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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)

(Financial figures in this announcement are expressed in Hong Kong dollar unless otherwise stated)

QUARTERLY RESULTS **FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014**

The board of directors (Board) of Hong Kong Exchanges and Clearing Limited (HKEx or the Company) is pleased to submit the unaudited consolidated results of the Company and its subsidiaries (collectively, the Group) for the nine months ended 30 September 2014.

FINANCIAL HIGHLIGHTS

Financial figures are expressed in
 \$million (\$m) unless otherwise stated

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Revenue and other income	7,092	6,574	8%
Operating expenses	2,176	2,018	8%
EBITDA ¹	4,916	4,556	8%
Profit attributable to shareholders	3,654	3,528	4%
Basic earnings per share	\$3.14	\$3.07	2%

- Revenue and other income for the nine months ended 30 September 2014 (YTD Q3 2014) exceeded \$7 billion and increased by 8 per cent (\$518 million) compared with the same period in 2013 (YTD Q3 2013).
- The overall growth in revenue and other income reflects increased trading volumes and related revenue as well as growth in all other categories of income. The change against the prior period was partly offset by a one-off gain of \$108 million, on the investment in LCH.Clearnet Group Limited, recorded in YTD Q3 2013.
- Operating expenses increased by 8 per cent against YTD Q3 2013 mainly due to the higher staff costs on the increased headcount of the LME Group² as well as higher legal fees for defending litigation in the United Kingdom and the United States of America. This was partly offset by a recovery of \$54 million from the liquidators of Lehman Brothers Securities Asia Limited (LBSA) in May 2014.
- EBITDA increased by 8 per cent compared to YTD Q3 2013. The overall EBITDA margin remained stable at 69 per cent, marginally higher than the 68 per cent achieved for the year ended 31 December 2013.
- Profit attributable to shareholders increased by 4 per cent (\$126 million) to \$3,654 million as higher EBITDA was partly offset by an increase in depreciation and amortisation and taxation. The increase in depreciation and amortisation was principally attributable to the Hong Kong data centre at Tseung Kwan O, the final phase of which was completed in late 2013 as well as the roll-out of various new technology systems and upgrades. Taxation increased relative to the prior period due to a one-off deferred tax credit of \$108 million in YTD Q3 2013 arising from a reduction of the corporate tax rate in the United Kingdom.
- Profit attributable to shareholders for the three months ended 30 September 2014 (Q3 2014) was 8 per cent higher than the previous quarter (Q2 2014). The increase in trading and clearing revenue due to higher trading volumes in Q3 2014 was partly offset by a drop in scrip fee income, due to seasonal fluctuations and the recovery from the liquidators of LBSA in Q2 2014.

¹ For the purposes of this announcement, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint venture.

² The LME Group includes HKEx Investment (UK) Limited, LME Holdings Limited (LMEH), The London Metal Exchange (the LME) and LME Clear Limited (LME Clear).

BUSINESS REVIEW

Business Update and Analysis of Results by Operating Segment

	Nine months ended 30 Sept 2014		Nine months ended 30 Sept 2013		Change	
	Revenue and other income \$m	EBITDA \$m	Revenue and other income \$m	EBITDA \$m	Revenue and other income %	EBITDA %
Results by segment:						
Cash	2,005	1,663	1,804	1,467	11%	13%
Equity and Financial Derivatives	1,221	920	1,271	949	(4%)	(3%)
Commodities	962	522	905	556	6%	(6%)
Clearing	2,479	2,062	2,176	1,759	14%	17%
Platform and Infrastructure	307	189	256	159	20%	19%
Corporate Items	118	(440)	162	(334)	(27%)	32%
	7,092	4,916	6,574	4,556	8%	8%

Cash Segment

Business Update

In YTD Q3 2014, the total equity funds raised, including initial public offering (IPO) funds of \$131.4 billion, amounted to \$611.4 billion, an increase of 220 per cent when compared with YTD Q3 2013. As at 30 September 2014, the total market capitalisation of companies listed on the Main Board and the Growth Enterprise Market (GEM) of The Stock Exchange of Hong Kong Limited (Stock Exchange) was \$24.4 trillion.

The average daily turnover value (ADT) of equity products for YTD Q3 2014 was \$52.4 billion on the Main Board and \$0.7 billion on the GEM, increases of 4 per cent and 179 per cent respectively against the same period last year. Overall market sentiment towards both the Hong Kong and A-share markets became more positive in the third quarter driving higher turnover in the Cash segment.

During Q3 2014, 1 additional Renminbi (RMB) Qualified Foreign Institutional Investor Exchange Traded Fund (ETF) tracking the CSI 300 Index was listed on the Stock Exchange, while 4 ETFs were delisted. As at 30 September 2014, there were 121 ETFs, 11 Real Estate Investment Trusts and 578 debt securities listed on the Stock Exchange.

During Q3 2014, HKEx continued with its listing promotion work, targeting technology, media, telecommunications, consumer goods and services sectors in Hong Kong, the Mainland and overseas.

In August 2014, the Stock Exchange published a concept paper on weighted voting rights to seek the market's views on whether governance structures that give certain persons voting power or other related rights disproportionate to their shareholding should be permissible for companies listed or seeking to list on the Stock Exchange. The concept paper explains the relevance of weighted voting rights to investor protection; describes the current Hong Kong position; and provides a comprehensive comparison with the approaches adopted in other jurisdictions. The Stock Exchange considers it important that there be a comprehensive public debate in Hong Kong on this topic and looks forward to receiving comments and views from a broad cross-section of the market community. The deadline for responses is 30 November 2014.

The Stock Exchange is reviewing responses to its consultations on: (i) proposed changes to the section of its Corporate Governance Code and Corporate Governance Report relating to internal controls; and (ii) proposed changes to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited relating to the disclosure of financial information and minor policy issues. The Stock Exchange aims to release its conclusions for (i) later this year and for (ii) early next year.

During Q3 2014, the Stock Exchange published amendments to Chapter 20 of the Main Board Listing Rules governing Collective Investment Schemes authorised by the Securities and Futures Commission (SFC). The amendments will be applicable to the listing applications submitted to the Stock Exchange on or after 10 November 2014. Also, with effect from 1 October 2014, an Application Proof will be published on the HKExnews website at the same time as a new applicant files a listing application with the Stock Exchange.

Analysis of Results

Revenue

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Trading fees and trading tariff [#]	1,135	1,047	8%
Stock Exchange listing fees [#]	482	418	15%
Market data fees [#]	320	297	8%
Other revenue	68	42	62%
Total	2,005	1,804	11%

[#] Excludes derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants, which are included in the Equity and Financial Derivatives segment

Trading fees and trading tariff rose by 8 per cent compared to YTD Q3 2013. This arose from a 5 per cent increase in ADT of equity products, a 2 per cent increase in the number of trading days, higher revenue from more equity funds raised and a rise in trading tariff earned on an increased number of transactions as the average transaction size was lower in YTD Q3 2014.

Stock Exchange listing fees rose by 15 per cent due to more IPOs and an increase in the total number of listed companies at 30 September 2014 compared with 30 September 2013.

Market data fees increased by 8 per cent compared with the same period in 2013 due to the introduction of new datafeeds with the launch of HKEx Orion Market Data Platform in the second half of 2013 together with greater demand for non-display data services.

Other revenue increased by 62 per cent due to higher brokerage fees on direct IPO allotments.

Key Market Indicators

	Nine months ended 30 Sept 2014	Nine months ended 30 Sept 2013	Change
ADT of equity products traded on the Stock Exchange (\$billion or \$bn)	53.1	50.4	5%
Number of newly listed companies on Main Board [^]	75	34	121%
Number of newly listed companies on GEM	14	11	27%
Number of companies listed on Main Board at 30 Sept	1,521	1,399	9%
Number of companies listed on GEM at 30 Sept	200	186	8%
Total	1,721	1,585	9%

[^] Includes 6 transfers from GEM (2013: 3)

EBITDA

Operating expenses increased marginally by \$5 million or 1 per cent due to an increase in staff costs. As a result, the EBITDA margin increased to 83 per cent (YTD Q3 2013: 81 per cent).

Equity and Financial Derivatives Segment
Business Update

In YTD Q3 2014, the average daily number of futures and options contracts traded on Hong Kong Futures Exchange Limited (Futures Exchange) decreased by 10 per cent and the average daily number of stock options contracts traded on the Stock Exchange increased by 11 per cent compared with YTD Q3 2013. The total open interest of all futures and options contracts on 30 September 2014 was 7,980,600 contracts, up 17 per cent from 6,822,588 the previous year.

The ADT of DWs, CBBCs and warrants traded on the Stock Exchange in YTD Q3 2014 was \$12.6 billion, a decline of 6 per cent compared with YTD Q3 2013.

During YTD Q3 2014, 1,905,544 contracts were traded during the after-hours futures trading session. They accounted for 6 per cent of the volume of the day session during the period. The closing time for the after-hours trading of stock index futures and USD/CNH (US dollar/RMB traded in Hong Kong) futures, has been extended from 11:00 pm to 11:45 pm effective 3 November 2014 to increase the overlap with the trading hours in the United States of America (US).

HKEx's CES China 120 Index Futures was awarded "The Best New Contract – Index and equities" by FOW, a leading news and data service for the international futures and options industry, in its 2014 awards for Asia.

Analysis of Results
Revenue

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Trading fees and trading tariff	756	822	(8%)
Stock Exchange listing fees	338	319	6%
Market data fees	121	123	(2%)
Other revenue	6	7	(14%)
Total	1,221	1,271	(4%)

Trading fees and trading tariff decreased by 8 per cent due to lower ADT of DWs, CBBCs and warrants traded on the Stock Exchange, a 10 per cent drop in the average daily number of derivatives contracts traded on the Futures Exchange, and a higher proportion of trades being lower fee products such as the H-shares index futures and options. The decrease was partially offset by a 2 per cent increase in the number of trading days and higher average daily number of stock options contracts traded compared to YTD Q3 2013.

Stock Exchange listing fees rose by 6 per cent as there were more newly listed DWs and CBBCs during YTD Q3 2014.

Key Market Indicators

	Nine months ended 30 Sept 2014	Nine months ended 30 Sept 2013	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	12.6	13.4	(6%)
Average daily number of derivatives contracts traded on the Futures Exchange	259,269	289,429	(10%)
Average daily number of stock options contracts traded on the Stock Exchange	277,324	249,781	11%
Number of newly listed DWs	5,574	5,218	7%
Number of newly listed CBBCs	7,501	6,792	10%

EBITDA

Operating expenses dropped by \$21 million, or 7 per cent, mainly due to lower premises costs following renewal of certain leases and the redeployment of additional staff to strategic capital projects. As a result, EBITDA margin remained stable at 75 per cent.

Commodities Segment
Business Update

In YTD Q3 2014, the average daily volume at the LME was 705,320 lots, an increase of 4 per cent compared with YTD Q3 2013. During the nine-month period under review, increases in the average daily volume were recorded year-on-year in the following: (i) lead, zinc and tin increased between 2 and 6 per cent; (ii) aluminium rose 3 per cent; and (iii) nickel grew by 49 per cent. Declines were noted in the turnover of certain contracts, including an 8 per cent decrease in the copper contracts year-on-year.

Futures market open interest (MOI) at the end of September 2014 was of 2,377,497 lots, representing a 5 per cent decrease from the MOI reported at the end of September 2013. Nickel futures MOI rose 21 per cent compared with the MOI reported at the end of September 2013, while the other principal contracts experienced declines in MOI.

In YTD Q3 2014, an average of 147,600 lots per day traded across LMEselect, down 0.7 per cent year-on-year.

In line with market demand for broader transparency, from August 2014 the LME has published a Commitments of Traders Report (COTR), which is available on its website. The COTR is designed to reflect the nature of the predominant business activity that LME Members and their clients are involved in. The COTR is published on a weekly basis and consists of a report for each business day of the previous week.

In late September 2014, the LME announced a new fee schedule to support the ongoing programme of investment that is transforming the business. The new simplified tariff provides an all-in transaction fee with trading and clearing components, all now charged in USD, thereby aligning the LME's fees with the currency of the contracts traded. Under the new fee schedule, the average LME transaction fee (including trading and clearing) has been announced as increasing by 34 per cent, although the final tariff is still being discussed with LME Members and could be subject to minor revisions. The new tariff comes into effect on 1 January 2015 and more information is available on the LME website.

In October 2014, the LME launched the LMENet, a dedicated network to provide market participants with a fast, reliable and secure connection to the LME's and LME Clear's electronic systems.

HKEx will introduce its first Asia Commodities contracts – London Aluminium Mini Futures, London Zinc Mini Futures and London Copper Mini Futures – for trading on 1 December 2014. These 3 metal mini contracts will be monthly cash settled and traded in RMB. Trading details are available on the HKEx website.

As more fully described on pages 13 to 14 under Contingent Liabilities, certain Group companies continue to be involved in litigation related to the metals warehousing industry.

Analysis of Results

Revenue

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Trading fees and trading tariff	700	645	9%
Market data fees	135	131	3%
Other revenue	127	129	(2%)
Total	962	905	6%

Trading fees and trading tariff rose by 9 per cent compared to YTD Q3 2013 as a result of a 4 per cent increase in average daily volume of metals contracts traded on the LME together with an appreciation of pound sterling (GBP) over the year.

Key Market Indicators

	Nine months ended 30 Sept 2014	Nine months ended 30 Sept 2013	Change
Average daily volume of metals contracts traded on LME (lots)	705,320	680,234	4%

EBITDA

Operating expenses rose by \$91 million or 26 per cent compared to YTD Q3 2013. Approximately half of this increase was attributable to \$45 million of legal fees (2013: \$4 million) incurred in respect of the US class action lawsuits and a judicial review claim filed in the United Kingdom (UK). The balance of the increase reflects investment in additional headcount related to key infrastructure and business development initiatives. As a result, EBITDA fell by 6 per cent to \$522 million and EBITDA margin declined from 61 per cent in YTD Q3 2013 to 54 per cent in YTD Q3 2014.

Clearing Segment

Business Update

The relevant rules and procedures of the Group clearing houses in Hong Kong were revised to take into account the requirements for Reporting Financial Institutions under the US Foreign Account Tax Compliance Act and became effective 1 July 2014.

In response to the recommendations provided in the Financial Sector Assessment Program’s Technical Note on Oversight and Supervision of Financial Market Infrastructures published by the International Monetary Fund, Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited and The SEHK Options Clearing House Limited discontinued accepting bank guarantees as an approved type of collateral for any purpose with effect from 1 September 2014. HKSCC has also published on the HKEx website its Principles for Financial Market Infrastructures disclosure document on 10 October 2014 in accordance with the disclosure framework set forth by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions, or IOSCO.

The Group’s 4 clearing houses in Hong Kong have each submitted an application to the European Securities and Markets Authority as a third country central counterparty.

HKEx has submitted its written comments to the Bills Committee formed by the Legislative Council to study the Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014. As a member of the Uncertificated Securities Market Working Group, HKEx will continue to work with the SFC and other stakeholders to finalise the technical details of the operational model, and to prepare for the relevant subsidiary legislation for the launch of an uncertificated securities market regime in Hong Kong. In support of a regulatory regime for the over-the-counter derivatives market in Hong Kong, OTC Clearing Hong Kong Limited (OTC Clear) has also provided its views on the proposed mandatory reporting and record keeping requirements set out in the joint consultation conducted by the Hong Kong Monetary Authority and the SFC.

LME Clear, the new clearing house for the LME market, was launched on 22 September 2014. All 43 LME Clearing Members transferred a total of over 2.2 million positions, representing the whole of the open interest for the LME market. LME Clear will provide an immediate revenue stream for the Group in the fourth quarter of 2014, and will be a major contributor to results in 2015.

Analysis of Results

Revenue and Other Income

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	130	135	(4%)
Clearing and settlement fees	1,319	1,225	8%
Depository, custody and nominee services fees	597	523	14%
Other revenue and sundry income	27	18	50%
Total revenue	2,073	1,901	9%
Net investment income	406	275	48%
Total revenue and other income	2,479	2,176	14%

Trading fees and trading tariff allocated from Equity and Financial Derivatives segment fell due to a decrease in the number of derivatives contracts traded on the Futures Exchange but partly offset by an increase in the number of stock options contracts traded (see Equity and Financial Derivatives Segment commentary above).

Clearing and settlement fees rose with the increase in ADT on the Stock Exchange, an increase in the number of trading days, and a reduction in average transaction size that has led to more clearing transactions being subject to the minimum fee. LME Clear also generated \$15 million of clearing fees after its launch on 22 September 2014.

Depository, custody and nominee services fees increased by 14 per cent due to higher scrip fees, stock withdrawal fees, dividend collection fees, corporate action fees and electronic IPO services fees.

The analysis of net investment income is as follows:

	<u>Nine months ended 30 Sept 2014</u>			<u>Nine months ended 30 Sept 2013</u>		
	Average fund size \$bn	Net investment income \$m	Annualised net investment return %	Average fund size \$bn	Net investment income \$m	Annualised net investment return %
Margin Funds and cash collateral [^]	46.9	388	1.10%	42.5	263	0.82%
Clearing House Funds ^{^#}	4.1	18	0.58%	3.9	12	0.41%
Total	51.0	406	1.06%	46.4	275	0.79%

[^] Includes funds received from Participants of LME Clear from 22 September 2014

[#] In April 2014, \$156 million previously earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear was segregated into designated bank accounts and separately managed. Accordingly, this amount is now disclosed under Clearing House Funds instead of Corporate Funds.

The increase in the average fund size of Margin Funds and cash collateral during the period was due to significant amounts of cash collateral collected from LME Clear Participants, with effect from launch on 22 September 2014, which has increased the overall average for the period.

The higher net investment income and return of the Margin Funds and cash collateral in 2014 were mainly attributable to a rise in interest income from higher bank deposit rates.

EBITDA

Operating expenses remained stable as the recovery from LBSA's liquidators was fully offset by an increase in the costs of developing LME Clear. EBITDA of the segment rose by 17 per cent to \$2,062 million as compared to YTD Q3 2013, and EBITDA margin increased from 81 per cent in YTD Q3 2013 to 83 per cent in YTD Q3 2014.

Platform and Infrastructure Segment

Business Update

HKEx is completing the final phase of the Orion Market Data initiative for the Derivatives Market (OMD-D), which is scheduled for launch on 17 November 2014.

With the increasing number of Exchange Participants migrating to the Orion Central Gateway (OCG), trading via the OCG accounted for approximately 38 per cent of the total daily turnover of the Cash Market.

HKEx has started the enrolment process and completed the acceptance testing for the New Securities Trading Device (NSTD) that will replace the legacy Automatic Order Matching and Execution System, or AMS, Terminals and Multi-workstation System, or MWS, trading devices. It is expected that the NSTD migration will commence in the fourth quarter of 2014.

The Genium information technology platform upgrade of the Derivatives Market's trading and clearing systems was awarded "The Best Technology Innovation by an Exchange" by FOW in September 2014.

Analysis of Results

Revenue

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Network, terminal user, dataline and software sub-license fees	227	194	17%
Hosting services fees	72	54	33%
Others	8	8	0%
Total	307	256	20%

Network, terminal user, dataline and software sub-license fees rose by 17 per cent. This arose from increases in Cash Market trading system line rental income, due to the launch of OCG, and Derivatives Market trading system sub-license fee income, due to the roll-out of the Genium system.

Hosting services fees increased by 33 per cent due to increased number of racks taken up by customers.

EBITDA

Operating expenses increased by \$21 million, or 22 per cent due to higher operating costs of hosting services and increased information technology costs consumed by Participants. EBITDA margin remained the same as YTD Q3 2013 at 62 per cent, as revenue and operating expenses rose by similar percentages.

Corporate Items

“Corporate Items” is not a business segment but comprises central income (mainly net investment income of Corporate Funds) and central costs (mainly costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments).

Revenue and Other Income

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Change
Net investment income	115	158	(27%)
Others	3	4	(25%)
Total	118	162	(27%)

The analysis of net investment income is as follows:

	<u>Nine months ended 30 Sept 2014</u>			<u>Nine months ended 30 Sept 2013</u>		
	Average fund size \$bn	Net investment income \$m	Annualised net investment return %	Average fund size \$bn	Net investment income \$m	Annualised net investment return %
Corporate Funds	11.0	115	1.39%	9.3	158	2.28%

The average fund size of Corporate Funds increased mainly due to profits retained from prior periods.

In YTD Q3 2013 a non-recurring fair value gain on the LME’s investment in shares of LCH.Clearnet Group Limited of \$108 million was recognised. Excluding this one-off gain the underlying investment income of Corporate Funds in YTD Q3 2014 showed a 130 per cent increase over the prior period.

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

Shanghai-Hong Kong Stock Connect

HKEx has actively prepared for the launch of Shanghai-Hong Kong Stock Connect (Stock Connect), a firm-wide strategic initiative that will establish mutual stock market access between Shanghai and Hong Kong.

In terms of technical readiness, a Connectivity Test (CT) and 2 rounds of Market Rehearsals (MRs) were conducted and completed between 23 August and 13 September 2014. A total of 97 Stock Exchange Participants, accounting for 80 per cent of the total market turnover, participated in the CT and MRs to assess their readiness for handling the Northbound trading of Stock Connect.

In terms of exchanges and clearing houses' readiness for Stock Connect, the Stock Exchange has received approval from the SFC for related amendments to the Rules of the Exchange. HKSCC has also received approval from the SFC for related amendments to the Rules and Operational Procedures of The Central Clearing and Settlement System, or CCASS. These amendments have been published.

In terms of market readiness, since the commencement of the market communication programme on 29 April 2014, briefings have been conducted for brokers, and system and information vendors on key business model features and technical arrangements to prepare industry practitioners. On the investor education front, HKEx has organised seminars and workshops for both institutional and retail investors in Hong Kong, the Mainland and the rest of the world, and a wide variety of marketing collaterals, such as information books, flyers, educational videos, etc. have been made available online and distributed to investors. HKEx worked with industry organisations, including brokers, broker associations and fund associations on some of the events. In September 2014, HKEx and the Shanghai Stock Exchange conducted a joint international roadshow in 11 cities across Europe, North America and the Middle East. The exchanges reached out to over 260 buy-side firms over the 2-week trip.

At the date of this announcement, HKEx had not received the relevant approval for the launch of Stock Connect, and there was no firm date for its implementation.

FINANCIAL REVIEW

Financial Assets and Financial Liabilities by Funds

	At 30 Sept 2014 \$m	At 31 Dec 2013 \$m	Change
Financial assets			
Cash and cash equivalents *	140,874	41,452	240%
Financial assets measured at fair value through profit or loss	61,259	3,902	1,470%
Financial assets measured at amortised cost	8,422	9,046	(7%)
Total	210,555	54,400	287%

* Following the launch of LME Clear, the amount of cash and cash equivalents has increased as a result of Margin Funds and contribution to Clearing House Funds collected by LME Clear. At 30 September 2014, \$81,590 million (31 December 2013: \$Nil) was included in this balance and financial liabilities of the 2 Funds.

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

	At 30 Sept 2014 \$m	At 31 Dec 2013 \$m	Change
Financial assets			
Clearing House Funds #	9,440	4,471	111%
Margin Funds and cash collateral ^	133,126	39,787	235%
Corporate Funds #	67,989	10,142	570%
Total	210,555	54,400	287%

At 31 December 2013, \$156 million of the Group's Corporate Funds was earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear. This was subsequently transferred to separately designated and managed accounts, amounted to \$157 million at 30 September 2014, and is included in Clearing House Funds for presentation purposes.

^ Excludes margin receivable from Clearing Participants of \$11 million (31 December 2013: \$6 million)

	At 30 Sept 2014 \$m	At 31 Dec 2013 \$m	Change
Financial liabilities			
Participants' contributions to Clearing House Funds	8,629	3,884	122%
Financial liabilities at fair value through profit or loss of Corporate Funds	58,176	6	969,500%
Margin deposits and cash collateral from Clearing Participants	131,786	39,793	231%
Borrowings of Margin Funds@	1,351	-	N/A
Total	199,942	43,683	358%

@ At 30 September 2014, there was a temporary overdraft of \$1,351 million in one of the Margin Fund bank accounts of LME Clear. The overdraft was caused by the delay in settlement by one of the members' settlement banks, causing an over-investment in cash and cash equivalents by LME Clear's investment services agent, Citibank N.A.. The overdraft was fully repaid on 1 October 2014.

The increase in financial assets and financial liabilities of Margin Funds and cash collateral at 30 September 2014 against those at 31 December 2013 was mainly due to the launch of LME Clear where \$75,402 million of Margin Funds were received from its Participants at 30 September 2014.

The increase in financial assets and financial liabilities of Clearing House Funds at 30 September 2014 against those at 31 December 2013 was mainly due to the launch of LME Clear where \$4,837 million of contributions to Clearing House Funds were received from its Participants at 30 September 2014.

Derivative financial assets and derivative financial liabilities of \$58,174 million were recorded on the condensed consolidated statement of financial position in respect of fair value of outstanding contracts of LME Clear which acts as a central counterparty to all metal contracts traded on the LME.

Excluding the increase in derivative financial assets attributable to LME Clear, Corporate Funds at 30 September 2014 decreased by \$327 million or 3 per cent during the nine-month period ended 30 September 2014. The decrease was attributable to the payment of the 2013 final and 2014 interim dividends and a previously accrued \$1.2 billion liability to LBSA's liquidators relating to dividends withheld from LBSA's clients. This was partly offset by cash generated from profits during the period.

Borrowings

In January 2014, HKEx issued US\$95 million of fixed rate notes to independent third parties at par to replace an equivalent amount of floating rate bank borrowings. The notes will mature in 5 years and bear interest at 2.85 per cent per annum payable semi-annually in arrears.

In July 2014, the Group refinanced existing bank borrowings with a new bank loan of US\$205 million at a lower interest rate. The new bank loan will mature within 7 years.

Capital Expenditure and Commitments

During the first nine months of 2014, the Group incurred capital expenditure of \$349 million (2013: \$443 million) on the development and upgrade of various trading and clearing systems including a commodities clearing system, a Central Gateway for Cash Market trading, a new market data platform, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong.

The Group's capital expenditure commitments at 30 September 2014, including those authorised by the Board but not yet contracted for, amounted to \$647 million (31 December 2013: \$878 million) and were related to the development and enhancement of information technology systems including a market data system, clearing systems for over-the-counter derivatives, a Central Gateway for Cash Market trading, and trading and clearing systems to facilitate mutual stock market access between the mainland of China and Hong Kong. The Group has adequate resources to fund its capital expenditure commitments.

Contingent Liabilities

At 30 September 2014, there were no significant changes in the Group's contingent liabilities compared to 31 December 2013, except as described below.

(i) US litigation

Since August 2013, 26 class actions have been filed against the LME in the US alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. In March 2014, 24 of the class actions were consolidated into 3 complaints, with 2 complaints remaining unconsolidated. HKEx was named as a defendant only in the consolidated complaint filed by direct purchasers of primary aluminium; LMEH was named as a defendant in all 3 of the consolidated complaints, and the LME was named in all 5 of the complaints.

At the end of August 2014, the US District Court for the Southern District of New York (US District Court) dismissed all 5 complaints brought against the LME on the ground of sovereign immunity and leave to re-plead was denied to all the plaintiffs. The US District Court also dismissed all the claims brought against HKEx and LMEH.

However, in September 2014, the plaintiffs in 2 of the dismissed consolidated complaints against the LME and LMEH exercised their automatic right of appeal and filed an appeal with the US Court of Appeals for the Second Circuit (US Court of Appeals), and in October 2014, the US Court of Appeals ordered that the appeals be held in abeyance until the US Supreme Court has ruled on whether the US Court of Appeals has jurisdiction to decide on these appeals. Further, on 9 October 2014, the direct purchasers of primary aluminium filed their proposed amended complaints, naming the LME, LMEH, and HKEx as defendants (the Aluminium Amended Complaints). All 3 companies continue to defend the claims vigorously and will file their opposition in December 2014.

Since May 2014, 3 class actions have been filed against the LME, LMEH, and HKEx in the US alleging anti-competitive and monopolistic behaviour in the warehousing market in connection with zinc prices. An initial status conference for these cases was held in July 2014, at which the plaintiffs were ordered to file a consolidated amended complaint by the end of September 2014. Following developments in the aluminium warehousing litigation mentioned above, the US District Court ordered on 22 September 2014 that all the zinc cases be held in abeyance until after the US District Court has made a decision on the Aluminium Amended Complaints.

The LME and HKEx management continue to take the view that all the lawsuits are without merit, and each of the LME, LMEH and HKEx will contest them vigorously.

As it is not yet clear how the US proceedings will be dealt with by the US District Court, the Group does not currently have sufficient information to estimate the financial effect (if any) relating to the lawsuits, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be.

(ii) UK litigation

In December 2013, the LME was named as a defendant in a judicial review claim filed by United Company RUSAL Plc (Rusal) in the English High Court (High Court) to challenge the LME's decision to introduce rule changes to the delivery out rates of LME approved warehouses. In March 2014, the High Court handed down judgement in favour of Rusal, quashing the LME's consultation on the rule changes and the decision to implement such changes.

At the end of July 2014, the LME appealed to the English Court of Appeal (Court of Appeal) and on 8 October 2014, the Court of Appeal unanimously found in favour of the LME on all grounds and set aside the quashing order of the High Court. The Court of Appeal also denied Rusal's application for permission to appeal to the Supreme Court and ordered Rusal to pay the LME's costs, to be assessed if not agreed. In mid-October, Rusal made an application for permission to appeal directly to the Supreme Court. The LME will contest the application vigorously.

Pursuant to the Court of Appeal's decision, Rusal has reimbursed the GBP200,000 (HK\$2.5 million) which the LME paid in April 2014 as interim payment on account of Rusal's costs of the High Court hearing. Further, Rusal is required to and has paid the LME a similar amount as interim payment on account of the LME's costs. As negotiations regarding costs have yet to begin and Rusal has sought permission to appeal from the Supreme Court, the LME is not currently in a position to estimate the financial effect of the appeal.

Charges on Assets

One of the Group's subsidiaries, LME Clear, holds securities as collateral against overnight triparty reverse repurchase agreements under which its investment services agent, Citibank N.A., is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$6,202 million (HK\$48,159 million) as at 30 September 2014 (31 December 2013: HK\$Nil).

This collateral, which was not recorded on the condensed consolidated statement of financial position of the Group at 30 September 2014, has been repledged to Citibank N.A. under a first floating charge arrangement for the settlement and depository services it provides in respect of the collateral held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

LME Clear has also pledged a security interest to Citibank N.A. in relation to a liquidity facility that supports its cash and investment management activity. LME Clear's Margin Funds owed US\$174 million (HK\$1,351 million) under this facility as at 30 September 2014 (see Financial Assets and Financial Liabilities by Funds commentary above), secured by cash and cash equivalents amounting to US\$3,221 million (HK\$25,011 million) invested by Citibank N.A. on LME Clear's behalf.

Changes since 31 December 2013

There were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2013.

It is the Group's practice to declare a dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter of 2014 (third quarter of 2013: \$Nil).

Due to fluctuations in market conditions and changes in the operating environment, certain categories of revenue, other income and operating expenses may vary substantially from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

Review of Financial Statements

The Audit Committee has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for YTD Q3 2014 in conjunction with HKEx's external auditor.

The external auditor has carried out certain agreed-upon procedures on the Unaudited Condensed Consolidated Financial Statements for YTD Q3 2014 in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

Purchase, Sale or Redemption of HKEx's Listed Securities

During YTD Q3 2014, neither HKEx nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Prospects

With the preparation for the Stock Connect programme largely completed, we will continue to engage Participants as well as investors to familiarise them with the programme. We believe that the Stock Connect programme, when launched, will provide new opportunities and create momentum for the further development of the Hong Kong capital markets. It is also expected to improve the Group's securities market liquidity while also broadening its investor base. More importantly, this strategic initiative supports the further opening up of mainland China's capital markets and the promotion of the internationalisation of RMB.

The launch of the Group's new clearing house, LME Clear, on 22 September together with the recently announced new fee schedule of the LME, effective 1 January 2015, marked the start of a new chapter for both HKEx and the LME. These changes represent not only a step in the realisation of the LME's commercial potential but also additional freedom and leverage for the Group to pursue its strategic options, particularly relating to new products, new currencies, and new time zones.

Progress is being made with the Group's strategic plan, but there is much more to be done. HKEx remains confident that with support from its shareholders and market participants, it is well placed to meet future challenges and to capitalise on opportunities arising from changes on the Mainland and in the world's financial markets.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2014 \$m	Three months ended 30 Sept 2013 \$m
Trading fees and trading tariff		2,721	2,649	956	833
Stock Exchange listing fees		820	737	279	241
Clearing and settlement fees		1,319	1,225	476	386
Depository, custody and nominee services fees		597	523	218	178
Market data fees		576	551	194	181
Other revenue		525	448	172	151
REVENUE AND TURNOVER		6,558	6,133	2,295	1,970
Investment income and other income		534	441	176	164
REVENUE AND OTHER INCOME		7,092	6,574	2,471	2,134
OPERATING EXPENSES					
Staff costs and related expenses		(1,266)	(1,119)	(444)	(364)
Information technology and computer maintenance expenses		(375)	(386)	(114)	(136)
Premises expenses		(220)	(224)	(75)	(75)
Product marketing and promotion expenses		(23)	(19)	(5)	(5)
Legal and professional fees		(146)	(96)	(43)	(41)
Other operating expenses:					
Reversal of provision for impairment losses arising from Participants' default on market contracts	2	54	-	-	-
Others		(200)	(174)	(72)	(56)
		(2,176)	(2,018)	(753)	(677)
EBITDA		4,916	4,556	1,718	1,457
Depreciation and amortisation		(481)	(352)	(157)	(119)
OPERATING PROFIT		4,435	4,204	1,561	1,338
Finance costs		(153)	(137)	(55)	(45)
Share of loss of a joint venture		(7)	(7)	(2)	(3)
PROFIT BEFORE TAXATION		4,275	4,060	1,504	1,290
TAXATION		(640)	(532)	(223)	(90)
PROFIT FOR THE PERIOD		3,635	3,528	1,281	1,200
PROFIT/(LOSS) ATTRIBUTABLE TO:					
- Shareholders of HKEx		3,654	3,528	1,287	1,200
- Non-controlling interests		(19)	-	(6)	-
PROFIT FOR THE PERIOD		3,635	3,528	1,281	1,200
Basic earnings per share	3	\$3.14	\$3.07	\$1.10	\$1.04
Diluted earnings per share	3	\$3.14	\$3.06	\$1.10	\$1.04

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2014 \$m	Three months ended 30 Sept 2013 \$m
PROFIT FOR THE PERIOD	3,635	3,528	1,281	1,200
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences of foreign subsidiaries recorded in exchange reserve	(295)	(28)	(899)	1,150
OTHER COMPREHENSIVE INCOME	(295)	(28)	(899)	1,150
TOTAL COMPREHENSIVE INCOME	3,340	3,500	382	2,350
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
- Shareholders of HKEx	3,359	3,500	388	2,350
- Non-controlling interests	(19)	-	(6)	-
TOTAL COMPREHENSIVE INCOME	3,340	3,500	382	2,350

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Note	At 30 Sept 2014			At 31 Dec 2013		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents		140,874	–	140,874	41,452	–	41,452
Financial assets measured at fair value through profit or loss		61,130	129	61,259	3,761	141	3,902
Financial assets measured at amortised cost		8,365	57	8,422	8,986	60	9,046
Accounts receivable, prepayments and deposits		10,509	6	10,515	10,940	6	10,946
Taxation recoverable		–	–	–	7	–	7
Interest in a joint venture		–	80	80	–	87	87
Goodwill and other intangible assets		–	18,403	18,403	–	18,680	18,680
Fixed assets		–	1,618	1,618	–	1,753	1,753
Lease premium for land		–	23	23	–	23	23
Deferred tax assets		–	36	36	–	47	47
Total assets		220,878	20,352	241,230	65,146	20,797	85,943
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss		58,176	–	58,176	6	–	6
Margin deposits and cash collateral from Clearing Participants		131,786	–	131,786	39,793	–	39,793
Accounts payable, accruals and other liabilities		11,452	15	11,467	12,815	19	12,834
Deferred revenue		270	–	270	593	–	593
Taxation payable		783	–	783	379	–	379
Other financial liabilities		31	–	31	21	–	21
Participants' contributions to Clearing House Funds		8,629	–	8,629	3,884	–	3,884
Borrowings		1,351	7,014	8,365	–	6,921	6,921
Provisions		68	58	126	47	47	94
Deferred tax liabilities		–	863	863	–	900	900
Total liabilities		212,546	7,950	220,496	57,538	7,887	65,425
Equity							
Share capital	4			12,218			1,161
Share premium	4			–			10,167
Shares held for Share Award Scheme				(175)			(174)
Employee share-based compensation reserve				193			105
Exchange reserve				273			568
Convertible bond reserve				409			409
Designated reserves				644			586
Reserve relating to written put options to non-controlling interests				(217)			(217)
Retained earnings							
- Proposed dividend				–			1,995
- Others				7,295			5,805
Equity attributable to shareholders of HKEX				20,640			20,405
Non-controlling interests				94			113
Total equity				20,734			20,518
Total liabilities and equity				241,230			85,943
Net current assets				8,332			7,608
Total assets less current liabilities				28,684			28,405

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2014 \$m	Three months ended 30 Sept 2013 \$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash inflow from operating activities	5	3,570	4,312	1,718	1,674
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for purchases of fixed assets and intangible assets		(530)	(531)	(135)	(168)
Net decrease in financial assets of the Corporate Funds:					
Decrease in time deposits with original maturities more than three months		1,239	1,242	110	411
Net proceeds from sales or maturity of financial assets measured at amortised cost (excluding time deposits)		70	24	70	–
Net proceeds from sales or maturity of financial assets measured at fair value through profit or loss		–	282	–	35
Interest received from financial assets measured at amortised cost (excluding time deposits)		1	1	1	–
Interest received from financial assets measured at fair value through profit or loss		19	21	6	7
Net cash inflow from investing activities		799	1,039	52	285
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares upon exercise of employee share options		9	1	–	–
Purchases of shares for Share Award Scheme		–	(2)	–	–
Proceeds from issuance of notes		737	–	–	–
Payments of transaction costs on issuance of notes		(2)	–	–	–
Proceeds from new bank borrowings		1,589	–	1,589	–
Payments of transaction costs on new bank borrowings		(6)	–	(6)	–
Repayments of bank borrowings		(2,326)	–	(1,589)	–
Payments of finance costs		(58)	(62)	(18)	(18)
Dividends paid to shareholders of HKEX		(3,226)	(2,280)	(1,954)	(1,150)
Net cash outflow from financing activities		(3,283)	(2,343)	(1,978)	(1,168)
Net increase/(decrease) in cash and cash equivalents		1,086	3,008	(208)	791
Cash and cash equivalents at beginning of period		6,375	4,035	7,711	6,211
Exchange differences on cash and cash equivalents		(34)	19	(76)	60
Cash and cash equivalents at end of period		7,427	7,062	7,427	7,062
Analysis of cash and cash equivalents					
Cash on hand and balances, deposits with banks and short-term investments of Corporate Funds		7,427	7,062	7,427	7,062

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**1. Basis of Preparation and Accounting Policies**

These unaudited condensed consolidated financial statements should be read in conjunction with the 2013 annual 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 2013.

2. Reversal of Provision for Impairment Losses Arising from Participants' Default on Market Contracts

In prior years, the Group lodged claims with the LBSA's liquidators in respect of the losses of approximately \$160 million previously recognised in the Group's results. In May 2014, the liquidators declared an interim dividend and the amount received has been recognised in the Group's condensed consolidated income statement for the nine months ended 30 September 2014.

No further adjustment in respect of the claims has been made in these results, as the Group is unable to estimate with any degree of accuracy the outcome of further distributions, if any, from the liquidators.

3. Earnings per Share

The calculation of basic earnings per share for the nine months and three months ended 30 September 2014 was based on profit attributable to HKEx's shareholders during the respective periods and the weighted average number of shares in issue, after deducting shares held for the HKEx Employees' Share Award Scheme (Share Award Scheme), of 1,163 million (2013: 1,150 million) and 1,166 million (2013: 1,152 million) respectively.

The calculation of diluted earnings per share for the nine months and three months ended 30 September 2014 was based on profit attributable to HKEx's shareholders during the respective periods and the adjusted weighted average number of shares of 1,165 million (2013: 1,152 million) and 1,167 million (2013: 1,155 million) respectively. The adjusted weighted average number of shares was derived from deducting shares held for the Share Award Scheme and reflecting the potential dilutive effects of awarded shares and share options related to employee incentive schemes. The effects of outstanding convertible bonds were not included in the computation as they were anti-dilutive.

4. Share Capital and Share Premium

On 3 March 2014, the new Hong Kong Companies Ordinance Chapter 622 (new CO) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance on the share premium was transferred to share capital.

5. Notes to the Condensed Consolidated Statement of Cash Flows

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

	Nine months ended 30 Sept 2014 \$m	Nine months ended 30 Sept 2013 \$m	Three months ended 30 Sept 2014 \$m	Three months ended 30 Sept 2013 \$m
Profit before taxation	4,275	4,060	1,504	1,290
Adjustments for:				
Net interest income	(450)	(273)	(160)	(110)
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	(53)	(162)	(3)	(45)
Finance costs	153	137	55	45
Depreciation and amortisation	481	352	157	119
Other non-cash transactions	46	77	33	25
Net changes in financial assets and financial liabilities of Clearing House Funds, Margin Funds and cash collateral	(60)	10	(2)	9
Net increase in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	(98)	(9)	(25)	(9)
Other working capital changes	(984)	(1)	(17)	224
Net cash inflow from operations	3,310	4,191	1,542	1,548
Interest received from operating activities	493	320	173	125
Income tax paid	(237)	(202)	–	–
Others	4	3	3	1
Net cash inflow from operating activities	3,570	4,312	1,718	1,674

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Joseph MAU
 Company Secretary

Hong Kong, 5 November 2014

At the date of this announcement, the Board comprises 11 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 Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.