

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

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

The RC comprises five INEDs whose names and biographies are set out in the Board and Committees section of this Annual Report. The RC held three meetings in 2017. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Summary of Work in 2017/2018

- Reviewed the remuneration of non-executive directors of HKEX, the LME, LME Clear and OTC Clear
- Recommended the 2017 performance bonus and share award pools and the 2018 salary adjustment rates for the Group's employees
- Recommended the 2017 performance bonus and share award for HKEX's Chief Executive
- Reviewed the achievements of HKEX's Chief Executive and recommended to the Board the appropriate vesting percentage of the Senior Executive Awards for the relevant performance period

Non-executive Directors' Remuneration

Objective

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

Policy

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

Annual review for 2017/2018

- McLagan, a firm specialising in performance and rewards for the financial services industry, was appointed to conduct an independent review of the non-executive directors' remuneration for HKEX and certain subsidiaries to ensure their remuneration is competitive and appropriate. The study included benchmarking against other listed exchanges as well as banks and constituent companies of the FTSE 100 Index and the HSI.
- Based on the findings and the consultant's recommendation, the RC (none of the RC members participated in the decision on his remuneration) recommended that the remuneration for the Non-executive Directors should remain unchanged for 2017/2018. However, the RC recommended that the remuneration of \$180,000 per annum and \$120,000 per annum respectively be payable to the chairman and each of the other members of the Project Oversight Committee (POC), together with an attendance fee of \$3,000 per meeting to each member of the POC, in light of the time and effort spent by them to oversee the development of HKEX's Qianhai commodities trading platform. The proposal received endorsement from the Board and was approved by Shareholders at the 2017 AGM.

Annual review for 2018/2019

- McLagan was appointed again to conduct a review of the non-executive directors' remuneration for HKEX and certain subsidiaries. The methodology and the benchmark used in the study largely followed those used in the 2017/2018 review.
- After reviewing the market information and the recommendation provided by the consultant, the RC (none of the RC members participated in the decision of his remuneration) recommended an inflationary adjustment of the remuneration for the chairman of the Board from \$2,100,000 to \$2,190,000 per annum and for the other Non-executive Directors from \$700,000 to \$730,000 per annum. These changes will be proposed to the Board for it to recommend to Shareholders for their approval at the 2018 AGM.

Non-executive Directors' remuneration review for 2018/2019

	Proposed Fee for 2018/2019 onwards \$	Current Fee for 2017/2018 \$
Board		
– Chairman	2,190,000	2,100,000
– Other Non-executive Director	730,000	700,000
Audit Committee		
– Chairman	200,000	200,000
– Other member	120,000	120,000
– Attendance fee per meeting	3,000	3,000
Executive Committee, Investment Advisory Committee, Project Oversight Committee, Remuneration Committee and Risk Committee		
– Chairman	180,000	180,000
– Other member	120,000	120,000
– Attendance fee per meeting	3,000	3,000

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

The remuneration paid to the Non-executive Directors in 2016 and 2017 for their service on the Board and, where applicable, on its committees and the board and committees of HKEX's subsidiaries is set out below.

	2017 \$	2016 \$
Apurv Bagri	793,000	525,000
T C Chan	961,000	964,000
C H Cheah ¹	816,000	–
C K Chow	3,240,108	3,282,732
Timothy Freshwater	1,021,000	1,018,000
Anita Fung	1,102,000	964,000
Rafael Gil-Tienda	1,259,333	832,000
John Harrison ²	699,978	2,486,095
Fred Hu	1,018,000	829,000
Bill Kwok ²	431,667	1,597,000
Vincent Lee ²	277,000	1,075,000
Margaret Leung	961,000	964,000
Hugo Leung ¹	723,000	–
John Williamson	1,051,000	964,000
Stephen Yiu ³	1,786,359	–
Total	16,140,445	15,726,827 ⁴

1 Mr Cheah and Mr Leung were elected as Directors on 26 April 2017.

2 Mr Harrison, Dr Kwok and Mr Lee retired on 26 April 2017.

3 Mr Yiu was appointed as a Director on 26 April 2017.

4 Includes the remuneration of \$226,000 paid to Oscar Wong who retired on 28 April 2016

Employees' Remuneration

Objective

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

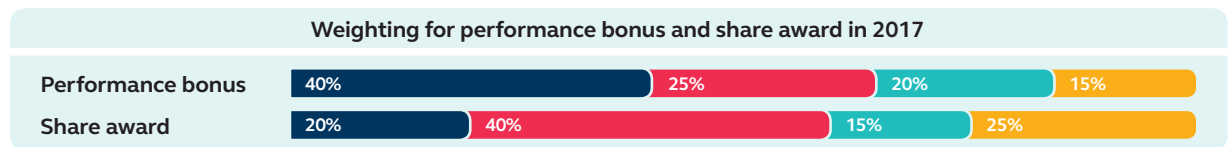
Policy

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

Review for 2017/2018

- The RC recommended and the Board approved in November and December 2017:
 - (i) a base salary adjustment and promotion increase effective January 2018. The salary adjustment took into consideration the competitive positioning, the cost of living and the projected pay increase in the financial services industry;
 - (ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2017;
 - (iii) a sum of \$253.52 million for the purchase of HKEX shares pursuant to the Share Award Scheme for 311 selected employees, including HKEX's Chief Executive (\$13.5 million), and for selected employees to be recruited in 2018; and
 - (v) an additional sum of \$14.25 million for the purchase of HKEX shares for a performance-based Senior Executive Award pursuant to the Share Award Scheme for HKEX's Chief Executive for the performance period between 2018 and 2020.
- The performance cash bonus and share award pools for the Group's employees were determined based on the overall achievements with respect to the following on the corporate performance scorecard:

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



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

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

As at 31 December 2017, the Group had 1,698 permanent employees and 79 temporary employees.

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked, and training and development opportunities are identified for them. Employee training details are set out in the 2017 CSR Report.

Emoluments for 2017

Executive Director

	2017					2016	2017	
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Director's fee \$	Total ³ \$	Total ³ \$	Share award ⁴ benefits \$
HKEX's Chief Executive Charles Li	9,000,000	15,000,000	402,501	1,125,000	-	25,527,501	21,592,241	23,327,849 ⁵

Senior Management

	2017					2016	2017
	Salary \$	Cash ⁶ Bonuses \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Total ³ \$	Total ³ \$	Share award ⁴ benefits \$
Matthew Chamberlain ⁷	3,153,067	3,924,592	262,990	253,567	7,594,216	6,481,668	4,002,472
Eva Chau	3,240,000	3,330,850	61,829	405,000	7,037,679	3,025,053	738,419
Adrian Farnham ⁷	2,760,263	2,634,797	24,177	469,244	5,888,481	5,617,065	2,629,332
David Graham	4,691,040	5,163,750	363,293	586,380	10,804,463	9,928,031	4,337,553
John Killian ⁸	202,258	3,400,000	2,363	25,282	3,629,903	-	-
Romnesh Lamba	4,691,040	5,296,500	84,216	586,380	10,658,136	10,067,686	5,356,900
Roger Lee	2,913,840	4,860,570	77,741	364,230	8,216,381	7,372,810	5,193,576
Richard Leung	3,213,600	3,421,600	39,758	401,700	7,076,658	6,545,058	2,611,225
Li Gang	3,600,000	5,104,000	46,011	360,000	9,110,011	8,404,153	3,892,656
Ferheen Mahomed ⁹	3,805,714	6,479,960	3,479,047	475,714	14,240,435	-	3,510,705
Mao Zhirong	2,958,084	3,391,110	44,239	369,761	6,763,194	6,454,913	2,117,901
Trevor Spanner	4,500,000	4,055,960	581,617	562,500	9,700,077	9,549,818	4,377,804
Calvin Tai	3,528,000	4,233,600	62,624	441,000	8,265,224	7,576,436	4,300,657

- 1 Other benefits include leave pay, insurance premium, club membership, special allowance, settlement of the UK tax liability on behalf of the employee and payment in lieu of pension contributions, as applicable.
- 2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases by 18 per cent annually thereafter and reaches 100 per cent after completion of seven years of service.
- 3 This excludes the amounts approved by the Board for the purchase of HKEX shares pursuant to the Share Award Scheme, details of which are set out in the Share Award Scheme section below.
- 4 These represent the aggregate of the amortised fair value of the Awarded Shares of HKEX's Chief Executive and the members of the Senior Management that was charged to the Consolidated Income Statement for the year ended 31 December 2017.
- 5 This includes the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2017, the vesting of which is not affected if Mr Li ceases employment with the Group before the end of the performance assessment period. In accordance with prevailing accounting standards, such award is considered to be vested immediately upon grant. The actual number of shares to be transferred to Mr Li under the Senior Executive Awards is conditional on the satisfaction of performance criteria approved by the Board as set out in note 4 under the Share Award Scheme section below.
- 6 These include year end cash bonus and sign-on bonus paid, as applicable. Sign-on bonus is amortised to the Consolidated Income Statement over the required service period as stipulated in the employment contracts.
- 7 Messrs Chamberlain and Farnham were members of the LME pension scheme operating in the UK during 2017. The vesting scale of HKEX's provident fund scheme as specified in note 2 above is not applicable to them.
- 8 Mr Killian joined HKEX on 13 December 2017.
- 9 Ms Mahomed joined HKEX on 13 February 2017.

Further details of Directors' emoluments and the five top-paid employees are set out in notes 13 and 14 respectively to the Consolidated Financial Statements.

Share Award Scheme

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

On 8 December 2017, the Board approved a total sum of \$267.77 million for the purchase of HKEX shares pursuant to the Scheme, details of which are set out in the Employees' Remuneration section above. Based on the Board's recommendation, the Scheme's trustee applied 135,970 shares held under the Scheme which were unallocated or forfeited pursuant to the Scheme to partly satisfy such awards.

Further details of the Scheme are set out in note 37 to the Consolidated Financial Statements.

Since the Adoption Date and up to the date of this report, a total of 10,652,786 shares had been awarded under the Scheme, representing about 1 per cent of the number of HKEX shares in issue on the Adoption Date.

As at 31 December 2017, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,023,649 shares held in trust under the Scheme.

Details of the interests of HKEX's Chief Executive and the Senior Management in the Awarded Shares (save for those which had been fully vested as of 31 December 2016) are set out below.

	Date of award ²	Number of Awarded Shares	Number of shares ¹				As at 31 Dec 2017	Vesting period ³
			As at 1 Jan 2017	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
HKEX's Chief Executive								
Charles Li	3 Dec 2014	47,467 ⁴	50,096	-	45,086 ⁵	5,010 ⁵	-	End of a performance period of 2014 - 2016
	2 Jan 2015	88,345	46,626	1,092	47,718	-	-	15 Dec 2016 - 15 Dec 2017
	2 Jan 2015	95,100 ⁴	100,375	2,351	-	-	102,726 ⁶	End of a performance period of 2015 - 2017
	31 Dec 2015	60,429	62,173	1,456	31,812	-	31,817	9 Dec 2017 - 9 Dec 2018
	31 Dec 2015	56,800 ⁴	58,440	1,368	-	-	59,808	End of a performance period of 2016 - 2018
	30 Dec 2016	63,210	63,210	1,481	-	-	64,691	7 Dec 2018 - 7 Dec 2019
	30 Dec 2016	67,400 ⁴	67,400	1,579	-	-	68,979	End of a performance period of 2017 - 2019
	29 Dec 2017	58,853	-	-	-	-	58,853	8 Dec 2019 - 8 Dec 2020
	29 Dec 2017	62,123 ⁴	-	-	-	-	62,123	End of a performance period of 2018 - 2020
Senior Management								
Matthew Chamberlain	2 Jan 2015	31,948	16,863	394	17,257	-	-	15 Dec 2016 - 15 Dec 2017
	31 Dec 2015	21,220	21,832	511	11,171	-	11,172	9 Dec 2017 - 9 Dec 2018
	30 Dec 2016	16,492	16,492	385	-	-	16,877	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	20,688	-	-	-	-	20,688	8 Dec 2019 - 8 Dec 2020
Eva Chau	30 Dec 2016	8,533	8,533	199	-	-	8,732	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	9,939	-	-	-	-	9,939	8 Dec 2019 - 8 Dec 2020
Adrian Farnham	2 Jan 2015	19,157	10,115	236	10,351	-	-	15 Dec 2016 - 15 Dec 2017
	31 Dec 2015	14,854	15,282	357	7,819	-	7,820	9 Dec 2017 - 9 Dec 2018
	30 Dec 2016	10,745	10,745	250	-	-	10,995	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	11,080	-	-	-	-	11,080	8 Dec 2019 - 8 Dec 2020
David Graham	2 Jan 2015	25,059	13,228	309	13,537	-	-	15 Dec 2016 - 15 Dec 2017
	31 Dec 2015	21,653	22,277	521	11,397	-	11,401	9 Dec 2017 - 9 Dec 2018
	30 Dec 2016	22,755	22,755	532	-	-	23,287	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	19,548	-	-	-	-	19,548	8 Dec 2019 - 8 Dec 2020
Romnesh Lamba	2 Jan 2015	39,323	20,756	485	21,241	-	-	15 Dec 2016 - 15 Dec 2017
	31 Dec 2015	30,214	31,085	727	15,905	-	15,907	9 Dec 2017 - 9 Dec 2018
	30 Dec 2016	22,123	22,123	517	-	-	22,640	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	19,005	-	-	-	-	19,005	8 Dec 2019 - 8 Dec 2020
Roger Lee	2 Jan 2015	11,468	6,056	141	6,197	-	-	15 Dec 2016 - 15 Dec 2017
	18 Nov 2015	14,658	15,080	176	7,539	-	7,717	1 Mar 2017 - 1 Mar 2018
	31 Dec 2015	28,703	29,531	691	15,110	-	15,112	9 Dec 2017 - 9 Dec 2018
	30 Dec 2016	23,177	23,177	542	-	-	23,719	7 Dec 2018 - 7 Dec 2019
	29 Dec 2017	18,702	-	-	-	-	18,702	8 Dec 2019 - 8 Dec 2020

	Date of award ²	Number of Awarded Shares	Number of shares ¹					As at 31 Dec 2017	Vesting period ³
			As at 1 Jan 2017	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year			
Richard Leung	2 Jan 2015	14,556	7,684	179	7,863	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	14,100	14,507	339	7,422	-	7,424	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	12,852	12,852	300	-	-	13,152	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	11,230	-	-	-	-	11,230	8 Dec 2019 – 8 Dec 2020	
Li Gang	31 Dec 2015	26,437	27,200	637	13,917	-	13,920	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	21,070	21,070	493	-	-	21,563	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	18,310	-	-	-	-	18,310	8 Dec 2019 – 8 Dec 2020	
Ferheen Mahomed	1 Mar 2017	24,939	-	508	6,050	-	19,397	1 May 2017 – 1 May 2019 ⁷	
	29 Dec 2017	14,953	-	-	-	-	14,953	8 Dec 2019 – 8 Dec 2020	
Mao Zhirong	2 Jan 2015	12,110	6,393	149	6,542	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	12,337	12,692	297	6,493	-	6,496	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	9,481	9,481	221	-	-	9,702	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	8,239	-	-	-	-	8,239	8 Dec 2019 – 8 Dec 2020	
Trevor Spanner	2 Jan 2015	35,229	18,596	434	19,030	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	22,694	23,348	545	11,947	-	11,946	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	18,963	18,963	443	-	-	19,406	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	16,290	-	-	-	-	16,290	8 Dec 2019 – 8 Dec 2020	
Calvin Tai	2 Jan 2015	26,991	14,248	333	14,581	-	-	15 Dec 2016 – 15 Dec 2017	
	31 Dec 2015	23,668	24,351	570	12,459	-	12,462	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	19,700	19,700	461	-	-	20,161	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	18,205	-	-	-	-	18,205	8 Dec 2019 – 8 Dec 2020	

1 This includes shares acquired out of the dividends from the Awarded Shares according to the Scheme.

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

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

4 The awards were granted under the Scheme as long-term incentives for selected senior executives of the Group (Senior Executive Awards). The Board has full discretion to determine the actual amount of the Senior Executive Awards to be vested at the end of a performance period in accordance with the performance criteria recommended by the RC and approved by the Board. These performance criteria include total shareholder return, achievements made in business development initiatives and sustaining the organisation's effectiveness.

5 On 27 February 2017, the Board approved the vesting of 45,086 shares to Mr Li based on his actual performance for the period 2014-2016. Pursuant to the terms of the Scheme, the remaining 5,010 Awarded Shares previously allocated to Mr Li lapsed on 27 February 2017.

6 The RC recommended a vesting of 73,963 shares to Mr Li based on the actual performance for the period 2015-2017.*

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

CHOW Chung Kong

Chairman of the Remuneration Committee

Hong Kong, 12 February 2018

* The recommendation was approved by the Board on 28 February 2018.