158	149	78	77
Premises expenses		120	106	63	54
Product marketing and promotion expenses		13	9	7	5
Legal and professional fees		23	17	13	7
Depreciation		56	50	27	24
Other operating expenses		69	67	32	33
	2	1,032	916	519	474
OPERATING PROFIT	2	2,738	3,056	1,376	1,591
Costs relating to proposed acquisition of LME Group	2, 9	110	-	91	-
PROFIT BEFORE TAXATION	2	2,628	3,056	1,285	1,591
TAXATION	10	(412)	(472)	(217)	(245)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		2,216	2,584	1,068	1,346
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		2,216	2,584	1,068	1,346
Basic earnings per share	12(a)	\$2.06	\$2.40	\$0.99	\$1.25
Diluted earnings per share	12(b)	\$2.05	\$2.39	\$0.99	\$1.25

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

		At 30 Jun 2012			At 31 Dec 2011		
	Note	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	13	21,974	-	21,974	18,221	-	18,221
Financial assets measured at fair value							
through profit or loss	14	9,065	182	9,247	11,169	180	11,349
Financial assets measured at amortised cost	15	10,115	196	10,311	15,848	403	16,251
Accounts receivable, prepayments and deposits	16	4,968	23	4,991	7,210	23	7,233
Fixed assets		-	1,448	1,448	-	948	948
Lease premium for land		-	24	24	-	25	25
Deferred tax assets		-	1	1	-	1	1
Total assets		46,122	1,874	47,996	52,448	1,580	54,028
LIABILITIES AND EQUITY							
Liabilities							
Margin deposits from Clearing Participants on derivatives contracts	18	26,671	-	26,671	31,359	-	31,359
Cash collateral from HKSCC Clearing Participants	19	3,550	-	3,550	3,233	-	3,233
Accounts payable, accruals and other liabilities	20	6,651	-	6,651	8,456	-	8,456
Deferred revenue		311	-	311	524	-	524
Taxation payable		444	-	444	262	-	262
Other financial liabilities		78	-	78	60	-	60
Participants' contributions to Clearing House Funds	21	891	-	891	880	-	880
Provisions		38	47	85	35	27	62
Deferred tax liabilities		-	33	33	-	33	33
Total liabilities		38,634	80	38,714	44,809	60	44,869
Equity							
Share capital	22			1,081			1,080
Share premium	22			746			639
Shares held for Share Award Scheme	22			(259)			(296)
Employee share-based compensation reserve	23			120			106
Designated reserves	21, 24			583			577
Retained earnings	25			7,011			7,053
Shareholders' funds				9,282			9,159
Total liabilities and equity				47,996			54,028
Net current assets				7,488			7,639
Total assets less current liabilities				9,362			9,219

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 22) \$m	Employee share-based compensation reserve (note 23) \$m	Designated reserves (note 24) \$m	Retained earnings (note 25) \$m	Total equity \$m
At 1 Jan 2012	1,423	106	577	7,053	9,159
Profit attributable to shareholders	-	-	-	2,216	2,216
2011 final dividend at \$2.09 per share	-	-	-	(2,252)	(2,252)
Unclaimed HKEx dividends forfeited	-	-	-	3	3
Shares issued upon exercise of employee share options	1	-	-	-	1
Shares issued in lieu of cash dividends	102	-	-	-	102
Shares purchased for Share Award Scheme	(2)	-	-	-	(2)
Vesting of shares of Share Award Scheme	44	(41)	-	(3)	-
Employee share-based compensation benefits	-	55	-	-	55
Transfer of reserves	-	-	6	(6)	-
At 30 Jun 2012	1,568	120	583	7,011	9,282

	Share capital, share premium and shares held for Share Award Scheme \$m	Employee share-based compensation reserve \$m	Designated reserves \$m	Retained earnings \$m	Total equity \$m
At 1 Jan 2011	1,275	56	580	6,766	8,677
Profit attributable to shareholders	-	-	-	2,584	2,584
2010 final dividend at \$2.31 per share	-	-	-	(2,487)	(2,487)
Unclaimed HKEx dividends forfeited	-	-	-	3	3
Shares issued upon exercise of employee share options	5	-	-	-	5
Shares issued in lieu of cash dividends	103	-	-	-	103
Shares purchased for Share Award Scheme	(4)	-	-	-	(4)
Vesting of shares of Share Award Scheme	2	(2)	-	-	-
Employee share-based compensation benefits	-	41	-	-	41
Transfer of reserves	1	(1)	1	(1)	-
At 30 Jun 2011	1,382	94	581	6,865	8,922

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Financial figures are expressed in Hong Kong Dollar)

	Note	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	26	2,503	3,500
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(627)	(114)
Net decrease/(increase) in financial assets of the Corporate Funds:			
Decrease in time deposits with original maturities more than three months		673	649
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		-	(1,079)
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		80	1,191
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		453	-
Interest received from financial assets measured at amortised cost (excluding time deposits)		10	8
Interest received from financial assets measured at fair value through profit or loss		44	85
Net cash inflow from investing activities		633	740
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of employee share options		1	5
Purchases of shares for Share Award Scheme		(2)	(4)
Dividends paid		(2,137)	(2,366)
Net cash outflow from financing activities		(2,138)	(2,365)
Net increase in cash and cash equivalents		998	1,875
Cash and cash equivalents at 1 Jan		2,340	1,945
Cash and cash equivalents at 30 Jun		3,338	3,820
Analysis of cash and cash equivalents			
Cash in hand and balances and deposits with banks		3,338	3,820

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 2011 annual consolidated financial statements. Except as described below and the change in the presentation as described in notes 2 and 4, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements and segment information are consistent with those used in the annual consolidated financial statements and segment information for the year ended 31 December 2011.

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

In 2012, Hong Kong Exchanges and Clearing Limited (HKEx) and its subsidiaries (collectively the Group) have early adopted the following new/revised HKFRSs where early adoption is permitted:

Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 19 (2011)	Employee Benefits
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

The amendments to HKAS 1 (Revised) require companies to classify items within other comprehensive income under two categories: (i) items which may be reclassified to profit or loss in the future and (ii) items which would never be reclassified to profit or loss. The adoption of the amended HKAS 1 (Revised) does not have any impact to the Group as it currently does not have any other comprehensive income items.

HKAS 19 (2011) eliminates the option of deferring the recognition of gains and losses arising from defined benefit plans, and enhances the disclosure requirements for defined benefit plans. The early adoption of HKAS 19 (2011) does not have any impact to the Group as it does not have a defined benefit plan.

Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under HKAS 27 (Revised) (for companies) or exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities). The adoption of HKFRS 10 does not have any financial impact to the Group as all entities within the Group are wholly-owned and satisfy the requirements for control under HKFRS 10.

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new requirements for unconsolidated structured entities. The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement. The adoption of HKFRS 13 affects certain disclosures of the Group's financial statements.

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

1. Basis of Preparation and Accounting Policies (continued)

Change in useful lives of leasehold buildings and leasehold improvements

Effective from 1 January 2012, the estimated useful lives of leasehold buildings and leasehold improvements were revised to better reflect the useful lives of the fixed assets as follows:

	Old useful lives	New useful lives
Leasehold buildings	25 years	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 5 years	Over the remaining lives of the leases but not exceeding 10 years

The effect of the above changes in estimated useful lives resulted in a decrease in depreciation charge of less than \$1 million for the six months ended 30 June 2012.

2. Operating Segments

The Group determines its operating segments based on the management information reviewed by the chief operating decision-maker that is used to make strategic decisions.

In 2012, the Group has amended the format of management information provided to the chief operating decision-maker for the purpose of assessing the performance of the operating segments. Previously, 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 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. Income and expenses that are directly attributable to the reportable segments are not affected. Comparative figures have been restated to conform with the current period’s presentation.

The Group has four reportable segments (“Corporate Items” is not a reportable segment). The segments are managed separately as each business offers different products and services and requires different information technology systems and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

The **Cash Market** business mainly refers to the operations of The Stock Exchange of Hong Kong Limited (Stock Exchange), which covers all products traded on the Cash Market platforms, such as equities, callable bull/bear contracts (CBBCs) and derivative warrants (DWs). Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Results of the listing function are included in the Cash Market. Stock Exchange listing fees and costs of the listing function are further explained in note 4.

The **Derivatives Market** business refers to the derivatives products traded on Hong Kong Futures Exchange Limited and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as stock and equity index futures and options. Its income mainly comprises trading fees, trading tariff and net investment income on the Margin Funds invested.

2. Operating Segments (continued)

The **Clearing Business** refers to the operations of the three clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SECH) 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 income is derived primarily from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Clearing House Funds.

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

An analysis of the Group's four reportable segment profit before taxation for the period is shown below and reconciled to the Group's total as follows:

	Six months ended 30 Jun 2012					
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Corporate Items \$m	Group \$m
Income from external customers	1,474	393	1,218	288	-	3,373
Net investment income	-	213	19	-	160	392
Other income	-	-	5	-	-	5
	1,474	606	1,242	288	160	3,770
Operating expenses	362	96	188	44	342	1,032
Reportable segment operating results	1,112	510	1,054	244	(182)	2,738
Costs relating to proposed acquisition of LME Group	-	-	-	-	110	110
Reportable segment profit before taxation	1,112	510	1,054	244	(292)	2,628

	As restated Six months ended 30 Jun 2011					
	Cash Market \$m	Derivatives Market \$m	Clearing Business \$m	Market Data \$m	Corporate Items \$m	Group \$m
Income from external customers	1,695	403	1,300	333	-	3,731
Net investment income	-	124	11	-	106	241
	1,695	527	1,311	333	106	3,972
Operating expenses	335	88	182	36	275	916
Reportable segment profit before taxation	1,360	439	1,129	297	(169)	3,056

3. Trading Fees and Trading Tariff

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	822	1,033	369	492
Derivatives contracts traded on the Derivatives Market	417	432	211	208
	1,239	1,465	580	700

4. Stock Exchange Listing Fees

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

	Six months ended 30 Jun 2012				As restated Six months ended 30 Jun 2011			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	218	12	2	232	203	12	1	216
Initial and subsequent issue listing fees	48	5	175	228	39	3	206	248
Other listing fees	2	-	-	2	3	-	-	3
Total	268	17	177	462	245	15	207	467
Direct costs of listing function	140	34	10	184	127	28	8	163
Contribution to Cash Market segment operating results	128	(17)	167	278	118	(13)	199	304

	Three months ended 30 Jun 2012				As restated Three months ended 30 Jun 2011			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Stock Exchange listing fees								
Annual listing fees	109	6	1	116	102	6	1	109
Initial and subsequent issue listing fees	18	2	81	101	24	1	85	110
Other listing fees	1	-	-	1	2	-	-	2
Total	128	8	82	218	128	7	86	221
Direct costs of listing function	68	17	5	90	65	15	4	84
Contribution to Cash Market segment operating results	60	(9)	77	128	63	(8)	82	137

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

The costs listed above are regulatory in nature, which comprise costs of the listing function on vetting Initial Public Offerings and 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.

Previously, 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 listing function. As a result of the change in the format of management information provided to the chief operating decision-maker (note 2), these costs are no longer included as costs of the listing function. Comparative figures have been restated to conform with current period's presentation.

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

5. Other Revenue

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Network, terminal user, dataline and software sub-license fees	198	194	95	93
Participants' subscription and application fees	18	17	9	8
Trading booth user fees	6	8	3	4
Sales of Trading Rights	9	13	4	6
Miscellaneous revenue	13	14	6	8
	244	246	117	119

6. Net Investment Income

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Gross interest income	182	103	92	62
Interest rebates to Participants	(1)	(1)	-	-
Net interest income	181	102	92	62
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	203	133	67	64
Others	8	6	6	4
Net investment income	392	241	165	130

7. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Salaries and other short-term employee benefits	496	443	251	236
Employee share-based compensation benefits	55	41	26	21
Termination benefits	2	-	2	-
Retirement benefit costs (note 29(b))	40	34	20	17
	593	518	299	274

8. Information Technology and Computer Maintenance Expenses

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Costs of services and goods:				
- consumed by the Group	77	75	37	40
- directly consumed by Participants	81	74	41	37
	158	149	78	77

9. Costs Relating to Proposed Acquisition of LME Group

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Legal and professional fees	108	-	90	-
Others	2	-	1	-
	110	-	91	-

The costs above are solely incurred for the proposed acquisition of LME Holdings Limited (LMEH) and its subsidiary, The London Metal Exchange Limited (LME), collectively referred to as the LME Group. LME is a leading exchange for the trading of base metals forward and options contracts. Both LMEH and LME are companies incorporated in England and Wales.

On 15 June 2012, HKEx, HKEx Investment (UK) Limited (HKEx Investment) and LMEH entered into an agreement under which HKEx Investment made an offer to acquire the entire issued ordinary share capital of LMEH for cash by way of a scheme of arrangement and a capital reduction under the United Kingdom Companies Act. The offer price is £1.388 billion (\$16.89 billion) based on 12,900,000 LMEH shares at £107.60 (\$1,309.09) per share. The consideration was determined on an arm's length basis. The Group has obtained banking facilities of more than \$20 billion in relation to the proposed acquisition.

Under the agreement, the acquisition is conditional upon the satisfaction of certain conditions (including the approval of LMEH shareholders, the approval of The Financial Services Authority of the United Kingdom (FSA) and sanction by the High Court of Justice of England and Wales). Completion of the proposed acquisition is expected to be during the fourth quarter of 2012 (note 32).

HKEx Investment has agreed to pay LMEH a break fee of (i) £25 million (\$304 million) if the agreement is terminated in the event that FSA does not grant approval for the change of control or (ii) £30 million (\$365 million) if HKEx is in material breach of its warranty or the agreement and such breach is not capable of remedy within 10 business days. LMEH has agreed to pay HKEx Investment a break fee of £25 million (\$304 million) if the agreement is terminated in certain circumstances and an offer or proposal by a third party competitor to acquire more than 50% of LMEH, LME or any material part of the business or assets of the LME Group completes or becomes unconditional within 12 months after the termination of the agreement.

10. Taxation

Taxation charge in the condensed consolidated statement of comprehensive income represented:

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%)	412	462	212	245
Deferred taxation	-	10	5	-
	412	472	217	245

11. Dividends

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m	Three months ended 30 Jun 2012 \$m	Three months ended 30 Jun 2011 \$m
Interim dividend declared of \$1.85 (2011: \$2.16) per share at 30 Jun	2,000	2,331	2,000	2,331
Less: Dividend for shares held by Share Award Scheme at 30 Jun	(4)	(4)	(4)	(4)
	1,996	2,327	1,996	2,327

12. Earnings Per Share

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

(a) Basic earnings per share

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011
Profit attributable to shareholders (\$m)	2,216	2,584	1,068	1,346
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,933	1,076,687	1,078,175	1,076,876
Basic earnings per share (\$)	2.06	2.40	0.99	

(b) Diluted earnings per share

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011
Profit attributable to shareholders (\$m)	2,216	2,584	1,068	1,346
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,077,933	1,076,687	1,078,175	1,076,876
Effect of employee share options (in '000)	838	1,177	822	1,098
Effect of Awarded Shares (in '000)	2,083	1,391	1,984	1,380
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,080,854	1,079,255	1,080,981	1,079,354
Diluted earnings per share (\$)	2.05	2.39	0.99	1.25

13. Cash and Cash Equivalents

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Cash and cash equivalents:		
- Clearing House Funds (note 21)	835	835
- Margin Funds (note 18)	14,703	12,719
- Cash collateral (note 19)	3,098	2,327
(note (a))	18,636	15,881
- Corporate Funds (note 17)	3,338	2,340
	21,974	18,221

- (a) The cash and cash equivalents of Clearing House Funds, 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 purpose in the condensed consolidated statement of cash flows.

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

	At 30 Jun 2012			
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Corporate Funds (note 17) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
- listed in Hong Kong	-	-	135	135
- listed outside Hong Kong	-	-	311	311
	-	-	446	446
Debt securities:				
- listed in Hong Kong	-	-	272	272
- listed outside Hong Kong	128	-	1,474	1,602
- unlisted	44	4,483	2,386	6,913
	172	4,483	4,132	8,787
Derivative financial instruments:				
- forward foreign exchange contracts	-	-	14	14
	172	4,483	4,592	9,247
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	172	4,483	4,410	9,065
More than twelve months	-	-	182	182
	172	4,483	4,592	9,247

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

	At 31 Dec 2011			
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Corporate Funds (note 17) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Equity securities:				
- listed in Hong Kong	-	-	102	102
- listed outside Hong Kong	-	-	284	284
	-	-	386	386
Debt securities:				
- listed in Hong Kong	-	-	217	217
- listed outside Hong Kong	125	283	1,914	2,322
- unlisted	159	5,982	2,251	8,392
	284	6,265	4,382	10,931
Derivative financial instruments:				
- forward foreign exchange contracts	-	-	32	32
	284	6,265	4,800	11,349
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months (note (a))	284	6,265	4,620	11,169
More than twelve months	-	-	180	180
	284	6,265	4,800	11,349

- (a) Included financial assets maturing after twelve months of \$1,776 million (31 December 2011: \$1,867 million) attributable to the Margin Funds that could readily be liquidated to meet liquidity requirements of the Funds.

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

15. Financial Assets Measured at Amortised Cost

At 30 Jun 2012					
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Cash collateral (note 19) \$m	Corporate Funds (note 17) \$m	Total \$m
Debt securities:					
- listed outside Hong Kong	-	-	-	246	246
- unlisted	-	-	-	378	378
	-	-	-	624	624
Time deposits with original maturities over three months	519	7,472	452	1,182	9,625
Other financial assets	-	-	-	62	62
	519	7,472	452	1,868	10,311
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	519	7,472	452	1,672	10,115
More than twelve months	-	-	-	196	196
	519	7,472	452	1,868	10,311
At 31 Dec 2011					
	Clearing House Funds (note 21) \$m	Margin Funds (note 18) \$m	Cash collateral (note 19) \$m	Corporate Funds (note 17) \$m	Total \$m
Debt securities:					
- listed outside Hong Kong	-	-	-	245	245
- unlisted	-	-	-	461	461
	-	-	-	706	706
Time deposits with original maturities over three months	367	12,368	906	1,855	15,496
Other financial assets	-	-	-	49	49
	367	12,368	906	2,610	16,251
The expected recovery dates of the financial assets are analysed as follows:					
Within twelve months	367	12,368	906	2,207	15,848
More than twelve months	-	-	-	403	403
	367	12,368	906	2,610	16,251

16. 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 87 per cent (31 December 2011: 90 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.

17. Corporate Funds

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
The Group's Corporate Funds were invested in the following instruments:		
Cash and cash equivalents (note 13)	3,338	2,340
Financial assets measured at fair value through profit or loss (note 14)	4,592	4,800
Financial assets measured at amortised cost (note 15)	1,868	2,610
	9,798	9,750

18. Margin Deposits from Clearing Participants on Derivatives Contracts

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Margin deposits from Clearing Participants comprised (note (a)):		
SEIOCH Clearing Participants' margin deposits	4,230	5,302
HKCC Clearing Participants' margin deposits	22,441	26,057
	26,671	31,359
The margin deposits were invested in the following instruments for managing the obligations of the Margin Funds:		
Cash and cash equivalents (note 13)	14,703	12,719
Financial assets measured at fair value through profit or loss (note 14)	4,483	6,265
Financial assets measured at amortised cost (note 15)	7,472	12,368
Margin receivable from Clearing Participants	13	7
	26,671	31,359

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

19. Cash Collateral from HKSCC Clearing Participants

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Cash collateral from HKSCC Clearing Participants (note (a))	3,550	3,233
The cash collateral was invested in the following instruments:		
Cash and cash equivalents (note 13)	3,098	2,327
Financial assets measured at amortised cost (note 15)	452	906
	3,550	3,233

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

20. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities mainly represented the Group's Continuous Net Settlement money obligations payable, which accounted for 65 per cent (31 December 2011: 77 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.

21. Clearing House Funds

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
The Clearing House Funds were attributable to:		
Clearing Participants' cash contributions (note (a))	891	880
Designated reserves (note 24)	583	577
	1,474	1,457
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds:		
Cash and cash equivalents (note 13)	835	835
Financial assets measured at fair value through profit or loss (note 14)	172	284
Financial assets measured at amortised cost (note 15)	519	367
	1,526	1,486
Less: Other financial liabilities of Clearing House Funds	(52)	(29)
	1,474	1,457
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	228	226
SEOCH Reserve Fund	407	578
HKCC Reserve Fund	839	653
	1,474	1,457

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

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

		At 30 Jun 2012 \$m	At 31 Dec 2011 \$m		
Authorised:					
2,000,000,000 shares of \$1 each		2,000	2,000		
Issued and fully paid:					
	Number of shares of \$1 each '000	Share capital \$m	Share premium \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2011	1,076,436	1,078	416	(219)	1,275
Shares issued upon exercise of employee share options (note (a))	470	-	8	-	8
Shares issued in lieu of cash dividends (note (b))					
- total	1,345	2	213	-	215
- to Share Award Scheme	(47)	-	-	(7)	(7)
	1,298	2	213	(7)	208
Transfer from employee share-based compensation reserve upon exercise of employee share options	-	-	2	-	2
Shares purchased for Share Award Scheme (note (c))	(628)	-	-	(80)	(80)
Vesting of shares of Share Award Scheme (note (d))	94	-	-	10	10
At 31 Dec 2011	1,077,670	1,080	639	(296)	1,423
At 1 Jan 2012	1,077,670	1,080	639	(296)	1,423
Shares issued upon exercise of employee share options (note (a))	34	-	1	-	1
Shares issued in lieu of cash dividends (note (b))					
- total	861	1	106	-	107
- to Share Award Scheme	(37)	-	-	(5)	(5)
	824	1	106	(5)	102
Shares purchased for Share Award Scheme (note (c))	(21)	-	-	(2)	(2)
Vesting of shares of Share Award Scheme (note (d))	361	-	-	44	44
At 30 Jun 2012	1,078,868	1,081	746	(259)	1,568

- (a) During the six months ended 30 June 2012, employee share options granted under the Post-Listing Share Option Scheme were exercised to subscribe for 34,000 shares (year ended 31 December 2011: 469,900 shares) in HKEx at an average consideration of \$18.98 per share (year ended 31 December 2011: \$18.29 per share), of which \$1.00 per share was credited to share capital and the balance was credited to the share premium account.
- (b) During the six months ended 30 June 2012, 860,935 new fully paid HKEx shares (year ended 31 December 2011: 1,344,394 shares) were issued and allotted at \$124.46 per share (year ended 31 December 2011: weighted average price of \$159.12 per share) to the shareholders (including 37,053 new shares (year ended 31 December 2011: 46,895 shares) allotted to the Share Award Scheme) who elected to receive HKEx shares in lieu of cash pursuant to the scrip dividend scheme.
- (c) During the six months ended 30 June 2012, the Share Award Scheme acquired 21,700 HKEx shares (year ended 31 December 2011: 627,700 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 2011: \$80 million).

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

- (d) During the six months ended 30 June 2012, the Share Award Scheme transferred 360,970 HKEx shares (year ended 31 December 2011: 94,421 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 \$44 million (year ended 31 December 2011: \$10 million).

23. Employee Share-based Compensation Reserve

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

No share options were granted during the six months ended 30 June 2012. Details of Awarded Shares awarded during the six months ended 30 June 2012 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 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

24. Designated Reserves

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

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Clearing House Funds reserves		
- HKSCC Guarantee Fund reserve	124	123
- SEOCH Reserve Fund reserve	110	110
- HKCC Reserve Fund reserve	349	344
	583	577

25. Retained Earnings (Including Proposed Dividend)

	2012 \$m	2011 \$m
At 1 Jan	7,053	6,766
Profit attributable to shareholders	2,216	5,093
Transfer (to)/from Clearing House Funds reserves	(6)	3
Dividends:		
2011/2010 final dividend	(2,252)	(2,487)
2011 interim dividend	-	(2,327)
Unclaimed HKEx dividends forfeited	3	6
Vesting of shares of Share Award Scheme	(3)	(1)
At 30 Jun 2012/31 Dec 2011	7,011	7,053
Representing:		
Retained earnings	5,015	4,801
Proposed dividend	1,996	2,252
At 30 Jun 2012/31 Dec 2011	7,011	7,053

26. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 Jun 2012 \$m	Six months ended 30 Jun 2011 \$m
Profit before taxation	2,628	3,056
Adjustments for:		
Net interest income	(181)	(102)
Dividend income	(7)	(6)
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	(203)	(133)
Forfeiture of unclaimed cash dividends held by HKSCC Nominees Limited	(5)	-
Depreciation	56	50
Employee share-based compensation benefits	55	41
Gain on disposal of fixed assets	(1)	-
Provision for impairment losses of trade receivables	1	3
Changes in provisions	4	3
Net decrease/(increase) in Margin Fund financial assets	4,720	(3,640)
Net (decrease)/increase in Margin Fund financial liabilities	(4,688)	3,630
Net increase in Clearing House Fund financial assets	(36)	(1,181)
Net increase in Clearing House Fund financial liabilities	34	1,178
Net increase in financial assets of cash collateral	(317)	(944)
Net increase in cash collateral received from HKSCC Clearing Participants	317	944
Net (increase)/decrease in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(218)	243
Decrease in accounts receivable, prepayments and deposits	2,285	2,328
Decrease in other current liabilities	(1,945)	(1,921)
Net cash inflow from operations	2,499	3,549
Dividends received	7	5
Interest received from bank deposits	174	94
Interest received from financial assets measured at fair value through profit or loss	54	61
Interest paid	(1)	(1)
Hong Kong Profits Tax paid	(230)	(208)
Net cash inflow from operating activities	2,503	3,500

27. Capital Expenditures and Commitments

During the six months ended 30 June 2012, the Group incurred capital expenditures of \$572 million (2011: \$233 million) and disposed of fixed assets with net book value of \$16 million (2011: less than \$1 million). The capital expenditures incurred were mainly on the new Data Centre at Tseung Kwan O with Hosting Services capability.

In addition to that disclosed in note 9, the Group had the following commitments at 30 June 2012:

(a) Capital commitments

At 30 June 2012, the Group's commitments in respect of capital expenditures were as follows:

	At 30 Jun 2012 \$m	At 31 Dec 2011 \$m
Contracted but not provided for	500	729
Authorised but not contracted for	884	876
	1,384	1,605

The commitments in respect of capital expenditures were mainly related to the construction of the new Data Centre at Tseung Kwan O, the development of the next generation market data system, the Over-the-Counter derivatives clearing system and Central Gateway for the Cash Market, and the upgrade and enhancement of the Derivatives Market's trading and clearing systems.

(b) Investment commitments

On 28 June 2012, HKEx, the Shanghai Stock Exchange and the Shenzhen Stock Exchange entered into a tripartite agreement to establish a joint venture with an aim of developing financial products and related services. In accordance with the agreement, HKEx had a commitment to invest \$100 million in the joint venture.

28. Contingent Liabilities

In addition to that disclosed in note 9, the Group's material contingent liabilities at 30 June 2012 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 2011: \$71 million). Up to 30 June 2012, 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 503 trading Participants covered by the indemnity at 30 June 2012 (31 December 2011: 498) defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$101 million (31 December 2011: \$100 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.

29. Material Related Party Transactions

(a) Key management personnel compensation

	Six months ended 30 Jun 2012	Six months ended 30 Jun 2011	Three months ended 30 Jun 2012	Three months ended 30 Jun 2011
Salaries and other short-term employee benefits	38	36	19	19
Employee share-based compensation benefits	15	12	8	6
Retirement benefit costs	3	3	1	1
	56	51	28	26

(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). The retirement benefit costs charged to the condensed consolidated statement of comprehensive income represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees (note 7).

(c) 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.

30. Changes in Group Structure

On 26 March 2012, The Stock Exchange Nominee Limited, a dormant indirect subsidiary of HKEx held by the Stock Exchange, was renamed as HKEx Hosting Services Limited. On 2 April 2012, all of the shares of HKEx Hosting Services Limited were transferred to HKEx at a consideration of \$2. There is no financial impact to the Group on the share transfer. The principal activity of HKEx Hosting Services Limited is the provision of hosting services.

On 16 May 2012, OTC Clearing Hong Kong Limited, a new direct wholly-owned subsidiary of HKEx, was incorporated. The company will act as a clearing house for over-the-counter derivatives.

On 5 June 2012, HKEx International Limited, a new direct wholly-owned subsidiary of HKEx, was incorporated and will act as an investment holding company. On 14 June 2012, HKEx Investment (UK) Limited, a company with limited liability and registered in England and Wales, was acquired by HKEx International Limited at a consideration of £1. HKEx Investment (UK) Limited will act as the holding company for the proposed acquisition of the LME Group (note 9).

31. Fair Value of Financial Assets and Financial Liabilities

(a) Financial assets and financial liabilities carried at fair value

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures, with the fair value of each financial asset and financial 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 financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

	At 30 Jun 2012		
	Level 1 \$m	Level 2 \$m	Total \$m
Recurring fair value measurements:			
Assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	446	-	446
- debt securities	-	8,787	8,787
- forward foreign exchange contracts	14	-	14
	460	8,787	9,247
Recurring fair value measurements:			
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	6	-	6

31. Fair Value of Financial Assets and Financial Liabilities (continued)

(a) Financial assets and financial liabilities carried at fair value (continued)

	At 31 Dec 2011		
	Level 1 \$m	Level 2 \$m	Total \$m
Recurring fair value measurements:			
Assets			
Financial assets measured at fair value through profit or loss:			
- equity securities	386	-	386
- debt securities	-	10,931	10,931
- forward foreign exchange contracts	32	-	32
	418	10,931	11,349
Recurring fair value measurements:			
Liabilities			
Other financial liabilities of Corporate Funds:			
Financial liabilities at fair value through profit or loss:			
- forward foreign exchange contracts	11	-	11

During the six months ended 30 June 2012, no financial assets or financial liabilities were classified under Level 3 and 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.

31. Fair Value of Financial Assets and Financial 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. The carrying amounts of short-term receivables (eg, accounts receivable, deposits and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	At 30 Jun 2012		At 31 Dec 2011	
	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m	Carrying amount in condensed consolidated statement of financial position \$m	Fair value \$m
Financial assets				
Financial assets measured at amortised cost:				
- debt securities ¹	624	626	706	710
- other financial assets maturing over one year ²	62	59	49	48
Financial liabilities				
Financial guarantee contract ³	20	101	20	86

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

² The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. Assets 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 0.84 per cent to 1.75 per cent at 30 June 2012 (31 December 2011: 0.83 per cent to 1.13 per cent).

³ 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 0.96 per cent at 30 June 2012 (31 December 2011: 1.46 per cent).

32. Events after the Reporting Period

Subsequent to 30 June 2012, the proposed scheme of arrangement to implement the acquisition of LMEH by HKEx was approved, and the relevant special resolutions were passed, by the requisite majorities of the ordinary shareholders of LMEH on 25 July 2012. The proposed acquisition remains subject to the approval of FSA and the sanction of the scheme of arrangement and capital reduction by the High Court of Justice of England and Wales. The acquisition is expected to complete during the fourth quarter of 2012.

BOARD OF DIRECTORS

As at 8 August 2012, the board of directors of HKEx comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Ronald Joseph ARCULLI, 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, 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.