(Registered Number: 07611628)

LME Clear Limited

Directors' report and financial statements

31 December 2017

LME Clear Limited

Directors and Independent auditors

Directors
The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Directors

M J Chamberlain	(appointed 8 May 2017)
J B Harrison	(resigned 26 April 2017)
M Humphery	
G P Jones	(resigned 23 January 2017)
T W Spanner	
M Strimer	
R Thornhill (Chairman)	
K Patel	
A J W Farnham	
A J Stuart	
S K W Yiu	(appointed 12 June 2017)

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London, SE1 2RT

LME Clear Limited

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2017. The business review should be read in conjunction with the Directors' report on pages 4 to 6.

Review of the business

In 2017 volumes cleared in respect of contracts traded on the London Metal Exchange ("LME") totalled 157 million lots (2016: 156 million), which represents an increase of 0.6% in volumes compared to 2016.

During 2017 LME Clear made systems upgrades to its Clearing System LMEmercury and its clearing data warehouse to ensure it was compliant with all applicable Markets in Financial Instruments Directive II (MiFID II) regulations which came into force on 3 January 2018 and revised reporting requirements from the Bank of England.

In April 2017, the LME alongside LME Clear published a Discussion Paper on Market Structure, outlining the LME's analysis on various topics of key interest to the ongoing development of the market. In September 2017, the LME alongside LME Clear published an analysis of the feedback received together with an announcement of the "LME Strategic Pathway". The Strategic Pathway sets out the LME's proposed route to further develop its franchise over the next three years – including proposed new contracts, systems upgrades and market structure changes.

As result of the Strategic Pathway LME Clear reduced fees on both short- and medium-dated carries (on 1 October 2017 and 1 November 2017 respectively) to further support the physical user base and encourage use of the daily date structure.

The LMEprecious contracts were successfully launched on 10 July 2017, and 639,546 lots (1,989 tonnes) of gold and 95,625 lots (14,871 tonnes) of silver were traded in 2017.

The results show a profit before tax for the year of $44,945,000 (2016: $51,948,000) and after accounting for taxation profit of $36,458,000 (2016: $41,744,000).

As at 31 December 2017 the Company had net assets of $241,919,000 (2016: $226,804,000), margin deposits of $10,708,919,000 (2016: $8,861,348,000) and default funds of $1,172,820,000 (2016: $581,321,000).

No final dividend is proposed in respect of 2017 (2016: $nil). The Company paid an interim dividend of $21,500,000 in the year (2016: $15,910,000).

Strategy

The Company's strategy continues to focus on clearing the existing contracts traded on the LME. In addition, the Company will also seek to clear any new products developed by the LME and to diversify its clearing services to existing and prospective members.

The Company will seek to assist the ultimate parent company, Hong Kong Exchanges and Clearing Limited (HKEX)'s vision to build a leading global multi asset class exchange and associated clearing business, and capitalise on new opportunities arising, including those from the further development of China's financial markets.

Business environment

The Company is a Clearing House authorised under the European Market Infrastructure Regulation (EMIR). The Company acts as a central counterparty (CCP) for exchange contracts traded on the LME. The clearing service principally provides counterparty risk mitigation services for its clearing members.

The Company operates in a highly regulated, competitive and technology-intensive environment. Against this background, the Company will continue to offer robust and resilient clearing services and improve its offering to its members.

Strategic report (continued)

Principal risks and uncertainties

As a CCP the Company sits in the middle of trades as a buyer to every seller and the seller to every buyer and as a result it recognises derivative instruments in respect of both sides of the trade. During the life of a trade the Company processes all cash flows, marks the trade to market and calls variation and initial margin in relation to the risk of the portfolio, this process is called clearing. If either party defaults on the trade the company owns the defaulter's risk and becomes accountable for its liabilities. In the event of default the collateral held by the Company is used to fulfil the failed organisation's obligations, which ensure that the party on the other side of the trade is not negatively impacted by the default.

The Company's activities as a CCP expose it to a number of risks, including market risk, credit risk and liquidity risk. The Company manages these risks through various control mechanisms which are discussed in detail in note 17. Central to the CCP's risk process is its ability to collect quality collateral from its members as support for their positions. Cash collateral collected from clearing participants is invested in high quality liquid assets to minimise liquidity risk. The Company avoids foreign exchange risk by investing cash collateral in the same currency in which it is received.

The management views the principal risks and uncertainties that face the Company as those inherent to the provision of clearing services.

Competition
The Company operates in a highly competitive environment, and works closely with market users to understand their needs. Through this inclusive and consultative approach, combined with a focus on offering cost-effective solutions, the Company seeks to ensure its clearing offering remains competitive.

The Company utilises leading edge real-time risk management technology to provide resilient, innovative and cost-effective clearing house services which meet the needs of market users.

Regulation and compliance
The Company closely monitors regulatory developments, arising from the European Union or overseas, that could impact its business. Following the UK's decision to leave the European Union, the Company will continue to follow developments closely and plan accordingly. The Company is undertaking detailed contingency planning to mitigate the probability of negative impact of certain exit scenarios. It places a high emphasis on regulatory compliance in all jurisdictions in which it operates, and seeks to promote active and co-operative relationships with its lead regulators. The Company also maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risk are key risks.

Operational and system resilience
With the ever increasing reliance placed on technology, the Company acknowledges the need to promote and maintain high degrees of operational and system resilience. In addition cyber risk is on the rise with financial services companies among the most heavily targeted. Therefore the Company continues to make significant investments and improvements in this area.

Key performance indicators
Member satisfaction and the delivery of cost effective services remain important measures of performance for the LME Clear. Management employs commercial key performance indicators (KPIs) including clearing volume and capital ratios. Financial key performance indicators include total revenues, total expenses, earnings before interest, tax and depreciation (EBITDA) and profit after tax. In respect of capital, the key performance indicator is compliance with regulatory capital requirements set by the Bank of England.

LME Clear Limited

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2017.

Incorporation

The Company is a private limited company (limited by shares), incorporated in England and Wales on 21 April 2011. It is domiciled in the United Kingdom (UK) and registered in England and Wales.

Principal activities

The Company's main activity is the clearing of contracts traded on the LME.

Results and dividend

The profit before tax for the year ended 31 December 2017 was $44,945,000 (2016: $51,948,000), and after accounting for taxation was $36,458,000 profit (2016: $41,744,000).

The Directors do not propose the payment of a final dividend (2016: $nil). The Company paid an interim dividend of $21,500,000 in the year (2016: $15,910,000).

Fixed assets

Movements in intangible assets and property, plant and equipment are shown in notes 6 and 7 to the financial statements.

Charitable donations

The Company did not make any charitable donations during the year.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

The Company provided indemnities to the Directors against all costs, charges, losses expenses and liabilities incurred by him or her in the execution and discharge of his or her duties to the Company or in relation thereto through its directors' and officers' liability insurance.

Future developments

The Company will invest in its core clearing and technology services to ensure it remains competitive and continues to offer innovative and cost-effective clearing services for members of the clearing house. The Strategic Pathway set out the LME and LMEClear's proposed route to further develop the market on the basis of four key principles: serve the physical market, ensure fairness, increase user choice and maximise trading efficiency. The key projects and changes for the LME Clear over the next three years include an optional T2 model and an enhanced warrants as collateral model and possible move to realised variation margin.

Directors' report (continued)

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and capital risk management is provided in note 17 to the financial statements.

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) each Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed to the shareholder.

Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Strategic report and Directors' report were approved by the Board of Directors and signed by its order by:

M.Castro FCIS
Company Secretary
23 February 2018
LME Clear Limited
Registration number 07611628

Independent auditors' report to the members of LME Clear Limited

Report on the audit of the financial statements

Opinion
In our opinion, LME Clear Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the 'Annual report'), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent auditors' report to the members of LME Clear Limited (continued)

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

<u>Responsibilities for the financial statements and the audit</u>

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of LME Clear Limited (continued)

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Paolo Taurae (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2018

LME Clear Limited

Statement of comprehensive income
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue			
Clearing and settlement fees		69,735	75,440
Other revenue		3,486	4,430
Net investment income		86,089	26,773
Interest income		3,004	2,608
Interest expense		(71,038)	(15,319)
Net interest expense		(68,034)	(12,711)
Revenue and other income		91,276	93,932
Operating expenses	4	(46,843)	(41,044)
Other gains / (losses)		512	(940)
Profit before tax	3	**44,945**	**51,948**
Taxation	5	(8,487)	(10,204)
Profit for the year		36,458	41,744
Other comprehensive income[1]		23	-
Total comprehensive income attributable to the shareholder		**36,481**	**41,744**

[1] *Other comprehensive income comprises only items that will subsequently be reclassified to profit and loss*

No final dividend is proposed in respect of 2017 (2016: $nil). The Company paid an interim dividend of $21,500,000 in the year (2016: $15,910,000).

All of the profits and comprehensive income included above are derived from continuing operations.

The notes on pages 14 to 44 are an integral part of these financial statements.

LME Clear Limited

Statement of financial position

	Note	At 31 December 2017 $ '000	At 31 December 2016 $ '000
Assets			
Non-current assets			
Intangible assets	6	25,923	29,476
Property, plant and equipment	7	27	75
Deferred tax asset	8	430	246
		26,380	**29,797**
Current assets			
Trade and other receivables	9	5,966	6,685
Cash and cash equivalents	10	11,631,051	9,211,369
Financial assets measured at amortised cost		80,218	40,267
Financial assets measured at fair value through profit or loss		390,355	390,425
Derivative financial asset	12	10,916,169	7,947,454
Amount due from fellow undertaking	18	-	2,497
		23,023,759	**17,598,697**
Liabilities			
Current liabilities			
Trade and other payables	11	6,556	6,537
Derivative financial liabilities	12	10,916,169	7,947,454
Members' contribution to clearing house funds	12	1,172,820	581,321
Margin deposits from clearing participants	12	10,708,919	8,861,348
Taxation payable		3,323	4,435
Amount due to fellow undertaking	18	145	235
		22,807,932	**17,401,330**
Net current assets		**215,827**	**197,367**
Non-current liabilities			
Deferred tax liability	8	288	360
		288	**360**
Net assets		**241,919**	**226,804**
Equity			
Share capital	13	178,701	178,701
Foreign currency translation reserve		(1,363)	(1,363)
Hedging reserve		23	-
Retained earnings		64,558	49,466
Total equity		**241,919**	**226,804**

These financial statements including the notes on pages 14 to 44 were authorised for issue by the Board of Directors on 23 February 2018 and signed on its behalf by:

A Farnham
Director

Statement of changes in equity
For the year ended 31 December 2017

	Share capital (note 13)	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000
At 1 January 2017	178,701	(1,363)	**-**	49,466	**226,804**
Profit for the year attributable to the shareholder	-	-	**-**	36,458	**36,458**
Other comprehensive income – cash flow hedge	-	-	23	-	**23**
Total comprehensive income	-	-	23	**36,458**	**36,481**
Tax in respect of share schemes	-	-	-	134	**134**
Transactions with shareholder - Interim dividend	-	-	-	(21,500)	**(21,500)**
At 31 December 2017	**178,701**	**(1,363)**	**23**	**64,558**	**241,919**

For the year ended 31 December 2016

	Share capital (note 13)	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total equity
	$'000	$'000	$'000	$'000	$'000
At 1 January 2016	**178,701**	**(1,363)**	**-**	**23,650**	**200,988**
Profit for the year attributable to the shareholder	-	-	-	41,744	**41,744**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	**-**	**-**	**-**	**41,744**	**41,744**
Tax in respect of share schemes	-	-	-	(18)	**(18)**
Transactions with shareholder - Interim dividend	-	-	-	(15,910)	**(15,910)**
At 31 December 2016	**178,701**	**(1,363)**	**-**	**49,466**	**226,804**

The notes on pages 14 to 44 are an integral part of these financial statements.

LME Clear Limited

Statement of cash flows
For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Net cash inflow from operating activities	14	**2,456,406**	**1,657,567**
Tax paid		(9,598)	(10,002)
Net cash generated from operating activities		**2,446,808**	**1,647,565**
Cash flows from investing activities			
Purchase of intangible assets	6	(5,600)	(6,654)
Purchase of property, plant and equipment	7	(26)	(8)
Net cash outflow from investing activities		**(5,626)**	**(6,662)**
Cash flows from financing activities			
Dividends paid	15	(21,500)	(15,910)
Net cash outflow from financing activities		**(21,500)**	**(15,910)**
Net increase in cash and cash equivalents		**2,419,682**	**1,624,993**
Cash and cash equivalents at the beginning of year		9,211,369	7,586,376
Cash and cash equivalents at the end of year		**11,631,051**	**9,211,369**

The notes on pages 14 to 44 are an integral part of these financial statements

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

1.1 Basis of preparation

The Company's financial statements have been prepared on a going concern basis, in accordance with IFRS and the IFRS Interpretations Committee ("IFRS IC") interpretations adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value, and on the basis of the principal accounting policies set out below.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

1.2 New and amended standards adopted by the Company

In 2017, the Company has adopted the following new/revised IFRSs which were effective for accounting periods beginning on or after 1 January 2017:

- Amendments to IAS 12 – 'Income taxes': Recognition of deferred tax assets for unrealised losses
- Amendment to IAS 7 - 'Statement of cash flows': Disclosure initiative

These amendments were adopted from 1 January 2017 and have had no material impact on the Company's results or disclosures.

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not adopted early

A number of new standards and amendments to standards and interpretations relevant to the Company's operations are not yet effective for annual periods beginning after 1 January 2017 and therefore have not been applied in preparing these financial statements. None of these are expected to have a material impact on the financial statements of the Company. The impact of these new standards and interpretations will be stated in the financial statements when they become effective and, if relevant, are adopted by the Company.

- IFRS 9 – 'Financial instruments'
- IFRS 15 – 'Revenue from contracts with customers'
- IFRS 16 – 'Leases'
- IFRIC 22 – 'Foreign currency transactions and advance consideration'
- IFRIC 23 – 'Uncertainty over income tax treatments'
- Amendments to IFRS 9 – 'Financial instruments'

Significant accounting policies (continued)

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not adopted early (continued)

The adoption of IFRS 9 will primarily affect the classification of debt securities held for margin funds.

Currently, debt securities held for margin funds amounting to $391 million are classified as financial assets measured at fair value through profit or loss. Under IFRS 9, they will satisfy the conditions for classification as financial assets measured at fair value through other comprehensive income. Accordingly, the related cumulative fair value gains of $0.5 million will have to be transferred from retained earnings to the revaluation reserve on 1 January 2018. Subsequent changes in fair value of these debt securities shall be taken to the revaluation reserve. Interest income, foreign exchange differences, impairment losses, and gains or losses on disposal of these debt securities will continue to be recognised in the statement of comprehensive income.

IFRS 15 is based on the principle that revenue is recognised when control of goods or services transfer to customers. Based on the assessments undertaken to date, the Company does not expect any material financial impact arising from the introduction of the new accounting standard. The Company will apply the standard using the modified retrospective approach and comparatives will not be restated.

The adoption of IFRS 16, IFRIC 22 and IFRIC 23 are expected to have limited impact on the Company's results and disclosures. The Company will consider the impact of Amendments to IFRS 9 prior to the effective date.

Apart from the aforementioned, other amendments to standards are not expected to have any impact on the Company.

1.4 Revenue and other income recognition

Revenue and other income is recognised in the statement of comprehensive income on the following basis:

i) Fees for the clearing of trades between members transacted on the London Metal Exchange (LME) are recognised in full on the trade date (or trade match date, if later).

ii) Fees for settlement transactions are recognised upon completion of the settlement.

iii) Non-cash collateral fees are charged in connection with custody of non-cash collateral provided by clearing members and are included in other revenue. Recognition is on an accruals basis as the service is provided.

iv) Other revenue comprises:
- membership fees; recognised on an accruals basis over the membership period;
- trade reporting fees in respect of LMEWire are recognised when the related services are rendered.

v) Net interest income represents the interest paid/charged on cash deposits from clearing members. Interest payable/chargeable is determined based on the LME Clear deposit rate for each currency deposited and is recorded using the effective interest rate method.

Significant accounting policies (continued)

1.5 Net investment income

Net investment income comprises interest income earned from short term investments and is recognised using the effective interest rate method. It also includes net fair value gains/losses on financial assets and financial liabilities.

1.6 Staff costs and other expenses

The Company awards shares under the Group HKEX Share Award Scheme (Share Award Scheme), under which the Group receives services from employees as consideration for share awards granted under the Share Award Scheme (Awarded Shares). The fair value of the employee services received in exchange for the Awarded Shares is recognised as employee share-based compensation expense.

The corresponding credit is recorded as a capital contribution in the Company's financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

The total amount to be expensed is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the vesting periods, with a corresponding credit to equity.

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Other expenses are charged to the statement of comprehensive income as incurred.

1.7 Intangible assets

Intangible assets consist of computer software-related projects capitalised when the development stage of the project is completed and the asset can be put in to use. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the system so that it will be available for use;
- management intends to complete the system and use or sell it;
- there is an ability to use or sell the system;
- it can be demonstrated how the system will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the system are available; and
- the expenditure attributable to the system during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Costs associated with maintaining computer systems are recognised as expenses as incurred.

System development costs recognised as assets are over their estimated useful lives on a straight line basis, which do not exceed five years.

Significant accounting policies (continued)

1.7 Intangible assets (continued)

The Company selects its amortisation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements, obsolescence and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company's circumstances. Residual values and economic lives are reviewed at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Capitalised assets under development which are not yet ready for use are not amortised but are reviewed for impairment at each balance sheet date.

1.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. They are depreciated when they are available for use and at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight line basis. The residual values and useful lives are reviewed at the balance sheet date.

Computer systems and equipment - clearing (hardware and software) - five years.

Computer systems and equipment - other (hardware and software) – three years.

Furniture, fixtures and fittings - three to five years.

Qualifying software system development expenditure and directly attributable costs are capitalised and recognised as a fixed asset if the software forms an integral part of the hardware on which it operates.

1.9 Financial instruments

The Company classifies its financial instruments into the following categories: cash and cash equivalents, loans and receivables, financial assets measured at fair value through profit and loss, trade and other payables, and derivative financial instruments.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand, current bank balances and other short-term highly liquid investments and reverse repurchase arrangements that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of three months or less.

Reverse repurchase agreements are recorded in the statement of financial position within cash equivalents, reflecting the nature of these arrangements as short-term highly liquid investments as defined in the previous paragraph. Securities purchased under these agreements and that are resold at a specified future date are not recognised in the statement of financial position.

<u>Hedge accounting</u>

The Company designates certain financial instruments as cash flow hedges in respect of highly probable forecast transactions such payroll costs.

Significant accounting policies (continued)

1.9 Financial instruments (continued)

At the point of designation of each hedge, the Company documents the relationship between the hedging instrument and hedged item(s) as well as its risk management objectives and strategy for undertaking hedge accounting. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in the cash flows of hedged items.

The instruments used for hedging purposes are set out at note 12. Movements on the hedging reserve in other comprehensive income are shown in note 12. All hedged items will be settled within 12 months and therefore hedged instruments are recorded as current assets.

The effective portion of changes in the fair value of financial instruments that are designated as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within other gains / (losses).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recognised in the statement of comprehensive income within the relevant cost category.

When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income within other gains / (losses).

<u>Financial assets</u>

The Company initially records all financial assets at fair value, which is the cost of acquiring the asset. The Company holds financial assets either at fair value through profit or loss or at amortised cost.

<u>Loans and receivables</u>

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are regularly assessed as collectible or uncollectible. When a trade receivable is determined to be uncollectible, it is written off, being recognised in the statement of comprehensive income within expenses. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income.

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets. These are classified as ‘trade and other receivables’ in the balance sheet (also see note 10). Receivables are initially recognised at fair value and subsequently measured at amortised cost.

<u>Financial assets measured at fair value through profit and loss</u>

The Company holds financial instruments that are measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction. Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

For investments that are actively traded in financial markets, fair value is determined by reference to official quoted market bid prices. Gains and losses, principally representing market movements on fair valued assets are recorded in net investment income in the statement of comprehensive income.

Significant accounting policies (continued)

1.9 Financial instruments (continued)

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, and subsequently measured at amortised cost.

Derivative financial assets and liabilities

Derivative financial instruments include forward, futures and options contracts, comprising the outstanding derivatives contracts between the Company and its members, as the Company is the central counterparty (CCP) to all contracts traded on the LME.

Derivatives are initially recognised at fair value on the date contracts are entered into and are subsequently re-measured at their fair values. Derivatives are categorised as held for trading with changes in fair value recognised in statement of comprehensive income. All derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

Since the asset and liability positions of the Company arising through its activities as a CCP are matched, the same amount is recorded for both the assets and liabilities with the fair value gain and losses recognised, but offset, in the statement of comprehensive income.

Derivative financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Margin deposits and cash collateral from clearing members

The Company receives margin deposits from its clearing members as collateral in connection with the outstanding derivatives contracts between the Company and its members. The obligation to refund the margin deposits is disclosed as margin deposits from clearing members under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Members' contributions to clearing house funds

Members' contributions to the clearing house funds (default funds) are included under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Non-cash collateral (i.e. securities) received from clearing members is not recognised on the statement of financial position.

Significant accounting policies (continued)

1.10 Current and deferred tax

Tax charge for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

(i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the United Kingdom. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

1.11 Foreign currencies

The financial statements are presented in US dollars, which is the Company's presentation and functional currency.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into USD at the rates of exchange ruling on the statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. Exchange differences are recorded in other gains / (losses) in the statement of comprehensive income.

1.12 Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is more likely than not that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.13 Share capital

Ordinary shares are classified as equity.

1.14 Dividends

A final dividend distribution to the Company's sole shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholder.

Significant accounting policies (continued)

2. Critical accounting estimates and assumptions

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

In connection with the preparation of the financial statements, management has made assumptions and estimates about future events and applied judgements that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. The assumptions, estimates and judgements are based on historical experience and other factors that management believes to be relevant at the time the financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgements to ensure that the financial statements are presented fairly and in accordance with IFRS as adopted by the European Union and IFRS IC Interpretations.

Software development

As described in notes 2(e) and 7, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation, impairment and the estimation of the useful life of the assets have a material impact on these financial statements. The Company follows the accounting policy described in note 2(e).

3. Profit before tax

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Profit before tax stated after charging:		
- Auditors' remuneration	420	301

Services provided by the Company's auditors and network firms

During the year the Company obtained the following services from the Company's external auditors at costs as detailed below:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Audit of the Company's financial statements	214	217
Other assurance services	185	11
Tax advisory services	-	40
Tax compliance services	-	33
	399	**301**

4. Operating expenses

Operating expenses comprise the following:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Wages and salaries	17,226	15,481
Social security costs	1,656	1,316
Share based payments	2,008	1,510
Other pension costs	789	749
Legal and professional fees	1,784	1,384
Depreciation and amortisation	9,227	8,721
Technology costs	4,378	5,027
Other costs	9,775	6,856
Total	**46,843**	**41,044**

The monthly average number of permanent employees within the Company was 45 (2016:45).

Notes to the financial statements (continued)

5. Taxation

	Note	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Taxation charged to the statement of comprehensive income			
Income tax			
Current year		8,891	10,497
Adjustments in respect of prior years		(180)	(224)
Foreign exchange		(40)	(336)
Total current tax		8,671	9,937
Deferred tax			
Deferred tax for the current year		(310)	48
Adjustments in respect of prior years		99	226
Change in tax rate		27	(7)
Total deferred tax	8	(184)	267
Taxation charged		**8,487**	**10,204**

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19.25% (2016: 20%) and the taxation charge for the year are explained below:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Profit before taxation	44,945	51,948
Profit multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	8,652	10,390
Foreign exchange	(40)	(336)
Taxation on share schemes	(79)	164
R&D expenditure credit adjustment	-	(14)
Expenses not deductible/income not taxable	8	5
Adjustments in respect of prior years	(81)	2
Change in tax rate	27	(7)
Taxation charged	**8,487**	**10,204**

5. Taxation (continued)

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
The income tax (credited)/charged to equity during The year is as follows:		
Current tax credit	(62)	(34)
Deferred tax (credit)/charge	(72)	52
Taxation (credited)/charged	**(134)**	**18**

6. Intangible assets

For the year ended 31 December 2017	Capitalised software in use $'000	Capitalised software under development $'000	Total $'000
At 31 December 2017			
Costs			
At 1 January 2017	40,216	6,789	47,005
Additions	-	5,600	5,600
Transfer	8,179	(8,179)	-
At 31 December 2017	**48,395**	**4,210**	**52,605**
Accumulated amortisation and impairment			
At 1 January 2017	(17,529)	-	(17,529)
Charge for the year	(9,153)	-	(9,153)
At 31 December 2017	**(26,682)**	**-**	**(26,682)**

For the year ended 31 December 2016	Capitalised software in use $'000	Capitalised software under development $'000	Total $'000
At 31 December 2016			
Costs			
At 1 January 2016	39,685	666	40,351
Additions	-	6,654	6,654
Transfer	531	(531)	-
At 31 December 2016	**40,216**	**6,789**	**47,005**
Accumulated amortisation and impairment			
At 1 January 2016	(8,885)	-	(8,885)
Charge for the year	(8,644)	-	(8,644)
At 31 December 2016	**(17,529)**	**-**	**(17,529)**

Net book value			
As at 31 December 2017	**21,713**	**4,210**	**25,923**
At 31 December 2016	22,687	6,789	29,476

Amortisation of intangibles is recognised in operating expenses in the statement of comprehensive income.

7. Property, plant and equipment

For the year ended 31 December 2017	Computer hardware and software	Furniture, fixture and fittings	Total
	$'000	$'000	$'000
At 31 December 2017			
Costs			
At 1 January 2017	1,280	191	1,471
Additions	-	26	26
Disposals	-	(187)	(187)
At 31 December 2017	**1,280**	**30**	**1,310**
Accumulated depreciation			
At 1 January 2017	(1,206)	(190)	(1,396)
Charge for the year	**(73)**	(1)	(74)
Disposals	**-**	187	187
At 31 December 2017	**(1,279)**	**(4)**	**(1,283)**

For the year ended 31 December 2016	Computer hardware and software	Furniture, fixture and fittings	Total
	$'000	$'000	$'000
At 31 December 2016			
Costs			
At 1 January 2016	1,268	195	1,463
Additions	6	2	8
Disposals	6	(6)	-
At 31 December 2016	**1,280**	**191**	**1,471**
Accumulated depreciation			
At 1 January 2016	**(1,245)**	**(75)**	**(1,320)**
Reclassification	115	(115)	-
Charge for the year	(76)	-	(76)
At 31 December 2016	**(1,206)**	**(190)**	**(1,396)**

Net book value			
As at 31 December 2017	**1**	**26**	**27**
At 31 December 2016	**74**	**1**	**75**

Depreciation of property plant and equipment is recognised in operating expenses in the statement of comprehensive income.

8. Deferred tax asset/(liability)

The movements in the deferred tax asset during the year are shown below:

	Fixed and intangible assets $ 000's	Employee benefits $ 000's	Share options $ 000's	Research and development $ 000s	Total $ 000s
At 1 January 2016	**(334)**	**-**	**520**	**-**	**186**
Adjustment in respect of prior years	(226)	2	-	13	(211)
Charged / (credited) to profit or loss during the year	190	-	(233)	-	(43)
Tax (credit) relating to equity	-	-	(53)	-	(53)
Effects of changes in tax rates charged / (credited to profit or loss	10	-	(3)	(1)	6
Effects of changes in tax rates charged /(credited to equity	-	-	1	-	1
At 31 December 2016	**(360)**	**2**	**232**	**12**	**(114)**
Adjustment in respect of prior years	(99)	-	-	-	(99)
Charged / (credited) to profit or loss during the year	183	-	133	(6)	310
Tax charge / relating to equity	-	-	75	-	75
Effects of changes in tax rates credited to profit or loss	(12)	-	(15)	-	(27)
Effects of changes in tax rates credited to equity	-	-	(3)	-	(3)
At 31 December 2017	**(288)**	**2**	**422**	**6**	**142**

Deferred taxation is calculated in full on temporary differences under the liability method.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. $165,000 of the deferred tax asset and $333,000 of the deferred tax liability will be realised in 2018.

8. Deferred tax asset/(liability) (continued)

Factors that may affect future tax charges

The Company will receive tax relief on the same basis as amortisation of intangible assets.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Current and deferred tax

The Finance Bill 2014 reduced the main rate of corporation tax from 21% to 20% from April 2015. The Finance Bill 2015 reduced the main rate of corporation tax from 1 April 2017 to 19%. The Finance Bill 2016 reduces the main rate of corporation tax from 1 April 2020 to 17%.

	Year ended 31 December 2017 $ '000	Year ended 31 December 2016 $ '000
Deferred tax asset	430	246
Deferred tax liability	(288)	(360)
Net tax asset/(liability)	**142**	**(114)**

9. Trade and other receivables

	At 31 December 2017 $'000	At 31 December 2016 $'000
Accrued income	5,444	6,585
Prepayments	506	78
Other receivables	16	22
	5,966	**6,685**

As of 31 December 2017, no trade receivables were past due or impaired. (2016: none)

The maximum exposure to credit risk at the reporting date is the book value of each class of receivable mentioned above. The Company holds cash and non-cash collateral as security as described further in note 12.

10. Cash and cash equivalents

The cash and cash equivalents represent cash on hand and short term investments.

	At 31 December 2017 $'000	At 31 December 2016 $'000
Cash at bank	31,345	19,029
Short term investments		
- reverse repurchase agreements	11,599,706	9,192,340
	11,631,051	**9,211,369**

$11,599,706,000 of short term investments are fully collateralised by or are comprised of sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Company's Risk Committee.

A significant component of cash and cash equivalents comprise amounts initially received from clearing members in cash as initial and variation margin, and as contributions to the default funds. In compliance with EMIR, these amounts are held in accounts separate from the Company's own resources.

The Company's own cash and cash equivalents comprise $140,138,000 of cash and cash equivalents, of which $20,300,000 is restricted as the Company's own resources to be used in the default waterfall.

Included within cash at bank is an amount of £1,325,000 (2016: £nil), equivalent to $1,792,000 (2016: $nil) designated as hedging instruments. Further details are set out in note 12.

11. Trade and other payables

	At 31 December 2017 $'000	At 31 December 2016 $'000
Social security and other taxes	3,104	3,617
Other payables	105	36
Accruals and deferred income	3,347	2,884
	6,556	**6,537**

Trade and other payables all have contractual payment terms of less than three months (2016: less than three months).

12. Financial instruments and hedge accounting

<u>Fair value measurements</u>

The following table presents the carrying value of financial assets and financial liabilities measured at fair values according to the levels of the fair value hierarchy defined in IFRS 13: Fair value measurement, 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 valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

12. Financial instruments and hedge accounting (continued)

	At 31 Dec 2017		
	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value through profit or loss:			
Floating rate notes	390,355	-	390,355
Base metal futures and options derivative contracts	-	10,916,169	10,916,169
	390,355	10,916,169	11,306,524
Financial liabilities measured at fair value through profit or loss:			
Derivative financial liabilities measured at fair value through profit or loss	-	-	-
Base metal futures and options derivative contracts	-	10,916,169	10,916,169
	-	10,916,169	10,916,169
Net financial assets	**390,355**	**-**	**390,355**

	At 31 Dec 2016		
	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value through profit or loss:			
Floating rate notes	390,425	-	390,425
Base metal futures and options derivative contracts	-	7,947,454	7,947,454
	390,425	7,947,454	8,337,879
Financial liabilities measured at fair value through profit or loss:			
Derivative financial liabilities measured at fair value through profit or loss	-	-	-
Base metal futures and options derivative contracts	-	7,947,454	7,947,454
	-	7,947,454	7,947,454
Net financial assets	**390,425**	**-**	**390,425**

As at 31 December 2017 the Company held $390,355,000 (2016: $390,425,000) assets that were measured at fair value.

During 2017 and 2016, no financial assets or financial liabilities were classified under Level 3 and there were no transfers between instruments in Level 1 and Level 2.

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

Fair value of financial assets and financial liabilities not reported at fair values

The carrying amounts of short-term receivables (i.e. trade and other receivables, cash and cash equivalent and amounts due from group undertakings) and short-term payables (e.g. trade and other payables, and amounts due to group companies) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

12. Financial instruments and hedge accounting (continued)

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company applies offsetting by settlement date and by member account to its open derivative contracts as at each reporting date.

As a CCP, the Company sits in the middle of members' transactions and holds initial and variation margin amounts as a collateral against the default of a clearing member. A further amount of cash collateral is held comprising the default funds. Whilst these amounts are not available for offset on the statement of financial position, in the event of default these balances would reduce the Company's exposure further under the Rules of the clearing house. Default funds of $1,172,820,000 (2016: $581,321,000) and margin funds of $10,708,919,000 (2016: 8,861,348,000) are held by the Company.

The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

As at 31 December 2017				Related amounts not set off in the statement of financial position		
	Gross amounts recognised	Gross amounts offset	Net amount presented in the statement of financial position	Financial (liabilities) / assets other than cash collateral	Cash collateral received	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial						
- assets	201,142,349	190,226,180	10,916,169	(5,505,397)	(5,410,772)	-
- liabilities	(201,142,349)	(190,226,180)	(10,916,169)	5,505,397	-	(5,410,772)

As at 31 December 2016				Related amounts not set off in the statement of financial position		
	Gross amounts recognised	Gross amounts offset	Net amount presented in the statement of financial position	Financial (liabilities) / assets other than cash collateral	Cash collateral received	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial						
- assets	144,825,639	136,878,185	7,947,454	(4,956,369)	(2,991,085)	-
- liabilities	(144,825,639)	(136,878,185)	(7,947,454)	4,956,369	-	(2,991,085)

12. Financial instruments and hedge accounting (continued)

Hedge accounting

A proportion of the Company's sterling cash is designated as a cash flow hedge in respect of highly probable forecast transactions in respect of the Company's staff costs.

The hedging instruments comprise £1,325,000 (2016: £nil), equivalent to $1,792,000 (2016: $nil). The hedged transactions are expected to occur in the first quarter of 2018 and accordingly the cash designated as hedging instruments are current assets.

Movements in the hedging reserve during the year are shown below:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
At 1 January	-	-
Gain on hedging instruments recognised in other comprehensive income	234	-
Reclassified to income statement – wages and salaries	(211)	-
At 31 December	**23**	**-**

No ineffectiveness was recognised during 2017 (2016: $nil).

13. Share capital

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Total share capital	178,701	178,701

The Company has 107,500,001 (2016:107,500,001) ordinary shares in issue. There is no restriction on the number of shares to be issued.

Notes to the financial statements (continued)

14. Notes to the statement of cash flows

Reconciliation of profit before tax to net cash outflow from operating activities:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Profit before tax	44,945	51,948
Adjustments for:		
Depreciation and amortisation	9,227	8,721
Decrease in intercompany payable	(90)	(2,380)
Decrease / (increase) in intercompany receivables	2,497	(2,497)
Increase in financial assets measured at amortised cost	(39,951)	(40,267)
Decrease in financial assets measured at fair value	70	248,608
Other non-cash movements	(62)	(139)
Decrease in accounts receivable	719	5,281
(Decrease) in accounts payable, accruals and other liabilities	(19)	(15,390)
Increase in margin deposits and default fund	2,439,070	1,403,682
Net cash inflow from operating activities	**2,456,406**	**1,657,567**

15. Dividends

The Company paid an interim dividend of $21,500,000 in 2017 (2016: $15,910,000).

16. Capital management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Company's stability and growth;
- To provide capital for the purpose of strengthening the Company's risk management capability; and
- To ensure the Company complies with all regulatory requirements.

The Company holds capital resources in the form of share capital, retained earnings and reserves and actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future expected capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Company is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000, and under EMIR. In line with EMIR regulation the Company's capital is determined with reference to the potential costs arising from the following scenarios and risks:

- Winding up of the business;
- Operational risk;
- Credit, counterparty credit and market risk;
- Business risk; and
- Losses resulting from defaulting members

The Company's regulatory capital requirement amounts to $109,700,000 (2016: $100,200,000) and must be maintained in cash or highly liquid financial instruments with minimal market and credit risk. This is composed of a base requirement of $81,300,000, together with a 10 per cent minimum reporting threshold of $81,000,000 and $20,300,000 contribution to the default fund. In addition, the Company's capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

The Company has been fully compliant with the capital adequacy regulations during 2017 and 2016.

17. Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk, and market price risk), sovereign risk, liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's performance.

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Company is exposed to market risk primarily through its financial assets and financial liabilities.

The Company's investment policy is to prudently invest all funds managed by the Company in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management is governed by the Company's Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly. Investment restrictions and guidelines form an integral part of risk control. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set for each fund to control risks (e.g. liquidity, credit requirement, counterparty concentration, maturity and interest rate risks) of the investments.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates. The Company may invest in non-USD securities from time to time.

The Company is exposed to foreign currency risk arising from payments of various expenditures (predominately in GBP) and investments and bank deposits denominated in foreign currencies (mainly EUR). Its risk management policy is to forecast the amount of GBP payments and to retain some GBP bank deposits to cover future expenditure or convert from USD to GBP as soon as deemed appropriate.

The Company primarily receives margin from members in USD, but also holds margin in its other core clearing currencies – EUR, GBP, JPY and CNH. Margin received from members is deposited or invested in the same currency in which it is received and as a result the asset and liability positions are matched. Accordingly the Company experiences minimal foreign exchange risk on these balances.

Similarly, the Company's derivative asset and liability positions are denominated in the Company's core clearing currencies – which are equal and opposite positions and as a result there is no net foreign exchange exposure for the Company on these positions.

17. Financial risk management (continued)

The tables below summarise the Company's financial assets and financial liabilities denominated in foreign currencies.

	At 31 December 2017					
	$'000	$'000	$'000	$'000	$'000	$'000
	EUR	HKD	GBP	JPY	CNH	Total
Cash and cash equivalents	129,701	-	1,127,874	28,476	95	1,286,146
Trade and other receivables	37	-	162	5	-	204
Total assets	129,738	-	1,128,036	28,481	95	1,286,350
Trade and other payables	-	-	(4,001)	-	(89)	(4,090)
Amounts due to parent / fellow subsidiaries	-	(120)	(14)	-	-	(124)
Margin deposits and default fund	(128,894)	-	(1,115,950)	(28,407)	(6)	(1,273,257)
Total liabilities	(128,894)	(120)	(1,119,965)	(28,407)	(95)	(1,277,471)
Total assets/(liabilities)	**844**	**(120)**	**8,071**	**74**	**-**	**8,869**
Notional effect if exchange rates change by +/- 10%	**+/-84**	**+/-12**	**+/-807**	**+/-7**	**-**	**+/-910**

	At 31 December 2016					
	$'000	$'000	$'000	$'000	$'000	$'000
	EUR	HKD	GBP	JPY	CNH	Total
Cash and cash equivalents	198,263	-	973,468	15,387	-	1,187,118
Trade and other receivables	104	9	276	9	-	398
Amounts due from parent / fellow subsidiaries	-	-	2,533	-	-	2,533
Total assets	198,367	9	976,277	15,396	-	1,190,049
Trade and other payables	-	(49)	(482)	-	-	(531)
Amounts due to parent / fellow subsidiaries	-	(235)	-	-	-	(235)
Margin deposits and default fund	(197,955)	-	(959,942)	(15,349)	-	(1,173,246)
Total liabilities	(197,955)	(284)	(960,424)	(15,349)	-	(1,174,012)
Total assets/(liabilities)	**412**	**(275)**	**15,853**	**47**	**-**	**16,037**
Notional effect if exchange rates change by +/- 10%	**+/-41**	**+/-28**	**+/-1,585**	**+/-5**	**-**	**+/-1,659**

17. Financial risk management (continued)

(ii) Interest rate risk management

The Company is exposed to interest rate risk arising from the cash and investment balances it maintains, the margin and default fund balances it holds from clearing members.

The Company aims to minimise its exposure to interest rate fluctuations. Any exposure is predominately due to the mismatch between the Company's interest bearing assets and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Company is only exposed for the time it takes to reset the interest rates on its investments. The maximum fixed exposure on any asset in the treasury portfolio is 10 months.

The following table shows the average interest rates for the year applicable to each relevant category of interest bearing financial instrument held at the statement of financial position date:

Financial assets/ (liabilities)	Amount (USD)	Contractual interest rate receivable by / (payable) from the Company	Notional effect if interest rates change by +/- 10%
	$'000	%	$'000
Short term deposits (reverse repurchase agreements)			
- USD (own funds)	125,844	1.73%	218
- GBP (own funds)	11,925	(0.45)%	5
- USD (margin deposits and default fund)	10,217,254	1.54%	15,735
- GBP	1,115,949	0.12%	134
- EUR	128,894	(2.42)%	312
Financial assets measured at fair value through profit or loss (USD)	390,355	1.66%	648
Financial assets measured at amortised cost (USD)	80,218	1.54%	124
Margin deposits and default fund			
- USD	(10,608,474)	1.13%	11,988
- GBP	(1,115,950)	0.11%	123
- EUR	(128,894)	(0.85)%	110
- JPY	(28,407)	(0.34)%	10
- CNH	(6)	(2.80)%	0

(iii) Market price risk management

As a CCP the Company has a balanced position in all cleared contracts and runs no significant market price risk unless a clearing member defaults as described at the 'Clearing and settlement-related risk management' section below. The Company has limited exposure to market price risk arising from fluctuations in the value of market-traded securities.

17. Financial risk management (continued)

Sovereign risk

Distress amongst sovereigns through market concerns over the level of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Company's cleared products, margin, collateral, investments, clearing membership and the financial industry as a whole.

The Company has specific risk frameworks that manage sovereign risk for both clearing and margin collateral, and all clearing members are monitored regularly against a suite of stress scenarios. In addition, investment limits and counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure the Company is able to measure, monitor and mitigate exposure to sovereign risk and respond quickly to anticipated changes.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

The Company employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Company to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Company is invested in high quality short term investments, and the investments of the Company are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the clearing house funds and members' margin. Other than derivative financial assets and liabilities and certain floating rate notes, all financial instruments of the company have contractual maturities of less than three months.

As a result of the Company's position as the central party to each cleared trade the maturity of derivative assets will perfectly match the maturity of derivative liabilities and as a result the Company has minimal liquidity risk from derivatives.

Credit risk management

(i) Investment and accounts receivable-related risk management

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Company's derivative financial assets and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Company limits its exposure to credit risk by rigorously selecting the counterparties (i.e., deposit-takers, bond issuers and debtors) and by diversification. At 31 December 2017, the cash and cash equivalents held for members' margin, the clearing house funds and corporate funds held were all held only with banks with a minimum rating of F1 (Fitch). All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty.

The Company mitigates its exposure to risks relating to accounts receivable from its members by requiring the members to meet the Company's established financial requirements and criteria for admission as members.

In addition, the Company holds non-cash collateral in the form of debt securities and gold bullion in respect of initial and variation margin posted by clearing participants. The fair value of this collateral was $1,319,000,000 as at 31 December 2017 (2016: $1,781,000,000).

17. Financial risk management (continued)

The Company also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the investment counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was $12,002,000,000 as at 31 December 2017 (2016: $9,418,000,000).

The collateral held, together with certain on-balance sheet debt securities amounting to $471,000,000 as at 31 December 2017 (2016: $430,000,000) have been repledged to its investment agents and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of the Company. The collateral held was not recorded on the statement of financial position as at 31 December 2017.

(ii) Clearing and settlement-related risk management

In the normal course of business, the Company will offer to act as the buying and selling counterparty to trades between participants, on acceptance of the Company's offer by each party two cleared contracts are formed, one between the Company and the buyer and between the Company and the seller. As a result, the Company has considerable market risk and credit risk since the members' ability to honour their obligations in respect of their trades may be adversely impacted by economic conditions affecting the commodities markets. If the members default on their obligations on settlement, the Company could be exposed to potential risks not otherwise accounted for in these financial statements.

The Company mitigates its exposure to risks described above by requiring the members to meet the Company's established financial requirements and criteria for admission as members, monitoring compliance with risk management measures such as position limits established by the Company and requiring clearing members to deposit margins and contribute to the clearing house fund set up by the Company. The Company also holds a capital requirement of $20,300,000 as its 'skin in the game' contribution to default funds available for utilisation in the event of a clearing member's default.

Position limits are imposed by the Company to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the members based on their liquid capital.

If a member were to default the Company has arrangements and resources in place to ensure that it can respond in an orderly and efficient way. Firstly, the Company would seek to find a new counterparty to take on the positions of the defaulting member to return the Company to a matched book of contracts. If this was not possible the Company can utilise the default waterfall process. The Company is able to draw upon the defaulting member's initial margin. Due to the Company's margin policies the probability of the amounts owed by a defaulting member exceeding the amount of margin held is small. However, if the collateral posted by the defaulter was insufficient to meet the amount owed, the Company can then draw upon the defaulting party's contribution to the Default fund. If this was still insufficient to meet the amounts owed then the Company will utilise its own contribution to the default funds towards meeting the loss. If this was fully utilised it could mutualise any outstanding loss amongst all other non-defaulting members. The Company can draw upon the default fund contributions from the non-defaulting members and if these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving members to contribute a further amount up to a pre-determined limit.

17. Financial risk management (continued)

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Company were equal to their carrying amounts.

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

At 31 December 2017 there were no assets that were past due but not impaired (2016: $nil).

(v) Fair values of financial assets and financial liabilities not reported at fair values

The carrying value of trade receivables and payables approximates their fair values due to their short-term nature.

18. Transactions with related parties

Directors

During the financial year, no contracts were entered into by the Company in which any of the Directors had a material interest.

There are no other related party transactions other than those disclosed in these financial statements.

Pension fund

The Company has one defined contribution pension scheme covering its employees. The principal funds are those managed in the UK.

The contributions in respect of the Company's pension scheme are disclosed in note 4.

Parent and group subsidiaries

During the year amounts due from the Company to The London Metal Exchange and Hong Kong Exchanges and Clearing Limited were $37,351,000 (2016: $9,698,000) and $4,156,000 (2016: $1,309,000) respectively, relating to revenue sharing arrangements and expenses incurred by fellow group companies on the Company's behalf that have subsequently been recharged. At the year-end date, the amounts due to Hong Kong Exchanges and Clearing Limited were $120,000 (2016: $235,000) and due from The London Metal Exchange $29,000 (2016:$2,496,000 due from) respectively.

No amounts due from related parties were past due or impaired. Amounts due to related parties have contractual payment terms of less than three months (2016: less than three months).

19. Key management compensation

Compensation for directors (included within the relevant costs in note 4) of the Company and the members of the executive committee, regarded as the key personnel who have authority for planning, directing and controlling the Company:

	Year ended 31 December 2017 $'000 Year ended	Year ended 31 December 2016 $'000 Year ended
Salaries and other short term benefits	2,926	2,435
Share based payments	1,901	1,548
Remuneration for loss of office	913	-
Pensions	238	257
	5,978	**4,240**

20. Directors' emoluments

Directors' emoluments for the year/period included in staff costs are as follows:

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Aggregate emoluments	1,825	1,964
Company contributions paid to defined contribution pension scheme	60	70
	1,885	**2,034**

There are no retirement benefits accruing to directors under a defined contribution scheme (Year ended 31 December 2016: nil).

Benefits accrued under the scheme 2017: $nil (2016: $nil).

Remuneration of highest paid director

	Year ended 31 December 2017 $'000	Year ended 31 December 2016 $'000
Aggregate emoluments	1,032	1,093
Company contributions paid to defined contribution pension scheme	60	64
	1,092	**1,157**

Benefits accrued under the scheme 2017: $nil (2016: $nil).

21. Long term incentive plan

Employees of the Company are eligible to receive share awards under the Groups' HKEXs Share Award Scheme. Following the decision to award an award sum ("Awarded Sum") for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by re-granting the forfeited or unallocated shares held by the Group's Share Award Scheme. Before vesting the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares), and are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Employee Share Awards vest progressively over the vesting period after the shares are granted, provided that the relevant awardees (i) remain employed by the Group (ii) are made redundant or (iii) are deemed to be "good leavers" or retired on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the HKEX Board, the Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted was 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the HKEX Board.

For Awarded Shares granted to the employees of the Company, the fair value of the employees services received, measured by reference to the grant date fair value, is recognised over the projected vesting period, being the period for which the services from the employees are received and is charged to staff costs and related expenses. The corresponding credit is recorded as a capital contribution in the Company's accounts and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

Details of the awarded shares vesting in part or in full in 2017:

Date of award	Number of shares awarded	Average fair value per share $	Vesting period
02-Jan-15	124,271	22.17	20 Jan 2016 – 20 Jan 2017
31-Dec-15	74,371	25.68	9 Dec 2017 – 9 Dec 2018
30-Dec-16	42,989	24.63	7 Dec 2018 – 7 Dec 2019
01-Feb-17	25,960	24.96	1 Feb 2017 - 13 Jan 2020
29-Dec-17	40,311	29.42	8 Dec 2017 – 8 Dec 2020

21. Long term incentive plan (continued)

Movement in the number of awarded shares:

	2017	2016
Outstanding at 1 January	132,695	251,744
Awarded	66,271	42,989
Vested	(107,717)	(82,108)
Forfeited	(1,360)	-
Transferred	-	(79,930)
Outstanding at 31 December	89,889	132,695

22. Immediate and ultimate controlling entity

HKEX Investment (UK) Limited, a company incorporated in England and Wales, is the Company's immediate parent company. The registered address of HKEX Investment (UK) Limited is 10 Finsbury Square, London, EC2A 1AJ

Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong, is the ultimate controlling entity and is the largest and smallest group to consolidate these financial statements. The registered address of Hong Kong Exchanges and Clearing Limited is 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.