

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 businesses.

HKEX's key corporate governance practices and activities during the year ended 31 December 2018 are highlighted in this report and the Committee Reports, as well as in the 2018 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 and Governance Committee Report: pages 93 to 95

Audit Committee Report: pages 96 to 98

Risk Committee Report: pages 99 to 101

Remuneration Committee Report: pages 102 to 108

CSR Committee Report: pages 109 and 110

[HKEX Group Website \(www.hkexgroup.com\)](http://www.hkexgroup.com)

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

Investor Relations section [IR](#)

Corporate Governance section [CG](#)

Corporate Social Responsibility section [CSR](#)

Governance Highlights

Board Structure

- 12 of the 13 Directors are independent
- Members of all governance related committees * are INEDs
- 23 per cent of Directors are female
- Set goal to achieve gender parity on the Board
- Diverse range of expertise and experience
- Periodic Board refreshment

Board and Governance Process

- Establishment of International Advisory Council to provide the Board with expert insight and perspective
- 46 Board and committee meetings in total in 2018
- Regular knowledge sessions for Directors
- Periodic evaluation of Board performance
- Annual review of succession plans
- Annual review of compensation policies
- Robust risk management and internal controls framework
- Embedded compliance culture
- Proactive and ongoing stakeholder engagement

* Refer to the Nomination and Governance Committee, Audit Committee, Risk Committee, and Remuneration Committee

Compliance with Corporate Governance Code

Throughout the year 2018, 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 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 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 Nomination and Governance Committee under its revised terms of reference adopted in August 2018 (see more information in the Board Delegation section below). A summary of the work done by the Nomination and Governance Committee in 2018/2019 is set out in the Nomination and Governance Committee Report.

Strategic Planning

HKEX has a rigorous and continuing strategic planning process, which includes a full-day offsite strategy meeting each year, 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.

2018 was the final year of our previous strategic plan announced in 2016. The accomplishments achieved during the year are reported in the Chief Executive’s Review and Business Review sections of this Annual Report.

HKEX has formulated a new 3-year strategic plan for 2019-2021, which is outlined in the Strategic Plan 2019-2021 section of this Annual Report.

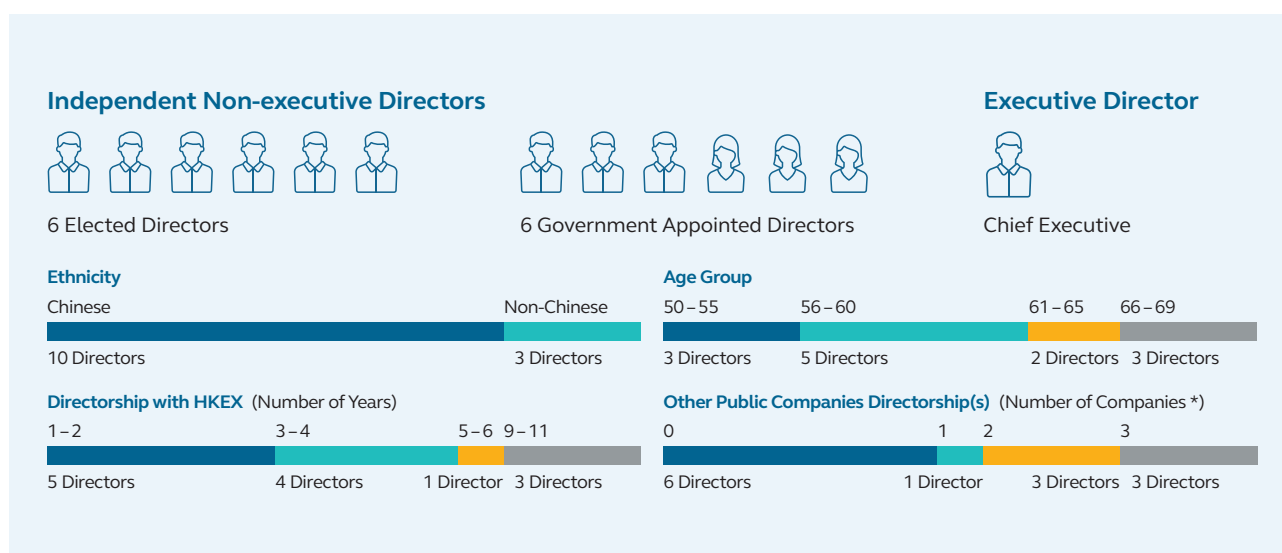
Development of Strategic Plan 2019-2021



The Board

Board Composition

The Board’s structure is governed by HKEX’s Articles and the SFO. The Board has an appropriate mix of skills, experience and diversity that are relevant to HKEX’s strategy, governance and business and underpin its effectiveness and efficiency. The Board sets out its approach to achieving diversity in the Board Diversity Policy which is available on the HKEX Group website [CG](#).



* Directorships held at companies within the same group are considered to be one single directorship.

Directors' Skills and Experience

	Executive leadership & strategy/ directorship or senior executive experience with other listed company(ies)	Capital market expertise	International business	Mainland China exposure	Accounting professionals/ financial management expertise	Legal professionals/ regulatory & compliance/ risk management	IT
INEDs							
Laura M Cha (Chairman)	•	•	•	•		•	
Apurv Bagri	•	•	•		•	•	
T C Chan	•	•	•	•	•	•	
C H Cheah	•	•	•	•			
Anita Fung	•	•	•	•		•	
Rafael Gil-Tienda	•	•	•	•		•	
Fred Hu	•	•		•	•		•
Benjamin Hung	•	•	•	•			
Margaret Leung	•	•	•	•		•	•
Hugo Leung	•	•	•	•		•	
John Williamson	•	•	•		•	•	•
Stephen Yiu	•		•	•	•	•	•
Executive Director							
Charles Li	•	•	•	•	•	•	
Coverage (% of entire Board)	100%	92%	92%	85%	46%	77%	31%

The names of the Directors in office during 2018 and brief biographies of the current Directors are included, respectively, in the Board and Committees section and the Board of Directors and Senior Management section 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. Staggered terms of service enable the Board to have a good balance of experienced and new Directors. The average tenure of the current Directors as of the date of this report is 4.4 years. The service term of Anita Fung, Rafael Gil-Tienda, Margaret Leung and Stephen Yiu (Government Appointed Directors), and Apurv Bagri (Elected Director) will expire at the conclusion of the 2019 AGM. An announcement will be published upon the appointment of Directors by the Government. On 27 February 2019, the Board accepted the nomination by the Nomination and Governance Committee and recommended Apurv Bagri to stand for re-election at the 2019 AGM.

Information about the Board Diversity Policy and Nomination Policy along with the results of the review of the Board's composition, the nomination of Board candidate and the assessment of INEDs' independence during 2018/2019 are set out in the Nomination and Governance 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. The Board monitors the Group's operating 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 Chief Executive and senior management on the progress of the approved strategies, plans and budgets, and receives updates/ advice from the Board committees, external market/industry experts and management on the governance, business performance and development of the Group. In light of the increasingly competitive and complex global environment, the Board has approved the establishment of an International Advisory Council to provide the Board with expert insight and perspective. Further details relating to the Board committees, the International Advisory Council, Consultative Panels and HKEX’s management functions are set out in the Board Delegation section below.

Board Effectiveness

The Board recognises that regular evaluations of its performance are essential to good corporate governance and Board effectiveness. Following the evaluation of the Board’s performance by an independent external consultant in 2017, various actions were taken during 2018 to further enhance the overall effectiveness of the Board. These included revising the terms of reference of various Board committees to strengthen their role in corporate governance oversight, enhancing the quality and efficiency of Board discussions, and providing more regular training to Directors.

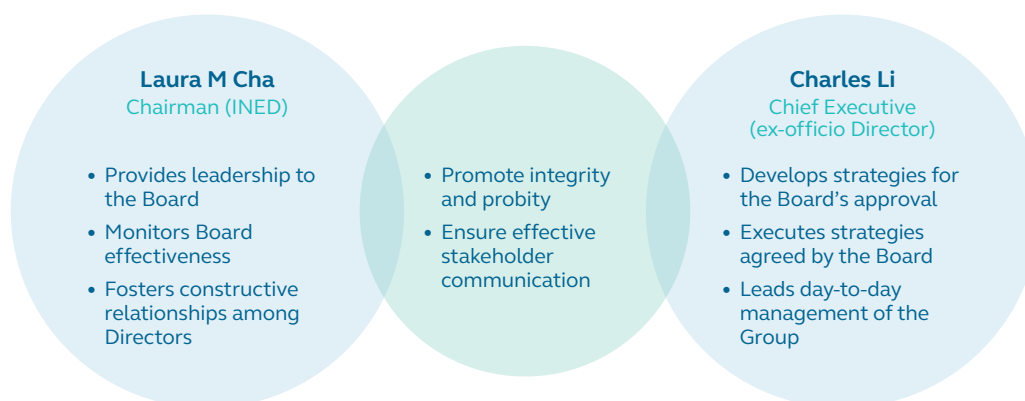
In 2018, there was an internal evaluation of the performance of the Board and its governance committees led by HKEX Chairman with the support of the Group Company Secretary. As part of the evaluation process, each Director completed a questionnaire to assess the performance of the Board, the Audit Committee, the Nomination and Governance Committee, the Remuneration Committee and the Risk Committee, and also the HKEX 2018 Strategic Offsite Meeting. In addition, HKEX Chairman interviewed other Directors individually to solicit their views, and her views were collected by the chairman of the Remuneration Committee. The evaluation results indicated that the Directors broadly agreed that the Board operates effectively and performs well in its governance of the Group, and they were satisfied, in general, with the composition and effectiveness of each governance committee. The 2018 Strategic Offsite Meeting was also well received by the Directors. The results of the evaluation were presented to the Nomination and Governance Committee and the Board in November and December 2018 respectively. Recommendations for improvement are being followed up.

Chairman and Chief Executive

On 26 April 2018, Laura M Cha was appointed by the Board as HKEX Chairman for a term coterminous with her directorship with HKEX. Her appointment was approved by the Chief Executive of the HKSAR pursuant to Section 69 of the SFO and took effect on 4 May 2018. In June 2018, Charles Li was re-appointed as HKEX Chief Executive for a further term of three years up to 15 October 2021, and the SFC approved his re-appointment pursuant to Section 70(1) of the SFO.

The roles of HKEX 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 Chairman and Chief Executive



HKEX Chairman, HKEX Chief Executive and other Directors do not have any financial, business, family or other material/relevant relationships with each other.

Induction and Development

Upon appointment to the Board, 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. Laura M Cha and Benjamin Hung received the induction after they became Directors on 25 April 2018. 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. In 2018, five Board knowledge sessions were arranged, at which external industry experts or senior management of HKEX shared their areas of expertise with Directors to enrich their understanding of the latest market trends and developments. A workshop was held in the UK in December to enhance Directors' knowledge about the LME and LME Clear.

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 Nomination and Governance Committee. During 2018, the Directors received an aggregate of about 640 hours of training by attending or participating in Board knowledge sessions, management briefings and events such as conferences, seminars and workshops on directors' duties and other topics relevant to HKEX's strategy and business.

2018 Directors' Training by Topic

	Average hours of training: 49 ¹					
	HKEX's strategy/business	Economy/financial markets & products	Director's duties/ESG practices	Financial reporting/risk management	Legislative/regulatory compliance	IT
INEDs						
Laura M Cha (Chairman) ²	●	●	●	●	●	●
C K Chow (ex-Chairman) ¹	●					
Apurv Bagri	●	●		●	●	●
T C Chan	●	●	●	●	●	●
C H Cheah	●	●		●	●	●
Timothy Freshwater ¹	●		●	●	●	
Anita Fung	●	●	●	●	●	●
Rafael Gil-Tienda	●	●	●	●	●	●
Fred Hu	●	●		●	●	●
Benjamin Hung ²	●	●	●	●	●	●
Margaret Leung	●	●	●	●	●	●
Hugo Leung	●	●	●	●	●	●
John Williamson	●	●		●	●	●
Stephen Yiu	●	●	●	●	●	●
Executive Director						
Charles Li	●	●	●	●	●	●

¹ This figure excludes the training hours received by Messrs Chow and Freshwater, who retired from the Board at the end of the 2018 AGM.

² Mrs Cha and Mr Hung were appointed as Directors effective 25 April 2018.

Board Process

In addition to the annual offsite meeting in September, the Board held nine regular meetings in 2018 to discuss matters relating to the Group's strategies, business operations, performance, governance, risk management, regulatory compliance, corporate social responsibility and human capital. HKEX Chairman also had regular gatherings with other Directors, occasionally without the presence of HKEX Chief Executive, to consider issues in an informal setting.

Attendance Record of Directors and Committee Members in 2018

	2018 AGM	Board	Audit Committee	CSR Committee	Executive Committee	Investment Advisory Committee	Nomination and Governance Committee	Panel Member Selection Committee	Project ¹ Oversight Committee	Remuneration Committee	Risk Committee	Risk Management Committee (statutory)
Number of Meetings	1	9	4	4	4	4	4	1	2	6	4	4
Total Duration (Approximate number of hours)	1	27	10	3	2	7	4	1	2	11	7	4
INEDs												
Laura M Cha (Chairman) ²		8/8		3/3	3/3		3/3			5/5	3/3	3/3
C K Chow (ex-Chairman) ³	1/1	1/1		1/1	1/1		1/1			1/1	1/1	1/1
Apurv Bagri	1/1	9/9					2/4		2/2			
T C Chan	1/1	9/9	4/4				4/4	1/1			4/4	4/4
C H Cheah	1/1	9/9			4/4	4/4	4/4	1/1		6/6		
Timothy Freshwater ³	1/1	1/1				2/2	1/1			0/1		
Anita Fung	1/1	9/9	4/4			4/4		1/1	2/2			
Rafael Gil-Tienda ⁴	1/1	8/9		1/1				1/1	2/2	5/5	4/4	
Fred Hu	1/1	8/9				3/4			1/2	3/6		
Benjamin Hung ⁵		8/8				2/2						
Margaret Leung ⁶	1/1	9/9			4/4		3/3				4/4	3/4
Hugo Leung	1/1	9/9	4/4	4/4	4/4			1/1				
John Williamson	1/1	9/9	4/4	4/4					2/2	6/6		
Stephen Yiu ⁷	1/1	9/9	4/4	3/3							4/4	
Executive Director												
Charles Li	1/1	9/9		2/4	4/4							
Market Professionals												
Henry Cheng ⁸												2/2
Gao Yingxin												4/4
Lawrence Lam												3/4
Clement Lau ⁹												2/2
Keith Lui												4/4
Barbara Shiu												4/4
Attendance Rate	100%	98%	100%	90%	100%	94%	90%	100%	90%	87%	100%	94% ¹⁰

1 The Project Oversight Committee was dissolved upon the pilot launch of the QME business in October 2018.

2 Mrs Cha was appointed as a Director effective 25 April 2018. She was appointed as the chairman of the Nomination and Governance Committee and a member of the Remuneration Committee effective 26 April 2018, and the chairman of the CSR Committee, the Executive Committee, the Risk Committee and the Risk Management Committee (statutory) effective 4 May 2018.

3 Messrs Chow and Freshwater retired from the Board and the committees on 25 April 2018.

4 Mr Gil-Tienda was appointed as the chairman of the Remuneration Committee on 26 April 2018 and ceased to be a member of the CSR Committee on the same date.

5 Mr Hung was appointed as a Director effective 25 April 2018. He was appointed to the Investment Advisory Committee on 26 April 2018.

6 Mrs Leung was appointed to the Nomination and Governance Committee on 26 April 2018.

7 Mr Yiu was appointed to the CSR Committee on 26 April 2018.

8 Mr Cheng ceased to be a member of the Risk Management Committee (statutory) on 27 June 2018.

9 Mr Lau was appointed to the Risk Management Committee (statutory) on 27 June 2018.

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

To facilitate effective oversight and decision making by the Board, HKEX has established the Group Escalation and Incident Reporting Policy to set out guidelines on handling critical concerns relating to the Group's operations and performance. The Continuous Disclosure and Communication Policy is 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](#).

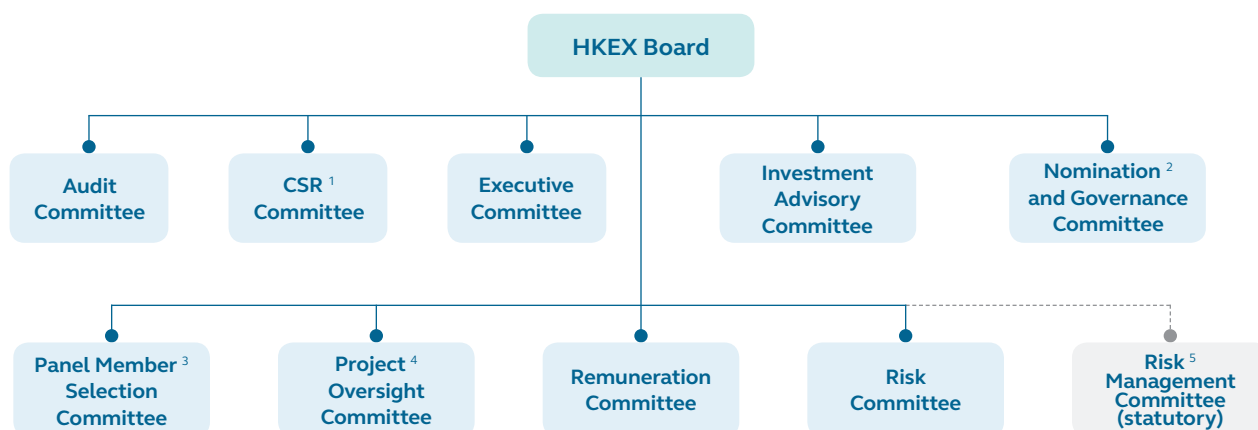
Group Company Secretary

All Directors have access to the advice and services of the Group Company Secretary. The Group Company Secretary reports to HKEX 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 2018, the Group Company Secretary had over 15 hours of professional training.

Board Delegation

Committees



- 1 Formerly known as the Environmental, Social and Governance Committee
- 2 Formerly known as the Nomination Committee
- 3 Formerly known as Panel Member Nomination Committee
- 4 Dissolved upon the pilot launch of the QME business in October 2018
- 5 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. During 2018, the Board approved revisions to its various committees' terms of reference to strengthen their governance oversight role to meet the growing market expectations in relation to governance, risk management and social responsibilities, align with the governance practices adopted by other international exchanges, and comply with the new Corporate Governance Code effective 1 January 2019. The responsibilities of the Nomination and Governance Committee were expanded to cover corporate governance oversight and related matters that were previously assumed by the CSR Committee. The CSR Committee focuses on corporate social responsibility issues and initiatives under its revised scope of responsibilities.

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](#).

International Advisory Council

In February 2019, HKEX established the International Advisory Council comprising experts in economics, business and finance from around the world who will act as advisors to the Board. The Council will provide the Board with expert insight and perspective and contribute to HKEX's understanding of the global environment, including developments in major international financial centres, the evolving global geopolitical landscape, advancements in technology and global policy and regulatory initiatives.

Members of International Advisory Council

- Laura M CHA (Chairman)
 - Stuart GULLIVER
 - Mary SCHAPIRO
 - Joseph TSAI
-

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 2018

• Cash Market Consultative Panel	1
• Derivatives Market Consultative Panel	4
• Clearing Consultative Panel	2

Management

Senior management, under the leadership of HKEX 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 Chief Executive with defined authority 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 2018, several senior management changes were made to support the latest strategic focus, ensure accountability and replace retired executives. Details are set out in the Media Centre (News Release) 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 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 Nomination and Governance Committee and 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 2018, the Senior Management received an aggregate of about 670 hours of training by attending or participating in conferences, seminars and workshops on various topics, including HKEX's strategy and business, development of the financial markets, regulatory compliance, ESG practices, risk management, information technology, leadership and management. Other employees of the Group also attended training throughout the year. Details are set out in the 2018 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. A list of HKEX subsidiaries' directors is set out in the Directors' Report contained in this Annual Report. Details about the governance structures of the Group's major subsidiaries (including composition and terms of reference of their boards and committees) are available on the HKEX Group website [ORG](#). Induction training and materials have been provided to subsidiaries' non-executive directors to facilitate their understanding of the Group's business and their duties and obligations as a director.

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 2018, all the Group employees were required to complete training on risk awareness and compliance matters.

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

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 Prevention of Financial Crime Policy
- Group Whistleblowing Policy

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 2018/2019, 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 2018.

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

The interests and short positions of Directors, including HKEX Chief Executive, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 31 December 2018 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 ¹ shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
Charles Li	1,072,046 ²	–	–	–	1,072,046	0.08
Stephen Yiu	–	2,000 ³	–	–	2,000	0.00

1 Based on 1,250,632,060 HKEX shares in issue as at 31 December 2018

2 It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 413,146 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report.

3 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 2018 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 2018, 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 had 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 2018, these Minority Controllers in aggregate held approximately 65 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 2018 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 ¹ shares in issue
JPMorgan Chase & Co (JPMC)	Interest of corporation controlled by JPMC	8,693,353	62,800,715 ²	5.02
	Investment manager	12,191,550		
	Person having a security interest in shares	36,266		
	Trustee	12,675		
	Approved lending agent	41,866,871		
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	74,840,961 ³	74,840,961	5.98

Short Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
JPMC	Interest of corporation controlled by JPMC	10,923,476	10,923,476 ⁴	0.87

1 Based on 1,250,632,060 HKEX shares in issue as at 31 December 2018

2 It included an aggregate interest in 3,199,812 underlying shares through JPMC's holding of certain listed derivatives (physically settled: 1,539,000 shares; cash settled: 1,065,330 shares) and unlisted derivatives (physically settled: 569,682 shares; cash settled: 25,800 shares).

3 Based on Hong Kong Monetary Authority's notification to HKEX on 4 June 2018

4 It included an aggregate interest in 7,096,841 underlying shares through JPMC's holding of certain listed derivatives (physically settled: 1,671,200 shares; cash settled: 1,745,900 shares; convertible instruments: 18 shares) and unlisted derivatives (physically settled: 3,651,430 shares; cash settled: 28,293 shares).

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 2018 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 Managements' interests in the shares and underlying shares of HKEX as at 31 December 2018 are set out below.

Senior Management	Number of shares held	Number of shares that remained unvested under the Share Award Scheme	Derivatives (number of underlying shares)
Roland Chai	-	27,860	-
Matthew Chamberlain	9,703	61,303	-
Eva Chau	87	26,033	-
Tori Cowley	-	2,808	-
Adrian Farnham	29,313	38,128	-
David Graham	23,688	54,964	-
John Killian	-	18,748	-
Romnesh Lamba	28,034	51,049	-
Richard Leung	93,281	36,830	-
Li Gang	25,410	50,211	-
Ferheen Mahomed	20,953	48,473	-
Mao Zhirong	38,210	23,283	-
Calvin Tai	135,704	55,540	-

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 2018 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 from the Board on 26 April 2017¹, 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 from the Board on 26 April 2017¹, 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:

- Laura M Cha, HKEX Chairman, was interested in the transactions entered into by HKR International Limited and Hanison Construction Holdings Limited, which are listed on the Stock Exchange and are Mrs Cha's associates by virtue of the Main Board Listing Rules.
- 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. No Buy-in Transactions were conducted by WSL during the period from 1 January to 26 April 2018¹.

¹ Bill Kwok, Vincent Lee and their respective associates were connected persons of HKEX up to 26 April 2018. Hence, transactions between HKEX or its subsidiaries and Dr Kwok, Mr Lee or their respective associates that took place during the period from 1 January to 26 April 2018 constituted continuing connected transactions for HKEX.

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 2018, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards. Related party transactions are disclosed in note 47 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
Payment of membership fee by an associate of a Director to the LME as covered in note 47(a) to the Consolidated Financial Statements	This was a connected transaction exempt from the connected transaction requirements under Rule 14A.76(1) of the Main Board Listing Rules.
Compensation to HKEX 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 47(b) to the Consolidated Financial Statements	These were continuing connected transactions exempt from the connected transaction requirements under Rule 14A.76(1) 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 2018, 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 2018, 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 2018 and of the Group’s consolidated financial performance and cash flows for the year then ended.

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 based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework 2013 and the ISO 31000 Risk Management principles and guidelines 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 reviews 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 2018/2019, is set out in their respective reports contained in this Annual Report.

Independence of External Auditor

HKEX has engaged PricewaterhouseCoopers as its external auditor. 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

HKEX's investor relations team focuses on effective communication with and provision of relevant public information to investors and analysts to support the appropriate valuation of HKEX equity. Through an extensive engagement programme, institutional investors and analysts can interact with HKEX Chairman and HKEX Chief Executive and other senior executives for updates on the development of the Group's strategic initiatives and operations, as well as HKEX's corporate governance policies. During 2018, around 320 meetings were held with institutional investors and analysts in Hong Kong, Mainland China and overseas. To facilitate effective investor relations, regular shareholding analyses were conducted under Section 329 of the SFO to gain a better view of changes in HKEX's shareholding structure.

Investor Relations Activities in 2018

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

Investor Relations Contact Details

Email: investorrelations@hkex.com.hk

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 2018, investors' major areas of interest included:

- (i) Updates on financial performance of the Group;
- (ii) Updates on the progress made in respect of delivering on HKEX Strategic Plan 2016-2018, and direction of the new 3-year strategic plan for 2019-2021; and
- (iii) Latest developments regarding the Group's initiatives, including Stock Connect, Bond Connect, ETF Connect, Primary Connect, FIC strategy, LME's initiatives, development of QME and the listing regime reform.

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

Shareholder Engagement and Communications

Corporate communications	<ul style="list-style-type: none"> • 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. • 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 2018, about 62 per cent of Shareholders had opted to receive corporate communications via electronic means.
Financial key dates	<ul style="list-style-type: none"> • The financial calendar highlighting important dates for Shareholders in 2019 is set out in the Shareholder Information section of this Annual Report and is also available on the HKEX Group website IR.
Scrip dividend scheme	<ul style="list-style-type: none"> • HKEX offers Shareholders the option of receiving their dividends in the form of scrip. Since 2015, the Board has 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's dividend policy and scrip dividend scheme are set out in the Shareholder Information section of this Annual Report and are also available on the HKEX Group website IR.
General meetings	<ul style="list-style-type: none"> • 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 Group Company Secretary at HKEX's registered office, or by email to ssd@hkex.com.hk. • 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 Group Company Secretary at HKEX's registered office. Details of the procedures for nominating candidates to stand for election as a Director at the 2019 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report. • Shareholders may put forward proposals at general meetings by sending written notice of their proposals to the Group Company Secretary at HKEX's registered office, or by email to ssd@hkex.com.hk. Details of the procedures for putting forward proposals by Shareholders are set out on the HKEX Group website CG.
Policies and guidelines	<ul style="list-style-type: none"> • 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 CG. • 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 CG.
Shareholding analysis	<ul style="list-style-type: none"> • 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 2018 are set out in the Shareholder Information section of this Annual Report.

Further information about the Group's stakeholder engagement activities in 2018 is set out in the 2018 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, 8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong, or by email to ssd@hkex.com.hk.

2018 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 2018 AGM, all Directors in office on the meeting date, including HKEX 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 2018 AGM are available on the HKEX Group website [IR](#).

2018 AGM

Total number of participants: 271

Shares voted: 32.5 per cent of total issued shares

Individual Shareholders	89
Authorised representatives of HKSCC Nominees Limited	123
Shareholders appointing representatives/proxies to attend the 2018 AGM	59

Key Matters Resolved at the 2018 AGM ¹

- Receipt of the 2017 audited financial statements
- Declaration of 2017 final dividend of \$2.85 per share
- Re-election of T C Chan, Fred Hu and John Williamson 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 \$2,190,000 and \$730,000 per annum respectively payable to HKEX Chairman and each of the other Non-executive Directors

¹ The full text of the resolutions is set out in the Notice of the 2018 AGM.

2019 Annual General Meeting

The 2019 AGM will be held on Wednesday, 24 April 2019 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 2019 AGM, which constitutes part of a circular to Shareholders, will be sent together with this Annual Report. The Notice, the circular which sets out details of the business to be conducted at the 2019 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 2019 AGM is held.

All Shareholders are encouraged to attend the 2019 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 2018 and the date of the approval of this report.

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

Hong Kong, 27 February 2019