

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee (RC) is delegated by the Board with the responsibility to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices to ensure that employees are fairly remunerated with reference to the Group's and individual's performance. The RC comprises 5 INEDs whose names are set out in the Board and Committees section of this Annual Report. Its detailed terms of reference are available on the HKEx website.

The RC held 10 meetings and passed 1 written resolution in 2012 and up to 21 February 2013. Members' attendance records in 2012 are shown on page 98 of this Annual Report.

Summary of work done in 2012/2013

- Adopted the annual RC Report
- Reviewed the remuneration level for Non-executive Directors and recommended increases for 2012/2013
- Engaged an external professional consultant to conduct a compensation study and, based on the study results, recommended the remuneration package for the renewal of the employment contract of HKEx's Chief Executive
- Approved the remuneration packages for the new recruits as the Chief Administrative Officer, the Chief Financial Officer, and the Chief Regulatory Officer of HKEx
- Approved the remuneration level for LME's directors
- Recommended the 2012 performance bonus and share award pools for employees
- Recommended the 2012 performance bonus and share award for HKEx's Chief Executive
- Recommended the 2013 salary adjustment for merit increase, inflation, and promotion

Non-executive Directors' Remuneration

Objective

To remunerate Non-executive Directors at an appropriate level for their commitment of time and efforts to HKEx, and ensure the attraction and retention of high calibre and experienced individuals to oversee HKEx's business and development

Policy

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

Annual review for 2012/2013

An in-depth study of the level of remuneration of non-executive directors of HSI constituent companies, overseas listed exchanges, and major global and regional financial services companies was conducted. Professional advice from Egon Zehnder International Limited, an independent consultant engaged to perform the Board's performance evaluation in 2011, was also sought. A recommendation to increase: (i) the remuneration of HKEx's Chairman and each of the other Non-executive Directors; (ii) the remuneration of the chairman and each of the other members (excluding the Executive Director) of the Audit Committee, Executive Committee, Investment Advisory Committee, and RC; and (iii) the attendance fee in respect of each of the said committee's meetings was then made to the Board. The proposal received endorsement from the Board and was approved by Shareholders at the 2012 AGM.

Annual review for 2013/2014

In consideration of the increases in Non-executive Directors' remuneration for 2012/2013, macroeconomic factors, and the competitive environment, the RC recommended that the remuneration level for Non-executive Directors for 2013/2014 should remain unchanged.

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

Non-executive Directors' Fee for 2012/2013

	2012/2013	2011/2012
	\$	\$
Board Chairman	900,000	550,000
Board member *	600,000	385,000
Audit Committee/Executive Committee */Investment Advisory Committee/RC		
– chairman	120,000	100,000
– member	90,000	70,000
– attendance fee per meeting	3,000	2,500

* Excluding the Executive Director

Non-executive Directors' Fee for 2012

Name	2012	2011
	\$	\$
Current Directors		
Ronald Arculli	733,500	752,500
Ignatius Chan	642,750	456,250
C K Chow ¹	957,527 ⁴	–
Timothy Freshwater ¹	532,500	–
John Harrison	835,777 ⁴	431,250
Stephen Hui	642,750	453,750
Bill Kwok	756,750	551,250
Michael Lee	643,250	451,250
Vincent Lee	756,750	566,250
John Strickland	675,750	476,250
John Williamson	865,250	618,750
Oscar Wong	645,750	451,250
Ex-Directors		
Laura Cha ²	116,250	451,250
Moses Cheng ²	116,250	451,250
Marvin Cheung ³	–	107,500
Total	8,920,804	6,218,750

Notes:

- 1 Messrs Chow and Freshwater were appointed effective 23 April 2012.
- 2 Mrs Cha and Dr Cheng retired on 23 April 2012.
- 3 Dr Cheung retired on 20 April 2011.
- 4 Including a director's fee of \$57,527 to be paid by LME to each of Messrs Chow and Harrison for their directorships with LME during the period between 6 and 31 December 2012

Employees' Remuneration

Objective
To ensure that employees are remunerated equitably and competitively with consideration of the achievement of their individual performance goals as well as the key business objectives at corporate level
Policy
<ul style="list-style-type: none"> 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 measurements, and recommend to the Board the appropriate level of performance bonus and share award pools for the year To consult HKEx's Chief Executive about the individual performance of the Senior Management, and ensure that they are remunerated equitably and in accordance with the established guidelines To review and recommend to the Board the remuneration of HKEx's Chief Executive, and ensure that he is not involved in the discussion and decision on his own compensation
Review for 2012/2013
<ul style="list-style-type: none"> The RC recommended and the Board approved in November 2012: <ol style="list-style-type: none"> (i) a salary adjustment effective January 2013 that covered merit pay increase, inflation, and promotion. The salary adjustment took into consideration the cost of living and projected pay increase in the financial services industry; (ii) a discretionary performance bonus for eligible employees in recognition of their contributions in 2012; and (iii) a sum of \$112.4 million for the purchase of HKEx shares pursuant to the Share Award Scheme for 150 selected employees including HKEx's Chief Executive and selected employees to be recruited in 2013. The performance bonus was determined based on the Group's financial performance and achievement of strategic initiatives, as well as market, regulatory, and organisational development. Individual performance bonuses were then differentiated according to a 5-point performance rating scale, the employees' grade level, and job function.

Further details of HKEx's remuneration policy and structure are available in the Corporate Governance section of the HKEx website.

As at 31 December 2012, the Group had 1,030 permanent employees (2011: 940) and 75 temporary employees (2011: 57).

A performance development process is in place to ensure that employees' performance objectives are defined, their performance progress is tracked, and their training and development opportunities are identified. Further employee training details will be set out in the 2012 CSR Report.

Emoluments for 2012

Executive Director

Name	2012					2011	2012
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Director's fee \$	Total ³ \$	Share ⁴ award benefits \$
HKEx's Chief Executive Charles Li	7,642,334	6,559,669	170,561	955,292	–	15,327,856	16,131,880

Senior Management

Name	2012					2011	2012
	Salary \$	Cash bonus \$	Other ¹ benefits \$	Retirement ² benefits cost \$	Compensation for loss of office \$	Total ³ \$	Share ⁴ award benefits \$
Martin Abbott ⁵	377,288	458,357	4,237	64,132	–	904,014	–
Mark Dickens	4,467,600	2,978,400	67,354	558,450	–	8,071,804	9,365,317
Lawrence Fok ⁶	2,448,000	–	745,863	306,000	–	3,499,863	5,126,171
Gerald Greiner	6,000,000	3,000,000	126,250	750,000	–	9,876,250	6,858,466
Henry Ingrouille ⁷	1,451,613	2,250,000	41,769	181,452	–	3,924,834	–
Kevin King	3,198,000	–	60,754	399,750	–	3,658,504	3,605,078
Romnesh Lamba	4,467,600	3,723,000	84,216	558,450	–	8,833,266	9,373,049
Henry Law	2,754,000	1,377,000	56,548	344,250	–	4,531,798	4,889,186
Stephen Marzo ⁸	2,295,850	–	49,236	286,981	–	2,632,067	–
Diarmuid O'Hegarty ⁵	253,005	245,897	3,377	25,299	–	527,578	–
Christine Wong	3,427,200	3,998,400	125,108	342,720	–	7,893,428	6,887,255
Samuel Wong ⁹	731,613	–	214,139	91,451	–	1,037,203	5,575,095

Notes:

- 1 Other benefits include leave pay, insurance premium, club membership and relocation allowance, as applicable.
- 2 An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of 2 years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of 7 years of service.
- 3 Excluding the shares awarded to HKEx's Chief Executive and the Senior Management during the relevant years, details of which are set out in the Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes section of this report.
- 4 The share award benefits represent the aggregate of the amortised fair value of the Awarded Shares of HKEx's Chief Executive and the respective members of the Senior Management that were charged to the consolidated statement of comprehensive income for the year ended 31 December 2012.
- 5 Messrs Abbott and O'Hegarty became members of the Senior Management effective 6 December 2012. Their emoluments are for the period from 6 to 31 December 2012, with the amounts of cash bonus payable to them in March 2013. In addition, they are members of the LME pension scheme operating in the UK. The vesting scale of HKEx's provident fund scheme as specified in note 2 above is not applicable to them.
- 6 Mr Fok retired on 1 September 2012.
- 7 Mr Ingrouille joined HKEx on 7 July 2012.
- 8 Mr Marzo joined HKEx on 26 June 2012 and resigned effective 13 January 2013.
- 9 Mr Wong resigned effective 20 March 2012.

Further details of Directors' emoluments and the 5 top-paid employees as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 to the Main Board Listing Rules are set out in notes 16 and 17 respectively to the consolidated financial statements of this Annual Report.

Long-term Incentive Schemes

HKEx adopted the Share Award Scheme to recognise the contributions of certain employees, and help retain them for the Group's operation and further development. Prior to the adoption of the Share Award Scheme, HKEx had 2 share option schemes, the Pre-Listing Scheme and the Post-Listing Scheme, both of which ended on 30 May 2010.

Share Option Schemes

There are no outstanding options under the Pre-Listing Scheme. The unexercised options under the Post-Listing Scheme will continue to be valid and exercisable subject to the provisions of the scheme until the end of the exercise periods.

Movements in the outstanding share options granted under the Post-Listing Scheme during the year ended 31 December 2012 are set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise ² period
		As at 1 Jan 2012	Issued upon ¹ subscription during the year	Cancelled/lapsed during the year	As at 31 Dec 2012	
Employees						
31 Mar 2004	16.96	382,000	72,500	–	309,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
26 Jan 2005	19.25	577,600	49,000	–	528,600	26 Jan 2007 – 25 Jan 2015

Notes:

- 1 The weighted average closing price immediately before the dates on which the options were exercised was \$117.23.
- 2 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2nd anniversary and became fully vested on the 5th anniversary of the grant.

Further details of the Share Option Schemes are set out in note 40(b) to the consolidated financial statements of this Annual Report.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 14 September 2005 (Adoption Date). The maximum number of shares which can be awarded under the scheme is 3 per cent (ie, 31,871,575 shares) of the 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).

In December 2012, the Board approved a sum of \$112.4 million for the purchase of the HKEx shares for awards to the selected employees, including HKEx's Chief Executive (\$8.92 million), and a sum of \$10 million for the purchase of the HKEx shares for selected employees to be recruited in 2013. Based on the Board's recommendation, the Share Award Scheme's trustee applied 103,116 HKEx shares held under the scheme, which were unallocated or forfeited pursuant to the scheme, to partly satisfy such award.

Further details of the Share Award Scheme are set out in note 40(c) to the consolidated financial statements of this Annual Report.

Since its adoption, a total of 4,539,205 shares had been awarded under the Share Award Scheme up to the date of this report, representing about 0.43 per cent of the HKEx shares in issue as at the Adoption Date.

Details of the awards (save for those which had been fully vested or lapsed as of 31 December 2011), including the number of shares which were awarded and vested according to the terms of the Share Award Scheme during the year ended 31 December 2012 are set out below.

Date of approval by Board	Date of ¹ award	Awarded sum \$'000	Number of shares purchased	Number of Awarded Shares	Average ² fair value per share \$	Number of Awarded Shares vested during the year	Vesting period ³
15 May 2007	17 Jul 2007	600	5,500	5,500	102.29	1,375	18 Jun 2009 – 18 Jun 2012
12 Dec 2007	4 Feb 2008	26,300	151,000	150,965	163.72	25,688	12 Dec 2009 – 12 Dec 2012
10 Dec 2008	3 Feb 2009	4,900	59,900	59,900	81.96	14,975	1 Jan 2011 – 1 Jan 2014
23 Apr 2010	10 Jun 2010	88,516	720,100	720,054	123.29	308,250	13 May 2012 – 13 May 2013
23 Apr 2010	9 Jul 2010	840	6,900	6,900	121.88	3,450	10 Jun 2012 – 10 Jun 2013
23 Apr 2010	9 Jul 2010	2,520	21,000	21,000	120.32	–	2 Jul 2012 – 2 Jul 2013
14 Dec 2010	31 Dec 2010	91,303	518,100	518,039	176.75	238,900	14 Dec 2012 – 14 Dec 2013
14 Dec 2010	30 Mar 2011	570	3,300	3,300	169.92	–	13 Jan 2013 – 13 Jan 2014
14 Dec 2010	30 Mar 2011	2,310	13,600	13,600	169.92	–	1 Feb 2013 – 1 Feb 2014
14 Dec 2010	8 Apr 2011	263	1,400	1,400	179.55	–	1 Apr 2013 – 1 Apr 2014
14 Dec 2010	9 Jun 2011	570	3,300	3,300	171.59	–	26 Apr 2013 – 26 Apr 2014
14 Dec 2010	8 Jul 2011	1,560	9,200	9,200	168.87	–	8 Jul 2013 – 8 Jul 2014
14 Dec 2010	7 Sept 2011	405	2,900	2,900	137.12	–	20 Jul 2013 – 20 Jul 2014
14 Dec 2010	11 Oct 2011	1,620	11,800	11,800	137.22	–	19 Sept 2013 – 19 Sept 2014
14 Dec 2010	11 Oct 2011	1,560	14,400	14,400	108.03	–	3 Oct 2013 – 3 Oct 2014
14 Dec 2011	30 Dec 2011	113,624	567,800	912,437 ⁴	124.75	11,524 ⁵	14 Dec 2013 – 14 Dec 2014
14 Dec 2010	28 Mar 2012	500	3,400	3,400	143.74	–	3 Jan 2014 – 3 Jan 2015
14 Dec 2011	22 Jun 2012	256	2,300	2,300	108.45	–	26 Mar 2014 – 26 Mar 2015
14 Dec 2011	22 Jun 2012	345	3,100	3,100	108.42	–	2 Apr 2014 – 2 Apr 2015
14 Dec 2011	22 Jun 2012	412	3,800	3,800	108.45	–	2 May 2014 – 2 May 2015
14 Dec 2011	22 Jun 2012	990	9,100	9,100	108.39	–	2 May 2014 – 2 May 2015
14 Dec 2011	5 Sept 2012	975	8,900	8,900	109.00	–	7 Jul 2014 – 7 Jul 2015
3 Dec 2012	31 Dec 2012	102,398	707,200	810,245 ⁴	126.71	–	3 Dec 2014 – 3 Dec 2015

Notes:

- 1 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 2 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
 - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
 - (b) for shares purchased from the market: average cost per share.
- 3 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2nd and 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to 5th year, the arrangement prior to the change.
- 4 The Share Award Scheme's trustee applied 344,706 shares and 103,116 shares held under the scheme, which were unallocated or forfeited pursuant to the Share Award Scheme, to partly satisfy the awards allocated on 30 December 2011 and 31 December 2012 respectively.
- 5 According to the terms of the Share Award Scheme, these Awarded Shares became vested on a selected employee who retired prior to the vesting period.

As at 31 December 2012, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 2,399,854 shares held in trust under the Share Award Scheme.

Chief Executive's and Senior Management's Interests in HKEx Securities under Long-term Incentive Schemes

Share Options

Name	Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise period ¹
			As at 1 Jan 2012	Subscribed during the year	Lapsed during the year	As at 31 Dec 2012	
Senior Management							
Gerald Greiner	17 May 2004	15.91	25,000	–	–	25,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	100,000	–	–	100,000	26 Jan 2007 – 25 Jan 2015

Note:

- 1 Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the 2nd anniversary and became fully vested on the 5th anniversary of the grant.

Awarded Shares

Name	Date of award ²	Number of Awarded Shares	Average ³ fair value per share \$	Number of shares ¹					Vesting period ⁴	
				As at 1 Jan 2012	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year	As at 31 Dec 2012		
HKEx's Chief Executive										
Charles Li	10 Jun 2010	73,217	123.29	76,355	1,952	38,816	–	39,491	13 May 2012 – 13 May 2013	
	31 Dec 2010	40,856	176.75	42,008	1,442	21,723	–	21,727	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	70,495	124.75	70,495	2,426	–	–	72,921	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	70,556	126.71	–	–	–	–	70,556	3 Dec 2014 – 3 Dec 2015	
Senior Management										
Mark Dickens	3 Feb 2009	59,900	81.96	49,047	1,122	16,347	–	33,822	1 Jan 2011 – 1 Jan 2014	
	10 Jun 2010	14,236	123.29	14,848	378	7,546	–	7,680	13 May 2012 – 13 May 2013	
	31 Dec 2010	19,860	176.75	20,424	700	10,558	–	10,566	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	29,312	124.75	29,312	1,013	–	–	30,325	14 Dec 2013 – 14 Dec 2014	
Lawrence Fok ⁵	4 Feb 2008	658	163.72	213	6	219	–	–	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	7,468	123.29	7,794	200	7,994	–	–	13 May 2012 – 13 May 2013	
Gerald Greiner	4 Feb 2008	8,418	163.72	2,433	82	2,515	–	–	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	35,700	123.29	37,230	951	18,925	–	19,256	13 May 2012 – 13 May 2013	
	31 Dec 2010	16,601	176.75	17,073	585	8,824	–	8,834	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	48,185	124.75	48,185	1,660	–	–	49,845	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	11,870	126.71	–	–	–	–	11,870	3 Dec 2014 – 3 Dec 2015	
Henry Ingrouille	5 Sept 2012	8,900	109.00	–	–	–	–	8,900	7 Jul 2014 – 7 Jul 2015	
	31 Dec 2012	14,639	126.71	–	–	–	–	14,639	3 Dec 2014 – 3 Dec 2015	
Kevin King	10 Jun 2010	6,101	123.29	6,361	161	3,230	–	3,292	13 May 2012 – 13 May 2013	
Romnesh Lamba	10 Jun 2010	25,626	123.29	26,723	682	13,585	–	13,820	13 May 2012 – 13 May 2013	
	31 Dec 2010	23,832	176.75	24,504	840	12,670	–	12,674	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	29,312	124.75	29,312	1,011	–	–	30,323	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	29,461	126.71	–	–	–	–	29,461	3 Dec 2014 – 3 Dec 2015	
Henry Law	4 Feb 2008	3,623	163.72	1,060	35	1,095	–	–	12 Dec 2009 – 12 Dec 2012	
	10 Jun 2010	15,832	123.29	16,512	420	8,392	–	8,540	13 May 2012 – 13 May 2013	
	31 Dec 2010	7,362	176.75	7,574	258	3,912	–	3,920	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	10,841	124.75	10,841	378	–	–	11,219	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	10,896	126.71	–	–	–	–	10,896	3 Dec 2014 – 3 Dec 2015	
Christine Wong	9 Jul 2010	6,900	121.88	7,192	183	3,656	–	3,719	10 Jun 2012 – 10 Jun 2013	
	31 Dec 2010	14,299	176.75	14,703	504	7,600	–	7,607	14 Dec 2012 – 14 Dec 2013	
	30 Dec 2011	15,740	124.75	15,740	542	–	–	16,282	14 Dec 2013 – 14 Dec 2014	
	31 Dec 2012	15,820	126.71	–	–	–	–	15,820	3 Dec 2014 – 3 Dec 2015	
Samuel Wong ⁶	9 Jul 2010	21,000	120.32	21,899	–	–	21,899	–	2 Jul 2012 – 2 Jul 2013	

Notes:

- 1 It included shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme.
- 2 The date of award refers to the date on which the trustee allocated the Awarded Shares to the selected employees from the shares purchased with the awarded sum determined by the Board.
- 3 The fair value of the Awarded Shares was based on the average purchase cost per share.
For the shares awarded on 30 December 2011 and 31 December 2012, the fair value of the Awarded Shares was based on the average fair value calculated from the weighted average of the following:
 - (a) for shares awarded from unallocated or forfeited shares: closing price of the HKEx shares on the date of approval of the awarded sum by the Board; and
 - (b) for shares purchased from the market: average cost per share.
- 4 Effective 13 May 2010, the vesting period of the Awarded Shares was changed from 5 years to 3 years. Accordingly, the Awarded Shares and the related income are vested in 2 equal tranches in the 2nd and 3rd year after the grant, as opposed to 4 equal tranches from the 2nd to 5th year, the arrangement prior to the change.
- 5 Mr Fok retired on 1 September 2012. According to the terms of the Share Award Scheme, all the Awarded Shares and the related income became vested on Mr Fok on 31 August 2012.
- 6 Mr Wong resigned effective 20 March 2012.

Members of the Remuneration Committee

CHOW Chung Kong (Chairman)

Ronald Joseph ARCULLI

Timothy George FRESHWATER

John Barrie HARRISON

John Mackay McCulloch WILLIAMSON

Hong Kong, 21 February 2013