

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 six meetings in 2018. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Summary of Work in 2018/2019

- Endorsed revisions to the RC's terms of reference
- Recommended the terms for the new employment contract for HKEX Chief Executive, based on the results of a compensation review by external consultants
- Reviewed the remuneration of non-executive directors of HKEX, the LME, LME Clear and OTC Clear
- Recommended the 2018 performance bonus and share award pools and the 2019 salary adjustment rates for the Group's employees
- Recommended the 2018 performance bonus and share award for HKEX Chief Executive
- Reviewed the achievements of HKEX Chief Executive and recommended to the Board the appropriate vesting percentage of the Senior Executive Award 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 2019/2020

- 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. The consultant conducted a detailed study of market practices on chairman's and non-executive directors' fees and included an updated benchmarking exercise covering listed exchanges as well as banks and constituent companies of the FTSE 100 Index and the HSI.
- 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/her remuneration) recommended increases in the fees payable to Non-executive Directors, as set out in the following table, taking into account the increased time commitment and participation required of the Non-executive Directors in overseeing the governance of HKEX and the execution of the Group's business strategies, and the expanded responsibilities of the Executive Committee, the CSR Committee, the Nomination and Governance Committee and the RC following a comprehensive review of each of the Committees' terms of reference in 2018. It is proposed that the current attendance fee for committee meetings be abolished. The adjustment of Non-executive Directors' remuneration will be proposed to the Board for it to recommend to Shareholders for their approval at the 2019 AGM. More information is set out in the circular to Shareholders to be sent together with this Annual Report and posted on the HKEX Group website [IR](#).

Non-executive Directors' Remuneration Review for 2019/2020

	Proposed Fee for 2019/2020 onwards \$	Current Fee for 2018/2019 \$
Board		
– Chairman	3,300,000	2,190,000
– Other Non-executive Director	850,000	730,000
Audit Committee		
– Chairman	250,000	200,000
– Other member	160,000	120,000
– Attendance fee per meeting	–	3,000
Executive Committee, Investment Advisory Committee, Remuneration Committee and Risk Committee		
– Chairman	250,000	180,000
– Other member	160,000	120,000
– Attendance fee per meeting	–	3,000
Corporate Social Responsibility Committee, and Nomination and Governance Committee		
– Chairman	200,000	–
– Other member	160,000	–

Non-executive Directors are not entitled to participate in the Share Award Scheme.

The emoluments of the Non-executive Directors in 2017 and 2018 for their service on the Board and, where applicable, on its committees and the board and committees of HKEX's subsidiaries are set out below.

	2018 \$	2017 \$
Apurv Bagri	816,306	793,000
Laura M Cha ¹	2,441,993	–
T C Chan	986,500	961,000
C H Cheah	1,169,500	816,000
C K Chow ²	857,800	3,240,108
Timothy Freshwater ²	256,000	1,021,000
Anita Fung	1,124,210	1,102,000
Rafael Gil-Tienda	1,624,334	1,259,333
Fred Hu	1,071,306	1,018,000
Benjamin Hung ¹	643,500	–
Margaret Leung	986,500	961,000
Hugo Leung	986,500	723,000
John Williamson	1,086,306	1,051,000
Stephen Yiu	2,528,966	1,786,359
Total	16,579,721	16,140,445 ³

¹ Mrs Cha and Mr Hung were appointed as Directors effective 25 April 2018.

² Messrs Chow and Freshwater retired on 25 April 2018.

³ Includes a total remuneration of \$1,408,645 paid to John Harrison, Bill Kwok and Vincent Lee, who retired on 26 April 2017

Further details of the Directors' emoluments are set out in note 13 to the Consolidated Financial Statements.

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 with HKEX 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 Chief Executive to the Board. As a good corporate governance practice, HKEX Chief Executive is not involved in the Board's discussion and decision.

Review for 2018/2019

- The RC recommended and the Board approved in November and December 2018:
 - (i) a base salary adjustment and promotion increase effective January 2019. 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 2018;
 - (iii) a discretionary award for the purchase of HKEX shares pursuant to the Share Award Scheme for 368 selected employees, including HKEX Chief Executive, and for selected employees to be recruited in 2019; and
 - (iv) a discretionary award for the purchase of HKEX shares for a performance-based Senior Executive Award pursuant to the Share Award Scheme for HKEX Chief Executive for the performance period between 2019 and 2021.
- 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

Financial

- Relative to selected peers of other global exchanges:
 - Performance in principal market activities
- Relative to budget and prior year:
 - Revenue and profit performance
 - Profit margin
 - Overall cost/income ratio
- Relative to budget:
 - Absolute expenses excluding incentives

Strategic

- Key initiatives from HKEX Strategic Plan 2016-2018:
 - Equity & Equity Derivatives
 - Commodities
 - FIC
 - Platform and Infrastructure
 - Listing

Market & Regulatory Development

- System stability and reliability
- Listing regulation
- Market structure
- Regulatory compliance
- Stakeholders' relationships

Organisation Development

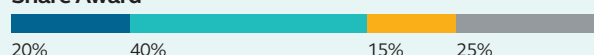
- Recruitment effectiveness
- Talent retention and development
- Organisation development and culture
- Succession planning
- CSR

Weighting for Performance Bonus and Share Award in 2018

Performance Bonus



Share Award



- 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 2018, the Group had 1,854 permanent employees and 136 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 2018 CSR Report.

Emoluments for 2018

Executive Director

	2018					2017	2018	
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Director's fee \$	Total ³ \$	Total ³ \$	Share award ⁴ benefits \$
HKEX Chief Executive								
Charles Li	9,066,048 ⁵	18,500,000	269,483	1,133,256	-	28,968,787	25,527,501	23,443,804 ⁶

Senior Management

	2018					2017	2018
	Salary \$	Cash ⁷ bonuses \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Total ³ \$	Total ³ \$	Share award ⁴ benefits \$
Roland Chai ⁸	2,870,000	3,680,000	145,556	287,000	6,982,556	3,050,277	439,031
Matthew Chamberlain ⁹	3,663,681	4,438,288	468,483	104,677	8,675,129	7,594,216	4,101,866
Eva Chau	3,240,000	3,597,320	63,188	405,000	7,305,508	7,037,679	1,675,017
Tori Cowley ¹⁰	775,000	1,150,000	333,827	96,875	2,355,702	-	18,556
Adrian Farnham ⁹	2,878,607	3,286,845	24,595	489,363	6,679,410	5,888,481	2,479,300
David Graham	4,691,040	6,958,960	517,762	586,380	12,754,142	10,804,463	4,426,853
John Killian	3,960,000	3,700,000	53,618	495,000	8,208,618	3,629,903	123,889
Romnesh Lamba	4,691,040	6,010,000	387,218	586,380	11,674,638	10,658,136	4,573,297
Richard Leung	3,213,600	4,698,080	45,978	401,700	8,359,358	7,076,658	2,613,574
Li Gang	3,600,000	5,500,000	54,179	360,000	9,514,179	9,110,011	4,311,979
Ferheen Mahomed	4,320,000	4,276,800	93,671	540,000	9,230,471	14,240,435	2,831,877
Mao Zhirong	2,958,084	3,560,670	52,566	369,761	6,941,081	6,763,194	1,958,558
Calvin Tai	3,528,000	5,647,020	73,994	441,000	9,690,014	8,265,224	4,152,186

- 1 Other benefits include leave pay, insurance premium, club membership, relocation 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 for 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 Chief Executive and the members of the Senior Management that was charged to the Consolidated Income Statement for the year ended 31 December 2018.
- 5 Mr Li's salary has been adjusted to \$9,315,000 per annum with effect from 16 October 2018, in accordance with the terms of his renewed employment contract.
- 6 This includes the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2018, 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 awards are 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.
- 7 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.
- 8 Mr Chai joined HKEX on 19 June 2017 and was appointed as Group Risk Officer effective 1 June 2018.
- 9 Messrs Chamberlain and Farnham were members of the LME pension scheme operating in the UK during 2018. The vesting scale of HKEX's provident fund scheme as specified in note 2 above is not applicable to them.
- 10 Ms Cowley joined HKEX on 28 September 2018.

Further details of the five top-paid employees are set out in note 14 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 7 December 2018, the Board approved a total sum of \$350.87 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 169,670 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 39 to the Consolidated Financial Statements.

Since the Adoption Date and up to the date of this report, a total of 12,109,574 shares had been awarded under the Scheme, representing about 1.1 per cent of the number of HKEX shares in issue on the Adoption Date.

As at 31 December 2018, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,114,868 shares held in trust under the Scheme (excluding shares vested but not yet transferred to awardees).

Details of the interests of HKEX Chief Executive and the Senior Management in the Awarded Shares are set out below.

	Date of award ²	Number of Awarded Shares	Number of shares ¹					As at 31 Dec 2018	Vesting period ³
			As at 1 Jan 2018	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year			
HKEX Chief Executive									
Charles Li	2 Jan 2015	95,100 ⁴	102,726	-	73,963 ⁵	28,763 ⁵	-	End of a performance period of 2015 – 2017	
	31 Dec 2015	60,429	31,817	893	32,710	-	-	9 Dec 2017 – 9 Dec 2018	
	31 Dec 2015	56,800 ⁴	59,808	1,678	-	-	61,486 ⁶	End of a performance period of 2016 – 2018	
	30 Dec 2016	63,210	64,691	1,816	33,253	-	33,254	7 Dec 2018 – 7 Dec 2019	
	30 Dec 2016	67,400 ⁴	68,979	1,936	-	-	70,915	End of a performance period of 2017 – 2019	
	29 Dec 2017	58,853	58,853	1,652	-	-	60,505	8 Dec 2019 – 8 Dec 2020	
	29 Dec 2017	62,123 ⁴	62,123	1,743	-	-	63,866	End of a performance period of 2018 – 2020	
	31 Dec 2018	61,560	-	-	-	-	61,560	7 Dec 2020 – 7 Dec 2021	
	31 Dec 2018	61,560 ⁴	-	-	-	-	61,560	End of a performance period of 2019 – 2021	
Senior Management									
Roland Chai	23 Jun 2017	2,900	2,935	11	2,494	-	452	3 Apr 2018 – 18 Mar 2019 ⁷	
	29 Dec 2017	5,231	5,231	145	-	-	5,376	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	22,032	-	-	-	-	22,032	7 Dec 2020 – 7 Dec 2021	
Matthew Chamberlain	31 Dec 2015	21,220	11,172	312	11,484	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	16,492	16,877	473	8,674	-	8,676	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	20,688	20,688	580	-	-	21,268	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	31,359	-	-	-	-	31,359	7 Dec 2020 – 7 Dec 2021	
Eva Chau	30 Dec 2016	8,533	8,732	244	4,487	-	4,489	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	9,939	9,939	278	-	-	10,217	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	11,327	-	-	-	-	11,327	7 Dec 2020 – 7 Dec 2021	
Tori Cowley	31 Dec 2018	2,808	-	-	-	-	2,808	7 Dec 2020 – 7 Dec 2021	
Adrian Farnham	31 Dec 2015	14,854	7,820	219	8,039	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	10,745	10,995	307	5,649	-	5,653	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	11,080	11,080	310	-	-	11,390	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	21,085	-	-	-	-	21,085	7 Dec 2020 – 7 Dec 2021	
David Graham	31 Dec 2015	21,653	11,401	319	11,720	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	22,755	23,287	653	11,968	-	11,972	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	19,548	19,548	548	-	-	20,096	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	22,896	-	-	-	-	22,896	7 Dec 2020 – 7 Dec 2021	
John Killian	31 Dec 2018	18,748	-	-	-	-	18,748	7 Dec 2020 – 7 Dec 2021	
Romnesh Lamba	31 Dec 2015	30,214	15,907	446	16,353	-	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	22,123	22,640	635	11,636	-	11,639	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	19,005	19,005	533	-	-	19,538	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	19,872	-	-	-	-	19,872	7 Dec 2020 – 7 Dec 2021	

	Date of ² award	Number of Awarded Shares	Number of shares ¹				As at 31 Dec 2018	Vesting period ³
			As at 1 Jan 2018	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year		
Richard Leung	31 Dec 2015	14,100	7,424	207	7,631	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	12,852	13,152	369	6,760	-	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	11,230	11,230	314	-	-	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	18,525	-	-	-	-	7 Dec 2020 – 7 Dec 2021	
Li Gang	31 Dec 2015	26,437	13,920	390	14,310	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	21,070	21,563	604	11,083	-	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	18,310	18,310	513	-	-	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	20,304	-	-	-	-	7 Dec 2020 – 7 Dec 2021	
Ferheen Mahomed	1 Mar 2017	24,939	19,397	185	12,760	-	1 May 2017 – 1 May 2019 ⁷	
	29 Dec 2017	14,953	14,953	419	-	-	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	26,279	-	-	-	-	7 Dec 2020 – 7 Dec 2021	
Mao Zhirong	31 Dec 2015	12,337	6,496	182	6,678	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	9,481	9,702	272	4,985	-	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	8,239	8,239	230	-	-	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	9,825	-	-	-	-	7 Dec 2020 – 7 Dec 2021	
Calvin Tai	31 Dec 2015	23,668	12,462	349	12,811	-	9 Dec 2017 – 9 Dec 2018	
	30 Dec 2016	19,700	20,161	566	10,362	-	7 Dec 2018 – 7 Dec 2019	
	29 Dec 2017	18,205	18,205	511	-	-	8 Dec 2019 – 8 Dec 2020	
	31 Dec 2018	26,459	-	-	-	-	7 Dec 2020 – 7 Dec 2021	

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 referred to in note 7 below, 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 and sustaining the organisation's effectiveness.

5 On 28 February 2018, the Board approved the vesting of 73,963 shares to Mr Li based on his performance for the period 2015-2017. Pursuant to the terms of the Scheme, the remaining 28,763 Awarded Shares previously allocated to Mr Li lapsed on 28 February 2018.

6 The RC recommended a vesting of 33,202 shares to Mr Li based on the performance for the period 2016-2018. *

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

Rafael GIL-TIENDA

Chairman of the Remuneration Committee

Hong Kong, 19 February 2019

* The recommendation was approved by the Board on 27 February 2019.