(Registered Number: 2128666)

The London Metal Exchange

Directors' report and financial statements

31 December 2016

The London Metal Exchange

Directors and auditors

Directors

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

Sir B G Bender KCB (Chairman)
M J Chamberlain (appointed 21 April 2017)
G P Jones (Chief Executive) (resigned 23 January 2017)
Sir C K Chow
D Graham
J B Harrison
E N Harwerth
R Lamba (resigned 1 January 2016)
N B le Roux (resigned 18 April 2016)
C X Li
T W Spanner (appointed 1 January 2016)
A J Stuart (appointed 18 April 2016)

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

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

Strategic report

The Business review should be read in conjunction with the Directors' report on pages 4 - 6.

Strategic report

The results show a profit before tax for the year of $103,835,000 (2015: $137,511,000) and after accounting for taxation profit of $82,476,000 (2015: $108,571,000). The 2015 profit included a gain in respect of the sale of the company's holding in LCH Clearnet.

No final dividend is proposed in respect of 2016 (2015: $nil). The Company paid an interim dividend of $80,000,000 in the year (2015: $50,000,000).

2016 saw volumes traded on the Exchange of 156 million lots (2015: 169 million), which represents a decrease of 7.7% in volumes traded compared to 2015.

Business environment

The Exchange operates in an ever increasing competitive and dynamic environment. Against this background, the Exchange continues to be the world centre for industrial metals trading.

Strategy

The Exchange'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 ferrous and precious metals and off-exchange trading.

The Exchange continues to work with its ultimate parent company, Hong Kong Exchanges and Clearing Limited (HKEX) to build a leading global vertically-integrated multi asset class exchange and capitalise on new opportunities arising from the further development of China's financial markets.

The Exchange's fellow group subsidiary, LME Clear Limited, a European Markets Infrastructure Regulation (EMIR) authorised central counterparty (CCP) provides clearing services for the exchange contracts of the LME.

The London Metal Exchange

Strategic report (continued)

Principal risks and uncertainties

The management views the following areas as the principal risks and uncertainties that face the Exchange.

Downturn in market activity

The key risk facing the Exchange is a downturn in global commodity markets and a consequent fall in the LME's trading volumes and revenues. In order to mitigate this risk the Exchange remains close to its members and users of the market and is also actively seeking to develop alternative revenue streams through diversification into ferrous and precious metals and off-exchange products as well as seeking to enhance its existing product offerings.

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 Exchange. To mitigate this risk the Exchange 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 apply technology in generating further efficiencies.

Regulation and compliance

The Exchange will continue to promote and build on the relationship that it has established with its lead regulator, The Financial Conduct Authority, and also retain an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. Following the UK's decision to leave the European Union, the Exchange will follow the development of legislation closely. At this point the Exchange considers the impact to be minimal.

Operational and system resilience

With the ever increasing reliance placed on technology, the Exchange is aware of the need to maintain high degrees of operational and system resilience. To this end the Exchange continues to make significant technology investments including network infrastructure improvements and upgrades to the LMEselect trading platform and its matching platform. To assist it in maintaining high levels of operational and systems resilience, the Exchange maintains a dual data centre approach and also retains a permanent remote trading floor facility which can be operated within four hours.

Key performance indicators

Member satisfaction and the delivery of cost effective services remain important measures of performance for the Exchange. Management employs commercial key performance indicators (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.

The London Metal Exchange

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2016.

Incorporation

The Company is registered in England and Wales. It is domiciled in the United Kingdom. It was originally registered as a company limited by guarantee; on 13 December 2012 it was re-registered as an unlimited Company under the name of The London Metal Exchange with a share capital of £100. The Company's parent, LME Holdings Limited, is the sole shareholder.

Principal activities

The Company's main activity is the provision of administrative and other services to the Members of The London Metal Exchange and the maintenance of proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards to business conducted on the Exchange.

Results

The profit before tax for the year ended 31 December 2016 was $103,835,000 (2015: $137,511,000) and after accounting for taxation was $82,476,000 profit (2015: $108,571,000).

No final dividend is proposed in respect of 2016 (2015: $nil), being $nil per share (2015: $nil). The company paid an interim dividend of $80,000,000 in the year (2015: $50,000,000).

Fixed assets

Movements in intangible assets and property, plant and equipment are shown in notes 7 and 8 to the financial statements.

Charitable donations

The Company made charitable donations during the year totalling $107,665 (2015: $151,407).

Directors

The Directors of the Company who served during the year are listed on page 1.

Directors' and officers' liability insurance is maintained which provides insurance cover for Directors of the Company.

Directors' report (continued)

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and capital risk management is provided in Note 19 to the financial statements.

Statement of directors' responsibilities

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

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

(1) select suitable accounting policies and then apply them consistently;

(2) make judgements and accounting estimates that are reasonable and prudent;

(3) state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements; and

(4) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

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

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

Directors' report (continued)

Disclosure of information to auditors

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

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

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

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

Independent auditors

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

Going concern

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

The Strategic report and Directors' report were approved by the Board of Directors and signed on their behalf by:

M.Castro FCIS
Company Secretary
21 February 2017
The London Metal Exchange
Registration number 2128666

The London Metal Exchange

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

Report on the financial statements

Our opinion

In our opinion, The London Metal Exchange's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of The London Metal Exchange (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Paolo Taurae (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 February 2017

Statement of comprehensive income
For the year ended 31 December 2016

	Note	2016 $ 000's	2015 $ 000's
Revenue	1 (a)	202,258	224,745
Expenses	3	(95,982)	(106,512)
Operating profit		**106,276**	**118,233**
Finance income	4	295	159
Finance cost	4	(2,736)	(3,148)
Net finance costs	4	(2,441)	(2,989)
Net gains on disposal of available-for-sale investment		-	22,267
Profit before tax		**103,835**	**137,511**
Taxation	6	(21,359)	(28,940)
Profit for the financial year		**82,476**	**108,571**
Other comprehensive income / (expense) - items that may subsequently be reclassified to profit and loss:			
Net change in value of available-for-sale investment, net of tax		-	(14,977)
Other comprehensive income / (expense) for the financial year, net of tax		-	**(14,977)**
Total comprehensive income attributable to the shareholder		**82,476**	**93,594**

No final dividend is proposed in respect of 2016 (2015: $nil). The Company paid an interim dividend of $80,000,000 in the year (2015: $50,000,000).

The notes on pages 14 to 34 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 2016

	Note	At 31 December 2016 $ 000's	At 31 December 2015 $ 000's
Assets			
Non-current assets			
Intangible assets	7	34,277	33,960
Property, plant and equipment	8	13,230	14,823
Deferred tax asset	9	2,821	2,630
		50,328	**51,413**
Current assets			
Trade and other receivables	10	27,506	32,866
Cash and cash equivalents	11	182,190	168,498
Amounts due from group undertakings		-	2,252
		209,696	**203,616**
Liabilities			
Current liabilities			
Trade and other payables	12	39,988	32,248
Current tax liabilities		11,196	14,965
Amounts due to group undertakings		3,410	6,530
		54,594	**53,743**
Net current assets		**155,102**	**149,873**
Non-current liabilities			
Operating lease incentives	13	3,824	1,955
Provisions	14	1,019	1,216
		4,843	**3,171**
Net assets		**200,587**	**198,115**
Equity			
Share capital	16	-	-
Capital reserve		34,726	34,726
Retained earnings		170,753	168,281
Foreign currency translation reserve		(4,892)	(4,892)
Total equity		**200,587**	**198,115**

The notes on pages 14 to 34 are an integral part of these financial statements.

These financial statements were authorised for issues by the Board of Directors on 21 February 2017 and signed on its behalf by:

M J Chamberlain
Director

The London Metal Exchange

Statement of changes in equity

For the year ended 31 December 2016

	Note	Called-up and fully paid Share Capital	Capital Reserve	Foreign Currency Translation	Retained Earnings	Available-for-sale reserve	Total Equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
1 January 2016		-	34,726	(4,892)	168,281	-	198,115
Profit for the financial year		-	-	-	82,476	-	**82,476**
Total comprehensive income		-	-	-	**82,476**	-	**82,476**
Interim dividend in relation to year ended 31 December 2016		-	-	-	(80,000)	-	**(80,000)**
Transaction with shareholder		-	-	-	**(80,000)**	-	**(80,000)**
Tax charge to equity reserves	6	-	-	-	(4)	-	**(4)**
31 December 2016		-	**34,726**	**(4,892)**	**170,753**	-	**200,587**

The notes on pages 14 to 34 are an integral part of these financial statements.

The London Metal Exchange

Statement of changes in equity (continued)

For the year ended 31 December 2015

	Note	Called-up and fully paid Share Capital	Capital Reserve	Foreign Currency Translation	Retained Earnings	Available-for-sale reserve	Total Equity
		$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
1 January 2015		-	34,726	(4,892)	109,535	14,977	154,346
Profit for the financial year		-	-	-	108,571	-	108,571
Transfer to income statement of available-for-sale assets		-	-	-	-	(18,312)	(18,312)
Deferred tax on change in available-for-sale investment		-	-	-	-	3,335	3,335
Total comprehensive income / (expense)		-	-	-	108,571	(14,977)	93,594
Interim dividend in relation to year ended 31 December 2015		-	-	-	(50,000)	-	(50,000)
Transaction with shareholder		-	-	-	(50,000)	-	(50,000)
Tax credit to equity reserves	6	-	-	-	175	-	175
31 December 2015		-	34,726	(4,892)	168,281	-	198,115

The notes on pages 14 to 34 are an integral part of these financial statements.

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Statement of cash flows

For the year ended 31 December 2016

	Note	2016 $ 000's	2015 $ 000's
Cash flows from operating activities			
Cash generated from operations	17	139,183	173,039
Tax paid		(24,936)	(23,369)
Net cash from operating activities		**114,247**	**149,670**
Cash flows from investing activities			
Effects of foreign exchange movements		(604)	(3,148)
Interest received	4	295	159
Purchase of intangible assets	7	(16,795)	(16,591)
Purchase of plant and equipment	8	(3,451)	(12,468)
Proceeds from disposal of available-for-sale asset		-	24,096
Net cash used in investing activities		**(20,555)**	**(7,952)**
Cash flows from financing activities			
Dividends paid	18	**(80,000)**	**(50,000)**
Net increase in cash and cash equivalents		**13,692**	**91,718**
Cash and cash equivalents at beginning of year		168,498	76,780
Cash and cash equivalents at 31 December	11	**182,190**	**168,498**

The notes on pages 14 to 34 are an integral part of these financial statements.

Notes to the financial statements

1 Basis of preparation and 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.

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

The financial statements are prepared under the historical cost convention, as modified by the measurement of certain financial assets at fair value through other comprehensive income 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.

The financial statements are presented in thousands of United States dollars (USD).

New and amended standards adopted by the Company

In 2016, the Company has adopted the following new/revised IFRSs which were effective for accounting periods beginning on or after 1 January 2016:

- Amendments to IAS 1 – 'Presentation of financial statements' disclosure initiative

These amendments were adopted retrospectively but have had no impact on the Company's results or disclosures.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not adopted early

A number of new standards and amendments to standards and interpretations relevant to the Company's operations are not yet effective for annual periods beginning after 1 January 2016 and therefore have not been applied in preparing these financial statements. None of these are expected to have a significant impact on the financial statements of the Company. The impact of these new standards and interpretations will be stated in the financial statements when they become effective and, if relevant, are adopted by the Company.

- IFRS 9 – 'Financial instruments'
- IFRS 15 – 'Revenue from contracts with customers'
- IFRS 16 – 'Leases'
- IFRIC 22 – 'Foreign currency transactions and advance consideration'

The adoption of IFRS 9, IFRS 15 and IFRIC 22 are expected to have limited impact on the Company's results and disclosures. The Company will consider the impact of IFRS 16 prior to the effective date.

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

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

(a) Revenue

Revenue represents the total amount receivable for the provision of services, excluding value added tax.

Subscription and registration fees are recognised over the 12-month period to which the fee relates.

Contract levies, Market Data, Stock levies and Exchange fees are recognised when earned, when the data is provided or the transaction is effected, and all other fees are recognised as and when the transaction occurs.

Also included in revenue are intercompany cost recharges in connection with expenditures incurred on behalf of group companies.

(b) 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 the statement of comprehensive income.

(c) Intangible assets

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

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

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

System development costs recognised as assets are amortised 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.

1 Basis of preparation and accounting policies (continued)

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

(d) Property, plant and equipment

Furniture, fixtures, fittings and equipment are stated at cost and are depreciated to residual value on a straight line basis over the estimated useful lives of the assets which are as follows:

Leasehold improvements - over the remaining life of the lease
Other fixed assets including computer hardware and furniture and equipment - over three years

The Company selects its depreciation 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.

(e) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are regularly assessed as collectible or uncollectible. When a trade receivable is determined to be uncollectible, it is written off, being recognised in the income statement within expenses. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income. Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets. These are classified as 'trade and other receivables' in the balance sheet (also see note 10). Other receivables are initially recognised at fair value and subsequently measured at amortised cost.

(f) 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 original maturities of three months or less.

(g) Financial assets

The Company has financial assets comprising of receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

(h) 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.

(i) Operating lease incentives

An obligation deemed to be a lease incentive is amortised over the remainder of the lease term through the statement of comprehensive income. If the lease was to be terminated at an earlier date, any unamortised element of the operating lease incentive would be recognised in the statement of comprehensive income for that year. Where leasehold re-instatement costs are forgiven by the lessor the estimated value of the re-instatement costs, or where a rent free period is provided by the lessor the value of the rent free period, is accounted for as an operating lease incentive.

(j) Operating leases

Rental costs for operating leases are charged to the statement of comprehensive income on a straight line basis net of any lease incentive.

(k) Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is determined using tax rates that are in place at the balance sheet date and are expected to apply when the asset is realised or liability settled.

Deferred tax assets are recognised to the extent it is possible that they will be recoverable against future taxable profits. Deferred tax liabilities are recognised where the net book value of fixed assets exceed the tax written down value at the end of the year.

(l) 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. Accounts payable 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.

(m) Pension costs

The Company operates a defined contribution pension scheme. The expense of the scheme is charged to the income statement as incurred.

Notes to the financial statements (continued)

1 Basis of preparation and accounting policies (continued)

(n) Staff costs and related expenses

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

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

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

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

(o) Dividends

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

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 IFRS as adopted by the European Union and IFRIC Interpretations.

Notes to the financial statements (continued)

2 Critical accounting estimates and judgements (continued)

Software development

As described in notes 1(c) and 7, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation, impairment and the estimation of the useful life of the assets have a material impact on these financial statements. The Company follows the accounting policy described in note 1(c).

3 Expenses

Expenses comprise the following:

	Note	2016 $ 000's	2015 $ 000's
Employee costs	5	36,473	44,654
Depreciation and amortisation		21,522	18,981
Operating lease costs		2,576	624
Technology costs		19,780	23,505
Other costs		15,654	18,710
Bad debt expense/credit		(23)	38
		95,982	**106,512**

Services provided by the Company's auditors and network firms

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

	2016 $ 000's	2015 $ 000's
Audit of the Company's financial statements	200	199
Other assurance services	12	32
Tax advisory services	70	133
Tax compliance services	62	94
	344	**458**

Included within the statutory audit fee are amounts paid on behalf of group companies for LME Holdings and for HKEX Investment (UK) Limited.

Notes to the financial statements (continued)

4 Net finance income

	2016 $ 000's	2015 $ 000's
Interest income on bank accounts and short-term bank deposits	295	159
Loss on foreign exchange	(2,736)	(3,148)
	(2,441)	**(2,989)**

The Company has not incurred any interest expense in the year (2015: nil).

5 Employee costs

Employee costs (including directors) comprise the following:

	Note	2016 $ 000's	2015 $ 000's
Wages and salaries		24,853	33,696
Social security costs		4,938	5,161
Other pension costs	15	2,282	3,172
Employee share-based compensation benefits of share award scheme	23	4,400	2,625
Total		**36,473**	**44,654**

The number of permanent employees (excluding directors) was:

	2016	2015
At 31 December 2016	229	249
Monthly average for the year	232	233

Notes to the financial statements (continued)

6 Taxation

Taxation charged to the statement of comprehensive income	Note	2016 $ 000's	2015 $ 000's
Income tax			
Current year		21,871	27,552
Adjustments in respect of prior years		797	906
Foreign exchange		(1,058)	(239)
Total current tax		**21,610**	**28,219**
Deferred tax			
Deferred tax for the current year		(324)	18
Change in tax rate	9	159	101
Adjustments in respect of prior years	9	(86)	602
Total deferred tax		**(251)**	**721**
Taxation charge		**21,359**	**28,940**

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 20% (2015: 20.25%) and the taxation charge for the year are explained below:

	2016 $ 000's	2015 $ 000's
Profit before taxation	**103,835**	**137,511**
Profit multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	20,767	27,846
Expenses not deductible/(income) not taxable	770	40
Net adjustments in respect of prior years	711	1,504
Change in tax rate	161	101
Tax in respect of share schemes	38	(14)
R&D Credit adjustment	(30)	-
Gains	-	(298)
Foreign exchange	(1,058)	(239)
Taxation charge	**21,359**	**28,940**

Notes to the financial statements (continued)

Tax charged/(credited) to equity:	2016 $ 000's	2015 $ 000's
Income tax		
Share options	(56)	(86)
Deferred tax		
Share options	60	(89)
Taxation charge / (credit)	**4**	**(175)**

Notes to the financial statements (continued)

7 Intangible assets

	Capitalised software in use	Capitalised software under development	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2016	110,540	9,413	119,953
Additions	-	16,795	16,795
Disposals	(142)	-	(142)
Transfers	8,547	(8,547)	-
At 31 December 2016	**118,945**	**17,661**	**136,606**
Accumulated amortisation and impairment			
At 1 January 2016	85,993	-	85,993
Charge for the year	16,478	-	16,478
Disposals	(142)	-	(142)
At 31 December 2016	**102,329**	**-**	**102,329**
Prior Year			
Costs			
At 1 January 2015	89,878	13,484	103,362
Additions	-	16,591	16,591
Transfers	20,662	(20,662)	-
At 31 December 2015	**110,540**	**9,413**	**119,953**
Accumulated amortisation and impairment			
At 1 January 2015	70,585	-	70,585
Charge for the year	15,408	-	15,408
At 31 December 2015	**85,993**	**-**	**85,993**
Net book values			
At 31 December 2016	**16,616**	**17,661**	**34,277**
At 31 December 2015	24,547	9,413	33,960

Notes to the financial statements (continued)

8 Property, plant and equipment

	Equipment	Furniture, fixtures and fittings	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2016	28,493	10,166	38,659
Additions	2,632	819	3,451
At 31 December 2016	**31,125**	**10,985**	**42,110**
Accumulated depreciation			
At 1 January 2016	20,760	3,076	23,836
Charge for the year	3,705	1,339	5,044
At 31 December 2016	**24,465**	**4,415**	**28,880**
Prior Year			
Costs			
At 1 January 2015	22,069	4,122	26,191
Additions	6,424	6,044	12,468
At 31 December 2015	**28,493**	**10,166**	**38,659**
Accumulated depreciation			
At 1 January 2015	18,015	2,248	20,263
Charge for the year	2,745	828	3,573
At 31 December 2015	**20,760**	**3,076**	**23,836**
Net book values			
At 31 December 2016	**6,660**	**6,570**	**13,230**
At 31 December 2015	7,733	7,090	14,823

Notes to the financial statements (continued)

9 Deferred tax asset

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

	Note	2016 $ 000's	2015 $ 000's
At 1 January		2,630	(62)
Adjustment in respect of prior years	6	86	(602)
Charged/(credited) to profit or loss during the year	6	324	(120)
Tax credit relating to equity	6	(60)	79
Tax credit relating to components of other comprehensive income		-	3,335
Effects of changes in tax rates		(159)	-
At 31 December		**2,821**	**2,630**

The deferred tax asset has arisen as a consequence of movements in fixed assets, short lease premium, share options and pensions.

Factors that may affect future tax charges

The Company will receive tax relief on the same basis of amortisation for 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

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

Notes to the financial statements (continued)

10 Trade and other receivables

	2016 $ 000's	2015 $ 000's
Contract levy receivable	11,916	14,052
Other receivables	4,884	3,175
Prepayments and accrued income	10,706	15,639
	27,506	**32,866**

The carrying amounts of the Company's trade and other receivables are denominated in US dollars, apart from $970,000 which is denominated in sterling (2015: $11,800,000).

The trade and other receivables do not contain any impaired assets (2015: $nil).

The maximum exposure to credit risk at the reporting date is the book value of each class of receivable mentioned above. The Company does not hold any collateral as security.

As of 31 December 2016, trade receivables of $1,886,000 (2015: $970,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Directors expect the amounts past due but not impaired to be recovered in full. The ageing analysis of these trade receivables is as follows:

	2016 $ 000's	2015 $ 000's
Up to 3 months	814	941
More than 3 months but up to 6 months	1,020	-
Over 6 months	52	29
	1,886	**970**

11 Cash and cash equivalents

	2016 $ 000's	2015 $ 000's
Cash at bank	182,187	37,588
Short term deposits	3	130,910
	182,190	**168,498**
Average maturity of short term deposits	1 month	1 month
Weighted average interest rate	0.20%	0.20%

As a Recognised Investment Exchange, the Company is required to keep liquid financial assets amounting to at least six months operating costs plus a risk based capital charge, and net capital of at least this amount.

Notes to the financial statements (continued)

12 Trade and other payables

	2016 $ 000's	2015 $ 000's
Social security and other taxes	11,326	1,200
Other payables	13,844	2,730
Accruals and deferred income	14,818	28,149
Operating lease incentives	-	169
	39,988	**32,248**

Trade and other payables all have contractual payment terms of less than three months (2015: less than three months).

13 Operating leases

Operating lease incentives are as follows:

	2016 $ 000's	2015 $ 000's
At 1 January	2,124	2,288
Amount amortised in the year	(169)	(2,119)
Additions	2,185	1,955
Effects of foreign currency movements	(316)	-
At 31 December	**3,824**	**2,124**
Analysed		
- Current	-	169
- Non-current	3,824	1,955
At 31 December	**3,824**	**2,124**

The principal operating lease commenced on 1 April 2015 and expires on 31 March 2030.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 $ 000's	2015 $ 000's
Within one year	74	201
Later than one year and less than five years	10,328	8,960
More than five years	20,001	26,556
	30,403	**35,717**

Notes to the financial statements (continued)

14 Provisions

	2016 $ 000's	2015 $ 000's
At 1 January	1,216	-
Additions	-	1,216
Effects of foreign currency movements	(197)	-
At 31 December	**1,019**	**1,216**

The provision is in respect of the estimated reinstatement and dilapidation costs arising from the Company's leasehold premises.

15 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	2016 $ 000's	2015 $ 000's
Defined contribution scheme	5	2,282	3,172

16 Share capital

Allotted, called-up and fully paid	2016 $	2015 $
At 1 January	156	156
Issued	-	-
Total share capital as at 31 December	**156**	**156**

The company has 100 ordinary shares in issue.

Notes to the financial statements (continued)

17 Cash flows from operating activities

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

	2016 $ 000's	2015 $ 000's
Continuing operations		
Profit before tax	103,835	137,511
Adjustment for:		
Depreciation	5,044	3,573
Amortisation of intangibles	16,478	15,408
Additions / (amortisation) of operating lease incentive	1,869	(2,119)
Interest income	(295)	(159)
(Decrease) / increase in Intercompany payables	(3,120)	6,456
Decrease in Intercompany receivables	2,252	15,532
Provision for bad debt	(23)	38
Other non-cash movements	(562)	1,457
Effects of foreign exchange movements	604	3,148
Gain on disposal of available-for-sale asset	-	(22,267)
Decrease in trade and other receivables	5,360	1,549
Increase in trade and other payables	7,740	12,912
Cash generated from operations	**139,183**	**173,039**

18 Dividends

A dividend of $80,000,000 ($800,000 per share) was paid in 2016 (2015: $50,000,000, equivalent to $500,000 per share).

19 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange rate risk arising from various currency exposures, primarily with respect to GBP. Foreign exchange risk arises from costs denominated in a foreign currency (principally GBP).

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.

At 31 December 2016 a 10% weakening/strengthening of GBP against USD, with all other variables held constant, would have resulted in a foreign exchange gain/loss of $4,233,000 (2015: $4,060,000), all as a result of translation of GBP denominated trade receivables and bank balances amounting to $42,334,000.

(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 comprising of deposits on call and short-term. The Company's income and operating cash flows however are not materially subject to change in 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.

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 100 basis-point shift in interest rates would be a maximum increase or decrease of $13,977 (2015: $617,000).

The Company manages its cash flow interest rate risk by placing funds on short-term deposit to avoid being locked into rates significantly below the prevailing market rate.

The Company's call and short-term deposits as at the year end are $124,000 (2015: $147,000) and $142,323,000 (2015: $130,763,000) respectively.

(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 short term credit rating minimum of F2 (Fitch or equivalent). Trade and other receivables are primarily settled in cash within 3 months of the balance sheet date.

(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. Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flows.

The Company's operating lease commitments are shown in note 13.

(d) 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 meet its regulatory capital obligation. The London Metal Exchange is a Recognised Investment Exchange under the terms of The Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) requires that a UK recognised body has at any time liquid financial assets amounting to six months' operating costs plus a risk based capital charge, and net capital of at least this amount. This capital requirement is monitored on an ongoing basis and its status is reported on a monthly basis to the Board and the FCA. The Company has exceeded the capital requirement of $57,390,000 (2015: $55,050,000) throughout the year.

20 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 22 for directors' emoluments.

Pension fund

The contributions in respect of the Company's pension scheme are disclosed in note 15.

Parent and group subsidiaries

During the year the Company conducted transactions with the former ordinary shareholders and current B shareholders of its parent (note 25) on an arms-length basis in its normal course of business. These transactions are recorded as revenue and are not considered to represent related party transactions since they occur on arms-length commercial terms and in the normal course of the company's operating activities.

During the year amounts due to the Company from LME Clear Limited were $9,698,000 (2015: $44,400,000), relating to revenue sharing arrangements and expenses incurred on behalf of fellow group companies that have subsequently been recharged. Amounts due from the Company to Hong Kong Exchanges and Clearing Limited and Ganghui Financial Information Services (Shanghai) Limited were $4,965,000 (2015: $6,396,000) and $102,000 (2015: $169,000) respectively, relating to expenses incurred by fellow group companies on the Company's behalf that have subsequently been recharged.

At the year end date, the amounts due to Hong Kong Exchanges and Clearing Limited was $823,000 (2015: due to of $987,000), amounts due to LME Clear Limited was $2,497,000 (2015: due from of $2,164,000), due to LME Holdings Limited was $51,000 (2015: due from $88,000) and $38,000 was due to Ganghui Financial Information Services (Shanghai) Limited (2015: due to of $55,000).

During the year the Company paid dividends of $80,000,000 to its parent, LME Holdings Limited (2015: $50,000,000).

Notes to the financial statements (continued)

21 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:

	2016 $ 000's	2015 $ 000's
Salaries and other short-term benefits	5,426	7,803
Share-based payments	3,073	2,251
Pensions	481	521
Remuneration for loss of office	428	525
	9,408	**11,100**

22 Directors' emoluments

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

	2016 $ 000's	2015 $ 000's
Aggregate emoluments	2,424	2,658
Company contributions paid to defined contribution pension scheme	26	117
	2,450	**2,775**

There were no accrued amounts under the defined contribution scheme at the year end (2015: $nil).

Remuneration of highest paid director	2016 $ 000's	2015 $ 000's
Aggregate emoluments	1,872	2,069
Company contributions paid to defined contribution pension scheme	26	117
	1,898	**2,186**

There were no accrued amounts under the defined contribution scheme at the year end (2015: $10,000).

23 Long term incentive plan

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

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

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

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

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

Details of the Awarded Shares vesting in part or in full in 2016:

Date of Award	Number of shares awarded	Average Fair Value per share $	Vesting period
03-Dec-14	44,715	23.02	25 Apr 2015 -25 Apr 2016
03-Dec-14	12,828	23.02	1 May 2015 -1 May 2016
03-Dec-14	2,003	23.02	10 Jun 2015 - 10 Jun 2016
03-Dec-14	1,480	23.02	14 Oct 2015 - 14 Oct 2016
03-Dec-14	97,219	23.02	9 Dec 2015 -9 Dec 2016
03-Dec-14	1,790	23.02	6 Jan 2015 - 6 Jan 2016
02-Jan-15	216,426	22.17	20 Jan 2016 - 20 Jan 2017
18-Nov-15	17,364	27.05	23 Nov 2015-1 May 2017
31-Dec-15	205,948	25.68	9 Dec 2017 - 9 Dec 2019
30-Dec-16	141,722	24.63	7 Dec 2018 – 7 Dec 2019

Notes to the financial statements (continued)

Movement in the number of Awarded Shares awarded:

	2016	2015
Outstanding at 1 January	458,959	147,348
Awarded	141,722	439,738
Vested	(157,457)	(65,102)
Forfeited	(3,173)	(63,025)
Outstanding at 31 December 2016	**440,051**	**458,959**

24 Members

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

	Number of Members at 31 December	
Category	2016	2015
Category 1	9	9
Category 2	32	31
Category 3	3	2
Category 4	4	5
Category 5	52	54
Category 6	6	9
Category 7	17	0

25 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 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 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.