

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (RC) is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The RC ensures that all employees and Executive and Non-executive Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance. Its detailed terms of reference are available on the HKEX Group website [ORG](#).

The RC comprises five INEDs whose names and biographies are set out in the Board and Committees section of this Annual Report. The RC held six meetings in 2016. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Summary of Work in 2016/2017

- Reviewed the remuneration of non-executive directors of HKEX, the LME, LME Clear and OTC Clear
- Reviewed the analysis by management and recommended to the Board the 2016 performance bonus funding methodology, its underlying principles and metrics to be used
- Recommended the 2016 performance bonus and share award pools and the 2017 salary adjustment rates for the Group's employees
- Reviewed and approved the compensation and benefits setup for a new subsidiary of HKEX
- Reviewed and agreed to a set of general principles for the possible setup of a special incentive scheme for the key executives in a new subsidiary of HKEX
- Approved the revision of pension arrangements for the LME and LME Clear employees as a result of the pension tax changes in the UK
- Recommended the 2016 performance bonus and share award for HKEX's Chief Executive
- Reviewed the achievements of HKEX's Chief Executive and recommended to the Board the appropriate vesting percentage of the Senior Executive Awards for the relevant performance period

Non-executive Directors' Remuneration

Objective

To remunerate Non-executive Directors at an appropriate level for their commitment to HKEX and to attract and retain high calibre and experienced individuals to oversee HKEX's business and development

Policy

- To conduct an annual review with reference to companies with comparable business or scale and recommend remuneration adjustments, if appropriate
- To seek the Board's endorsement and Shareholders' approval of any recommended changes

Annual review for 2016/2017

- McLagan, a firm specialising in performance and rewards for the financial services industry, was appointed to conduct an independent review of the non-executive directors' remuneration for HKEX and certain subsidiaries to ensure the competitiveness and appropriateness of their remuneration. The study included benchmarking against other listed exchanges as well as banks and constituent companies of the FTSE 100 Index and the HSI.
- Based on the findings and the consultant's recommendation, the RC (none of the RC members participated in the decision on his remuneration) recommended that the remuneration for the Non-executive Directors should remain unchanged for 2016/2017. The proposal was approved by the Board in March 2016.

Annual review for 2017/2018

- McLagan was appointed again to conduct a review of the non-executive directors' remuneration for HKEX and certain subsidiaries. The methodology and the benchmark used in the study largely followed those used in the 2016/2017 review.
- After review of the market information provided and recommendation provided by the consultant, the RC (none of the RC members participated in the decision on his remuneration) recommended that the remuneration for the Non-executive Directors would remain unchanged for 2017/18. However, the RC recommended the remuneration of \$180,000 per annum and \$120,000 per annum respectively also be payable to the chairman and each of the other members of the Project Oversight Committee (POC), together with an attendance fee of \$3,000 per meeting to each member of the POC, in light of the time and effort spent by them to oversee the development of HKEX's Qianhai commodity-trading platform. The remuneration payable to members of the POC would be proposed to the Board for it to recommend to Shareholders for their approval at the 2017 AGM.

Non-executive Directors' remuneration for 2017/2018

	\$
Board ¹	
– Chairman	2,100,000
– Other member	700,000
Audit Committee	
– Chairman	200,000
– Other member	120,000
– Attendance fee per meeting	3,000
Executive Committee ¹ , Investment Advisory Committee, Project Oversight Committee ² , Risk Committee and Remuneration Committee	
– Chairman	180,000
– Other member	120,000
– Attendance fee per meeting	3,000

¹ Excludes the Executive Director

² The proposed remuneration payable to members of the POC is subject to Shareholders' approval at the 2017 AGM.

Non-executive Directors are not entitled to participate in the Share Award Scheme, or to receive other fringe benefits.

The remuneration paid to the Non-executive Directors in 2015 and 2016 for their service on the Board and, where applicable, on its committees and the board and committees of HKEX's subsidiaries is set out below.

	2016 \$	2015 \$
Apurv Bagri ¹	525,000	–
T C Chan	964,000	926,000
C K Chow	3,282,732	3,136,536
Timothy Freshwater	1,018,000	957,000
Anita Fung	964,000	720,000
Rafael Gil-Tienda	832,000	621,000
John Harrison	2,486,095	2,600,961
Fred Hu	829,000	799,000
Bill Kwok	1,597,000	1,417,334
Vincent Lee	1,075,000	991,000
Margaret Leung	964,000	929,000
John Williamson	964,000	957,000
Oscar Wong ²	226,000	884,500
Total	15,726,827	15,525,578 ³

¹ Mr Bagri was elected as a Director on 28 April 2016.

² Mr Wong retired on 28 April 2016.

³ Includes a total remuneration of \$586,247 paid to Stephen Hui and Michael Lee, who retired on 29 April 2015

Employees' Remuneration

Objective

To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals, the key business objectives at corporate level, and the market conditions

Policy

- To recommend, based on up-to-date market information, the appropriate salary adjustments, if any, for the Board's approval
- To evaluate the corporate performance based on a set of pre-determined indicators and to recommend the appropriate level of performance bonus and share award pools, if any, for the year to the Board
- To consult HKEX's Chief Executive about the performance of the members of the Senior Management and to ensure that they are remunerated equitably and in accordance with the established guidelines
- To review and recommend the remuneration of HKEX's Chief Executive to the Board. As a good corporate governance practice, HKEX's Chief Executive is not involved in the Board's discussion and decision.

Review for 2016/2017

- The RC recommended and the Board approved in November and December 2016:
 - a base salary adjustment and promotion increase effective January 2017. The salary adjustment took into consideration the competitive positioning, the cost of living and the projected pay increase in the financial services industry;
 - a discretionary performance bonus for eligible employees in recognition of their contributions in 2016;
 - a sum of \$220.7 million for the purchase of HKEX shares pursuant to the Share Award Scheme for 297 selected employees, including HKEX's Chief Executive (\$12 million), and for selected employees to be recruited in 2017; and
 - an additional sum of \$12.75 million for the purchase of HKEX shares for a performance-based Senior Executive Award pursuant to the Share Award Scheme for HKEX's Chief Executive for the performance period between 2017 and 2019.
- The performance cash bonus and share award pools for the Group's employees were determined based on the overall achievements with respect to the following on the corporate performance scorecard:

Performance measures				
<ul style="list-style-type: none"> ● Financial • Relative to selected peers from other international exchanges: <ul style="list-style-type: none"> – Growth of primary market activities • Relative to budget and prior year: <ul style="list-style-type: none"> – Revenue and profit performance – Profit margin – Overall cost/income ratio • Relative to budget: <ul style="list-style-type: none"> – Absolute expenses excluding incentives 	<ul style="list-style-type: none"> ● Strategic • Key initiatives from HKEX Strategic Plan 2016-2018: <ul style="list-style-type: none"> – Equity & Equity Derivatives – Commodities – FIC – Platform and Infrastructure 	<ul style="list-style-type: none"> ● Market & regulatory development • System stability and reliability • Listing regulation • Market structure • Regulatory compliance • Stakeholders' relationships 	<ul style="list-style-type: none"> ● Organisation development • Recruitment effectiveness • Talent retention and development • Organisation development • Succession planning • CSR 	
Weighting for performance bonus and share award in 2016				
Performance bonus	40%	25%	20%	15%
Share award	20%	40%	15%	25%

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- Employees had to undergo a thorough annual performance appraisal process in which their performances were assessed according to the pre-determined and agreed work objectives before they were given their performance ratings (on a five-point scale) for the year. An additional multi-rater appraisal process was applied to employees at management level to ensure the assessment was multi-dimensional.
- Distribution matrices referencing to the employee's grade and year-on-year rating changes were set up to guide managers in the allocation of performance bonuses and share awards to individual employees. Managers were allowed to make adjustments to account for other factors, eg, overall total compensation position (ie, base salary plus the performance bonus and share award), internal pay levels and external remuneration benchmarks.

Further details of HKEX's remuneration policy and structure are available on the HKEX Group website [CG](#).

As at 31 December 2016, the Group had 1,603 permanent employees and 60 temporary employees.

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked and training and development opportunities are identified for them. Employee training details are set out in the 2016 CSR Report.

Emoluments for 2016

Executive Director

	2016					2015	2016	
	Salary \$	Cash bonus \$	Other benefits \$	Retirement benefits cost \$	Director's fee \$	Total ³ \$	Total ³ \$	Share award benefits \$
HKEX's Chief Executive								
Charles Li	9,000,000	11,250,000	217,241	1,125,000	-	21,592,241	25,302,924	22,471,093 ⁵

Senior Management

	2016					2015	2016
	Salary \$	Cash bonus \$	Other benefits \$	Retirement benefits cost \$	Total ³ \$	Total ³ \$	Share award benefits \$
Matthew Chamberlain ⁶	2,467,350	3,578,922	15,946	419,450	6,481,668	8,444,288	6,043,977
Eva Chau ⁷	1,228,064	1,620,000	23,481	153,508	3,025,053	-	46,294
Bill Chow	3,084,480	2,640,000	58,628	385,560	6,168,668	10,512,365	1,519,420
Adrian Farnham ⁶	2,894,716	2,210,510	19,737	492,102	5,617,065	6,559,880	2,957,929
David Graham	4,691,040	4,590,000	60,611	586,380	9,928,031	11,230,233	4,147,107
Paul Kennedy	3,708,000	4,353,000	79,654	463,500	8,604,154	10,049,279	2,497,043
Romnesh Lamba	4,691,040	4,708,000	82,266	586,380	10,067,686	12,002,063	6,158,102
Roger Lee	2,913,840	4,017,000	77,740	364,230	7,372,810	7,331,488	4,820,839
Richard Leung	3,213,600	2,890,000	39,758	401,700	6,545,058	6,540,843	2,570,236
Li Gang	3,600,000	4,400,000	44,153	360,000	8,404,153	9,404,487	2,307,919
Mao Zhirong	2,958,084	3,082,830	44,238	369,761	6,454,913	6,468,071	2,093,243
Trevor Spanner	4,472,219	3,605,294	901,463	570,842	9,549,818	11,014,848	5,199,240
Calvin Tai	3,528,000	3,528,000	79,436	441,000	7,576,436	8,940,696	4,347,632

- 1 Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- 2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases by 18 per cent annually thereafter and reaches 100 per cent after completion of seven years of service.
- 3 Excludes the amounts approved by the Board for the purchase of HKEX shares pursuant to the Share Award Scheme, details of which are set out in the Share Award Scheme section below
- 4 The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEX's Chief Executive and the members of the Senior Management that was charged to the Consolidated Income Statement for the year ended 31 December 2016.
- 5 Includes the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2016, the vesting of which is not affected if Mr Li ceases employment with the Group before the end of the performance assessment period. In accordance with prevailing accounting standards, such award is considered to be vested immediately upon grant. The actual number of shares to be transferred to Mr Li under the Senior Executive Awards is conditional on the satisfaction of performance criteria approved by the Board as set out in note 4 under the Share Award Scheme section below.
- 6 Messrs Chamberlain and Farnham were members of the LME pension scheme operating in the UK during 2016. The vesting scale of HKEX's provident fund scheme as specified in note 2 above is not applicable to them.
- 7 Ms Chau was appointed as HKEX's Group Head of Human Resources on 15 August 2016 and became a member of the Senior Management on 14 September 2016.

Further details of Directors' emoluments and the five top-paid employees are set out in notes 14 and 15 respectively to the Consolidated Financial Statements.

Share Award Scheme

HKEX has adopted the Share Award Scheme to recognise the contributions of certain employees and help retain them for the Group's operations and further development. The Scheme was adopted by the Board on 14 September 2005 (Adoption Date) and shall be valid until 31 December 2025. The maximum number of shares which can be awarded under the Scheme is 3 per cent (ie, 31,871,575 shares) of HKEX shares in issue as at the Adoption Date and the maximum number of shares which can be awarded to a selected employee in the Scheme is 1 per cent (ie, 10,623,858 shares). The rules and trust deed of the Scheme are available on the HKEX Group website [CG](#).

On 7 December 2016, the Board approved a total sum of \$233.45 million for the purchase of HKEX shares pursuant to the Scheme, details of which are set out in the Employees' Remuneration section above. Based on the Board's recommendation, the Scheme's trustee applied 179,706 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy such awards.

Further details of the Scheme are set out in note 38 to the Consolidated Financial Statements.

Since the Adoption Date and up to the date of this report, a total of 9,517,278 shares had been awarded under the Scheme, representing about 0.9 per cent of the number of HKEX shares in issue on the Adoption Date.

As at 31 December 2016, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,220,109 shares held in trust under the Scheme.

Details of the interests of HKEX's Chief Executive and the Senior Management in the Awarded Shares (save for those which had been fully vested as of 31 December 2015) are set out below.

	Date of award ²	Number of Awarded Shares	Number of shares ¹				As at 31 Dec 2016	Vesting period ³
			As at 1 Jan 2016	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
HKEX's Chief Executive								
Charles Li	3 Dec 2014	23,733 ⁴	24,344	-	23,614 ⁵	730 ⁵	-	End of a performance period of 2013 – 2015
	3 Dec 2014	48,681	24,968	720	25,688	-	-	9 Dec 2015 – 9 Dec 2016
	3 Dec 2014	47,467 ⁴	48,691	1,405	-	-	50,096 ⁶	End of a performance period of 2014 – 2016
	2 Jan 2015	88,345	90,629	2,617	46,620	-	46,626	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015	95,100 ⁴	97,558	2,817	-	-	100,375	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	60,429	1,744	-	-	62,173	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 ⁴	56,800	1,640	-	-	58,440	End of a performance period of 2016 – 2018
	30 Dec 2016	63,210	-	-	-	-	63,210	7 Dec 2018 – 7 Dec 2019
	30 Dec 2016	67,400 ⁴	-	-	-	-	67,400	End of a performance period of 2017 – 2019
Senior Management								
Matthew Chamberlain	3 Dec 2014	12,828	6,579	109	6,688	-	-	1 May 2015 – 1 May 2016
	3 Dec 2014	19,232	9,863	284	10,147	-	-	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	31,948	32,775	946	16,858	-	16,863	15 Dec 2016 – 15 Dec 2017
	18 Nov 2015	17,364	8,683	143	8,826	-	-	23 Nov 2015 – 1 May 2016 ⁷
	31 Dec 2015	21,220	21,220	612	-	-	21,832	9 Dec 2017 – 9 Dec 2018
	30 Dec 2016	16,492	-	-	-	-	16,492	7 Dec 2018 – 7 Dec 2019
Eva Chau	30 Dec 2016	8,533	-	-	-	-	8,533	7 Dec 2018 – 7 Dec 2019
Bill Chow	3 Dec 2014	5,626	2,884	82	2,966	-	-	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	10,210	10,477	302	5,387	-	5,392	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	7,553	7,553	217	-	-	7,770	9 Dec 2017 – 9 Dec 2018
	30 Dec 2016	4,214	-	-	-	-	4,214	7 Dec 2018 – 7 Dec 2019
Adrian Farnham	3 Dec 2014	10,190	5,226	86	5,312	-	-	1 May 2015 – 1 May 2016
	3 Dec 2014	8,191	4,200	120	4,320	-	-	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	19,157	19,655	567	10,107	-	10,115	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,854	14,854	428	-	-	15,282	9 Dec 2017 – 9 Dec 2018
	30 Dec 2016	10,745	-	-	-	-	10,745	7 Dec 2018 – 7 Dec 2019
David Graham	27 Mar 2013	10,700	5,761	-	5,761	-	-	9 Jan 2015 – 9 Jan 2016
	3 Dec 2014	16,878	8,656	249	8,905	-	-	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	25,059	25,708	741	13,221	-	13,228	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	21,653	21,653	624	-	-	22,277	9 Dec 2017 – 9 Dec 2018
	30 Dec 2016	22,755	-	-	-	-	22,755	7 Dec 2018 – 7 Dec 2019
Paul Kennedy	3 Dec 2014	8,439	4,328	124	4,452	-	-	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	13,849	14,208	409	7,305	-	7,312	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,603	14,603	421	-	-	15,024	9 Dec 2017 – 9 Dec 2018
	30 Dec 2016	15,275	-	-	-	-	15,275	7 Dec 2018 – 7 Dec 2019

	Date of award ²	Number of Awarded Shares	Number of shares ¹				As at 31 Dec 2016	Vesting period ³
			As at 1 Jan 2016	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
Romnesh Lamba	3 Dec 2014	28,131	14,428	416	14,844	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	39,323	40,340	1,164	20,748	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	30,214	30,214	871	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	22,123	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Roger Lee	3 Dec 2014	8,298	4,255	122	4,377	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	11,468	11,766	339	6,049	-	15 Dec 2016 – 15 Dec 2017	
	18 Nov 2015	14,658	14,658	422	-	-	1 Mar 2017 – 1 Mar 2018	
	31 Dec 2015	28,703	28,703	828	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	23,177	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Richard Leung	3 Dec 2014	11,252	5,771	165	5,936	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	14,556	14,933	431	7,680	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	14,100	14,100	407	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	12,852	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Li Gang	31 Dec 2015	26,437	26,437	763	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	21,070	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Mao Zhirong	3 Dec 2014	6,188	3,173	90	3,263	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	12,110	12,424	358	6,389	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	12,337	12,337	355	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	9,481	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Trevor Spanner	3 Dec 2014	16,019	8,216	123	8,339	-	25 Apr 2015 – 25 Apr 2016	
	3 Dec 2014	21,582	11,068	318	11,386	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	35,229	36,142	1,043	18,589	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	22,694	22,694	654	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	18,963	-	-	-	-	7 Dec 2018 – 7 Dec 2019	
Calvin Tai	3 Dec 2014	14,065	7,213	207	7,420	-	9 Dec 2015 – 9 Dec 2016	
	2 Jan 2015	26,991	27,691	798	14,241	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	23,668	23,668	683	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	19,700	-	-	-	-	7 Dec 2018 – 7 Dec 2019	

1 Includes shares acquired out of the dividends from the Awarded Shares according to the Scheme

2 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.

3 Save for those Senior Executive Awards referred to in note 4 below and the awards granted as part of the hiring agreement with special vesting schedule, the Awarded Shares and the related income are vested in two equal tranches in the second and third year after the grant.

4 The awards were granted under the Scheme as long-term incentives for selected senior executives of the Group (Senior Executive Awards).

The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the RC and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.

5 On 2 March 2016, the Board approved the vesting of 23,614 shares to Mr Li based on his actual performance for the period 2013-2015. Pursuant to the terms of the Scheme, the remaining 730 Awarded Shares previously allocated to Mr Li lapsed on 2 March 2016.

6 The RC recommended a vesting of 45,086 shares to Mr Li based on the actual performance for the period 2014-2016. *

7 The awards were granted as part of the hiring agreement with special vesting schedule.

CHOW Chung Kong

Chairman of the Remuneration Committee

Hong Kong, 16 February 2017

* The recommendation was approved by the Board on 27 February 2017.