

# CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of HKEX's business.

HKEX's key corporate governance practices and activities during the year ended 31 December 2017 are highlighted in this report and certain Committee Reports, as well as the 2017 CSR Report which will be published on the HKEX Group website together with this Annual Report. All the Committee Reports form part of this report.

More details about HKEX's corporate governance structure, principles and practices are available on the HKEX Group website [CG](#).

## Committee Reports

Nomination Committee Report: pages 74 to 76

Audit Committee Report: pages 77 to 79

Risk Committee Report: pages 80 to 82

Remuneration Committee Report: pages 83 to 89

ESG Committee Report: pages 90 and 91

## HKEX Group website

About HKEX (Organisation) section [ORG](#)

Investor Relations section [IR](#)

Corporate Governance section [CG](#)

Corporate Social Responsibility section [CSR](#)

## Governance Highlights

- High level of independence
- Periodic Board refreshment
- Rigorous nomination process
- Diverse range of Board expertise and experience
- Strong time commitment by Directors
- Ample training attended by Directors
- Board evaluation by independent consultant
- Effective oversight by Board and committees
- Annual compensation policies review
- Robust risk management and internal controls framework
- Embedded compliance culture
- Accountability and transparency
- Proactive and ongoing stakeholder engagement

## Compliance with Corporate Governance Code

Throughout the year 2017, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the following exceptions:

### Code Provision A.4.1 (Re-election of non-executive directors)

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by the SFO.

### Code Provision A.4.2 (Retirement by rotation of directors)

HKEX's Chief Executive in his capacity as a Director is not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles.

HKEX has applied the principles of the Corporate Governance Code to its corporate governance structure and practices in the manner as described in this report and on the HKEX Group website [CG/IR/ORG](#). A checklist detailing HKEX's compliance with the Corporate Governance Code is available on the HKEX Group website [CG](#). The Board has delegated its corporate governance functions to the ESG Committee. A summary of the work done by the ESG Committee in 2017/2018 is set out in the ESG Committee Report.

## Strategic Planning

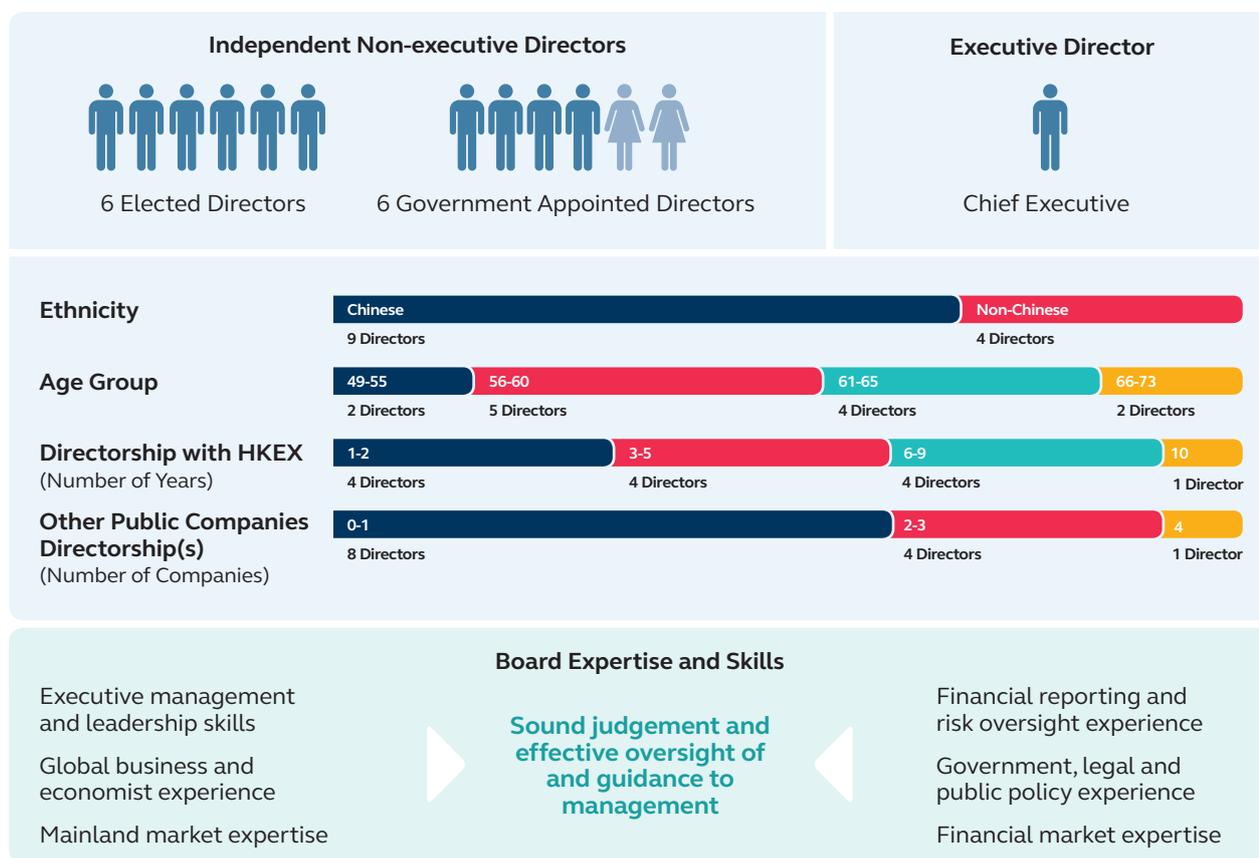
HKEX adopts a rigorous and continuing strategic planning process, including a full-day offsite Strategic Day, to identify and assess the opportunities and challenges that the Group might face and to develop a planned course of action for the Group to generate sustainable long-term value for Shareholders.

HKEX's three-year strategic plan for 2016-2018 is available on the HKEX Group website (About HKEX section). The annual Board offsite meeting was held to review the achievements under the plan, and discuss and explore potential strategic moves. Details of the progress made during the year are reported in the Chief Executive's Review and Business Review sections of this Annual Report.

## The Board

### Board Composition

The Board's structure is governed by HKEX's Articles and the SFO. The Board has adopted a Board Diversity Policy which is available on the HKEX Group website [CG](#). Its composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to HKEX's strategy, governance and business and contribute to the Board's effectiveness.



The names of the Directors in office during 2017 and brief biographies of the current Directors are included in the Board and Committees section and the Board of Directors and Senior Management section respectively of this Annual Report.

Under HKEX's Articles, the term of office of Non-executive Directors is not more than three years (subject to re-appointment or re-election), although each Government Appointed Director is normally appointed for a term of approximately two years. The staggered terms of service enable the Board to have a good balance of experienced and new Directors, with an average tenure of 4.4 years as of the date of this report. The service term of C K Chow and Tim Freshwater (Government Appointed Directors), and T C Chan, Fred Hu and John Williamson (Elected Directors) will expire at the conclusion of the 2018 AGM. On 12 February 2018, the Government appointed Cha May-Lung, Laura and Hung Pi Cheng, Benjamin as members of the Board, each for a term of approximately two years from the conclusion of the 2018 AGM until the end of the annual general meeting to be held in 2020. On 28 February 2018, the Board accepted the nomination by the Nomination Committee and recommended Mr Chan, Dr Hu and Mr Williamson to stand for re-election at the 2018 AGM.

Information about the Board Diversity Policy along with the review of the Board's composition, nomination of Board candidates and independence assessment of INEDs during 2017/2018 is set out in the Nomination Committee Report.

## Roles and Responsibilities

Good governance emanates from an effective and accountable board. At HKEX, the Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation by management. It monitors the Group's operational and financial performance, reviews the Group's compensation policies and succession planning, and ensures that effective governance and CSR policies and sound internal control and risk management systems are in place. The Board operates under defined terms of reference which set out matters specifically reserved for its decision. The terms of reference are available on the HKEX Group website [ORG](#).

For effective oversight and leadership, the Board regularly reviews reports from HKEX's Chief Executive and senior management on the progress of the approved strategies, plans and budgets, and receives updates/advice from the Board committees, Consultative Panels and management on the governance, business performance and development of the Group. Further details relating to the Board committees, Consultative Panels and HKEX's management functions are set out in the Board Delegation section below.

## Board Effectiveness

The Board recognises that conducting regular evaluation of its performance is essential to good corporate governance and Board effectiveness. In 2017, the Board engaged an independent external consultant to evaluate the performance of the boards of HKEX and its two subsidiaries, the LME and LME Clear.

The evaluation concluded that at HKEX, the Board's practices are compliant with the Corporate Governance Code and are in line with international best practices, and the Board operates effectively and performs well in its governance of HKEX. The evaluation also concluded that the performance of the LME Board and the LME Clear Board was in compliance with the applicable laws and governance codes and is largely well aligned with international best practices. The findings and recommendations from the evaluation were presented to the Board in November 2017.

### Key evaluation findings for HKEX Board

- The Directors discharge effectively their overall duties on the Board and its committees.
- The dynamics of the Board are strong, with an appropriate level of debate during Board discussions.
- The mechanics of the Board function well, with timely and quality information provided to the Board and comprehensive induction training to new Directors.
- The Board composition is broadly reflective of the competencies, knowledge and experience required for HKEX's forward looking strategy.
- The relationship between the Board and the management is open, respectful and professional.

## Chairman and Chief Executive

The roles of HKEX's Chairman and Chief Executive are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Details of their respective roles and responsibilities are available on the HKEX Group website [CG](#).

### Key Responsibilities of HKEX's Chairman and Chief Executive

#### C K Chow

HKEX's Chairman (INED)

- Provides leadership to the Board
- Monitors Board effectiveness
- Fosters constructive relationships among Directors

- Promote integrity and probity
- Ensure effective stakeholder communication

#### Charles Li

HKEX's Chief Executive  
(ex-officio Board member)

- Develops strategies for the Board's approval
- Executes strategies agreed by the Board
- Leads day-to-day management of the Group

## Induction and Development

On appointment, Directors are provided with comprehensive induction training to ensure that they have a thorough understanding of the Group's operations and governance policies as well as their role and responsibilities. C H Cheah, Hugo Leung and Stephen Yiu, who became Directors on 26 April 2017, received the induction training after their appointment. Every new Board member also receives a Director's Handbook which contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct and information on other key governance issues. The Director's Handbook and more information about induction training for new Directors are available on the HKEX Group website [CG](#).

Ongoing training helps Directors keep abreast of current trends and issues facing the Group, while enabling them to update and refresh their skills and knowledge necessary for the performance of their duties. All Directors are required to provide HKEX with their training records, and to confirm their respective records on a semi-annual basis. The records are maintained by the Group Company Secretary for annual review by the ESG Committee. During 2017, the Directors received an aggregate of about 480 hours of training by attending management briefings, or participating as speakers, members or attendees in conferences, seminars, and workshops on various topics relevant to HKEX's strategy and business, development of the financial markets, and directors' duties.

### 2017 Directors' Training by Topic

Average hours of training: 36<sup>1</sup>

	HKEX's strategy/business	Economy/financial markets and products	Director's duties/ESG practices	Financial reporting/risk management	Legislative/regulatory compliance	Others <sup>2</sup>
<b>INEDs</b>						
C K Chow (Chairman)	√	√	√	√	√	
Apurv Bagri	√	√		√	√	
T C Chan	√	√	√	√	√	√
C H Cheah <sup>3</sup>	√	√	√	√	√	√
Timothy Freshwater	√	√	√	√	√	
Anita Fung	√	√	√	√	√	
Rafael Gil-Tienda	√	√	√	√	√	
John Harrison <sup>1</sup>	√	√		√	√	
Fred Hu	√	√		√	√	
Bill Kwok <sup>1</sup>	√	√		√	√	
Vincent Lee <sup>1</sup>	√	√	√	√	√	
Margaret Leung	√	√	√	√	√	
Hugo Leung <sup>3</sup>	√	√	√	√	√	√
John Williamson	√	√		√	√	
Stephen Yiu <sup>4</sup>	√	√	√	√	√	
<b>Executive Director</b>						
Charles Li	√	√		√	√	

1 This figure excludes the training hours received by Mr Harrison, Dr Kwok and Mr Lee, who retired from the Board at the end of the 2017 AGM.

2 Include topics such as investor relations and management

3 Messrs Cheah and Leung were elected as Directors on 26 April 2017.

4 Mr Yiu was appointed as a Director effective 26 April 2017.

## Board Process

In addition to the annual offsite meeting in September, the Board held nine regular meetings in 2017 to discuss matters relating to the Group's strategies, business operations, performance, governance, risk management, regulatory compliance and human capital. A site visit to the Qianhai commodities trading platform project in Shenzhen, Mainland China was arranged for Directors in March 2017. HKEX's Chairman also had regular gatherings with other Directors, occasionally without the presence of HKEX's Chief Executive, to consider issues in an informal setting.

### Attendance Record of Directors and Committee Members in 2017

	2017 AGM	Board	Audit Committee	ESG Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Project Oversight Committee	Remuneration Committee	Risk Committee	Risk Management Committee (statutory)
Number of Meetings	1	9	4	1	4	4	1	- <sup>1</sup>	4	3	4	4
Total Duration (Approximate number of hours)	1	25	8	1	2	8	1	-	5	3	6	3
<b>INEDs</b>												
C K Chow (Chairman)	1/1	9/9		1/1	4/4		1/1			3/3	4/4	3/4
Apurv Bagri <sup>2</sup>	1/1	9/9		1/1			-		4/4			
T C Chan	1/1	9/9	4/4				1/1	-			3/4	4/4
C H Cheah <sup>3</sup>		7/7			3/3	2/2	-	-		2/2		
Timothy Freshwater	1/1	8/9				4/4	1/1			3/3		
Anita Fung	1/1	9/9	4/4			4/4		-	4/4			
Rafael Gil-Tienda <sup>4</sup>	1/1	9/9		-				-	4/4		4/4	
John Harrison <sup>5</sup>	1/1	2/2	1/1								1/1	
Fred Hu <sup>6</sup>	1/1	8/9				4/4	1/1		3/4	2/2		
Bill Kwok <sup>5</sup>	1/1	2/2	1/1		1/1			-	3/3	1/1		
Vincent Lee <sup>5</sup>	1/1	2/2		1/1	1/1	2/2		-		1/1		
Margaret Leung	1/1	9/9			4/4						3/4	4/4
Hugo Leung <sup>7</sup>		7/7	3/3	-	3/3			-				
John Williamson <sup>8</sup>	1/1	9/9	4/4	1/1			1/1		1/1	2/3		
Stephen Yiu <sup>9</sup>		7/7	3/3								3/3	
<b>Executive Director</b>												
Charles Li	1/1	9/9		1/1	4/4							
<b>Market Professionals</b>												
Henry Cheng												3/4
Raymond Cheng												3/4
Lawrence Lam												4/4
Keith Lui												4/4
Barbara Shiu												4/4
Average Attendance Rate	100%	98%	100%	100%	100%	100%	100%	N/A	95%	93%	90%	91% <sup>10</sup>

1 Although no meeting was held, all members approved a resolution in writing in 2017.

2 Mr Bagri was appointed to the Nomination Committee on 27 April 2017 and ceased to be a member of the ESG Committee on the same date. No meeting of the Nomination Committee took place between 27 April and 31 December 2017.

3 Mr Cheah was elected as a Director on 26 April 2017 and appointed to the Executive Committee, the Investment Advisory Committee, the Nomination Committee, the Panel Member Nomination Committee and the Remuneration Committee on 27 April 2017. No meeting of the Nomination Committee and the Panel Member Nomination Committee took place between 27 April and 31 December 2017.

4 Mr Gil-Tienda was appointed to the ESG Committee on 27 April 2017. No meeting of the ESG Committee took place between 27 April and 31 December 2017.

5 Mr Harrison, Dr Kwok and Mr Lee retired from the Board and the committees on 26 April 2017.

6 Dr Hu was appointed to the Remuneration Committee on 27 April 2017 and ceased to be a member of the Nomination Committee on the same date.

7 Mr Leung was elected as a Director on 26 April 2017 and appointed to the Audit Committee, the ESG Committee, the Executive Committee and the Panel Member Nomination Committee on 27 April 2017. No meeting of the ESG Committee and the Panel Member Nomination Committee took place between 27 April and 31 December 2017.

8 Mr Williamson was appointed to the Project Oversight Committee on 27 April 2017 and ceased to be a member of the Nomination Committee on the same date.

9 Mr Yiu was appointed as a Director effective 26 April 2017, and as the chairman of the Audit Committee and a member of the Risk Committee on 27 April 2017.

10 The attendance rate took into account the attendance by the alternate member of the committee.

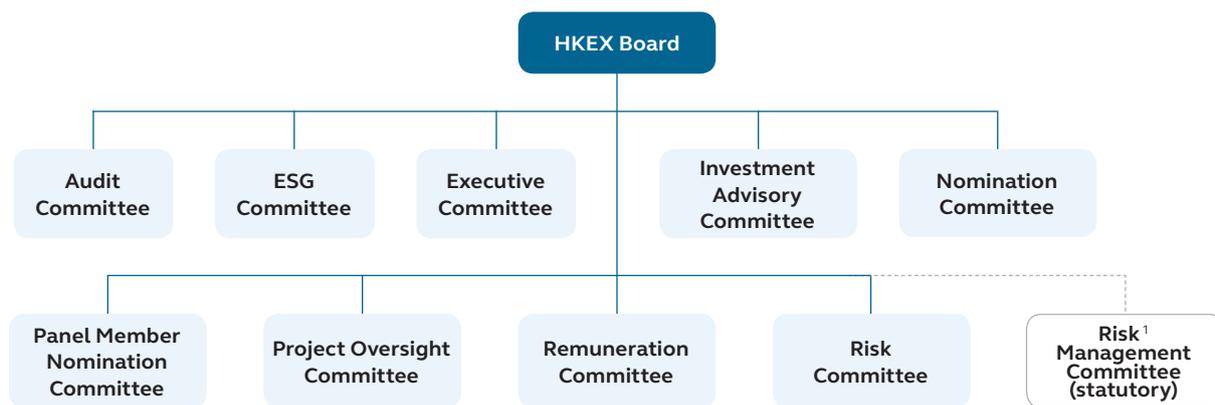
To facilitate effective oversight and decision making of the Board, HKEX has established the Group Escalation and Incident Reporting Policy to set out the guidelines on handling critical concerns relating to the Group's operations and performance. The Continuous Disclosure and Communication Policy is also in place to ensure timely reporting of inside information to the Board and communication with the Group's stakeholders, which together with other key features of the Board process are available on the HKEX Group website [CG](#).

### Group Company Secretary

All Directors have access to the advice and services of the Group Company Secretary. The Group Company Secretary reports to HKEX's Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management.

The Group Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2017, the Group Company Secretary had over 15 hours of professional training.

### Board Delegation Committees



<sup>1</sup> A statutory committee established under Section 65 of the SFO

The Board has delegated authority to various committees to deal with specific matters under defined terms of reference. The composition and terms of reference of the Board committees are reviewed and updated regularly to ensure that they remain appropriate and in line with the Group's business and changes in governance practices. The list of members of the Board committees is set out in the Board and Committees section of this Annual Report, and their attendance record is set out in "Board Process" above. More information about the Board committees is available on the HKEX Group website [CG/ORG](#).

### Consultative Panels

HKEX has three Consultative Panels which provide market expertise and advice to the Board in relation to the trading and clearing in Hong Kong's securities and derivatives markets. The composition and terms of reference of the Consultative Panels are available on the HKEX Group website [ORG](#).

#### Number of Panel Meeting(s) Held in 2017

Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	2
Clearing Consultative Panel	2

## Management

Senior management, under the leadership of HKEX's Chief Executive, is responsible for the day-to-day management of the Group's businesses and implementation of the strategies approved by the Board. The Management Committee, a management decision-making body chaired by HKEX's Chief Executive with defined authorities delegated by the Board, aims to meet at least twice a month. Its membership as at the date of this report is set out in the Management Committee section of this Annual Report, and its duties are available on the HKEX Group website [ORG](#).

During 2017, several senior management changes were made to support the latest strategic focus and accountability and to replace retiring executives. Details are set out in the Media Centre (News Releases) section of the HKEX Group website. HKEX's updated organisation structure is available on the HKEX Group website [ORG](#). The members of the Senior Management and their biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

The Board recognises the importance of ensuring continuity in senior management and identifying leaders with appropriate skills and experience to support delivery of the Group's strategic initiatives. Succession planning for senior management is considered by the Board annually.

Given the competitive business environment in which the Group operates, HKEX arranges professional development programmes for its senior executives from time to time to support its long-term growth and success. During 2017, the Senior Management received an aggregate of about 470 hours of training by participating as speakers, members or attendees in conferences, seminars, and workshops on various topics, including HKEX's strategy and business, development of the financial markets, regulatory compliance, ESG practices and risk management. Other employees of the Group also attended training throughout the year. Details are set out in the 2017 CSR Report.

## Subsidiary Governance

HKEX is committed to fostering good governance and a strong compliance culture at all levels of the organisation. To ensure there is an integrated, Group-wide approach towards upholding high governance standards, efforts have been made to strengthen the governance structures and processes of HKEX's subsidiaries.

For effective oversight of its subsidiaries, HKEX promotes governance linkages within the Group through common memberships between the Board and the subsidiaries' boards/committees and appointment of HKEX's senior management to the subsidiaries' boards. Details about the governance structures of the Group's principal subsidiaries (including composition and terms of reference of their boards and committees) are available on the HKEX Group website [ORG](#). Induction training has also been provided to subsidiaries' non-executive directors to facilitate their understanding of the Group's business and their duties and obligations as a director. A list of HKEX subsidiaries' directors is set out in the Directors' Report contained in this Annual Report.

HKEX has implemented a number of Group-wide governance policies, which are subject to review from time to time, to support its commitment to high standards of business, professional and ethical conduct and to ensure best practices across the organisation. During 2017, all the Group employees were required to complete training on risk awareness and compliance matters.

### Key governance policies for employees

- Code of Conduct
- Continuous Disclosure and Communication Policy
- Group Anti-Bribery and Anti-Corruption Policy
- Group Personal Account Dealing Policy
- Group Whistleblowing Policy

Information about the Group's governance policies and practices is available on the HKEX Group website [CG / CSR](#).

## Remuneration of Directors and Senior Management

HKEX has formal and transparent procedures for fixing the remuneration packages of individual Directors and senior management. Information about HKEX's remuneration policies and the Remuneration Committee, including its work in 2017/2018, is set out in the Remuneration Committee Report.

## Directors' Securities Transactions and Interests in HKEX

### Compliance with Model Code

HKEX has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code at all applicable times during 2017.

### Directors' Interests and Short Positions in Shares and Underlying Shares of HKEX

The interests and short positions of Directors, including HKEX's Chief Executive, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code, are set out below.

#### Long Positions in Shares and Underlying Shares of HKEX

Name of Director	Number of shares/underlying shares held				Total	% of HKEX <sup>1</sup> shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Charles Li	967,971 <sup>3</sup>	–	–	–	967,971	0.07
Stephen Yiu	–	2,000 <sup>4</sup>	–	–	2,000	0.00

<sup>1</sup> Based on 1,239,809,477 HKEX shares in issue as at 31 December 2017

<sup>2</sup> Mr Chow was the beneficial owner of those shares.

<sup>3</sup> It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 448,997 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report.

<sup>4</sup> Mr Yiu's spouse was the beneficial owner of those shares.

Save as disclosed above, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEX or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code.

Apart from the Awarded Shares as disclosed in the Remuneration Committee Report, during 2017, none of the Directors (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of HKEX or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

## Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEX

### Minority Controllers

As at the date of this report, other than the Government which has been a Minority Controller since 7 September 2007, nine entities have been approved as Minority Controllers on the basis that they hold HKEX shares in custody for their clients. According to the Participant Shareholding Report as at 31 December 2017, these Minority Controllers in aggregate held approximately 61 per cent of HKEX shares in issue. More information about Minority Controllers is set out on the HKEX Group website [CG](#).

Other persons' interests and short positions in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 336 of the SFO are set out below.

#### Long Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX <sup>1</sup> shares in issue
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>2</sup>	66,730,300	5.38

<sup>1</sup> Based on 1,239,809,477 HKEX shares in issue as at 31 December 2017

<sup>2</sup> Based on a confirmation to HKEX by the Government in respect of its holding immediately following completion of a placing of new HKEX shares as announced on 30 November 2012

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of HKEX as at 31 December 2017 as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange.

### Senior Management

Members of the senior management are obliged to follow the Company's restrictions on dealing in securities, futures contracts and other derivatives, which are on terms no less stringent than the Model Code, as set out in the Group Personal Account Dealing Policy. Senior Management's interests in the shares and underlying shares of HKEX as at 31 December 2017 are set out below.

Senior Management	Number of shares held	Number of shares remained unvested under the Share Award Scheme	Derivatives (number of underlying shares)
Matthew Chamberlain	-	48,737	-
Eva Chau	-	18,671	-
Adrian Farnham	22,724	29,895	-
David Graham	32,697	54,236	-
Romnesh Lamba	45	57,552	-
Roger Lee	331,730	65,250	-
Richard Leung	78,890	31,806	-
Li Gang	13,917	53,793	-
Ferheen Mahomed	8,050	34,350	-
Mao Zhirong	26,252	24,437	-
Trevor Spanner	-	47,642	-
Calvin Tai	112,531	50,828	-

## Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEX from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The waiver has remained valid since then. During 2017 and subject to the waiver, the Group had the following continuing connected transactions:

A. Transactions between HKEX or its subsidiaries and the following connected persons arising from or in connection with the use of the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Bill Kwok, who retired as an INED on 26 April 2017, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.
- Vincent Lee, who retired as an INED on 26 April 2017, was interested in the transactions entered into by Hang Tai Securities Limited, Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.

B. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the listing of securities on the Stock Exchange, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Bill Kwok was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.

C. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for: (i) carrying out "buy-in" when a CCASS Participant has failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):

- WSL is one of the brokers appointed by HKSCC to assist it in carrying out Buy-in Transactions. Bill Kwok is interested in any Buy-in Transactions entered into by WSL which is his associate by virtue of the Main Board Listing Rules. During 2017, no Buy-in Transactions were conducted by WSL.

The Board has delegated authority to the Audit Committee to review the above continuing connected transactions pursuant to Rule 14A.55 of the Main Board Listing Rules. The results of the Audit Committee's review are set out in the Audit Committee Report.

The Company's external auditor was engaged to report on the above continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor has issued an unqualified report containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Main Board Listing Rules. The Company provided a copy of the report to the SFC and the Stock Exchange.

## Related Party Transactions

During 2017, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards. Related party transactions are disclosed in note 45 to the Consolidated Financial Statements. They include the following connected transactions under the Main Board Listing Rules.

Related party transactions which constitute connected transactions	Compliance with Listing Rules
Transactions in connection with services incidental or related to facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, or listing of securities on the Stock Exchange as described in note 45(a) to the Consolidated Financial Statements	These are continuing connected transactions which have satisfied the conditions of the waiver granted by the SFC from strict compliance with the Main Board Listing Rules.
Compensation to HKEX’s Chief Executive and directors of HKEX’s subsidiaries and remuneration to HKEX’s Non-executive Directors, which form part of the “Key management personnel compensation” described in note 45(b) to the Consolidated Financial Statements	These are continuing connected transactions exempt from the connected transaction requirements under Rule 14A.76 or 14A.95 of the Main Board Listing Rules.

## Accountability and Audit

### Financial Reporting

The Board, which is responsible for overseeing the preparation of annual financial statements, receives monthly management accounts and updates on the Group’s performance, financial position and prospects. In 2017, HKEX published its annual, interim and quarterly results within three months, two months and 45 days respectively after the relevant period end. In preparing the financial statements for the year ended 31 December 2017, the Board adopted appropriate accounting policies consistently, made prudent and reasonable judgements and estimates, and ensured that the financial statements were prepared on a going concern basis and show a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of the Group’s consolidated financial performance and cash flows for the year.

### Risk Management and Internal Control

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks (including ESG-related risks) it is willing to take in achieving the Group’s strategic objectives, maintaining sound and effective risk management and internal control systems (including those for ESG-related risks) and reviewing their effectiveness to safeguard Shareholders’ investment and the Group’s assets. To this end, management continues to allocate resources for internal control and risk management systems compatible with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework 2013 principles to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. Details of the Group’s risk governance structure and the Group Risk Management Framework are set out in the Risk Committee Report. Details of the Group’s key control procedures and internal audit functions are available on the HKEX Group website [CG](#).

The Board has reviewed the adequacy and effectiveness of the Group’s risk management and internal control systems, at least quarterly, through the Risk Committee and the Audit Committee. Information about the Risk Committee and the Audit Committee, including their work in 2017/2018, is set out in their respective reports contained in this Annual Report.

## Independence of External Auditor

HKEX has engaged PricewaterhouseCoopers as its external auditor. In accordance with the Group's audit partner rotation policy, a new engagement partner was assigned to HKEX in 2017. An analysis of remuneration for audit and non-audit services provided by PricewaterhouseCoopers and details of the Audit Committee's work in assessing the independence of PricewaterhouseCoopers and ensuring audit effectiveness are set out in the Audit Committee Report.

Information about HKEX's policies and procedures in safeguarding and supporting the independence and objectivity of the external auditor is available on the HKEX Group website [CG](#).

## Shareholder Relations

The Board gives high priority to maintaining balanced, clear and transparent communications with Shareholders and other investors to facilitate their understanding of the Group's performance and prospects as well as the market environment in which it operates. HKEX has an ongoing dialogue with Shareholders and other investors through various communication channels and takes any areas of concern into consideration when formulating its business strategies.

## Investor Engagement and Communications

The investor relations team focuses on effective communication with investors and analysts. Under its well-established and across-the-board engagement programme, institutional investors and analysts can interact with HKEX's Chief Executive and other senior executives. Through the programme, the investment community is updated on the development of the Group's strategic initiatives and operations. In 2017, around 260 meetings were held with institutional investors and analysts in Hong Kong, Mainland China and overseas. To facilitate effective investor relations, shareholding analyses were conducted under Section 329 of the SFO to gain a better view of HKEX's shareholding structure.

### Investor Relations Activities in 2017

- Small group/one-to-one meetings
- Non-deal roadshows
- Analyst briefings
- Investor conferences

### Investor Relations Contact Details

Email: [info@hkex.com.hk](mailto:info@hkex.com.hk)  
 Fax: (852) 2868 4084  
 Tel: (852) 2840 3330

Investment community views are communicated regularly to the Board, including sell-side consensus rating and target price for HKEX shares and summaries of questions and feedback from investors and analysts. During 2017, investors' major areas of interest included:

- Updates on financial performance of the Group;
- Updates on HKEX Strategic Plan 2016-2018; and
- Latest developments regarding the Group's initiatives, including Bond Connect, ETF Connect, Primary Connect, LME Strategic Pathway and New Board Consultation.

To foster institutional investors' understanding of the Group's governance performance, HKEX continues to provide related information to international ESG rating agencies upon request.

## Shareholder Engagement and Communications

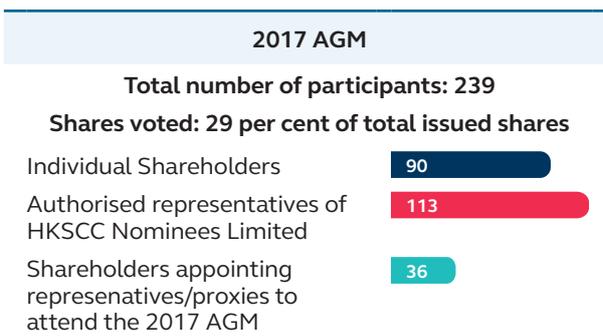
Corporate communications	<ul style="list-style-type: none"> <li>• HKEX ensures prompt dissemination of corporate communications to enable Shareholders and other stakeholders to keep abreast of the Group's business and developments so that they can make informed decisions.</li> <li>• The HKEX Group website has been adopted as the designated company website for publication of HKEX's announcements, notices and other corporate communications. As at 31 December 2017, about 63 per cent of Shareholders had opted to receive corporate communications via electronic means.</li> </ul>
Financial key dates	<ul style="list-style-type: none"> <li>• The financial calendar highlighting important dates for Shareholders in 2018 is set out in the Shareholder Information section of this Annual Report and is also available on the HKEX Group website <a href="#">IR</a>.</li> </ul>
Scrip dividend scheme	<ul style="list-style-type: none"> <li>• HKEX offers Shareholders the option of receiving their dividends in the form of scrip. The Board has, since 2015, offered a discount (currently at 3 per cent) on the subscription price to Shareholders who elect the scrip alternative to facilitate their reinvestment of their dividends in HKEX shares. Further details of the HKEX scrip dividend scheme are set out in the Shareholder Information section of this Annual Report and are also available on the HKEX Group website <a href="#">IR</a>.</li> </ul>
General meetings	<ul style="list-style-type: none"> <li>• One or more Shareholders representing at least 5 per cent of the total voting rights of all Shareholders having a right to vote at general meetings may request the Board to call a general meeting. The request must state the general nature of the business to be dealt with, and it may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests must be sent to the Company Secretary at HKEX's registered office, or by email to <a href="mailto:ssd@hkex.com.hk">ssd@hkex.com.hk</a>.</li> <li>• Under HKEX's Articles, if a Shareholder wishes to propose a person for election as a Director at a general meeting, he or she should give written notice of the nomination to the Company Secretary at HKEX's registered office. Details of the procedures for nominating candidates to stand for election as a Director at the 2018 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report.</li> <li>• Shareholders may put forward proposals at general meetings by sending written notice of their proposals to the Company Secretary at HKEX's registered office, or by email to <a href="mailto:ssd@hkex.com.hk">ssd@hkex.com.hk</a>. Details of the procedures for putting forward proposals by Shareholders are set out on the HKEX Group website <a href="#">CG</a>.</li> </ul>
Policies and guidelines	<ul style="list-style-type: none"> <li>• The Shareholders Communication Policy ensures that Shareholders are provided with ready, equal and timely access to information about HKEX. The policy is regularly reviewed to ensure its effectiveness and is posted on the HKEX Group website <a href="#">CG</a>.</li> <li>• The Shareholders' Guide with answers to the frequently asked questions of Shareholders with regard to their interests in HKEX shares is also available on the HKEX Group website <a href="#">CG</a>.</li> </ul>
Shareholding analysis	<ul style="list-style-type: none"> <li>• Based on publicly available information and within the Directors' knowledge as at the date of this report, approximately 100 per cent of the HKEX shares were held by the public. HKEX's market capitalisation and shareholding distribution as at 31 December 2017 are set out in the Shareholder Information section of this Annual Report.</li> </ul>

Further information about the Group's stakeholder engagement activities in 2017 is set out in the 2017 CSR Report.

The Board is grateful to Shareholders and other stakeholders for their continued support and welcomes their views as well as any questions they may have about the management and governance of the Group. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to the Group Company Secretary and sending them by post to the Secretarial Services Department, HKEX, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

## 2017 Annual General Meeting

HKEX uses the AGM as a forum to establish constructive dialogue with Shareholders. Separate resolutions are proposed on each substantially separate issue, with all resolutions considered in a poll conducted by HKEX's registrar and verified by an independent scrutineer. Electronic voting is used at the AGMs to enhance efficiency and transparency of the vote counting process.



At the 2017 AGM, all Directors in office on the meeting date, including HKEX's Chairman and the chairmen of the Audit Committee and other Board committees, attended the meeting along with key senior executives and the external auditor.

The voting results and the minutes of the 2017 AGM are available on the HKEX Group website [IR](#).

### Key Matters Resolved at the 2017 AGM<sup>1</sup>

- Receipt of the 2016 audited financial statements
- Declaration of 2016 final dividend of \$2.04 per share
- Election of C H Cheah and Hugo Leung as Directors
- Re-appointment of PricewaterhouseCoopers as the Company's auditor
- Granting a general mandate to buy back HKEX shares (not exceeding 10 per cent of the number of shares in issue)
- Granting a general mandate to issue HKEX shares (not exceeding 10 per cent of the number of shares in issue and at a price not exceeding a discount of 10 per cent)
- Remuneration of \$180,000 and \$120,000 per annum respectively payable to the chairman and each of the other member (excluding Executive Director, if any) of the Project Oversight Committee, in addition to the attendance fee of \$3,000 per meeting

<sup>1</sup> The full text of the resolutions is set out in the Notice of the 2017 AGM.

## 2018 Annual General Meeting

The 2018 AGM will be held on Wednesday, 25 April 2018 at 4:30 pm at the HKEX Connect Hall on the 1st Floor, One and Two Exchange Square, Central, Hong Kong. The Notice of the 2018 AGM, which constitutes part of a circular to Shareholders, will be sent together with this Annual Report. The Notice of the 2018 AGM, the circular which sets out details of the business to be conducted at the 2018 AGM and the proxy form will be available on the HKEX Group website [IR](#). The results of the voting on the proposed resolutions will be published on the HKEX Group website [IR](#) shortly after the 2018 AGM is held.

All Shareholders are encouraged to attend the 2018 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior management.

## Changes after Closure of Financial Year

This report takes into account the changes that occurred between the end of 2017 and the date of the approval of this report.

On behalf of the Board  
**MAU Kam Shing, Joseph**  
 Group Company Secretary

Hong Kong, 28 February 2018