(Registered Number: 2128666)

The London Metal Exchange

Directors' report and financial statements

31 December 2020

The London Metal Exchange

Directors and independent auditors

Directors

The Directors of The London Metal Exchange (the Company or the LME) who were in office during the year and up to the date of signing the financial statements were:

G H Evans, OBE (Chairman)	
L M L Cha	
M J Chamberlain	
R Lamba	
R Leung	(appointed 24 July 2020)
C X Li	(resigned 31 December 2020)
Dr H V Stiegel	
A J Stuart	
S K W Yiu	

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

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

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2020. This report should be read in conjunction with the Directors' report on pages 9 to 12.

Overview

The Company is incorporated in England and Wales, and is an indirect subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), a leading global financial market operator.

Principal activities

The Company is the world centre for industrial metals trading. The main activity of the Company is the provision of a market place to facilitate trading, administrative and other services to the members of the Company (hereinafter referred to as members and the term "member" shall be construed accordingly). The Company is required to maintain proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards business conducted on the LME.

Review of the business

Due to the global spread of COVID-19 and guidance from the UK Government, the LME suspended trading activity on the Ring and temporarily shifted to electronic pricing, with effect from 23 March 2020. Since then, the LME's metals prices have been generated on the basis of activity on the LME's electronic trading platform, supported by implied pricing functionality.

From a business development perspective, initiatives have progressed well. Several of the cash-settled futures contracts launched in 2019 have seen active trading volumes and the LME will introduce a set of new cash-settled contracts in the first half of 2021, subject to regulatory approval. These will include a lithium contract to serve the needs of the growing battery materials sector, additional aluminium products, and additional steel contracts to complement the existing suites.

In March 2020, the LME launched a new incentive programme to encourage liquidity providing trades, and published a roadmap to an enhanced options market following a market-wide discussion paper.

The LME has continued to invest in its global physical ecosystem throughout 2020, continuing with the implementation of work on enhanced warehousing rules and disclosures, the development of a new electronic warranting process, ongoing progress with responsible sourcing and plans for electronic certificates of analysis via its envisaged LMEpassport platform. The LME's physical network has continued to provide an effective storage mechanism under COVID-19, and during the current economic slowdown, ensuring that the LME warehousing system remains efficient and robust.

In August 2020, the LME issued two discussion papers. The first paper covered the LME's sustainability plans which laid out its proposed route forward to cement metals as the cornerstone of a sustainable future. These proposals included a platform to support voluntary transparency on sustainability criteria (as part of the LMEpassport system, the subject of the second discussion paper), a spot trading platform for the pricing and trading of sustainable metal, new contracts for the electric vehicle and supporting the circular economy through expanding our metal scrap contract offering. These proposals received broad market support and will be progressed into 2021. The LME also began planning for a further discussion paper on market structure matters including: the Ring and reference pricing, enhancing liquidity, margin methodology and market conduct, which was subsequently released in 2021. This is covered in more detail in the future developments section of the Directors' report.

Numerous regulatory initiatives have been undertaken in 2020, including implementing new pre-trade transparency arrangements for the inter-office market, implementation of the Senior Managers Regime for benchmark administrators and ensuring compliance with changes in the IR35 tax legislation (originally scheduled to come into effect April 2020 but deferred by the Government until April 2021). The changes to IR35 relate to the requirement for end users of contractors, in this case the LME, to ensure that appropriate employment taxes are withheld for those in scope, whereas previously this requirement sat with the contractors directly. The impact of Brexit is discussed on page 4. These initiatives have generally been in response to regulatory changes that took effect during 2020, or that are due to take effect early in 2021.

Strategic report (continued)

Review of the business (continued)

Key performance indicators (KPIs)

Member satisfaction and the delivery of cost effective services and critical system availability are important measures of performance for the Company. There were no critical system outages in the year. Management employs commercial KPIs including transaction volume, new brands and warehouse listings, breadth of member participation in newly launched contracts and the size of open interest in the contracts traded and critical system availability.

Financial KPIs include total revenues, total expenses, earnings before interest, tax, depreciation and amortisation (EBITDA) and profit after tax (PAT). In respect of capital, the key performance indicator is compliance with regulatory capital requirements set by the Financial Conduct Authority (FCA).

Against these KPIs 2020 saw a 7% decrease in average daily volumes excluding administrative trades (ADV) compared to 2019 (2019: 2% decrease).Whilst decreases in ADV were primarily driven by a downturn in global commodity markets and a consequent fall in the Company's trading volumes, the Company remains close to its members and users of the market and is actively seeking to develop alternative revenue streams through diversification of its product offerings.

Despite falls in ADV the Company's revenue and other income increased 5% compared to 2019 (2019: 1% decrease) and trading revenues increased 6% compared to 2019 (2019: 3% decrease). Whilst EBITDA increased year-on-year PAT remained static as the Company continued to invest in systems and people to support the business and interest rate and exchange rate movements had a negative impact on finance income and other losses. Operating expenses increased 8% compared to 2019 (2019: 2% increase). The Company continued to hold sufficient capital to meet its requirements set by the FCA.

The results show a profit before tax for the year of $93,943,000 (2019: $94,650,000), after accounting for taxation a profit for the year of $77,298,000 (2019: $77,148,000). As at 31 December 2020 the Company had total net assets of $189,621,000 (2019: $158,880,000).

No final dividend is proposed in respect of 2020 (2019: $nil). The Company paid an interim dividend of $47,000,000 in the year (2019: $88,000,000).

Strategy

The LME's strategy continues to focus on sustaining its premier status in price discovery for base metals futures and options, and leveraging from this strength to new areas of opportunity. In March 2020, the LME launched a new incentive programme to encourage liquidity providing trades, and published a roadmap to an enhanced options market following a market wide discussion paper.

The LME has continued to invest in its global physical ecosystem throughout 2020, continuing with the implementation of work on enhanced warehousing rules and disclosures, the development of a new electronic warranting process, ongoing progress with responsible sourcing and plans for electronic certificates of analysis via its envisaged LMEpassport platform. In addition to this, the LME has continued to make great progress on its sustainability agenda, launching a Discussion Paper on the LME's strategy to ensure a more sustainable future for metals.

The LME's current major technology projects, including the development of a new trading platform, moved into the build phase in 2020.

The LME continues to work with HKEX to build a leading global multi asset class exchange and capitalise on new opportunities arising from the further development of China's financial markets.

Strategic report (continued)

Business environment

The Exchange continues to operate in a competitive and ever evolving market environment and has maintained its position as the world centre for industrial metals trading. The prices discovered on the LME's trading platforms have retained their usage as global reference prices.

A key area of focus throughout 2020 was preparing the LME for all possibilities regarding the UK's withdrawal from the European Union (Brexit). A deal with the European Union (EU) was reached on 24 December 2020.

Principal risks and uncertainties

The Company's activities as an exchange operating in the United Kingdom exposes it to a number of risks, including credit risk, liquidity risk and foreign exchange risk. The Company manages these risks through various control mechanisms which are discussed in note 22.

The Company's management views the following areas as the principal risks and uncertainties facing the Company.

Brexit

The principal risk originally facing the Company as a result of Brexit was that certain members of the Exchange may have faced restrictions on clearing their positions post-Brexit, and that LME's European Economic Area (EEA) members would no longer be able to access the market.

The Company's contingency plan was based on three key priorities:

1. Ensuring continued member access to LME trading systems;
2. Continued access to clearing services through LME Clear Limited (LME Clear); and
3. Operational readiness in order to manage any additional regulatory obligations that may arise were there to be an interim period without the Company being granted trading venue equivalence.

The Company put in place Brexit contingency arrangements which sought to ensure that in the event of a no-deal Brexit, the Company would still be in a position to continue providing trading services to its members.

Brexit occurred on 31 January 2020, with a withdrawal agreement in place. The agreement provided a transition period which lasted until 31 December 2020. During this transition period, the existing regulatory framework remained unchanged, and the Company continued to provide trading services to EEA members and clients without disruption. Within this transition period the Company continued to engage with the relevant European regulatory authorities to take all appropriate steps to secure the necessary trading (and clearing) licences and exemptions should the trade agreement not include terms governing the reciprocal cross-border provision and receipt of financial services.

Towards the end of the transition period the EU and the UK announced they had concluded a trade agreement; however, this largely omitted reference to financial services. As such, the Company has been operating as of 1 January 2021 to the date of writing via its various new third country licences or exemptions in order that EEA members and clients can continue to access existing infrastructure with no service interruption. The Company will continue to engage with EU authorities and stakeholders as discussions continue regarding future equivalence arrangements.

Strategic report (continued)

Principal risks and uncertainties (continued)

COVID-19

The COVID-19 environment has been challenging across the financial services sector and much wider. The principal risks facing the Company over the reporting period have been:

1. Staff welfare and morale in a remote working environment;
2. Migration of pricing from the open-outcry arena to an electronic method; and
3. Ensuring the operational resilience of key trading and clearing infrastructure.

Staff welfare and morale has been central to the Company's business continuity response to COVID-19. From March 2020 the majority of the Company's staff have been working remotely and the Company has made efforts to ensure staff continue to feel supported and have the appropriate equipment to work for prolonged periods from home. The Company has also implemented many measures to maintain staff morale and inclusiveness over the period.

In March 2020, in line with Government workplace regulations and guidelines surrounding social distancing, the Company successfully migrated the pricing of the global metals market from its open-outcry Ring facility to an electronic method. This smooth implementation was facilitated by the Trading Operations team, who have continued to work from the Company's offices to facilitate their role in pricing and have been split across Finsbury Square and the business continuity site in Chelmsford. This method has continued throughout 2020 and will continue until such a time as Government guidelines permit a safe and orderly consideration of its return.

Maintaining the operational resilience of the key trading and clearing systems has been a priority for the Company, with a focus on ensuring the robustness of the existing infrastructure, strengthening its cyber-defences, and enhancing the Company's remote working capability.

The Company has also tested and enhanced its incident response framework and communication channels – including various fire-drill scenario testing exercises – in order to ensure confidence it can manage volatile trading activity and adverse market events such as member defaults remotely.

Competition

The global exchange landscape continues to evolve and become more competitive with a risk that other exchanges and new market entrants will seek to attract liquidity away from the Company. To mitigate this risk the Company will continue to be receptive to the views and needs of the market users and provide its products and services in a cost effective manner. It will also seek to enhance its technology in supporting the market.

Downturn in market activity

The key risk facing the Company is a continued and deepening downturn in global commodity markets and a consequent fall in the Company's trading volumes and revenues. In order to mitigate this risk the Company remains close to its members and users of the market and is also actively seeking to develop alternative revenue streams through diversification of its product offerings.

Operational and system resilience

With the ever increasing reliance placed on technology, the Company is aware of the need to 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. In order to mitigate the risks the Company continues to focus on its people, processes and technology. The Company assesses the risks in its processes on an ongoing basis and seeks to continually improve processes and technology to mitigate those risks. The Company has an operational incident process whereby when an incident is experienced it is managed through the event and learnings from it are identified which may then result in changes to processes or technology.

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational and system resilience (continued)

The Company continues to make significant technology investments including cyber security detection and response, infrastructure improvements as well as application upgrades to the LMEselect trading platform and its matching platform. To assist it in maintaining high levels of operational and systems resilience, the Company maintains a dual data centre approach and also retains a permanent remote trading floor facility which can be operated within four hours.

The Company commenced an exercise in 2019 to review its current Operational Resilience position. An external consultancy firm has continued to be engaged through 2020 to provide the executive with a gap analysis, an Operational Resilience Strategy and a Target Operating Model in line with regulatory expectations as set out in – amongst others - the Bank of England, the FCA and the UK Prudential Regulation Authority Consultation Papers of December 2019.

Regulation and compliance

The Company 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 regulator, the Financial Conduct Authority, and maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. The UK's withdrawal from the EU and consequent new third country regulatory licences means the Company will continue to prioritise building and maintaining relationships with regulatory authorities in other jurisdictions in which the Company offers services. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risks are key risks.

Section 172 Companies Act 2006

The Board of Directors is collectively responsible for the success of the Company and take their duties and responsibilities, including those set out in Section 172(1) of the Companies Act 2006, seriously. When making decisions, the Board of Directors seeks to take the course of action that it considers best leads to the success of the Company over the long term, and this includes considering a broad range of stakeholders.

The Board therefore recognises the importance of effective stakeholder engagement in driving the Company's strategic focus of sustaining its premier status in price discovery for base metals futures and options. Effective stakeholder engagement enables the Board to identify key emerging themes and trends in the markets that are served by the Company.

The Board has considered its stakeholder map and the engagement methods adopted by the Company with each stakeholder group. The Company's key stakeholders include HKEX, Company employees, LME members and their clients, regulators and other users of the Company.

The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, member townhalls and LME notices. Thematic results from these interactions with stakeholders are periodically presented to the Directors, primarily by senior management who lead such engagements.

Senior management, and ultimately, the Board of Directors, closely monitor stakeholder-focused metrics, such as member satisfaction, the delivery of cost effective services and critical system availability. As noted earlier in the Strategic report, these remain important measures of performance for the Company.

Strategic report (continued)

Stakeholder engagement and business relationships

Members and clients

Ongoing member and client engagement is integral to the Company's governance framework. The Company operates a number of advisory committees (the Advisory Committees) which are a part of the way the Company operates. For example, the LME User Committee represents the interests and views of the Company's members and clients. During 2020, this committee provided valued input and advice to the Board and senior management on a number of important strategic decisions that were made.

Feedback from the Advisory Committees in general, also informed various aspects of product development and business strategy during 2020.

Suppliers

The Board takes the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2020, with Board and senior management focus on a number of key initiatives.

The Board also reiterated the Company's commitment to ensuring that there is no modern slavery in its organisation or supply chains. A Board approved Modern Slavery Policy is in place, and this reflects the Company's commitment to acting ethically and with integrity.

Beyond the responsibilities set out in the Modern Slavery Act 2015, the LME has also introduced requirements for responsible sourcing of metal by LME listed brands. These requirements will ensure that LME market participants taking delivery of metal through the Company can be sure that this metal has been sourced responsibly, in line with international principles as set out by the Organisation for Economic Co-operation and Development. Reporting against these requirements will start in 2022.

Regulators

The Company maintains a regular dialogue with the FCA and its other regulators, engaging on relevant matters such as Board and management changes, capital requirements and proposed new products or services.

HKEX

The Company maintains close links with its ultimate parent company. A number of the Company's Directors also hold directorships of HKEX, certain key management personnel represent the Company at the HKEX Management Committee and there are regular meetings between HKEX management and staff and the Company's employees at all levels across the business.

Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company meeting its objective to provide facilities, along with the management and regulatory structure, for trading in LME contracts. Engagement with employees is undertaken primarily by senior management, through townhalls, a variety of employee forums and regular surveys.

Managing the wellbeing and morale of employees during the COVID-19 pandemic has been a key priority for senior management and the Board during 2020. Company employees were invited to participate in regular employee wellbeing surveys, in order to monitor, report and address any wellbeing concerns and take forward any findings to further improve morale and support productivity. Results of these surveys were transparently communicated to employees, together with initiatives introduced to address the findings. The Board also reviewed the results and made decisions to benefit employee wellbeing as a result of these surveys.

With support from the Board and senior management, the Company has continued to build on its diversity and inclusion strategy during 2020. The Company signed the Women in Finance Charter setting itself a target of 40% of senior management roles to be filled by women by 2025. Various employee networks and forums continue to raise awareness of, and engagement with, diversity among Company employees.

Strategic report (continued)

Employee engagement (continued)

During 2020 the LME published its gender pay gap information despite the Government's temporary suspension of mandatory reporting. The Board believes that transparency around gender pay gap reporting continues to play an important role in understanding and addressing the gender-based inequality that persists in our wider society in which the Company operates. The gender pay gap published in 2020 showed that progress had been made whilst acknowledging that there was still more to do.

Throughout 2021, the Board will continue to review and challenge how the Company can improve engagement with its employees and other stakeholders.

Equal opportunities

The Company is an active equal opportunities employer, which promotes an environment free from discrimination, and where everyone receives equitable treatment and career development regardless of age, disability, sex, gender, gender reassignment, pregnancy, race (which includes colour, nationality and ethnic or national origins) sexual orientation, religion or belief or because someone is married or in a civil partnership among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit.

The Company gives full and fair consideration to applications for employment made by disabled people, and encourages and assists the recruitment, training, career development and promotion of disabled people. The Company also endeavours to retain employees who become disabled during the course of their employment. This includes a commitment to making reasonable adjustments to the employee's working environment where a physical feature or a provision, criterion or practice puts a disabled person at a substantial comparative disadvantage.

The arrangements outlined above are set out in a Company policy, which is subject to periodic review.

Charitable activities

The Company is committed to its charitable initiatives and engages with a variety of charitable causes at both a corporate and individual employee level. The Company's approach, priorities and objectives with regard to charitable activities are primarily led by the Charity Committee, which operates under delegation from the Board.

During the year, the Company made charitable donations amounting to $82,000 (2019: $85,000). In 2019, the LME partnered with a new charity, The Connection, a homelessness charity located in the centre of London, which works with approximately 4,000 homeless people every year to move away from, and stay off the streets of London. As well as assisting with fundraising for the charity, through sponsored sporting feats and challenges, LME staff can volunteer in a number of ways. For example, our staff can help those looking to gain economic independence through employment by providing mock interviews and advice on CV writing and presentation skills. This partnership continued into 2020 and we continued with fundraising, but unfortunately no volunteering due to COVID-19.

The Strategic report was approved by the Board of Directors on 19 February 2021.

Signed by order of the Board of Directors by:

K.Pearson
Company Secretary
19 February 2021
The London Metal Exchange
Registration number 2128666

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2020.

Incorporation

The Company is a private unlimited company. It was originally registered in the UK as a private company limited by guarantee. On 13 December 2012 it was re-registered as an unlimited company.

Results

The profit before tax for the year ended 31 December 2020 was $93,943,000 (2019: $94,650,000) and after accounting for taxation a profit for the year of $77,298,000 (2019: $77,148,000).

No final dividend is proposed in respect of 2020 (2019: $nil), being $nil per share (2019: $nil). The Company paid an interim dividend of $47,000,000 in the year (2019: $88,000,000).

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.

Directors' indemnity and insurance

The Company's Articles of Association provide an indemnity (the Indemnity) for each Director of the Company. The Indemnity, which constitutes a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006, was in force during the 2020 financial year and remains in force. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Future developments

In 2021, LME will see the delivery of the new product suite including new steel, aluminium premium, aluminium scrap and lithium contracts. In addition to this, LME will be launching its new in-sourced depositary and the LMEpassport system. The LME also released a discussion paper and is conducting market engagement on the possibility of market structure reform. This incorporates four key areas (i) the Ring and reference pricing, (ii) enhancing liquidity, (iii) margin methodology, and (iv) market conduct, with a view to ascertaining market views across a spectrum of LME stakeholders, to inform possible future LME decision making about optimal market structure.

The LME's current major technology projects, including the development of the new trading platform, will be completing the development of their core components and will proceed to commence integration and customer testing. Build work is anticipated to be completed in 2021 to support the go-live from mid-2022 onwards.

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 and liquidity risk management is provided in note 22 to the financial statements.

Directors' report (continued)

Capital risk management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern in order to provide returns for the sole shareholder and benefits for other stakeholders;
- To maintain an optimal capital structure to reduce the cost of capital; and
- To meet its regulatory capital obligation.

The LME is a Recognised Investment Exchange under the terms of The Financial Services and Markets Act 2000. The FCA's capital rules require that the Company must maintain liquid financial resources and net capital in excess of its financial resources requirement (FRR), The FRR comprises the cost of orderly closure plus a risk based capital charge. Liquid financial resources are represented by the Company's cash and cash equivalents, and net capital comprises total equity less share capital, intangible assets and intercompany receivables.

These requirements are closely monitored and the status is reported on a monthly basis to the Board and the FCA. In 2020 the FRR was reset to £53,900,000 (2019: £49,800,000) which, as at 31 December 2020, equates to $73,679,000 (2019: $65,973,000). The Company's liquid financial resources and net capital measures exceeded the FRR throughout the year.

Employee engagement

Disclosures regarding action taken by the Company to engage with its employees have been included in the Employee engagement section of the Strategic report.

Disabled persons disclosures

A statement describing the company's policy on the hiring, continuing employment and career development of disabled persons has been included in the equal opportunities section of the Strategic report.

Streamlined energy and carbon reporting

Carbon dioxide emissions

We report our carbon emissions following the Greenhouse Gas Protocol (GHG), which incorporates the scope 2 market-based emission methodology. We report emissions resulting from energy use within the demised area of the Company's buildings, data centres and employees' business travel.

In 2020, we collected data on energy use and business travel for operations in our London office.

The Company uses the UK Government GHG conversion factors for reporting.

Further work is underway to reduce the Company's emissions, including ensuring 100% renewable energy use at its premises at 10 Finsbury Square, and offsetting travel-related emissions. The Company will also continue its work to reduce emissions associated with office use, including limiting printing and stationery usage.

UK greenhouse gas emissions and energy use data for the period 1 January 2020 to 31 December 2020	**2020**
Energy consumption used to calculate emissions (kWh)	
Gas	-
Electricity	787,031
Business travel	-
	787,031

Directors' report (continued)

Streamlined energy and carbon reporting (continued)

UK greenhouse gas emissions and energy use data for the period 1 January 2020 to 31 December 2020	2020
Emissions in metric tonnes (carbon dioxide equivalent)	
Electricity and gas consumption	183.5
	183.5

During the year the Company emitted 0.06 metric tonnes carbon dioxide equivalent per metre squared of office space.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

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 accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

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.

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves 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.

Going concern

In determining the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic report (see pages 2 to 8).

Given the economic uncertainty arising from the COVID-19 pandemic and the impact of the UK leaving the EU, and taking into account the recent guidance issued by the FRC, a review of the Company's going concern has been performed. The prospects and viability of the Company were considered as part of this review. It was noted that the Company remained profitable during the year despite COVID-19 and the Brexit transition period coming to an end. The Company holds capital in excess of regulatory requirements and is forecast to be profitable and cash generating for the foreseeable future. Accordingly the going concern basis for preparing the financial statements is considered appropriate.

The Directors' report was approved by the Board of Directors on 19 February 2021.

Signed by order of the Board:

K.Pearson
Company Secretary
19 February 2021
The London Metal Exchange
Registration number 2128666

Independent auditors' report to the member of The London Metal Exchange

Report on the audit of the financial statements

Opinion

In our opinion, The London Metal Exchange's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020, the Statement of profit or loss and other comprehensive income, the Statement of cash flows, the Statement of changes in equity 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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.

Independent auditors’ report to the member of The London Metal Exchange (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors’ responsibilities in respect of the financial statements, 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.

Independent auditors’ report to the member of The London Metal Exchange (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors’ responsibilities for the audit of the financial statements (continued)
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority’s regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed included:

- Enquiries of management, internal audit and those charged with governance;
- Review of internal audit reports and minutes of meetings of those charged with governance in so far as they related to the financial statements;
- Review of correspondence with, and reports to regulators;
- Identifying and testing journal entries, including those posted to unusual account combinations, adjustments posted after year-end, backdated journals and those posted by unexpected users;
- Testing manually calculated revenue balances, such as member incentives and rebates, to source documentation;
- Challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the capitalisation of software costs and impairment assessments of intangible assets; and
- Review of the financial statement disclosures and testing to supporting documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 member 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 member of The London Metal Exchange (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 obtained 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.

Claire Sandford

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 February 2021

The London Metal Exchange

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2020

	Note	2020 $ 000's	2019 $ 000's
Trading fees		139,905	131,962
Market data fees		25,798	25,321
Other revenue		37,548	36,642
Revenue and other income	3	**203,251**	**193,925**
Operating expenses	4	(107,623)	(99,840)
Operating profit		**95,628**	**94,085**
Finance income	6	819	2,284
Finance costs	6	(823)	(855)
Other losses	6	(1,681)	(864)
Profit before tax		**93,943**	**94,650**
Taxation	7	(16,645)	(17,502)
Profit for the year		**77,298**	**77,148**
Other comprehensive (expense) / income, net of tax[1]		**(510)**	**510**
Total comprehensive income		**76,788**	**77,658**

[1] Other comprehensive income / (expense) comprises only items that have been or subsequently will be reclassified to profit and loss

No final dividend is proposed in respect of 2020 (2019: $nil). The Company paid an interim dividend of $47,000,000 in the year (2019: $88,000,000).

The notes on pages 21 to 47 are an integral part of these financial statements.

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

The London Metal Exchange

Statement of financial position
As at 31 December 2020

	Note	2020 $ 000's	2019 $ 000's
Assets			
Non-current assets			
Intangible assets	8	70,163	47,412
Property, plant and equipment	9	15,391	11,955
Right-of-use assets	10	18,927	21,161
Deferred tax asset	11	2,617	1,816
		107,098	**82,344**
Current assets			
Trade and other receivables	12	30,667	27,126
Cash and cash equivalents	13	122,821	122,654
Amounts due from group undertakings	23	2,033	1,843
		155,521	**151,623**
Liabilities			
Current liabilities			
Trade and other payables	15	44,023	37,930
Current tax liabilities		1,141	7,768
Amounts due to group undertakings	23	47	62
Lease liabilities	16	2,861	2,296
		48,072	**48,056**
Net current assets		**107,449**	**103,567**
Non-current liabilities			
Lease liabilities	16	23,566	25,938
Provisions	17	1,360	1,093
		24,926	**27,031**
Net assets		**189,621**	**158,880**
Equity			
Share capital	19	-	-
Capital reserve		34,726	34,726
Retained earnings		159,787	128,536
Foreign currency translation reserve		(4,892)	(4,892)
Hedging reserve	14	-	510
Total equity		**189,621**	**158,880**

The notes on pages 21 to 47 are an integral part of these financial statements.

The financial statements on pages 17 to 47 were approved by the Board of Directors on 19 February 2021 and signed on its behalf by:

M J Chamberlain
Director
19 February 2021

The London Metal Exchange

Statement of changes in equity
For the year ended 31 December 2020

	Note	Share capital $ 000's	Capital reserve $ 000's	Foreign currency translation reserve $ 000's	Retained earnings $ 000's	Hedging reserve $ 000's	Total equity $ 000's
At 1 January 2020		**-**	**34,726**	**(4,892)**	**128,536**	**510**	**158,880**
Profit for the financial year		**-**	-	-	77,298	-	**77,298**
Other comprehensive expense – cash flow hedge		-	-	-	-	(510)	**(510)**
Total comprehensive income		**-**	**-**	**-**	**77,298**	**(510)**	**76,788**
Transactions with shareholder - Interim dividend		-	-	-	(47,000)	-	**(47,000)**
Tax credit to equity reserves	7	-	-	-	953	-	**953**
At 31 December 2020		**-**	**34,726**	**(4,892)**	**159,787**	**-**	**189,621**

For the year ended 31 December 2019

	Note	Share capital $ 000's	Capital reserve $ 000's	Foreign currency translation reserve $ 000's	Retained earnings $ 000's	Hedging reserve $ 000's	Total equity $ 000's
At 1 January 2019, as originally presented		**-**	**34,726**	**(4,892)**	**139,890**	**-**	**169,724**
Effect of adoption of IFRS 16		-	-	-	(613)	-	**(613)**
At 1 January 2019 as restated		**-**	**34,726**	**(4,892)**	**139,277**	**-**	**169,111**
Profit for the financial year		**-**	**-**	**-**	77,148	**-**	**77,148**
Other comprehensive income – cash flow hedge		-	-	-	-	510	**510**
Total comprehensive income		**-**	**-**	**-**	**77,148**	**510**	**77,658**
Transactions with shareholder – Interim dividend		-	-	-	(88,000)	-	**(88,000)**
Tax credit to equity reserves	7	-	-	-	111	-	**111**
At 31 December 2019		**-**	**34,726**	**(4,892)**	**128,536**	**510**	**158,880**

The notes on pages 21 to 47 are an integral part of these financial statements.

The London Metal Exchange

Statement of cash flows
For the year ended 31 December 2020

	Note	2020 $ 000's	2019 $ 000's
Cash flows from operating activities			
Cash inflow from operating activities	20	119,582	116,123
Effects of foreign exchange movements		(185)	(355)
Tax paid		(23,121)	(24,577)
Net cash inflow from operating activities		**96,276**	**91,191**
Cash flows from investing activities			
Interest received		1,036	2,506
Purchase of intangible assets	8	(39,617)	(21,128)
Purchase of property, plant and equipment	9	(7,084)	(4,751)
Net cash outflow from investing activities		**(45,665)**	**(23,373)**
Cash flows from financing activities			
Lease payments		(3,444)	(3,472)
Dividends paid to shareholder	21	(47,000)	(88,000)
Net cash outflow from financing activities		**(50,444)**	**(91,472)**
Net increase / (decrease) in cash and cash equivalents		**167**	**(23,654)**
Cash and cash equivalents at 1 January		122,654	146,308
Cash and cash equivalents at 31 December	13	**122,821**	**122,654**

The notes on pages 21 to 47 are an integral part of these financial statements.

Notes to the 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements are prepared under the historical cost convention 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 2020, the Company has adopted the following new/revised international accounting standards which were effective for accounting periods beginning on or after 1 January 2020. These amendments were adopted with effect from 1 January 2020 and have had no financial impact on the Company and no impact on the disclosures.

i) Amendments to IFRS 3 – 'Business combinations'

ii) Amendments to IAS 1 – 'Presentation of financial statements' and IAS 8 – 'Accounting policies, changes in accounting estimates and errors'

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2020 and not adopted early

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2020 and therefore have not been applied in preparing these financial statements.

i) Amendments to IAS 1 – 'Presentation of financial statements'

This is not expected to have a material impact on the financial statements of the Company.

1 Significant accounting policies (continued)

1.4 Revenue

Revenue excludes value added tax and other sales taxes, and is recognised in the Statement of profit or loss and other comprehensive income on the following basis:

i) Trading fees are recognised on a trade date basis.

ii) Market Data fees are recognised when the related services are rendered.

iii) Other revenue comprises:

- Subscription and registration fees; recognised on a straight-line basis over time as the performance obligation is satisfied;
- Intercompany cost recharges in connection with expenditures incurred on behalf of group companies. These recharges are recognised when the related expenditures are incurred; and
- All other fees are recognised when the related services are rendered.

Deferred revenue (the terminology “contract liability” under IFRS 15 – ‘Revenue from contracts with customers’ is presented as deferred revenue) is recognised when the customers pay considerations before the Company transfers control of the goods or satisfies a performance obligation. This represents the unsatisfied performance obligations at year end resulting from long-term contracts.

1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group Share Award Scheme (Share Award Scheme), under which the Company 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 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 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 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 profit or loss and other comprehensive income as incurred.

1 Significant accounting policies (continued)

1.6 Intangible assets

Intangible assets consist of software-related projects capitalised when the development stage of the project is completed and the asset can be put into 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:

i) it is technically feasible to complete the system so that it will be available for use;

ii) management intends to complete the system and use or sell it;

iii) there is an ability to use or sell the system;

iv) it can be demonstrated how the system will generate probable future economic benefits;

v) adequate technical, financial and other resources to complete the development and to use or sell the system are available; and

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

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.

1.7 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 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 hardware - three years

Leasehold improvements - over the remaining lives of the leases but not exceeding ten years

Furniture and equipment - three to five years

1 Significant accounting policies (continued)

1.8 Right-of-use assets

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability (note 1.12) at the lease commencement date. The right-of-use asset is initially measured at cost (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received), and subsequently at cost less any accumulated depreciation and impairment losses. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Payments associated with short-term leases (i.e. leases with a lease term of 12 months or less) and low value leases are recognised on a straight-line basis as an expense in the Statement of profit or loss and other comprehensive income.

1.9 Cash and cash equivalents

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

1.10 Hedge accounting

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

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 in note 14. Movements on the hedging reserve are shown in note 14 and the Statement of changes in equity. 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 profit or loss and other comprehensive income within other gains / (losses).

1 Significant accounting policies (continued)

1.10 Hedge accounting (continued)

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 profit or loss and other 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 profit or loss and other 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 profit or loss and other comprehensive income within other gains / (losses).

1.11 Financial assets

Assets are classified under financial assets measured at amortised cost if they satisfy both of the following conditions:

i) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables are classified under this category.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. The amortised cost is reduced by a loss allowance for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income. Any gains and losses on derecognition are recognised in the Statement of profit or loss and other comprehensive income.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortised cost. For receivables due from customers, the Company applies the simplified approach permitted by IFRS 9 – ‘Financial instruments’, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected credit losses of receivables are estimated using a provision matrix based on the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For other financial assets measured at amortised cost, the Company recognises a provision for impairment losses equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial assets since initial recognition, in which case the provision for impairment losses is measured at an amount equal to lifetime expected credit losses.

Expected credit losses are remeasured at each reporting date to reflect changes in the financial assets credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the Statement of profit or loss and other comprehensive income, with a corresponding adjustment to the carrying amount.

1 Significant accounting policies (continued)

1.11 Financial assets (continued)

The gross carrying amount of a financial asset is written off (partially or in full) to the extent that there is no realistic prospect of recovery. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in the Statement of profit or loss and other comprehensive income in the period in which the recovery occurs.

1.12 Lease liabilities

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognises a right-of-use asset (note 1.8) and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate is used. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the Statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

1.13 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.

1.14 Current and deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the Statement of profit or loss and other comprehensive income.

a) 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.

b) 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.

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.15 Foreign currencies

The financial statements are presented in USD, which is the Company's presentational currency. The functional currency of the Company is USD.

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 profit or loss and other comprehensive income.

1.16 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.

1.17 Pension costs

The Company operates a defined contribution pension scheme. The expense of the scheme is charged to the Statement of profit or loss and other comprehensive income as incurred.

1.18 Share capital

Ordinary shares are classified as equity.

1.19 Dividends

The 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.

2 Critical accounting estimates and judgements

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 believe 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 international accounting standards.

Intangible assets

As described in notes 1.6 and 8, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation and 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 1.6.

The Company has carefully considered the following judgements:

i) whether costs meet the capitalisation criteria under IAS 38 'Intangible Assets'; and

ii) whether the asset is impaired.

The Company estimates the useful life of its software to be five years for trading systems and three years for non-trading systems based on the expected technical obsolescence of the asset. However the actual useful life may be shorter or longer. If the actual useful life is determined to be shorter, the amortisation charged to the Statement of profit or loss and other comprehensive income will be adjusted.

Deferred taxation

As described in notes 1.14(b) and 11, Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available. The Company follows the accounting policy described in note 1.14(b). The Company has made a judgement that the deferred tax asset will be recoverable using the estimated future taxable income based on the Company's approved budget which forecasts continued taxable income.

Expected credit loss

As described in notes 1.11 and 12, expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors. The Company follows the accounting policy described in note 1.11.

Notes to the financial statements (continued)

3 Revenue and other income

Timing of revenue recognition	2020 $ 000's	2019 $ 000's
At a point in time	163,372	155,552
Over time	39,879	38,373
	203,251	**193,925**

4 Operating expenses

Operating expenses comprise the following:

	Note	2020 $ 000's	2019 $ 000's
Employee costs	5	51,486	47,388
Amortisation		16,866	15,773
Depreciation		6,213	5,339
Technology costs		20,035	17,868
Other costs		12,977	13,467
Bad debt charge		46	5
		107,623	**99,840**

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

	2020 $ 000's	2019 $ 000's
Audit of the Company's financial statements	177	145
Audit of the Company's related entities	26	41
Audit related assurance services:		
- Company's associated pension scheme for the current period	6	5
- Other	21	17
	230	**208**

Audit of the Company's related entities is the statutory audit fee incurred by the Company on behalf of HKEX Investment (UK) Limited.

Notes to the financial statements (continued)

5 Employee costs

Employee costs (including directors) comprise the following:

	Note	2020 $ 000's	2019 $ 000's
Wages and salaries		36,477	35,638
Social security costs		7,878	5,725
Other pension costs	18	2,786	2,374
Employee share-based compensation benefits of share award scheme	26	4,345	3,651
Total		**51,486**	**47,388**

The number of permanent employees (excluding directors) was:

	2020	2019
At 31 December	313	271
Monthly average for the year	313	260

6 Net finance income and other losses

	2020 $ 000's	2019 $ 000's
<u>Finance income</u>		
Interest income on bank accounts and short-term bank deposits	819	2,284
<u>Finance costs</u>		
Interest on lease liabilities	(823)	(855)
<u>Other losses</u>		
Loss on foreign exchange	(1,681)	(864)
	(1,685)	**565**

Notes to the financial statements (continued)

7 Taxation

	Note	2020 $ 000's	2019 $ 000's
Income tax			
Current year		17,585	17,151
Adjustments in respect of prior years		(28)	(167)
Foreign exchange		(549)	233
Total current tax		**17,008**	**17,217**
Deferred tax			
Deferred tax for the current year	11	346	342
Change in tax rate	11	(249)	(10)
Adjustments in respect of prior years	11	(460)	(47)
Total deferred tax		**(363)**	**285**
Taxation charge		**16,645**	**17,502**

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19% (2019:19%) and the taxation charge for the year are explained below:

	2020 $ 000's	2019 $ 000's
Profit before taxation	**93,943**	**94,650**
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	17,849	17,984
Expenses not deductible	106	116
Adjustments in respect of prior years	(488)	(215)
Change in tax rate	(249)	(10)
Tax in respect of share schemes	(24)	(7)
Effects of group relief	-	(599)
Foreign exchange	(549)	233
Taxation charge	**16,645**	**17,502**

Tax credited to equity:	2020 $ 000's	2019 $ 000's
Current tax - share options	(515)	(88)
Deferred tax - share options	(438)	(23)
Taxation credit	**(953)**	**(111)**

Notes to the financial statements (continued)

8 Intangible assets

For the year ended 31 December 2020	Capitalised software in use	Capitalised software under development	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2020	130,642	21,902	**152,544**
Additions	-	39,617	**39,617**
Transfers	18,727	(18,727)	**-**
At 31 December 2020	**149,369**	**42,792**	**192,161**
Accumulated amortisation and impairment			
At 1 January 2020	105,132	-	**105,132**
Charge for the year	16,866	-	**16,866**
At 31 December 2020	**121,998**	**-**	**121,998**
For the year ended 31 December 2019			
Costs			
At 1 January 2019	161,216	12,319	**173,535**
Additions	-	21,128	**21,128**
Disposals	(42,119)	-	**(42,119)**
Transfers	11,545	(11,545)	**-**
At 31 December 2019	**130,642**	**21,902**	**152,544**
Accumulated amortisation and impairment			
At 1 January 2019	131,478	-	**131,478**
Charge for the year	15,773	-	**15,773**
Disposals	(42,119)	-	**(42,119)**
At 31 December 2019	**105,132**	**-**	**105,132**
Net book values			
At 31 December 2020	**27,371**	**42,792**	**70,163**
At 31 December 2019	25,510	21,902	47,412

Amortisation of intangibles is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

Notes to the financial statements (continued)

9 Property, plant and equipment

For the year ended 31 December 2020	Computer hardware	Leasehold improvement, furniture and equipment	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2020	35,729	8,169	43,898
Additions	6,381	703	7,084
Disposals	(1,348)	-	(1,348)
At 31 December 2020	**40,762**	**8,872**	**49,634**
Accumulated depreciation			
At 1 January 2020	28,037	3,906	31,943
Charge for the year	2,860	788	3,648
Written back on disposal	(1,348)	-	(1,348)
At 31 December 2020	**29,549**	**4,694**	**34,243**
For the year ended 31 December 2019			
Costs			
At 1 January 2019	34,768	11,406	46,174
Effect of IFRS 16	-	(1,216)	(1,216)
Additions	4,522	229	4,751
Disposals	(3,561)	(2,250)	(5,811)
At 31 December 2019	**35,729**	**8,169**	**43,898**
Accumulated depreciation			
At 1 January 2019	29,655	5,776	35,431
Effect of IFRS 16	-	(322)	(322)
Charge for the year	1,943	702	2,645
Written back on disposal	(3,561)	(2,250)	(5,811)
At 31 December 2019	**28,037**	**3,906**	**31,943**
Net book values			
At 31 December 2020	**11,213**	**4,178**	**15,391**
At 31 December 2019	7,692	4,263	11,955

Depreciation of property plant and equipment is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

Notes to the financial statements (continued)

10 Right-of-use assets

For the year ended 31 December 2020

	2020 $ 000's	2019 $ 000's
Costs and net book value		
At 1 January	21,161	21,903
Additions	331	1,952
Depreciation	(2,565)	(2,694)
At 31 December	**18,927**	**21,161**

11 Deferred tax asset

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

	Fixed and intangible assets $ 000's	Cash flow hedge $ 000's	Employee benefits $ 000's	Share options $ 000's	IFRS 16 adoption $ 000's	Total $ 000's
At 1 January 2019	**1,470**	**-**	**-**	**482**	**126**	**2,078**
Adjustments in respect of prior years credited						
- to profit or loss	47	-	-	-	-	**47**
Effects of changes in tax rates credited /(charged)						
- to profit or loss	50	-	-	(41)	1	**10**
- to equity	-	-	-	(5)	-	**(5)**
Other credit /(charges)						
- to profit or loss	(474)	-	-	144	(12)	**(342)**
- to equity	-	-	-	28	-	**28**
At 31 December 2019	**1,093**	**-**	**-**	**608**	**115**	**1,816**
Adjustments in respect of prior years credited / (charged)						
- to profit or loss	459	-	1	-	-	**460**
- to other comprehensive income	-	(87)	-	-	-	**(87)**
Effects of changes in tax rates credited /(charged)						
- to profit or loss	183	-	-	53	13	**249**
- to other comprehensive income	-	(10)	-	-	-	**(10)**
- to equity	-	-	-	5	-	**5**
Other credits /(charges)						
- to profit or loss	(400)	-	(1)	67	(12)	**(346)**
- to other comprehensive income	-	97	-	-	-	**97**
- to equity	-	-	-	433	-	**433**
At 31 December 2020	**1,335**	**-**	**-**	**1,166**	**116**	**2,617**

Notes to the financial statements (continued)

11 Deferred tax asset (continued)

The deferred tax asset has arisen as a consequence of movements in fixed assets, short lease premium, adoption of IFRS 16 and share options. $893,000 of the deferred tax asset will be realised in less than 12 months (2019: $510,000) with the remaining balance realised in more than 12 months.

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 in place at the balance sheet date.

Current and deferred tax

On 22 July 2020, Finance Act 2020 received Royal Assent. The UK corporation tax rate therefore remained at 19% from 1 April 2020 onward instead of reducing to 17%, the previously enacted rate.

12 Trade and other receivables

	2020 $ 000's	2019 $ 000's
Accrued income – trading fees	11,153	11,425
Accrued income – other	6,406	6,115
Trade receivables	3,173	3,638
Other receivables	119	433
Prepayments	9,816	5,515
	30,667	**27,126**

The carrying amounts of the Company's trade and other receivables are denominated in US dollars, apart from $155,000 which is denominated in UK pounds sterling (2019: $543,000) and $68,000 which is denominated in Singapore dollars (2019: $92,000).

Notes to the financial statements (continued)

12 Trade and other receivables (continued)

For trade and other receivables, the Company applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2020 and 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables:

	At 31 December 2020				
	Current	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Total**
Expected loss rate	0.03%	2.85%	1.95%	0.09%	
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Gross carrying amount – accrued income and trade receivables	18,996	838	471	388	20,693
Loss allowance	**6**	**24**	**9**	**-**	**39**

	At 31 December 2019				
	Current	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Total**
Expected loss rate	0.02%	0.33%	0.98%	8.61%	0.08%
	$ 000's	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Gross carrying amount – accrued income and trade receivables	19,590	1,261	232	95	21,178
Loss allowance	**4**	**4**	**2**	**8**	**18**

For other receivables the expected credit loss is close to zero as these receivables have no recent history of default. Details of risk management are set out in note 22(b).

13 Cash and cash equivalents

	2020	**2019**
	$ 000's	**$ 000's**
Cash at bank	28,096	18,980
Short term deposits	94,725	103,674
	122,821	**122,654**
Average maturity of short term deposits	1 month	1 month
Weighted average interest rate	0.17%	1.65%

Notes to the financial statements (continued)

13 Cash and cash equivalents (continued)

All cash and cash equivalents have a maturity of 3 months or less. As a Recognised Investment Exchange, the Company must maintain liquid financial resources and net capital in excess of its financial resources requirement (FRR), The FRR comprises the cost of orderly closure plus a risk based capital charge. Liquid financial resources are represented by the Company's cash and cash equivalents.

Included within cash is $7,443,000 of monies received in respect of enforcement actions (2019: $9,772,000). These funds will be applied in accordance with the Financial Conduct Authority's REC requirements.

Included within cash at bank is an amount of £nil (2019: £6,900,000), equivalent to $nil (2019: $8,606,000) designated as hedging instruments. Further details are set out in note 14.

14 Hedge accounting

Throughout the year a proportion of the Company's sterling cash was designated as a cash flow hedge of foreign exchange risks associated with the cash flows of highly probable forecast transactions relating to the Company's staff and technology costs.

As at 31 December 2020 the hedging instruments totalled £nil (2019: £6,900,000), equivalent to $nil (2019: $8,606,000).

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

	2020 $ 000's	2019 $ 000's
At 1 January	510	-
Gain on hedging instruments recognised in other comprehensive income	985	622
Reclassified to profit or loss:		
– wages and salaries	(1,446)	(22)
– technology costs	(49)	(90)
At 31 December	**-**	**510**

No ineffectiveness was recognised during 2020 (2019: $nil).

15 Trade and other payables

	2020 $ 000's	2019 $ 000's
Social security and other taxes	11,721	11,973
Other payables	19,354	14,539
Accruals and deferred income	12,948	11,418
	44,023	**37,930**

With the exception of deferred income, trade and other payables totalling $11,518,000 have contractual payment terms of less than three months (2019: $8,979,000).

16 Lease liabilities

	2020 $ 000's	2019 $ 000's
At 1 January	28,234	**27,837**
Finance cost	823	855
Lease payment	(3,444)	(3,472)
Additions	107	1,952
Effects of foreign currency movements	707	1,062
At 31 December	**26,427**	**28,234**
Analysed		
- Current	2,861	2,296
- Non-current	23,566	25,938
At 31 December	**26,427**	**28,234**

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current reporting period.

	2020		2019	
	Present value of the minimum lease payments $ 000's	**Total minimum lease payments $ 000's**	**Present value of the minimum lease payments $ 000's**	**Total minimum lease payments $ 000's**
Within 1 year	-	-	-	-
After 1 year but within 2 years	640	642	-	-
After 2 years but within 5 years	2,072	2,208	1,224	1,244
After 5 years	23,715	27,401	27,010	31,522
	26,427		28,234	32,766
Present value of lease liabilities	**26,427**		**28,234**	
Less: total future interest expenses		(3,824)		(4,532)
Present value of lease liabilities		**26,427**		**28,234**

The Company leases various properties and information technology facilities through contracts. These leases typically run for an initial period of 5 to 15 years. Some leases include an option to renew the lease for an additional period after the end of the agreement term. Where practicable, the Company seeks to include such extension options exercisable by the Company to provide operational flexibility.

The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Company is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. At 31 December 2020, no potential future cash flows relating to the exercising of extension options have been included in the lease liabilities.

Notes to the financial statements (continued)

17 Provisions

	2020 $ 000's	2019 $ 000's
At 1 January	1,093	1,051
Addition	225	-
Effects of foreign currency movements	42	42
At 31 December	**1,360**	**1,093**

The provision is in respect of the estimated reinstatement and dilapidation costs arising from the Company's leasehold premises with agreements expiring on 31 October 2025 and 31 March 2030.

18 Pension costs

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

Pension costs for the scheme are as follows:

	Note	2020 $ 000's	2019 $ 000's
Defined contribution scheme	5	2,786	2,374

19 Share capital

Allotted, called-up and fully paid	2020 $	2019 $
At 1 January	156	156
Total share capital as at 31 December	**156**	**156**

The Company has 100 ordinary shares in issue. The shares are wholly owned by LME Holdings Limited.

Notes to the financial statements (continued)

20 Cash inflow from operating activities

Reconciliation of profit before tax to net cash inflow / (outflow) from operating activities:

	2020 $ 000's	2019 $ 000's
Continuing operations		
Profit before tax	93,943	94,650
Adjustment for:		
Depreciation of property, plant and equipment	3,648	2,646
Depreciation of right-of-use assets	2,565	2,694
Amortisation of intangible assets	16,866	15,773
Interest on lease liabilities	823	855
Interest income	(819)	(2,284)
Decrease in intercompany payables	(190)	(255)
Increase in intercompany receivables	(15)	(1,694)
Provision for bad debt	46	5
Other non-cash movements	(22)	281
Effects of foreign exchange movements	185	752
(Increase) / decrease in trade and other receivables	(3,541)	22
Increase in trade and other payables	6,093	2,678
Cash generated from operations	**119,582**	**116,123**

21 Dividends paid to shareholder

A dividend of $47,000,000 ($470,000 per share) was paid in 2020 (2019: $88,000,000, equivalent to $880,000 per share).

Notes to the financial statements (continued)

22 Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity 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 financial performance. Financial risk management is carried out by the Finance department under policies approved by the Board of Directors.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates 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, which is approved by the Board and reviewed regularly. The Company's investment policy is designed to ensure diversification of investments across a range of highly rated financial institutions and to minimise risk through the use of risk based limits. No investments are made for speculative purposes. In addition specific limits are set for each counterparty in control of the investments.

(i) Foreign exchange risk

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 (i.e. a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk arising from payments of various expenditures (predominately in GBP, a significant component of which is staff costs) and bank deposits denominated in foreign currencies. The Company's treasury risk management policy in the normal course of events is to convert non-USD currencies into USD (the functional currency) as soon as deemed reasonably appropriate to do so in order to reduce exposure to exchange rate fluctuation. An exception to this policy is where an amount of foreign currency is held against future GBP expenditure. The Company seeks to minimise the risk of adverse effects to its Statement of profit or loss and other comprehensive income as a result of fluctuations in foreign exchange rates by undertaking hedge accounting in the form of cash flow hedges. The Company designates cash flow hedges in respect of highly probable forecast sterling transactions – typically for payroll and technology for a time horizon of one to six months.

At 31 December 2020 a 10% weakening/strengthening of GBP against USD, with all other variables held constant, would have resulted in a foreign exchange gain/loss of $3,283,000 (2019: $4,427,000), all as a result of translation of GBP denominated trade receivables and bank balances amounting to $32,830,000 (2019: $44,270,000).

22 Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk

The Company is not directly exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Company has significant interest-bearing assets comprises deposits on call and short-term. The Company's income and operating cash flows however are not materially affected by market interest rates.

The Company's interest rate risk arises from its call and short-term deposits. It has no borrowings and, as a consequence, its interest rate risk is restricted to the impact upon the interest income generated from its call and short-term deposits.

(iv) Sensitivity analysis of movements in interest rates

Based on cash deposits held at the year end, the Company calculated the impact on profit or loss of a 150 basis-point shift in interest rates would be a maximum increase or decrease of $1,317,000 (2019: $1,556,000).

The Company places its term deposits to manage its liquidity needs and to maximise revenue within the Board approved investment policy.

The Company's short-term deposits as at the year-end are $94,725,000 (2019: $103,674,000).

(b) Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, deposits with banks and trade and other receivables. Cash and deposit balances are held only with banks with long term credit rating minimum of Baa3. Trade and other receivables are primarily settled in cash within 3 months of the balance sheet date. Impairment provisions are made against trade and other receivables based on the accounting policies set out in note 1.

(c) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash to meet ongoing operational commitments and adhere to the requirements of The Financial Services and Markets Act 2000 to maintain liquid financial assets amounting to at least six months' operating costs and a risk calculated buffer. Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flows.

Notes to the financial statements (continued)

23 Transactions with related parties

Directors
During the financial year, no contracts of significance were entered into by the Company in which the Directors had a material interest. See note 25 for directors' emoluments.

Pension fund
The contributions in respect of the Company's pension scheme are disclosed in note 18.

Parent and group subsidiaries
During the years ended 31 December 2020 and 31 December 2019 the Company undertook the following transactions with other related parties.

LME Clear Limited	2020 $'000's	2019 $'000's
Intra group licensing fee	10,000	10,000
Payroll costs for LME Clear Limited employees paid by LME	13,886	13,648
Shared services – staff-related	9,880	7,589
IT related services	2,417	2,480
Facilities costs	683	305
Other costs	643	2,186
	37,509	**36,208**

Hong Kong Exchanges and Clearing Limited	2020 $'000's	2019 $'000's
Expenses in relation to share based payments	(4,130)	(3,670)
Data license fee	600	600
Insurance charges	(132)	-
IT related costs	3,425	2,394
Marketing services	170	246
Other costs	(824)	(1,334)
	(891)	**(1,764)**

Ganghui Financial Information Systems (Shanghai) Limited	2020 $'000's	2019 $'000's
Marketing services	(195)	(209)

The Stock Exchange of Hong Kong Limited	2020 $'000's	2019 $'000's
Other costs	12	31

The Hong Kong Futures Exchange Limited	2020 $'000's	2019 $'000's
Other costs	12	31

Notes to the financial statements (continued)

23 Transactions with related parties (continued)

HKEX Investment (UK) Limited	2020 $'000's	2019 $'000's
Other costs	-	65

Gangsheng Technology Services (Shenzen) Limited	2020 $'000's	2019 $'000's
IT related staff costs	(368)	(372)

Total monies collected by LME Clear Limited as agent and paid to the Company in 2020 were $181,492,000 (2019: $174,151,000).

For the years ended 31 December 2020 and 31 December 2019 the balances with other related parties were as follows

	2020		2019	
	$ 000's	$ 000's	$ 000's	$ 000's
	Owed by:	Owed to:	Owed by:	Owed to:
LME Clear Limited	1,033	-	150	-
LME Holdings Limited	25	-	-	-
Hong Kong Exchanges and Clearing Limited	951	-	1,582	-
Ganghui Financial Information Systems (Shanghai) Limited	-	10	-	33
The Stock Exchange of Hong Kong Limited	12	-	23	-
Hong Kong Futures Exchange Limited	12	-	23	-
HKEX Investment (UK) Limited	-	-	65	-
Gangsheng Technology Services (Shenzen) Limited	-	37	-	29
	2,033	**47**	**1,843**	**62**

During the year the Company paid dividends of $47,000,000 to its parent, LME Holdings Limited (2019: $88,000,000).

Amounts due from related parties are typically settled on a monthly basis. An assessment of these intercompany positions has been made and it was determined that the probability of default is extremely low and any expected credit losses would therefore be immaterial. Amounts due to related parties have contractual payment terms of less than three months (2019: less than three months).

Notes to the financial statements (continued)

24 Key management compensation

Compensation for Directors 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:

	2020 $ 000's	2019 $ 000's
Salaries and other short-term benefits	4,486	4,579
Share-based payments	2,007	1,444
Pensions	150	213
	6,643	**6,236**

25 Directors' emoluments

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

	2020 $ 000's	2019 $ 000's
Aggregate emoluments	2,898	2,939
Company contributions paid to defined contribution pension scheme	5	13
	2,903	**2,952**

There are no retirement benefits accruing to directors under the defined contribution scheme (2019: $nil).

Remuneration of highest paid director

	2020 $ 000's	2019 $ 000's
Aggregate emoluments	2,025	1,865
Company contributions paid to defined contribution pension scheme	5	13
	2,030	**1,878**

There are no retirement benefits accruing under the defined contribution scheme (2019: $nil).

Notes to the financial statements (continued)

26 Long term incentive plan

Employees of the Company are eligible to receive share awards under the HKEX 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 Company'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 Company (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 HKEX 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 financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Fair values of awarded shares are derived from quoted market prices on the date of purchase. Any reimbursement by the Company to HKEX is offset against the capital contribution.

During 2020, Awarded Sums amounting to $4,479,000 were granted to selected employees. At 31 December 2020, the purchase of shares to fulfil those awards had not yet been completed.

Details of the awarded shares vesting in part or in full in 2020:

Date of Award	**Number of shares awarded**	**Average fair value per share $**	**Reference sum award $'000**	**Vesting period**
29-Dec-17	128,688	29.42	-	8 Dec 2017 – 8 Dec 2020
31-Dec-18	165,273	29.68	-	7 Dec 2018 – 7 Dec 2021
31-Dec-19	157,767	32.59	-	12 Dec-2019 – 12 Dec-2022
31-Dec-20	-	-	4,479	9 Dec-2020 – 9 Dec-2023

Movement in the number of awarded shares:

	2020	**2019**
Outstanding at 1 January	363,425	327,898
Awarded	-	157,767
Vested	(121,557)	(101,649)
Forfeited	(34,805)	(20,591)
Outstanding at 31 December	**207,063**	**363,425**

Notes to the financial statements (continued)

27 Members

At 31 December the number of Members of LME by category was as follows:

	Number of Members at 31 December 2020	2019
Category 1	9	9
Category 2	30	32
Category 3	5	4
Category 4	4	5
Category 5	48	54
Category 6	3	2
Category 7	22	23
LMEprecious members		
General Clearing Member	7	9
Individual Clearing Member	1	1
Non-Clearing Member	3	3
Registered Intermediating Brokers		
Tier 1	-	-
Tier 2	8	8

28 Immediate and ultimate controlling holding company

LME Holdings Limited, registered in England and Wales, is the Company's immediate parent company, the registered address of which is 10 Finsbury Square, London EC2A 1AJ.

The ultimate parent and controlling company is Hong Kong Exchanges and Clearing Limited, which is the largest and smallest group to consolidate these financial statements. It is a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange, whose registered address is 8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

29 Events after the reporting period

The Board approved an interim dividend of $20,000,000 at its meeting in February 2021, to be paid in March 2021.