

DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited consolidated financial statements for the year ended 31 December 2015.

Principal Activities

HKEX is a recognised exchange controller under the SFO. HKEX operates the only recognised stock and futures markets in Hong Kong through its wholly-owned subsidiaries, SEHK and HKFE. HKEX also operates HKSCC, HKCC, SEOCH and OTC Clear, which are the only recognised clearing houses in Hong Kong. HKSCC, HKCC and SEOCH provide integrated clearing and settlement services to their Participants, while OTC Clear provides OTC interest rate derivatives and non-deliverable forwards clearing and settlement services to its Members. HKSCC also provides depository and nominee services to its Participants. HKEX provides market data through its data dissemination entity, HKEX Information Services Limited.

HKEX also owns the LME and LME Clear in the UK. The LME is a recognised investment exchange under the Financial Services and Markets Act 2000 (FSMA), and LME Clear is a European Market Infrastructure Regulation (EMIR) authorised CCP, which provides clearing services for the exchange contracts of the LME.

A list of HKEX's subsidiaries as of 31 December 2015 and their particulars are set out in note 27 to the Consolidated Financial Statements.

Business Review

The Group's revenue is derived primarily from business activities conducted in Hong Kong and the UK. An analysis of the Group's performance for the year by operating segment is set out in note 4 to the Consolidated Financial Statements.

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2015 and the likely future developments, is set out in the Chief Executive's Review, Business Review and Financial Review sections of this Annual Report. Principal risks and uncertainties facing the Group were reviewed by the Board as delineated in the Risk Committee Report. Details about the Group's financial risk management are set out in note 52 to the Consolidated Financial Statements.

Throughout 2015, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business as outlined in the following table.

Primary legislation/ ¹ regulations	Key scope	Compliance measures
Exchange and clearing business in Hong Kong		
SFO	HKEX is a recognised exchange controller and has duties under section 63(1) to ensure that the statutory duties placed on the recognised exchange companies (under section 21) and recognised clearing houses (under section 38) it controls are complied with.	<p>A corporate governance structure², which is intended to enable HKEX to balance its public functions and its commercial profit making objectives, has been implemented.</p> <p>A Regulatory Compliance Department, which is charged with ensuring compliance with rules and regulations, has been established.</p>
	SEHK and HKFE are recognised exchange companies; and HKSCC, HKCC, SEOCH and OTC Clear are recognised clearing houses (RCHs).	<p>Rule amendments by SEHK, HKFE and each of RCHs are approved by the SFC under section 24 (for recognised exchange companies) and section 41 (for RCHs).</p> <p>Fees imposed by SEHK, HKFE and each of RCHs are approved by the SFC under section 76.</p>
PFMI	HKSCC, HKCC, SEOCH and OTC Clear as RCHs are required to observe the applicable PFMI on an ongoing basis pursuant to the guidelines issued by the SFC.	The approach of each of the RCHs to observing each applicable PFMI is summarised in its disclosure document which is available on the HKEX website.
Exchange business in UK		
Part I and Part II of the FSMA (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001	The LME is a recognised investment exchange under section 290 of the FSMA and is required to ensure that its rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly market.	<p>The LME follows the rules and guidance on recognition and notification requirements as set out in the FCA's Handbook.</p> <p>The Audit and Risk Committee of the LME, as required by the FCA and on behalf of the LME's board, has to satisfy itself formally on an annual basis that the LME continues to meet the recognition requirements.</p> <p>The LME conducts a bottom-up approach in-depth analysis, listing all of the recognition requirements, systems, procedures and policies in place to demonstrate how each requirement has been met.</p>
Clearing business in UK		
Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as EMIR)	LME Clear is an authorised CCP and is required to comply with the applicable EMIR requirements.	<p>To ensure compliance with EMIR, LME Clear has implemented robust governance arrangements and a comprehensive risk management framework.</p> <p>LME Clear's Rules and Procedures have been developed to reflect the legal framework which applies to LME Clear, including primarily the requirements of EMIR.</p> <p>All documentation in relation to LME Clear's compliance with EMIR is publicly disclosed on the LME website.</p>

Primary legislation/ ¹ regulations	Key scope	Compliance measures
FSMA	LME Clear is a recognised clearing house under section 290 of the FSMA and is required to ensure that its rules, procedures and practices are adequate for the protection of investors and for the maintenance of an orderly operation.	LME Clear provides a high degree of legal certainty for each material aspect of its activities by setting out the rights and obligations of LME Clear and those of its Members in its Rules and Procedures (the Rules). The Rules support and allow LME Clear to conduct such material aspects appropriately and effectively, ensure Members understand the full extent of their obligations when using LMEmercury and clarify the protection provided to investors. Any changes to the Rules are notified to the Bank of England who, when appropriate, will approve the change. The Rules are publicly disclosed on the LME website.
Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (SFR)	LME Clear's secure payment system is a designated system and is required to meet the SFR requirements.	LME Clear has adopted, as part of its rules and procedures, a Settlement Finality Rule (Rule 11) and related Settlement Finality Procedures which define the system and the point of irrevocability and finality of instructions as well as the participants in the system. The procedures explaining how the system meets the SFR requirements are available on the LME website.
PFMI	LME Clear, as financial market infrastructure, is required to observe the applicable PFMI on an ongoing basis.	LME Clear's approach to observing each applicable PFMI is summarised in its disclosure document, which is available on the LME website. LME Clear performs a self-assessment on an annual basis against the PFMI. This assessment is shared with LME Clear's primary regulator, the Bank of England.
Operations in Hong Kong and UK		
Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)	HKEX, SEHK, HKFE, HKSCC, HKCC and SEOCH are public bodies and are subject to prohibitions on bribery (under sections 4 to 8) and corrupt transactions with agents (under section 9).	Prior to the adoption of the Group Anti-Bribery and Anti-Corruption Policy in August 2015, HKEX had an Anti-Bribery and Anti-Corruption Policy to ensure their employees' compliance with the Prevention of Bribery Ordinance, while the LME and LME Clear had an Anti-Corruption Policy and a Fraud Management and Bribery Prevent Policy respectively to ensure their employees' compliance with the BA.
Bribery Act 2010 (BA)	The Group's subsidiaries in the UK and persons who are British citizens are subject to the BA provisions.	

¹ On the corporate level, all of the Group companies comply with the laws of the place in which the companies are incorporated and the Main Board Listing Rules and the SFO where they are applicable.

² HKEX's corporate governance structure is available on the HKEX website, and its principal corporate governance practices are set out in the Corporate Governance Report, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Remuneration Committee Report and ESG Committee Report in this Annual Report.

Disclosures relating to the Group's environmental policies and performance, and relationships with major stakeholders are included in the ESG Committee Report on pages 102 and 103.

Major Customers and Suppliers

During the year ended 31 December 2015, the combined value of the Group's contracts with its 5 largest suppliers, which were not of a capital nature, was less than 30 per cent of the total value of supplies purchased. The Group's 5 largest customers combined contributed less than 30 per cent of its total revenue and other income during the year ended 31 December 2015.

Results and Appropriations

The Group's results for the year ended 31 December 2015 are set out in the Consolidated Income Statement.

An interim dividend of \$3.08 per share (2014: \$1.83 per share) was declared by the Board. On 24 September 2015, dividends in the total sum of \$3.7 billion (2014: \$2.1 billion) were paid to Shareholders. This included the scrip dividends and dividends of \$9 million (2014: \$3 million) for shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$2.87 per share (2014: \$2.15 per share) to Shareholders whose names appear on HKEX's Register of Members on 6 May 2016, and the retention of the remaining profit for the year. Including the interim dividend, total dividend for 2015 amounts to a total of \$5.95 per share (2014: \$3.98 per share), which represents a payout ratio of 90 per cent (2014: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2015. Dividend paid to shares held in trust under the Share Award Scheme amounts to \$18 million (2014: \$9 million). The Board also proposes to offer a scrip dividend alternative to allow Shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares in lieu of cash.

Donations

The Group's charitable and other donations during the year amounted to \$2,406,000 (2014: \$2,042,000). There have never been any political donations.

HKEX continues to raise funds for The Community Chest of Hong Kong via the Stock Code Balloting for Charity Scheme. During 2015, a total sum of \$78 million (2014: \$83 million) was raised via the Scheme for The Community Chest of Hong Kong.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 40 to the Consolidated Financial Statements. HKEX shares were issued during the year on (i) exercise of share options under the Post-Listing Scheme; (ii) election of scrip in lieu of cash dividends for the 2014 final dividend and 2015 interim dividend pursuant to HKEX's scrip dividend scheme; and (iii) exercise of the conversion rights by holders of the Convertible Bonds. Details are set out in notes 37(b), 40(a), 40(c) and 41(a) to the Consolidated Financial Statements and in the Remuneration Committee Report.

Equity-linked Agreements

Other than the Share Option Schemes as disclosed in the Remuneration Committee Report and notes 40(a) and 41(a) to the Consolidated Financial Statements and the Convertible Bonds as disclosed in note 37(b) to the Consolidated Financial Statements, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Distributable Reserves

As at 31 December 2015, HKEX's distributable reserves, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to \$6.6 billion (31 December 2014: \$7.0 billion).

Details of the movements in the respective reserves of the Group and HKEX during the year are set out in the Consolidated Statement of Changes in Equity and notes 41 to 43 and note 53(a) to the Consolidated Financial Statements.

Purchase, Sale or Redemption of HKEX's Listed Securities

During 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the HKEX shares, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,137,400 HKEX shares at a total consideration of \$227 million.

Directors

The following is the list of Directors during the year and up to the date of this report (unless otherwise stated). The interests of existing Directors in the HKEX shares are set out in the Corporate Governance Report. Information about Directors' appointments, retirements and remuneration is set out in the Nomination Committee Report and the Remuneration Committee Report.

INEDs

CHOW Chung Kong (Chairman)
 CHAN Tze Ching, Ignatius
 Timothy George FRESHWATER
 FUNG Yuen Mei, Anita (Appointed on 29 April 2015)
 Rafael GIL-TIENDA (Appointed on 29 April 2015)
 John Barrie HARRISON
 HU Zulu, Fred
 HUI Chiu Chung, Stephen (Retired on 29 April 2015)
 KWOK Chi Piu, Bill
 LEE Kwan Ho, Vincent Marshall
 LEE Tze Hau, Michael (Retired on 29 April 2015)
 LEUNG KO May Yee, Margaret
 John Mackay McCulloch WILLIAMSON
 WONG Sai Hung, Oscar

Executive Director

LI Xiaojia, Charles (Chief Executive)

The following is the list of directors of HKEX's subsidiaries during the year and up to the date of this report (unless otherwise stated).

Brian Geoffrey BENDER	HUI Ching Yu	LI Xiaojia, Charles ²
Oliver Jens BETTIN ¹	Marye Louise HUMPHERY	LO Wai Keung, David ¹
Matthew James CHAMBERLAIN	James Henry Carre INGROUILLE ¹	MAO Zhirong ³
CHAN Wing Kwong	Garry Peter JONES ³	Ketan B PATEL ³
CHENG Mo Chi, Moses	Paul Michael KENNEDY ³	POON Hon Cheung
CHOW Chung Kong ²	KIM Gene Kyum	POON Tim Fung
Adrian John Winston FARNHAM ³	KWAN Wai Hung	Trevor William SPANNER ³
FUNG Ping Yin ¹	KWOK Chi Piu, Bill ²	Marco Andrea STRIMER
David GRAHAM ³	LAM Kin	SUN Yu ¹
Hugh Edward GRAHAM	Romnesh LAMBA ³	TAI Chi Kin ³
Gerald Dale GREINER ¹	Nathaniel Bernard LE ROUX	Richard John THORNHILL
John Barrie HARRISON ²	LEE Kwok Keung ³	WANG Tong ¹
Elizabeth Noel HARWERTH	LEE Tze Hau, Michael ¹	Hossein ZAIMI
Roger Anthony HEPPEL ¹	LEUNG Chung Kwong, Richard ³	

¹ No longer a director of any subsidiaries of HKEX as at the date of this report

² Member of the Board

³ Member of Senior Management

Directors' Interests in Transactions, Arrangements and Contracts

Details of the continuing connected transactions and material related party transactions are set out in the Corporate Governance Report and note 49 to the Consolidated Financial Statements.

Save for the above, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in 2015 was a Director or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the year or at the end of 2015.

Directors' Rights to Acquire Shares or Debentures

Li Xiaojia, Charles, Executive Director, was awarded HKEX shares pursuant to the Share Award Scheme. Details are set out in the Remuneration Committee Report and note 41(b) to the Consolidated Financial Statements.

Save for the above, neither HKEX nor any of its subsidiary undertakings was a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, HKEX or any other body corporate at any time during the year or at the end of 2015.

Management Contracts

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during 2015.

Permitted Indemnity Provision

Subject to the applicable laws, every director of the Group's companies shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective Articles of Associations. Such provisions were in force during the course of the financial year ended 31 December 2015 and remained in force as of the date of this report.

Auditor

The financial statements for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers, which retires and, being eligible, offers itself for re-appointment at the 2016 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2016 AGM.

All references above to other sections, reports or notes in this Annual Report form part of this report.

Approved by the Board on 2 March 2016

CHOW Chung Kong
Chairman