

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. 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 detailed terms of reference are available on the HKEX website [ORG](#).

The RC comprises 5 INEDs whose names and biographies are set out in the Board and Committees section of the 2015 Annual Report.

The RC held 5 meetings in 2015. Members' attendance records are disclosed in the Corporate Governance Report of the 2015 Annual Report.

Summary of Work in 2015/2016

- Engaged an external consultant to conduct a comprehensive study to identify improvement areas for the pay structures and market positioning of HKEX, the LME and LME Clear, as well as the incentive pool funding metrics and methodology
- Recommended a remuneration package, based on the results of a compensation review by an external consultant, in connection with the renewal of the employment contract of HKEX's Chief Executive
- Endorsed amendments to the Share Award Scheme
- Recommended the 2015 performance bonus and share award pools and the 2016 salary adjustment rates for the Group's employees
- Recommended the 2015 performance bonus and share award and the 2016 salary adjustment for HKEX's Chief Executive
- Reviewed the remuneration of non-executive directors of HKEX, the LME, LME Clear and OTC Clear

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 2015/2016

- McLagan, a professional 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 the competitiveness and appropriateness of their remuneration. 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 or her remuneration) recommended increasing the remuneration of Non-executive Directors. The proposal received endorsement from the Board and was approved by Shareholders at the 2015 AGM.

Annual review for 2016/2017

- 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 2015/2016 review.
- In consideration of the benchmark information, macroeconomic factors and the competitive environment, the RC recommended that the remuneration level for the Non-executive Directors should remain unchanged for 2016/2017.

Current Non-executive Directors' fee

	\$
Board ¹	
– Chairman	2,100,000
– Other member	700,000
Audit Committee	
– Chairman	200,000
– Other member	120,000
– Attendance fee per meeting	3,000
Executive Committee ¹ , Investment Advisory Committee, Risk Committee and RC	
– Chairman	180,000
– Other member	120,000
– Attendance fee per meeting	3,000

¹ Excludes the Executive Director

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

The fees paid to the Non-executive Directors in 2014 and 2015 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.

	2015 \$	2014 \$
T C Chan	926,000	784,500
C K Chow	3,136,536	2,367,367
Timothy Freshwater	957,000	871,500
Anita Fung ¹	720,000	–
Rafael Gil-Tienda ¹	621,000	–
John Harrison	2,600,961	2,508,079
Fred Hu ²	799,000	99,167
Stephen Hui ³	203,000	784,500
Bill Kwok	1,417,334	1,006,500
Michael Lee ³	383,247	1,317,000
Vincent Lee	991,000	1,006,500
Margaret Leung	929,000	781,500
John Williamson	957,000	894,000
Oscar Wong	884,500	792,277
Total	15,525,578	13,895,439 ⁴

¹ Ms Fung and Mr Gil-Tienda were appointed on 29 April 2015.

² Dr Hu was appointed on 10 November 2014.

³ Messrs Hui and Lee retired on 29 April 2015.

⁴ Includes the remuneration of \$682,549 paid to John Strickland who resigned on 31 October 2014

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

- 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 2015/2016

- The RC recommended and the Board approved in November and December 2015:
 - (i) a base salary adjustment and promotion increase effective January 2016. The salary adjustment took into consideration 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 2015;
 - (iii) a sum of \$255.3 million for the purchase of HKEX shares pursuant to the Share Award Scheme for 246 selected employees, including HKEX's Chief Executive (\$12 million), and for selected employees to be recruited in 2016; and
 - (iv) an additional sum of \$11.25 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 2016 and 2018.
- 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:
 - (i) financial performance measures, including the growth of primary market activities relative to selected peers among global exchanges, absolute revenue and EBITDA performance, profit margin, cost to income ratio and absolute expenses (excluding incentives) relative to the budget;
 - (ii) strategic initiatives and achievements of various business lines, eg, cash equity, equity derivatives, commodities and FIC;
 - (iii) market and regulatory measures, eg, system stability and reliability, primary market and listing regulations; and
 - (iv) organisation development measures, including talent recruitment and retention, and CSR achievements.
- Performance cash bonus and share awards were allocated to individual employees after consideration of year-on-year changes in their performance ratings (on a 5-point scale) and job grades, and with reference to a distribution guide. Management was allowed to make further adjustments to account for other factors, eg, performance of other employees and external comparison with market benchmarks.

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

As at 31 December 2015, the Group had 1,502 permanent employees and 66 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 2015 CSR Report.

Emoluments for 2015

Executive Director

	2015						2014	2015
	Salary \$	Cash bonus \$	Insurance premium \$	Club membership \$	Retirement benefits cost \$	Director's fee \$	Total ² \$	Share award benefits ³ \$
HKEX's Chief Executive								
Charles Li	9,000,000	15,000,000	108,264	69,660	1,125,000	-	25,302,924	19,993,054
								19,916,945 ⁴

Senior Management

	2015						2014	2015
	Salary \$	Cash bonus \$	Insurance premium \$	Club membership \$	Retirement benefits cost \$	Compensation for loss of office \$	Total ² \$	Share award benefits ³ \$
Margaret Cheng	2,677,560	3,174,970	22,841	-	334,695	-	6,210,066	5,191,199
Bill Chow	3,084,480	6,986,370	43,215	12,740	385,560	-	10,512,365	9,113,304
Adrian Farnham ⁵	2,666,360	3,412,941	27,298	-	453,281	-	6,559,880	6,439,864
David Graham	4,691,040	5,881,350	71,463	-	586,380	-	11,230,233	9,910,620
Garry Jones ⁵	5,332,721	6,785,591	22,073	-	906,562	-	13,046,947	12,492,422
Paul Kennedy	3,708,000	5,803,820	73,959	-	463,500	-	10,049,279	8,323,938
Romnesh Lamba	4,691,040	6,631,350	73,143	20,150	586,380	-	12,002,063	10,569,299
Roger Lee	2,913,840	3,981,590	71,828	-	364,230	-	7,331,488	5,938,625
Richard Leung	3,213,600	2,889,980	35,563	-	401,700	-	6,540,843	5,445,544
Li Gang	2,829,000	6,250,000	42,587	-	282,900	-	9,404,487	3,052,896
Mao Zhirong	2,958,084	3,082,830	57,396	-	369,761	-	6,468,071	5,902,737
Ketan Patel	3,000,000	2,634,000	42,956	-	375,000	-	6,051,956	5,126,480
Trevor Spanner ⁵	3,546,852	6,837,733	27,298	-	602,965	-	11,014,848	8,794,868
Calvin Tai	3,528,000	4,898,780	72,916	-	441,000	-	8,940,696	7,184,841
								3,376,808

- 1 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 by 18 per cent annually thereafter and reaches 100 per cent after completion of 7 years of service.
- 2 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 Chief Executive's and Senior Management's Interests in HKEX Securities under Long-term Incentive Schemes section below.
- 3 The share award benefits 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 2015.
- 4 Includes the share award benefits relating to the Senior Executive Award granted to Mr Li in December 2015, 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 Chief Executive's and Senior Management's Interests in HKEX Securities under Long-term Incentive Schemes section below.
- 5 Messrs Farnham, Jones and Spanner were members of the LME pension scheme operating in the UK during 2015. The vesting scale of HKEX's provident fund scheme as specified in note 1 above is not applicable to them.

Further details of Directors' emoluments and the 5 top-paid employees are set out in notes 16 and 17 respectively to the Consolidated Financial Statements.

Long-term Incentive Schemes

HKEX has had 2 Share Option Schemes (the Pre-Listing Scheme and the Post-Listing Scheme) and the Share Award Scheme at different times to recognise the contributions of certain employees and help retain them for the Group's operations and further development.

Share Option Schemes

Both of the Pre-Listing Scheme and the Post-Listing Scheme ended on 30 May 2010. All options granted under the Pre-Listing Scheme and Post-Listing Scheme were exercised, cancelled or lapsed on or before 30 May 2010 and 25 January 2015, respectively. HKEX has issued 22,654,000 HKEX shares under the Pre-Listing Scheme and 16,228,000 HKEX shares under the Post-Listing Scheme.

Movement in the share options under the Post-Listing Scheme during the year ended 31 December 2015 is set out below.

Date of grant	Exercise price \$	Number of shares issuable under the options				Exercise period ²
		As at 1 Jan 2015	Issued upon subscription during the year ¹	Cancelled/lapsed during the year	As at 31 Dec 2015	
26 Jan 2005	19.25	144,000	144,000	–	–	26 Jan 2007– 25 Jan 2015

¹ The weighted average closing price immediately before the dates on which the options were exercised was \$177.04.

² Options granted were subject to a vesting scale in tranches of 25 per cent each per annum starting on the second anniversary and became fully vested on the fifth anniversary of the grant.

Further details of the Share Option Schemes are set out in note 41(a) to the Consolidated Financial Statements.

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 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).

During 2015, the Board approved amendments to the rules and the trust deed of the Scheme. These amendments include (i) extending the expiry date of the Scheme and the trust deed from 13 September 2020 to 31 December 2025 to enable HKEX to continue granting awards under the Scheme as an incentive to attract and retain employees for the Group's development; (ii) adding provisions to permit vesting of shares in the employees who suffer from permanent disability or who qualify as "good leavers"; and (iii) granting discretion for the Board, RC or HKEX's Chief Executive to determine the vesting schedules as appropriate. The amended rules and trust deed of the Scheme are available on the HKEX website [ORG](#).

On 9 December 2015, the Board approved a total sum of \$266.55 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 160,685 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 41(b) to the Consolidated Financial Statements.

Since the Adoption Date and up to the date of this report, a total of 8,346,023 shares had been awarded under the Scheme, representing about 0.8 per cent of the number of HKEX shares in issue as at the Adoption Date.

As at 31 December 2015, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 3,261,783 shares held in trust under the Scheme.

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

No share options under the Share Option Schemes were granted to HKEX's Chief Executive. No share options granted under the Share Option Schemes to the Senior Management were outstanding during the year ended 31 December 2015.

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 2014) are set out below.

		Number of shares ¹						
				Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year	As at 31 Dec 2015	
	Date of award ²	Number of Awarded Shares	As at 1 Jan 2015					Vesting period ³
HKEX's Chief Executive								
Charles Li	31 Dec 2012	70,556	37,030	955	37,985	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	23,733 ⁴	23,733	611	–	–	24,344 ⁵	End of a performance period of 2013 – 2015
	3 Dec 2014	48,681	48,681	1,254	24,967	–	24,968	9 Dec 2015 – 9 Dec 2016
	3 Dec 2014	47,467 ⁴	47,467	1,224	–	–	48,691	End of a performance period of 2014 – 2016
	2 Jan 2015	88,345	–	2,284	–	–	90,629	15 Dec 2016 – 15 Dec 2017
	2 Jan 2015	95,100 ⁴	–	2,458	–	–	97,558	End of a performance period of 2015 – 2017
	31 Dec 2015	60,429	–	–	–	–	60,429	9 Dec 2017 – 9 Dec 2018
	31 Dec 2015	56,800 ⁴	–	–	–	–	56,800	End of a performance period of 2016 – 2018
Senior Management								
Margaret Cheng	3 Dec 2014	6,245	6,245	103	3,145	–	3,203	1 Aug 2015 – 1 Aug 2016
	3 Dec 2014	8,439	8,439	216	4,327	–	4,328	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	21,794	–	564	–	–	22,358	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	16,114	–	–	–	–	16,114	9 Dec 2017 – 9 Dec 2018
Bill Chow	31 Dec 2012	16,051	8,429	216	8,645	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	5,626	5,626	142	2,884	–	2,884	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	10,210	–	267	–	–	10,477	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	7,553	–	–	–	–	7,553	9 Dec 2017 – 9 Dec 2018
Adrian Farnham	3 Dec 2014	10,190	10,190	169	5,133	–	5,226	1 May 2015 – 1 May 2016
	3 Dec 2014	8,191	8,191	208	4,199	–	4,200	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	19,157	–	498	–	–	19,655	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,854	–	–	–	–	14,854	9 Dec 2017 – 9 Dec 2018
David Graham	27 Mar 2013	10,700	11,227	144	5,610	–	5,761	9 Jan 2015 – 9 Jan 2016
	3 Dec 2014	16,878	16,878	434	8,656	–	8,656	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	25,059	–	649	–	–	25,708	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	21,653	–	–	–	–	21,653	9 Dec 2017 – 9 Dec 2018
Garry Jones	3 Dec 2014	11,396	11,396	292	5,844	–	5,844	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	39,163	–	1,013	–	–	40,176	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	31,241	–	–	–	–	31,241	9 Dec 2017 – 9 Dec 2018
Paul Kennedy	3 Dec 2014	8,439	8,439	216	4,327	–	4,328	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	13,849	–	359	–	–	14,208	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,603	–	–	–	–	14,603	9 Dec 2017 – 9 Dec 2018
Romnesh Lamba	31 Dec 2012	29,461	15,467	398	15,865	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	28,131	28,131	724	14,427	–	14,428	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	39,323	–	1,017	–	–	40,340	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	30,214	–	–	–	–	30,214	9 Dec 2017 – 9 Dec 2018

	Date of award ²	Number of Awarded Shares	Number of shares ¹					Vesting period ³
			As at 1 Jan 2015	Shares acquired during the year out of the dividends	Vested during the year	Lapsed during the year	As at 31 Dec 2015	
Roger Lee	31 Dec 2012	14,851	7,799	200	7,999	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	8,298	8,298	212	4,255	–	4,255	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	11,468	–	298	–	–	11,766	15 Dec 2016 – 15 Dec 2017
	18 Nov 2015	14,658	–	–	–	–	14,658	1 Mar 2017 – 1 Mar 2018
	31 Dec 2015	28,703	–	–	–	–	28,703	9 Dec 2017 – 9 Dec 2018
Richard Leung	31 Dec 2012	14,402	7,563	194	7,757	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	11,252	11,252	290	5,771	–	5,771	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	14,556	–	377	–	–	14,933	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	14,100	–	–	–	–	14,100	9 Dec 2017 – 9 Dec 2018
Li Gang	31 Dec 2015	26,437	–	–	–	–	26,437	9 Dec 2017 – 9 Dec 2018
Mao Zhirong	3 Dec 2014	6,188	6,188	158	3,173	–	3,173	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	12,110	–	314	–	–	12,424	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	12,337	–	–	–	–	12,337	9 Dec 2017 – 9 Dec 2018
Ketan Patel	31 Dec 2012	9,638	5,061	129	5,190	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	6,892	6,892	176	3,534	–	3,534	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	8,915	–	233	–	–	9,148	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	6,798	–	–	–	–	6,798	9 Dec 2017 – 9 Dec 2018
Trevor Spanner	3 Dec 2014	16,019	16,019	266	8,069	–	8,216	25 Apr 2015 – 25 Apr 2016
	3 Dec 2014	21,582	21,582	554	11,068	–	11,068	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	35,229	–	913	–	–	36,142	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	22,694	–	–	–	–	22,694	9 Dec 2017 – 9 Dec 2018
Calvin Tai	31 Dec 2012	16,425	8,627	222	8,849	–	–	3 Dec 2014 – 3 Dec 2015
	3 Dec 2014	14,065	14,065	360	7,212	–	7,213	9 Dec 2015 – 9 Dec 2016
	2 Jan 2015	26,991	–	700	–	–	27,691	15 Dec 2016 – 15 Dec 2017
	31 Dec 2015	23,668	–	–	–	–	23,668	9 Dec 2017 – 9 Dec 2018

¹ Includes 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 Save for those Senior Executive Awards as referred to in note 4 below, the Awarded Shares and the related income are vested in 2 equal tranches in the second and third year after the grant.

⁴ The awards were granted under the Share Award 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 The RC recommended a vesting of 23,614 shares to Mr Li based on the actual performance for the period 2013-2015. (Such recommendation was approved by the Board on 2 March 2016.)

Members of the Remuneration Committee

CHOW Chung Kong (Chairman)

Timothy George FRESHWATER

KWOK Chi Piu, Bill

LEE Kwan Ho, Vincent Marshall

John Mackay McCulloch WILLIAMSON

Hong Kong, 17 February 2016