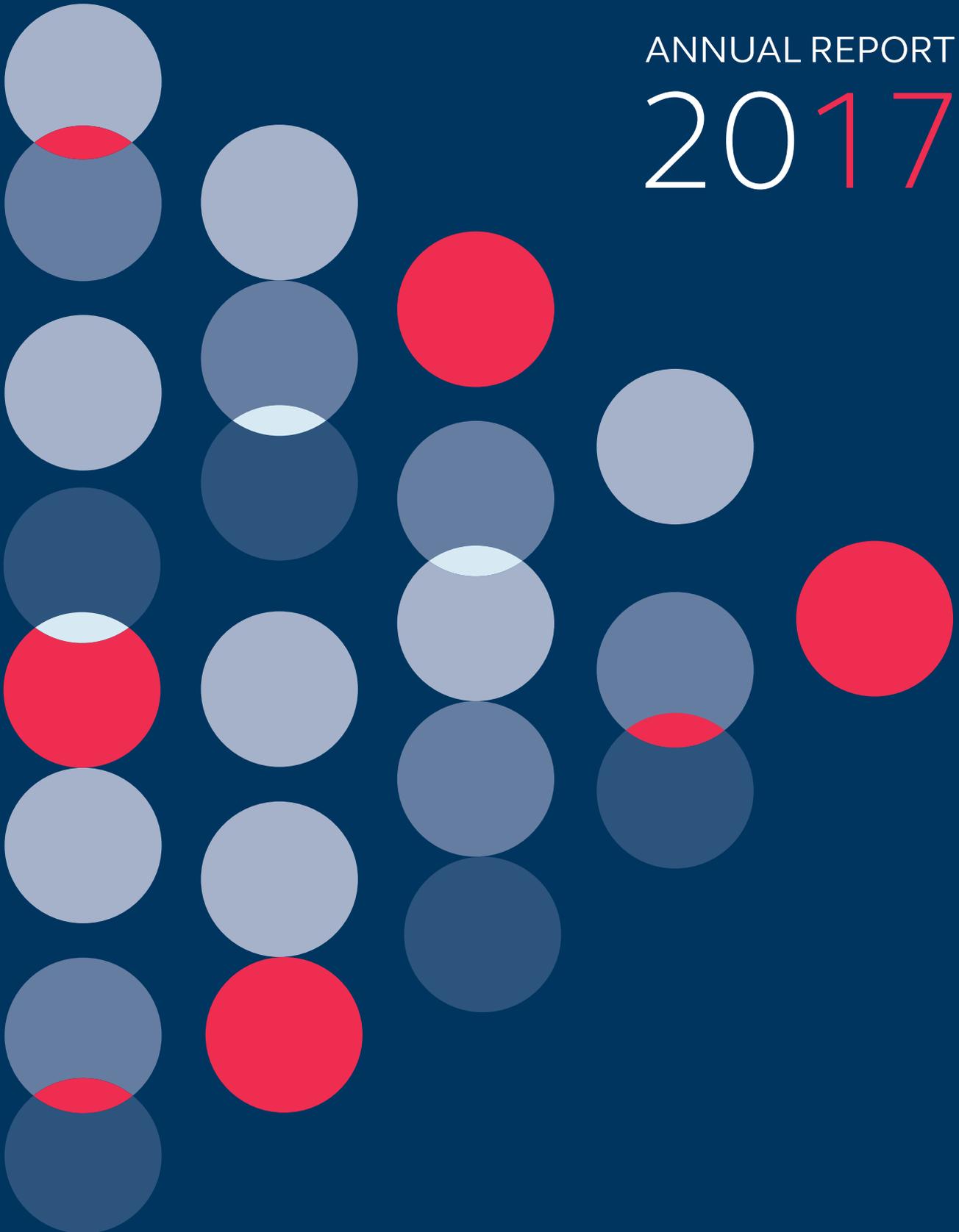


Stock Code: 388

HKEX
香港交易所

ANNUAL REPORT
2017



HKEX –
the pioneer
in connecting
China with
other markets

As Hong Kong strides ahead after its first 20 years of reunification with Mainland China, we are more determined than ever to contribute to its further development as a leading international financial centre.

We are also extremely confident as we look to the future and the opportunities we see on the horizon.

We are at the centre of a new era of growth. By connecting markets and connecting people, we made a major breakthrough with mutual market access.

Connecting China with the World.
Reshaping the Global Market Landscape.



CONTENTS

(Financial figures in this Annual Report are expressed in HKD unless otherwise stated)

	Overview	
2	Highlights of the Year	
4	Financial Highlights	
5	Chairman's Statement	
9	Chief Executive's Review	
	Organisation	
14	Board and Committees	
16	Board of Directors and Senior Management	
29	Management Committee	
	Management Discussion and Analysis	
30	Business Review	
54	Financial Review	
59	10-Year Financial Statistics	
	Governance	
60	Corporate Governance Report	
74	Nomination Committee Report	
77	Audit Committee Report	
80	Risk Committee Report	
83	Remuneration Committee Report	
90	Environmental, Social and Governance Committee Report	
92	Directors' Report	
	Financials	
98	Auditor's Report	
104	Consolidated Income Statement	
105	Consolidated Statement of Comprehensive Income	
106	Consolidated Statement of Financial Position	
107	Consolidated Statement of Changes in Equity	
108	Consolidated Statement of Cash Flows	
109	Notes to the Consolidated Financial Statements	
	Others	
189	Shareholder Information	
191	Glossary	

HIGHLIGHTS OF THE YEAR

債券通
BOND CONNECT

3 July
Launched
Bond Connect



15 March
Premier Li Keqiang announced a bond market trading link would be set up between Mainland China and Hong Kong

7 June
Established Bond Connect Company Limited, a joint venture with CFETS

Corporate News



8-12 May
Hosted fifth LME Asia Week in Hong Kong



27 October
Held event marking end of floor trading

8 June
Hosted fourth RMB FIC Conference

6 November
Launched new HKEX Market website

7 September
LME announced Strategic Pathway

29 November
Opened office in Singapore

Regulation



16 June

Published New Board Concept Paper and GEM consultation paper



15 September

Issued joint conclusions from listing regulation consultation with SFC

20 January

Issued joint statement on GEM IPOs with SFC

22 September

Issued proposed rule changes relating to capital raisings by listed issuers and delisting framework

17 February

Announced revised approach for enforcement of Listing Rules and published revised enforcement policy statement

15 December

Issued consultation conclusions from New Board Concept Paper and GEM consultation paper

Products and Services



10 July

Introduced CNH and USD Gold Futures
LME introduced LMEprecious products

20 March

Introduced RMB Currency Options

21 March

OTC Clear launched client clearing

13 November

Introduced Iron Ore Futures

Market Operations

16 January

Implemented Volatility Control Mechanism in derivatives market

1 June

Implemented new position limits for Stock Options

24 July

Launched second phase of Closing Auction Session in securities market

6 November

Extended derivatives market's after-hours trading to 1 am

30 November

Published information paper on investor identification model for Northbound Trading through Stock Connect programmes

FINANCIAL HIGHLIGHTS

	2017 \$m	2016 \$m	Change
Revenue and other income	13,180	11,116	19%
Operating expenses	3,566	3,455	3%
EBITDA ¹	9,614	7,661	25%
Profit attributable to shareholders	7,404	5,769	28%
Basic earnings per share	\$6.03	\$4.76	27%
Interim dividend per share	\$2.55	\$2.21	15%
Final dividend per share	\$2.85	\$2.04	40%
	\$5.40	\$4.25	27%
Dividend payout ratio	90%	90%	-

Key messages

Profit attributable to shareholders for 2017 was 28 per cent higher than prior year reflecting the combined effect of revenue growth and continuing cost discipline. Key highlights for the year include:

- Revenue and other income for 2017 was 19 per cent higher than 2016. This growth included:
 - Higher trading and clearing fees driven by a 32 per cent increase in Cash Market turnover, partly offset by lower HKFE volumes and LME revenue;
 - An increase in Stock Exchange listing fees from growth in the number of newly listed securities; and
 - A significant increase in net investment income from both Corporate and Margin Funds.
- Operating expenses grew by 3 per cent against the prior year. While continuing to invest in key strategic initiatives, the Group has maintained a disciplined approach to cost management.
- The EBITDA margin of 73 per cent was 4 per cent higher than 2016, driven by the significant growth in revenue and other income as compared to the prior year.

	2017	2016	Change
KEY MARKET STATISTICS			
ADT of equity products traded on the Stock Exchange (\$bn)	71.2	50.2	42%
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	17.0	16.7	2%
ADT traded on the Stock Exchange (\$bn)	88.2	66.9	32%
ADV of derivatives contracts traded on the Futures Exchange	441,320	463,841	(5%)
ADV of stock options contracts traded on the Stock Exchange	428,499	297,903	44%
ADV of metals contracts traded on the LME (lots)	624,480	618,627	1%

¹ For the purposes of this Annual Report, EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group's share of results of the joint ventures.

CHAIRMAN'S STATEMENT



A strong economic upswing across the world had set a favourable backdrop that helped boost investment sentiment in capital markets. In Hong Kong, we witnessed a bullish securities market especially in the fourth quarter of 2017 when the average daily turnover reached \$107.3 billion. Building on the mutual market access strategy, HKEX has continued to benefit from increased capital inflows through Stock Connect, and is making great strides towards its objective of becoming the global exchange of choice across asset classes. We are pleased to see that a number of new records have been set on HKEX's trading platforms.

Our Performance

The securities market in Hong Kong recorded a strong performance in 2017 amid robust market momentum. Trading in our derivatives market was also strong, in particular both RMB Currency Futures and Stock Options recorded remarkable growth in trading volume. In London, metals trading volumes on the LME stabilised in 2017 as activity remained constrained by commodities market conditions and other factors.

Market highlights in 2017

- The number of new listings hit an all-time high of 174 companies.
- Securities market turnover was over \$100 billion for 30 consecutive trading days from 6 November to 15 December, the longest such period since March 2015.
- The market capitalisation of the securities market reached a new record-high of \$34 trillion on the last trading day of 2017.
- Northbound and Southbound Trading through Stock Connect grew significantly from 2016, increasing by 194 per cent and 170 per cent respectively.
- Turnover of securitised derivatives (DWs and CBCs) was the world's highest for the 11th consecutive year.
- Turnover of RMB Currency Futures – USD/CNH Futures reached a new record-high of 732,569 contracts.
- Turnover of Stock Options also set a new record high, rising to 105,839,179 contracts.

Given the strong turnover in the Hong Kong securities market and significant growth in our investment income, the Group's total revenue and other income rose, reaching \$13.2 billion for the year ended 31 December 2017, up 19 per cent from 2016, while the profit attributable to shareholders was \$7,404 million, up 28 per cent.

Dividend

The Board recommends a final dividend of \$2.85 per share, which together with the interim dividend of \$2.55 paid in September 2017, results in a full-year dividend of \$5.40 per share.

Strategic Update

In 2017, we made notable achievements in driving forward our strategic plan to build HKEX into a leading global multi-asset class exchange connecting China and the world. The launch of Bond Connect in July marked another important milestone under our mutual market access programme by providing international investors with direct, convenient access to the China Interbank Bond Market via Hong Kong. After implementing Realtime Delivery versus Payment money settlement for the Northbound related transactions in November, we continue to work with regulators and our Mainland counterparts to further enhance the Connect programme, including enabling holiday trading and broadening the programme to cover other asset classes such as ETFs.

On the product front, we focused on deepening our capabilities in the fixed income, currency and commodities markets to provide more comprehensive tools for trading, asset allocation and risk management. We rolled out the world's first USD/CNH dual currency Gold Futures contract with physical settlement in Hong Kong in July, alongside LME Gold and Silver Futures as part of LMEprecious in London. We also launched HKEX's first ferrous metal product, Iron Ore Futures, in November, complementing its precious and base metals products. Following the introduction of our first RMB Currency Options in March, we announced plans to offer additional long-dated contract months for products in HKEX's derivatives market in 2018. All these product initiatives, along with our Connect programme, have laid a solid foundation for Hong Kong to become China's global wealth management centre and the offshore hub for RMB internationalisation.

Both our Stock Exchange and the LME made important progress in 2017 through active market engagement and gaining industry support for plans to enhance their competitiveness and accelerate growth, in response to the evolving market environment. In Hong Kong, drawing on the market feedback to the New Board Concept Paper published in June, the Exchange issued the conclusions in December setting out its proposed way forward to expand Hong Kong's listing regime to facilitate listings of companies from emerging and innovative sectors, subject to appropriate safeguards. The consultation paper on related proposed Listing Rule amendments was subsequently published in February 2018. In London, following a comprehensive period of engagement with the market, the LME announced its Strategic Pathway in September, aiming to protect the physical market, ensure fairness, increase user choice and maximise trading efficiency. As part of its delivery programme announced in October, the LME has reduced the short and medium-dated carry fees. The LME further issued a market consultation in November 2017 on the introduction of an OTC booking fee for financial participants and enhanced trading regulations in support of market fairness. The consultation decision notice will be published in due course.

Details of the Group's performance and initiatives undertaken in 2017 are set out in the Chief Executive's Review and Business Review sections of this Annual Report.

Quality Market

Throughout 2017, we continued working closely with regulators and stakeholders to uphold the efficiency and quality of our Hong Kong market. Following the implementation of the Volatility Control Mechanism in the derivatives market in January, we introduced a revised stock option position limit model in June, Phase 2 of the Closing Auction Session in the securities market in July and Phase 1 of the after-hours derivatives trading (T+1 session) enhancements in November. The launch of client clearing by OTC Clear in March enables financial institutions in the region that are not OTC Clear Members to enjoy the capital efficiencies of central clearing. Further, the Orion Trading Platform – Securities Market was launched in February 2018 to support new business and meet increased capacity requirements over the next decade.

The joint consultation conclusions published together with the SFC in September paved the way for further strengthening of the Exchange's decision-making and governance structure for listing regulation in Hong Kong. During the year, the Exchange also launched a number of market consultations on listing matters, including GEM reform, capital raisings, delisting and the Corporate Governance Code. The conclusions on the GEM reform were published in December, whilst the conclusions on other areas will be published after completion of a thorough analysis of market feedback.

Environmental, Social and Governance Performance

HKEX is committed to high standards of corporate governance as well as social and environmental stewardship, as they help achieve sustainable success for the Group and our stakeholders. In 2017, we engaged an independent external consultant to evaluate the performance of the boards of HKEX and of its two subsidiaries in the UK. We are pleased that the evaluation recognised many strengths of the HKEX Board and concluded that it operates effectively and performs well in its governance of HKEX. The evaluation also concluded that the performance of the LME Board and the LME Clear Board was in compliance with the applicable laws and governance codes and is largely well aligned with international best practices. Underscoring our commitments as a responsible corporate citizen, we are working to establish a charitable foundation to serve as the single channel and point of focus for all of the Group's corporate giving. This will enable us to better fulfil our corporate social responsibilities and to have a more positive and influential impact on our communities.

Details of our efforts in promoting sustainability in our marketplace, workplace, community and environment are set out in our 2017 CSR Report which will be available on the HKEX Group website together with this Annual Report.



Outlook

While the market generally expects that the global economic growth will extend into 2018, stock markets across the world saw increased volatility in the first two months of the year. Geopolitical risks, the fiscal and monetary policies of the US and Europe, a possible rise in trade protection sentiment and potential changes in global capital flows caused by the US tax reform continue to pose challenges to the global financial markets. The world is also moving into a new era of new economy businesses and technology innovations, and the financial markets are facing a landscape filled with both opportunities and challenges. In positioning the Group to continue its success in this new environment, we will focus on completing the listing regime reform, further enhancing cross-border market connectivity, making our derivatives market more competitive and strengthening our risk management and market structure to capture new growth opportunities.

Acknowledgements

My term as the Chairman of HKEX will come to an end after conclusion of the 2018 AGM. It has been a privilege to serve on the Board and have the opportunity to work alongside my fellow Board members and the Group's management over the past six years. I have been most pleased to see the achievement of a number of important milestones and strategic initiatives, including the acquisition of the LME, the implementation of the Connect programme, the launch of the listing regime reform and the renewal of our technology platforms. HKEX has been transformed from a local exchange into an international exchange of multi-asset classes. They provide a solid foundation and unprecedented opportunities for long-term sustainable growth. We have a strong board in place to lead the Group forward, through good times and bad.

On behalf of the Board, I would like to express our gratitude to Tim Freshwater, who will also retire after the conclusion of the 2018 AGM, for his valuable contribution and advice during his second six-year term on the Board.

Finally, I would like to thank our Shareholders and other stakeholders for their steadfast support to me and to the Group. I am very proud of our employees, and am grateful for their invaluable contribution to the Group's sustainable success; they are the heroes of HKEX.

CHOW Chung Kong

Chairman

Hong Kong, 28 February 2018



2017 was a breakthrough year for the Company. Various new records in the securities and derivatives markets were set, and many of our key initiatives set out in the Strategic Plan 2016-2018 were achieved. We decided to implement the biggest listing regime reform in 25 years after extensive market engagement. Mutual market access continued to be a key theme of our business, and the successful launch of Bond Connect has taken the competitiveness of our market to a whole new level beyond equities. In addition, various new products across different asset classes were launched to broaden our market and meet investor demand across the globe. Our efforts in pushing forward reforms and constantly enhancing our market structures in Hong Kong and London have laid a strong foundation for us to further entrench our value propositions as we enter the final year of our Strategic Plan 2016-2018.

Active and Vibrant Market Performance

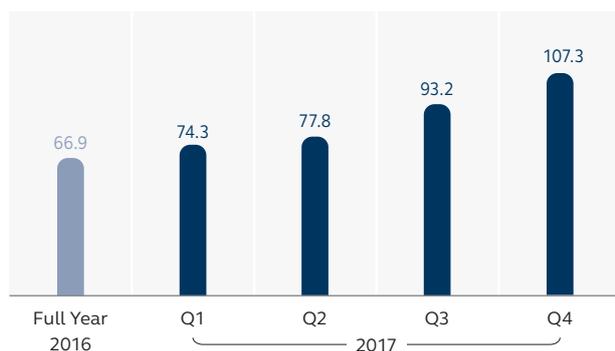
Our primary market performed competitively in 2017. HKEX ranked third globally in IPOs with a record high 174¹ companies listing and raising \$128.5 billion in total. Our existing listed companies also raised \$452.9 billion, an increase of 54 per cent over 2016. Total funds raised reached \$581.4 billion.

In the secondary market, market momentum reached its peak during the fourth quarter. The full-year 2017 ADT for the Cash Market reached \$88.2 billion, a 32 per cent increase compared to 2016. Thirty consecutive days for ADT above \$100 billion were recorded between November and December 2017. The market capitalisation of the securities market reached \$33,999 billion on the last trading day of the year, exceeding the previous record of \$31,550 billion set on 26 May 2015.

Trading in the derivatives market was strong, largely driven by stock options and index options, with a number of new records set in 2017. Total futures and options turnover reached 214,845,348 contracts, an increase of 14 per cent from 2016. Total options turnover reached record highs of 137,785,021 contracts, an increase of 32 per cent from 2016. Open interest at year-end was 11,155,770 contracts, up from 9,296,110 at the previous year-end.

¹ Includes transfers of listing from GEM to the Main Board

Average Daily Turnover on Cash Market



● \$bn

Average Daily Number of Contracts Traded on Derivatives Market



● Options Contracts ('000) ● Futures Contracts ('000)

Business Development Review

Enhancing the Competitiveness of Our Core Businesses

In the primary market, a number of consultations were launched in 2017. The joint consultation with the SFC on proposed enhancements to the Exchange's decision-making and governance structure for listing regulation and the New Board Concept Paper were concluded in September and December respectively. In relation to the joint consultation, after carefully considering market feedback, the SFC and the Exchange concluded and clarified the respective roles of the SFC and the Exchange under the enhanced structure. The Exchange will remain the primary frontline regulator for listed issuers and the role of the Listing Committee under the Listing Rules will remain largely unchanged. In relation to the New Board Concept Paper, a major breakthrough was made when the market reached a clear consensus on broadening HKEX's listing regime to facilitate listings of companies from emerging and innovative sectors. Drawing on the feedback received and subsequent regulatory discussions with the SFC, we have proposed a way forward to expand the existing listing regime by introducing two new chapters to the Main Board Listing Rules to allow the listing of (i) Biotech companies which do not meet any of the financial eligibility requirements of the Main Board; and (ii) issuers from emerging and innovative sectors that have weighted voting rights structures, subject to additional disclosure and safeguards. With these reforms, we will put Hong Kong in a position to capture the next generation of opportunities and ensure our market's long-term prosperity while safeguarding our market's integrity. Formal consultation on the proposed Listing Rule amendments was launched in February 2018.

In the secondary market, we continued to implement major market microstructure upgrades for the securities and derivatives markets in 2017 to enhance our overall competitiveness. These include the introduction of Volatility Control Mechanism in the derivatives market and Phase 2 of the Closing Auction Session to further facilitate trade execution at closing prices. In response to market feedback, we introduced an enhanced stock option position limits regime in June 2017, effectively tripling the maximum position limit for stock options and expanding the scope of activities for hedging exemptions. Consultation on the proposed after-hours trading enhancements was concluded in August 2017, following which the after-hours trading of index futures was extended from 11:45 pm to 1:00 am in November 2017.

Reaching New Milestones for Mutual Market Access

Stock Connect

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect continued to gain wider market acceptance in 2017. Trading volumes in both directions on Stock Connect rose significantly with total Northbound turnover reached RMB2,266 billion, an increase of 194 per cent and Southbound turnover reached \$2,259 billion, an increase of 170 per cent from 2016. In particular, Southbound ADT almost trebled to \$9.8 billion, accounting for more than 5 per cent of headline ADT. As of the end of 2017, net money inflow into the Mainland and into Hong Kong reached RMB348 billion and \$726 billion respectively since launch.

The decision by MSCI in June 2017 to include China A Shares in its Emerging Markets Index and All Country World Index in 2018 was an acknowledgement of the important role of Stock Connect in the opening up of the Mainland stock markets. International investors have also shown a growing enthusiasm for China A Shares and the use of Stock Connect. We will continue to work with regulators and Mainland counterparts on enrichment of the variety of traded products, including ETF Connect and further enhancements to the operating model such as holiday trading arrangements and an investor identification regime for Northbound Trading.

Bond Connect

The successful launch of Bond Connect Northbound trading on 3 July 2017 marked another important milestone for our mutual market access programme. Bond Connect is a significant breakthrough in the opening of the Mainland bond market, allowing a broader group of international investors to access the China Interbank Bond Market (CIBM) via Hong Kong. BCCL, a joint venture between CFETS and HKEX, was set up to support Bond Connect-related trading services, investor education and other services. Since launch, the overall foreign investor holdings in the CIBM domestic debt securities have reached RMB1,147 billion, an increase of 36 per cent from 30 June 2017.

Expanding Our FIC Product Offerings

In 2017, we continued our efforts to provide a full range of RMB-related derivatives to help entrench Hong Kong as a gateway for cross-border fund flows and a risk management centre in connection with the internationalisation of the RMB. Our USD/CNH Currency Futures contract continued to see notable growth in liquidity with total turnover of 732,569 contracts, representing a 36 per cent growth compared to 2016. New RMB Currency Options were launched on 20 March 2017 to complement our existing currency futures, enabling investors to execute more trading strategies. 5-Year China Ministry of Finance Treasury Bond Futures were launched during April – December 2017 as a pilot scheme for foreign investors to hedge against interest rate volatility of RMB assets. Subject to regulatory development, HKEX will consider launching new RMB interest rate products that are complementary to Bond Connect at an appropriate time.



OTC Clear was awarded the “Best OTC Clearing and Risk Management System Implementation” by the Asian Banker and “Clearing House of the Year” by Asia Risk in 2017 as the first international clearing house to provide a clearing service for USD/CNH cross currency swaps. A total of US\$38.7 billion notional was cleared by OTC Clear in 2017, up eight-fold from 2016. Going forward, we will further expand OTC Clear’s offering to cover clearing for wider types of RMB-based exchange rate products.

Laying the Groundwork for Our Commodities Business

Impacted by global macroeconomic conditions, the trading volumes of LME metal contracts remained largely at the same level as 2016. ADV of contracts traded on the LME was 624,480 lots, 1 per cent higher than 2016. Declines in volumes of key products including LME Aluminium and Copper were offset by increase in LME Zinc, Nickel, Lead and Ferrous volumes, as well as the launch of LMEprecious contracts. Year-end LME futures market open interest was 2.3 million lots, up 2 per cent year-on-year.

In September 2017, the LME published the “LME Strategic Pathway” to set out a vision for supporting the physical market and stimulating volumes, following an extensive and comprehensive period of market engagement. Immediate actions included the implementation of fee reductions on short and medium-dated carries as well as the proposed introduction of a financial OTC booking fee.

Expansion in our product offerings continued to be one of the key areas of our commodity strategy in 2017. In July 2017, we launched the LMEprecious and HKEX’s first pair of deliverable CNH and USD Gold Futures. In addition, Iron Ore Futures were introduced in November 2017 as our first ferrous metal product in Hong Kong. These new contracts complemented our existing product offerings and provided investors with new tools for trading, hedging and asset allocation.

As part of our commodity strategy, we continued our preparations for Qianhai Mercantile Exchange in Shenzhen. The commodity trading platform will focus on providing physical trading and related enhanced services, with a long term goal of serving China’s real economy and developing representative bulk commodities price benchmarks for Mainland China.

Strengthening Platform and Infrastructure Capabilities

We continued to undertake various projects in Hong Kong and London with a view to upgrading and transforming our key systems for the securities and derivatives markets. Major preparation work included the launch of the new trading platform for the securities market, upgrades of the trading and clearing platforms for the derivatives market, as well as the upgrades of the LMEselect electronic trading engine and the LMEsmart matching platform. The planning process for the Next Generation Clearing Platform in areas of data warehouse, risk engine and client portal was completed during the year for delivery over the next two years.

Strategic Outlook – Final Chapter of Strategic Plan 2016-2018

2017 marked the end of the Hong Kong markets floor-trading, open since 1986, as we announced the redevelopment of the Trading Hall and Exchange Exhibition Hall on 27 October 2017. The new HKEX Connect Hall was recently reopened on 20 February, symbolising the beginning of a brand new era for Hong Kong’s financial markets.

Looking forward, 2018 is the critical conclusion year of our Strategic Plan 2016-2018. Building on the solid groundwork and the significant progress already made, we strive to make our IPO market more relevant, our equity market more connected, and our derivatives market more competitive. Key areas of focus include implementing listing reform, extension of Stock Connect by including ETFs and other assets, building of new product ecosystems and the launch of derivative products with Mainland underlyings, as well as the launch of new trading systems in the securities and derivatives markets. We are confident that these initiatives will further boost the competitiveness of our market at a time of vast opportunity in the new global economy.

Appreciation

The achievements in 2017 are the result of foresight and hard work over many years. I would like to express my greatest appreciation to the HKEX Group staff who have not only maintained smooth operation of our markets in 2017 but also made great progress and breakthroughs under our Strategic Plan 2016-2018. I would also like to take this opportunity to thank the senior executives who left us in 2017, in particular Bill Chow (Former Chief Technology Officer & Co-head of Information Technology Division), who retired in April after 24 years of service, and Paul Kennedy (Former Group Chief Financial Officer), who remains as a Senior Advisor, for their contributions to the HKEX Group.

I must also thank our regulators in Hong Kong and other markets, especially the SFC, the Hong Kong Monetary Authority, market participants and other stakeholders for their continuous support on our various initiatives.

Last but not least, I would like to thank my fellow members of the Board for their tremendous trust and guidance. On behalf of the Company, I also would like to express our sincere gratitude to our Chairman, the Honourable Chow Chung Kong, who will step down in April 2018. During his six years of service on the Board, he has upheld shareholder value and played a pivotal role in steering HKEX to achieving our many strategic milestones, including the acquisition of the LME, mutual market access schemes, as well as the listing regime reform. I look forward to receiving his continued counsel and support for the further development of HKEX.

I am confident that with our efforts and persistence, we will continue to make the most of the compelling opportunities ahead and cement Hong Kong's unique role in connecting China and the world.

LI Xiaojia, Charles

Director and Chief Executive

Hong Kong, 28 February 2018

BOARD AND COMMITTEES



From left:

Hugo Leung, Apurv Bagri, Margaret Leung, Rafael Gil-Tienda, Stephen Yiu, Timothy Freshwater and Charles Li

Board

INEDs

CHOW Chung Kong * GBS, JP (Chairman)

Apurv BAGRI

CHAN Tze Ching, Ignatius BBS, JP

CHEAH Cheng Hye ¹

Timothy George FRESHWATER *

FUNG Yuen Mei, Anita * ² BBS, JP

Rafael GIL-TIENDA * ²

John Barrie HARRISON * ³

HU Zulu, Fred

KWOK Chi Piu, Bill ³ JP

LEE Kwan Ho, Vincent Marshall ³ BBS

LEUNG KO May Yee, Margaret * ² SBS, JP

LEUNG Pak Hon, Hugo ¹

John Mackay McCulloch WILLIAMSON

YIU Kin Wah, Stephen * ⁴

Executive Director

LI Xiaojia, Charles (Chief Executive)

Group Company Secretary

MAU Kam Shing, Joseph

Committees

Audit Committee

YIU Kin Wah, Stephen ⁵ (Chairman)

John Barrie HARRISON ³ (ex-Chairman)

CHAN Tze Ching, Ignatius

FUNG Yuen Mei, Anita ⁶

KWOK Chi Piu, Bill ³

LEUNG Pak Hon, Hugo ⁵

John Mackay McCulloch WILLIAMSON

Environmental, Social and Governance Committee

CHOW Chung Kong (Chairman)

Apurv BAGRI ⁷

Rafael GIL-TIENDA ⁵

LEE Kwan Ho, Vincent Marshall ³

LEUNG Pak Hon, Hugo ⁵

LI Xiaojia, Charles

John Mackay McCulloch WILLIAMSON

Executive Committee

CHOW Chung Kong (Chairman)

CHEAH Cheng Hye ⁵

KWOK Chi Piu, Bill ³

LEE Kwan Ho, Vincent Marshall ³

LEUNG KO May Yee, Margaret ⁶

LEUNG Pak Hon, Hugo ⁵

LI Xiaojia, Charles

* Government Appointed Director

** Appointed by the Financial Secretary

△ Established under Section 65 of the SFO

¹ Elected as Director from 26 April 2017 until the conclusion of the AGM to be held in 2020

² Re-appointed as Director from 26 April 2017 until the conclusion of the AGM to be held in 2019

³ Retired on 26 April 2017

⁴ Appointed as Director from 26 April 2017 until the conclusion of the AGM to be held in 2019

⁵ Appointment effective 27 April 2017

⁶ Re-appointment effective 27 April 2017

⁷ Appointment ceased effective 27 April 2017

⁸ Member by virtue of being HKEX's Chairman



From left:
Chow Chung Kong, Chan Tze Ching, Anita Fung, Cheah Cheng Hye, John Williamson and Fred Hu

Investment Advisory Committee

Timothy George FRESHWATER (Chairman)
CHEAH Cheng Hye ⁵
FUNG Yuen Mei, Anita ⁶
HU Zulu, Fred
LEE Kwan Ho, Vincent Marshall ³

Nomination Committee

CHOW Chung Kong (Chairman)
Apurv BAGRI ⁵
CHAN Tze Ching, Ignatius
CHEAH Cheng Hye ⁵
Timothy George FRESHWATER
HU Zulu, Fred ⁷
John Mackay McCulloch WILLIAMSON ⁷

Panel Member Nomination Committee

CHAN Tze Ching, Ignatius (Chairman)
CHEAH Cheng Hye ⁵
FUNG Yuen Mei, Anita ⁶
Rafael GIL-TIENDA ⁶
KWOK Chi Piu, Bill ³
LEE Kwan Ho, Vincent Marshall ³
LEUNG Pak Hon, Hugo ⁵

Project Oversight Committee

FUNG Yuen Mei, Anita ⁶ (Chairman)
Apurv BAGRI
Rafael GIL-TIENDA ⁶
HU Zulu, Fred
KWOK Chi Piu, Bill ³
John Mackay McCulloch WILLIAMSON ⁵

⁹ Member by virtue of being Executive Director (Monetary Management) of the Hong Kong Monetary Authority

¹⁰ Appointment by virtue of being the Chairman of Hong Kong Interbank Clearing Limited ceased effective 1 January 2018

Remuneration Committee

CHOW Chung Kong (Chairman)
CHEAH Cheng Hye ⁵
Timothy George FRESHWATER
HU Zulu, Fred ⁵
KWOK Chi Piu, Bill ³
LEE Kwan Ho, Vincent Marshall ³
John Mackay McCulloch WILLIAMSON

Risk Committee

CHOW Chung Kong (Chairman)
CHAN Tze Ching, Ignatius
Rafael GIL-TIENDA ⁶
John Barrie HARRISON ³
LEUNG KO May Yee, Margaret ⁶
YIU Kin Wah, Stephen ⁵

Risk Management Committee (statutory) ^Δ

CHOW Chung Kong ⁸ (Chairman)
CHAN Tze Ching, Ignatius
CHENG Fat, Henry ^{** 9}
CHENG Siu Hong, Raymond ^{** 10}
GAO Yingxin ^{** 11}
LAM Yuk Kun, Lawrence ^{** 12}
LEUNG KO May Yee, Margaret ⁶
LUI Kei Kwong, Keith ^{** 13}
Barbara SHIU ^{** 12}

¹¹ Appointment by virtue of being the Chairman of Hong Kong Interbank Clearing Limited effective 1 January 2018

¹² Re-appointment effective 1 July 2017

¹³ Member by virtue of being Executive Director (Supervision of Markets) of the SFC

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors



CHOW Chung Kong
GBS, JP

Chairman, INED
Aged 67

Director since 23 April 2012
Chairman since 27 April 2012
Term of office: 28 April 2016
(re-appointed) to 2018 AGM

Other positions held with the Group

HKEX – chairman of Environmental, Social and Governance Committee, Executive Committee, Nomination Committee, Remuneration Committee, Risk Committee and Risk Management Committee (statutory)

SEHK – chairman of Listing Appeals Committee and member of Listing Nominating Committee

LME – independent non-executive director and member of Nomination Committee

LMEH – independent non-executive director

Other major offices

AIA Group Limited * – independent non-executive director (2010~)

Ernst & Young Global Limited – independent non-executive representative of global governance council (2016~)

The Hong Kong Jockey Club – steward (2011~)

World Federation of Exchanges – director (2012~)

Past offices

Brambles Industries plc – chief executive (2001-2003)

GKN plc – chief executive (1997-2001)

MTR Corporation Limited * – chief executive officer (2003-2011)

Public service ¹

Advisory Committee on Admission of Quality Migrants and Professionals
– chairman (2016~)

Council of the Queen Elizabeth Foundation for the Mentally Handicapped
– member (2015~)

Executive Council of the HKSAR – non-official member (2012~)

Financial Leaders Forum – member (2017~) ²

Independent Commission Against Corruption – chairman of Advisory Committee on Corruption (2013~)

Qualifications

Chartered Engineer (The Institution of Chemical Engineers, UK)

Bachelor of Science (Chemical Engineering) (University of Wisconsin, US)

Master of Science (Chemical Engineering) (University of California, US)

Master of Business Administration (The Chinese University of Hong Kong)

Honorary Doctor of Engineering (The University of Bath, UK)

Honorary Fellow (The Chinese University of Hong Kong, The Hong Kong Institution of Engineers, and The Institution of Engineering and Technology)

Fellow (City & Guilds of London Institute, Hong Kong Academy of Engineering Sciences, The Chartered Institute of Logistics and Transport in Hong Kong, The Institution of Chemical Engineers, and The Royal Academy of Engineering)

* Listed on the Stock Exchange

¹ Ceased to be a non-official member and convener of Working Group on Transportation of the Economic Development Commission effective 1 July 2017

² Appointment effective 18 August 2017



LI Xiaojia, Charles

Executive Director,
Chief Executive
Aged 56

Joined on 16 October 2009

Chief Executive since
16 January 2010

Ex-officio member of the Board

Term of office: renewed up to
15 October 2018

Other positions held with the Group

HKEX – member of Environmental, Social and Governance Committee, and Executive Committee

SEHK – member of Listing Committee and GEM Listing Committee

HKCC, HKFE, HKSCC, SEHK and SEOCH – chairman

LME – member of Nomination Committee

HKEX's certain subsidiaries – director

Other major offices

China Entrepreneurs Forum – director (2005~)

Past offices

Brown & Wood, New York – associate (1993-1994)

Davis Polk & Wardwell, New York – associate (1991-1993)

JP Morgan China – chairman (2003-2009)

Merrill Lynch China (1994-2003: president (1999-2003))

Public service

Consulting Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen – member (2012~)

Financial Experts Advisory Committee for Guangdong – advisory member (2017~)¹

Hong Kong Trade Development Council – member of Belt and Road Committee (2017~)²

The National Committee of the Chinese People's Political Consultative Conference – member (2018~)³

Qualifications

Bachelor of Arts (English Literature) (Xiamen University, China)

Master of Arts (Journalism) (University of Alabama, US)

Juris Doctor (Columbia University, US)

¹ Appointment effective 15 November 2017

² Appointment effective 15 October 2017

³ Appointment effective 24 January 2018



Apurv BAGRI

INED
Aged 58

Director since 28 April 2016
Term of office: 28 April 2016
(elected) to 2019 AGM

Other positions held with the Group

HKEX – member of Nomination Committee and Project Oversight Committee

Other major offices

International Wrought Copper Council – director (2013~)

Metdist Group of Companies, London – president and chief executive officer (1980~)

Public service

Crown Estate Paving Commission, England – commissioner (1996~)

Dubai Financial Services Authority – director (2004~)

Higher Education Funding Council for England – board member (2014~)

London Business School – chairman of governing body (2014~)

Royal Parks Board, England – chairman (2008~)

Qualifications

Bachelor of Science in Business Administration
(Cass Business School, City University London, UK)

Doctor of Science (Honoris Cause) (City University London, UK)



CHAN Tze Ching, Ignatius
BBS, JP

INED
Aged 61

Director since 23 April 2009
Term of office: 29 April 2015
(re-elected) to 2018 AGM

Other positions held with the Group

HKEX – chairman of Panel Member Nomination Committee, member of Audit Committee, Nomination Committee, Risk Committee and Risk Management Committee (statutory), and chairman of Clearing Consultative Panel

HKCC and **SEOC** – chairman of Participant Admission Appeals Committee

HKSCC – chairman of Disciplinary Appeals Committee and Participant Admission Appeals Committee

Other major offices

AFFIN Holdings Berhad (listed on Bursa Malaysia) – non-executive director (2013~)

CVC Capital Partners Limited – senior adviser (2010~)

Mongolian Mining Corporation* – independent non-executive director (2010~)

Rizal Commercial Banking Corporation (listed on the Philippine Stock Exchange) – non-executive director (2011~)

The Bank of East Asia Limited* – senior adviser (2009~)

Past offices

Bank of China (Hong Kong) Limited – deputy chief executive (2008)

Citigroup (1980-2007: Citigroup country officer for Hong Kong and head of corporate and investment banking business for Greater China (2005-2007), chief operating officer for Greater China (2004-2005), and Citigroup country officer for Taiwan (2003-2005))

Public service

Financial Reporting Council – member (2014~)

Hong Kong Tourism Board – member (2013~)

Investor Education Centre (established by the SFC) – member of Executive Committee (2012~)

Standing Commission on Civil Service Salaries and Conditions of Service – member (2014~)

Standing Committee on Judicial Salaries and Conditions of Service – member (2017~)

The Hong Kong Polytechnic University – chairman of council (2016~)

Qualifications

Bachelor of Business Administration and **Master of Business Administration** (University of Hawaii, US)

Certified Public Accountant (American Institute of Certified Public Accountants)

* Listed on the Stock Exchange



CHEAH Cheng Hye
Darjah Gemilang Pangkuan
Negeri

INED
Aged 63

Director since 26 April 2017
Term of office: 26 April 2017
(elected) to 2020 AGM

Other positions held with the Group

HKEX – member of Executive Committee, Investment Advisory Committee, Nomination Committee, Panel Member Nomination Committee and Remuneration Committee, and chairman of Cash Market Consultative Panel

SEHK – chairman of Disciplinary Appeals Committee and Exchange Participant Admission Appeals Committee

Other major offices

Value Partners Group* – chairman (2000~), executive director (1993~), and co-chief investment officer (2010~)

Past offices

Morgan Grenfell Group, Hong Kong – executive director, head of research and proprietary trader (1989-1993)

The Asian Wall Street Journal, Far Eastern Economic Review, Asiaweek, Hong Kong Standard and The Star (Malaysia) – editor and financial journalist (1971-1989)

Value Partners Group* – chief investment officer (1993-2010)

Public service

Financial Services Development Council – member (2015~) and member of New Business Committee (2013~)

Qualifications

Honorary Fellow (The Hong Kong University of Science and Technology)

* The holding company of the group, namely Value Partners Group Limited, has been listed on the Stock Exchange since 2007.



**Timothy George
FRESHWATER**

INED
Aged 73

Director since 23 April 2012
Term of office: 28 April 2016
(re-appointed) to 2018 AGM

Other positions held with the Group

HKEX – chairman of Investment Advisory Committee, and member of Nomination Committee and Remuneration Committee

SEHK – deputy chairman of Listing Appeals Committee and member of Listing Nominating Committee

Other major offices

Goldman Sachs (Asia) LLC – advisory director (2012~)

Savills plc (listed on the London Stock Exchange)
– independent non-executive director (2012~)

Swire Pacific Limited* – independent non-executive director (2008~)

Past offices

Aquarius Platinum Limited (formerly listed on the Australian Securities Exchange, Johannesburg Stock Exchange, and London Stock Exchange)
– independent non-executive director (2006-2016)

COSCO SHIPPING Ports Limited* – independent non-executive director (2005-2015)

Goldman Sachs (Asia) LLC (2001-2012: director (2001-2012), vice chairman (2005-2012), and chairman, corporate finance (2001-2004))

HKEX – INED (2000-2006)

Jardine Fleming (1996-2000: chairman (1999-2000))

Slaughter and May (1967-1996: head of worldwide corporate practice (1993-1996) and partner (1975-1996))

Public service

Financial Services Development Council – member and member of New Business Committee (2015~)

Qualifications

Solicitor (Hong Kong, and England & Wales)

Bachelor of Laws and Master of Arts (University of Cambridge, UK)

* Listed on the Stock Exchange



FUNG Yuen Mei, Anita
BBS, JP

INED
Aged 57

Director since 29 April 2015
Term of office: 26 April 2017
(re-appointed) to 2019 AGM

Other positions held with the Group

HKEX – chairman of Project Oversight Committee, member of Audit Committee, Investment Advisory Committee and Panel Member Nomination Committee, and chairman of Derivatives Market Consultative Panel

HKFE – chairman of Disciplinary Appeals Committee and Exchange Participant Admission Appeals Committee

Other major offices

China Construction Bank Corporation * – independent non-executive director (2016–)

Hang Lung Properties Limited * – independent non-executive director (2015–)

Past offices

Bank of Communications Co Ltd * – non-executive director (2010-2015)

HSBC Holdings plc * – group general manager (2008-2015)

The Hongkong and Shanghai Banking Corporation Limited (1996-2015: chief executive officer Hong Kong (2011-2015), head of global banking and markets, Asia Pacific (2010-2011), and treasurer and head of global markets, Asia Pacific (2005-2010))

Public service

Airport Authority Hong Kong – independent non-executive member of the board (2010–)

Hong Kong Housing Authority – non-official member (2012–)

Judicial Officers Recommendation Commission – member (2017–)

Museum Advisory Committee – member (2016–)

The Hong Kong Mortgage Corporation Limited – director (2016–)

West Kowloon Cultural District Authority – board member (2016–)

Qualifications

Bachelor of Social Science (The University of Hong Kong)

Master of Applied Finance (Macquarie University, Australia)

* Listed on the Stock Exchange



Rafael GIL-TIENDA

INED
Aged 65

Director since 29 April 2015
Term of office: 26 April 2017
(re-appointed) to 2019 AGM

Other positions held with the Group

HKEX – member of Environmental, Social and Governance Committee, Panel Member Nomination Committee, Project Oversight Committee and Risk Committee, and deputy chairman of Cash Market Consultative Panel and Clearing Consultative Panel

HKSCC and SEHK – member of Disciplinary Appeals Committee

OTC Clear – chairman, independent non-executive director and chairman of Risk Management Committee

Other major offices

JP Morgan Securities (Asia Pacific) Limited – independent non-executive director (2017–)¹

Past offices

Citibank (1977-1998: country manager of Citibank for Spain (1992-1998), for Malaysia (1988-1992) and for China (1984-1988))

Marsh & McLennan Companies – chairman of Asia Pacific region (2003-2011)

Oliver Wyman – chairman of Asia Pacific region (2012-2017)

Standard Chartered Bank (1998-2003: head of Asian wholesale banking business (2001-2003), and head of corporate and institutional banking business, Greater China (1998-2001))

Qualifications

Bachelor of Arts (Philosophy, Politics and Economics) (University of Oxford, UK)

Master of Business Administration (University of California, Berkeley, US)

¹ Appointment effective 22 December 2017

**HU Zulu, Fred**

INED
Aged 54

Director since
10 November 2014
Term of office: 29 April 2015
(elected) to 2018 AGM

Other positions held with the Group

HKEX – member of Investment Advisory Committee, Project Oversight Committee and Remuneration Committee

Other major offices

Dalian Wanda Commercial Properties Co Ltd (formerly listed on the Stock Exchange)
– independent non-executive director (2014~)

Hang Seng Bank Limited* – independent non-executive director (2011~)

Primavera Capital Limited – founder and chairman (2011~)

Tsinghua University – professor and co-director of National Center for Economic Research (1996~)

Yum China Holdings, Inc (listed on the New York Stock Exchange)
– non-executive chairman (2016~)

Past offices

Goldman Sachs Group Inc (1997-2010: chairman of Greater China (2008-2010) and managing director (2000-2010))

Great Wall Pan Asia Holdings Limited* – independent non-executive director (2010-2016)

International Monetary Fund, Washington DC – economist (1991-1996)

Qualifications

Master and Doctor of Philosophy (Economics) (Harvard University, US)

Master of Science (Engineering Science) (Tsinghua University, China)

* Listed on the Stock Exchange



LEUNG KO May Yee, Margaret
SBS, JP

INED
Aged 65

Director since 24 April 2013
Term of office: 26 April 2017
(re-appointed) to 2019 AGM

Other positions held with the Group

HKEX – member of Executive Committee, Risk Committee and Risk Management Committee (statutory)

SEHK – member of Listing Nominating Committee

Other major offices

Chong Hing Bank Limited* – deputy chairman, executive director and managing director (2014–)

First Pacific Company Limited* – independent non-executive director (2012–)

Li & Fung Limited* – independent non-executive director (2013–)

Sun Hung Kai Properties Limited* – independent non-executive director (2013–)

The Hong Kong Jockey Club – steward (2014–)

Yuexiu Financial Holdings Limited – vice-chairman, executive director and chief executive (2014–)

Past offices

China Construction Bank Corporation* – independent non-executive director (2013-2016)

Chong Hing Bank Limited* – chief executive (2016-2017)

Hang Seng Bank Limited* – vice-chairman and chief executive (2009-2012)

HSBC Group – global co-head, commercial banking (2003-2009)

HSBC Holdings plc* – group general manager (2005-2012)

QBE Insurance Group Limited (listed on the Australian Securities Exchange) – independent non-executive director (2013-2017)

Wells Fargo HSBC Trade Bank, NA – director (2007-2010)

Public service^{1,2}

Chinese People's Political Consultative Conference Guangzhou Committee – member (2008–)

The National Committee of the Chinese People's Political Consultative Conference – member (2013–)

Qualifications

Bachelor in Economics, Accounting and Business Administration
(The University of Hong Kong)

* Listed on the Stock Exchange

1 Ceased to be a member of the Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development effective 1 July 2017

2 Ceased to be a member of the Standing Committee of The Henan Provincial Committee of the Chinese People's Political Consultative Conference effective 22 January 2018



LEUNG Pak Hon, Hugo

INED
Aged 49

Director since 26 April 2017
Term of office: 26 April 2017
(elected) to 2020 AGM

Other positions held with the Group

HKEX – member of Audit Committee, Environmental, Social and Governance Committee, Executive Committee and Panel Member Nomination Committee, and deputy chairman of Derivatives Market Consultative Panel

HKFE – member of Disciplinary Appeals Committee

Other major offices

BNP Paribas – head of global markets, Hong Kong (2015–)

BNP Paribas Securities (Asia) Limited – chief executive officer (2015–)

Past offices

BNP Paribas – head of global equities and commodity derivatives, Greater China (2013-2015)

BNP Paribas Securities (Asia) Limited – deputy chief executive officer (2012-2015), head of equity syndicate and corporate equity (2010-2012), head of equity brokerage (2007-2010), head of Asia (ex-Greater China) Product (2004-2007), product sales head for Taiwan (2003-2004) and deputy managing director (2000-2003)

Qualifications

Bachelor of Arts (Economics) (Simon Fraser University, Canada)



**John Mackay McCulloch
WILLIAMSON**

INED
Aged 59

Director since 18 June 2008
Term of office: 29 April 2015
(re-elected) to 2018 AGM

Other positions held with the Group

HKEX – member of Audit Committee, Environmental, Social and Governance Committee, Project Oversight Committee and Remuneration Committee

Past offices

HKEX – member of Clearing Consultative Panel (2000-2007)

Morgan Stanley Dean Witter Asia Limited – managing director, and head of infrastructure and operational risk (1998-2007)

NatWest Investment Services, London – managing director (1992-1994)

NatWest Securities Asia Holdings Limited – chief operating officer (1994-1998)

SAIL Advisors Limited – chief executive officer (2011-2018) ¹

Search Investment Group Limited (2007-2018: senior managing director (2012-2018) ², chief financial officer (2007-2018) ², and managing director (2007-2011))

Qualifications

Bachelor of Arts (Accountancy & Computer Science) (Heriot-Watt University, UK)

Chartered Accountant (The Institute of Chartered Accountants of Scotland)

Fellow (Chartered Institute for Securities and Investment, UK)

Senior Fellow (Hong Kong Securities and Investment Institute)

¹ Appointment ceased effective 30 January 2018

² Appointment ceased effective 14 February 2018



YIU Kin Wah, Stephen

INED
Aged 57

Director since 26 April 2017
Term of office: 26 April 2017
(appointed) to 2019 AGM

Other positions held with the Group

HKEX – chairman of Audit Committee and member of Risk Committee

LME – independent non-executive director, and chairman of Audit and Risk Committee

LME Clear – independent non-executive director, chairman of Audit Committee, and member of Nomination Committee and Remuneration Committee

Other major offices

China Mobile Limited* – independent non-executive director (2017-)

Past offices

KPMG China (including Hong Kong) (1983-2015: chairman and chief executive officer (2011-2015), deputy chairman (2010-2011), audit partner-in-charge (2007-2010), and partner (1994-2015))

KPMG International – member of executive committee and board (2011-2015)

KPMG Asia Pacific – member of board (2011-2015) and executive committee (2009-2015)

Public service

Insurance Authority – non-executive director (2015-)

Qualifications

Professional Diploma in Accountancy (The Hong Kong Polytechnic University)

Master in Business Administration (Warwick University, UK)

Fellow (Association of Chartered Certified Accountants and HKICPA)

Associate (The Institute of Chartered Accountants in England & Wales)

* Listed on the Stock Exchange

Group Company Secretary



MAU Kam Shing, Joseph

Group Company Secretary and
Head of Secretarial Services
Aged 59

Joined in June 2000

Past offices

Hysan Development Company Limited – company secretary (1988-2000)

Qualifications

Master of Science (Business Administration) (The University of Bath, UK)

Master of Laws in Corporate and Financial Laws (The University of Hong Kong)

Associate (HKICPA)

Fellow (The Hong Kong Institute of Chartered Secretaries,
The Institute of Chartered Secretaries and Administrators,
Association of Chartered Certified Accountants, and
The Institute of Chartered Accountants in England & Wales)

Senior Management



**Matthew James
CHAMBERLAIN**

Chief Executive, LME
(effective 6 July 2017)
Aged 36

Joined in November 2012

Other positions held with the Group

LME – chairman of Executive Committee, vice chairman of Aluminium Committee, and member of Charity Committee, Enforcement Committee and User Committee

LME Clear – member of Executive Committee

Past offices

LME – chief operating officer (2016-2017), head of Business Development (2013-2016) and head of Strategy and Implementation (2012-2013)

UBS – head of European financial technology coverage (2010-2012)

Perella Weinberg Partners – founding member of the financial institutions coverage team (2006-2010)

Citibank – analyst of financial institutions group (2004-2006)

Qualifications

Master of Arts (Computer Sciences) (Trinity College, University of Cambridge, UK)



CHAU Yee Wah, Eva

Group Head of
Human Resources
Aged 55

Joined in August 2016

Past offices

Goldman Sachs (Asia) LLC (1996-2015 and 1993-1994:
co-head of human capital management, Asia Pacific (2014-2015) and
managing director (2007-2015); and executive director, investment banking (1993-1994))

JP Morgan – vice president, investment banking (1994-1996)

Qualifications

Diploma in Business Studies (The Hong Kong Polytechnic University)



**Adrian John Winston
FARNHAM**

Chief Executive, LME Clear
Aged 53

Joined in January 2013

Other positions held with the Group

LME – member of Charity Committee and Executive Committee

LME Clear – chairman of Executive Committee

Past offices

LME Clear – chief operating officer (2013-2015)

Turquoise Global Holdings Limited (2008-2012: chief executive officer (2010-2012) and chief operating officer (2008-2009))

Morgan Stanley – executive director of operations and several senior positions in audit, finance and operations (1994-2007)

Qualifications

Bachelor of Science (Management Sciences) (London School of Economics, UK)

Associate (The Institute of Chartered Accountants in England & Wales)



David GRAHAM

Chief Regulatory Officer
and Head of Listing
Aged 59

Joined in January 2013

Other positions held with the Group

LME – chairman of Enforcement Committee, and member of Arbitration Panel Committee, Audit and Risk Committee, and Special Committee

Past offices

Nomura – global head of legal and general counsel, wholesale division (2011-2013)

UBS (2004-2011: global/co-global general counsel (UBS Investment Bank) (2008-2011), group general counsel (Europe, Middle East and Africa) (2009-2011), and general counsel (Asia Pacific) (2004-2008))

Morgan Stanley – general counsel, Asia ex-Japan (2001-2004)

Freshfields Bruckhaus Deringer LLP (1982-2001: partner (1991-2001))

Public service

SFC – member of Advisory Committee (2013~)

Standing Committee on Company Law Reform – member (2013~)

Qualifications

Master of Arts (Jurisprudence) (University of Oxford, UK)

Solicitor (Hong Kong, and England & Wales)



John Patrick KILLIAN

Group Chief Financial Officer
Aged 50

Joined in December 2017

Past offices

Goldman Sachs (Hong Kong) – controller, Asia Pacific (2010-2017)

Deutsche Bank AG / Bankers Trust Co (1995-2010: several senior positions including head of finance, Asia and Asia Pacific global banking (2009-2010), and chief financial officer of North Asia (2008-2009) and of Japan (2005-2008))

Banco Santander – assistant controller (1993-1995)

Qualifications

Bachelor of Science (Accounting) (Marist College, US)

Executive Master of Business Administration (Columbia University, US)



Romnesh LAMBA

Co-head of Market Development
Aged 54

Joined in February 2010

Past offices

HKFE – chief executive (2013-2016)

SEHK – chief executive (2013-2016)

HKEX – Co-head of Global Markets (2013-2015) and Head of Market Development (2010-2013)

JP Morgan (Hong Kong) – senior adviser, Asia ex-Japan corporate finance and capital markets business (2008-2010)

Merrill Lynch (Asia Pacific) (2000-2008: managing director, investment banking, and chief operating officer of China origination business (2006-2008), and head of Asia energy and power team (2003-2006))

Indosuez WI Carr Securities (Hong Kong) – head of equity capital markets and director, investment banking (1997-2000)

Qualifications

Bachelor of Science in Economics (Magna Cum Laude) and
Master of Business Administration (Distinction)
(The Wharton School, University of Pennsylvania, US)



LEE Kwok Keung, Roger

Joint Chief Operating Officer
(effective 1 June 2017) and
Head of Markets
Aged 59

Joined in March 1997

Other positions held with the Group

HKFE – chief executive

SEHK – chief executive, and chairman of Compensation Committee and Disciplinary Committee

Past offices

HKEX – Deputy Head of Global Markets, Asia and Head of Market Operations (2014-2015), Head of Structured Products, Fixed Income and Primary Market Information of the Listing and Regulatory Affairs Division (2013-2014),

Co-head of Information Technology (2010-2011),

Head of Listing Operations (2007-2010 and 2012-2013),

Head of Cash Market (2005-2007), and Head of Information Services (2000-2005)

SEHK – director of Trading and Information Services (1997-2000)

Public service

SFC – member of Securities Compensation Fund Committee and Investor Compensation Fund Committee (2014-~)

Qualifications

Bachelor of Business Administration (The Chinese University of Hong Kong)

Master of Business Administration (The University of Hong Kong)

Fellow (CPA Australia)

Senior Fellow (Hong Kong Securities and Investment Institute)



LEUNG Chung Kwong, Richard

Deputy Group Chief Information
Officer and Chief Technology
Officer Hong Kong
(both effective 1 June 2017)
Aged 54

Joined in October 2011

Past offices

HKEX – Co-head of Information Technology (2011-2017)

Chi-X Global – chief technology officer (2008-2011)

Cicada Corporation – chief technology officer (1999-2008)

Telerate Inc – regional technical development manager, Asia Pacific (1985-1999)

Qualifications

Master of Science (E-Commerce) (The Hong Kong Polytechnic University)



LI Gang

Co-head of Market Development
Aged 52

Joined in March 2013

Other major offices

BCCL – director (2017–)

Past offices

HKEX – Co-head of Mainland (2015) and Senior Adviser (2013-2015)

Shanghai Billionton Metal – chief executive officer (2004-2012)

Qualifications

Bachelor of Science (Earth and Space Sciences)
(University of Science and Technology of China, China)



Ferheen MAHOMED

Group General Counsel
Aged 52

Joined in February 2017

Other major offices

Aseana Properties Limited (listed on the London Stock Exchange)
– non-executive director (2015–)

Past offices

Pacific Century Group – executive vice president of business development (2014-2017)

CLSA Limited – group general counsel (2010-2014)

Societe Generale – general counsel for Asia Pacific (1997-2010)

Qualifications

Bachelor of Laws (The University of Hong Kong)

Bachelor of Civil Law (St John's College, The University of Oxford, UK)

Solicitor (Hong Kong, and England & Wales)



MAO Zhirong

Head of Mainland Development
Aged 54

Joined in March 2013

Other major offices

BCCL – director (2017–)

China Exchanges Services Company Limited – chief executive (2014–) and director (2013–)

Past offices

HKEX – Head of Mainland Affairs (2016), Co-head of Mainland (2015) and Head of Mainland Development (2013-2015)

Shenzhen Stock Exchange – several senior positions including director of strategy and international affairs, director of financial innovation lab and head of derivative product task force, and deputy director at member supervision department (2001-2013)

WellPoint Inc – various professional and managerial positions across functions including information technology, product development and risk management (1993-2001)

Qualifications

Bachelor of Arts (Economics) (Fudan University, China)

Master of Arts (Economics) and **Doctor of Philosophy (International Affairs)**
(University of California, San Diego, US)



Trevor William SPANNER

Group Chief Information Officer (effective 1 June 2017) and Group Risk Officer
Aged 58

Joined the LME in November 2011

Other positions held with the Group

LME Clear – member of Nomination Committee

Past offices

HKEX – Chief Operating Officer (2016-2017) and Head of Global Clearing (Europe) (2014-2015)

LME Clear – chief executive (2013-2015)

LME – managing director of Post Trade Services (2011-2013)

European Central Counterparty Ltd (EuroCCP) – chief operating officer (2007-2011)

Merrill Lynch Europe – managing director (European) and head of transaction and custody services (2001-2006)

UBS AG – managing director (global operations and logistics division) (1996-2001)

Qualifications

Bachelor of Arts (University of Kent, UK)

Associate (The Institute of Chartered Accountants in England & Wales)



TAI Chi Kin, Calvin

Joint Chief Operating Officer (effective 1 June 2017) and Head of Clearing
Aged 55

Joined in July 1998

Other positions held with the Group

HKSCC – chief executive and member of Risk Management Committee

OTC Clear – chief executive and chairman of User Committee

Other major offices

China Exchanges Services Company Limited – director (2012~)

Past offices

HKEX – Head of Global Clearing (Asia) (2014-2015), Co-head of the Equities and Fixed Income and Currency Business (2013-2014), Head of Trading Division (2010-2013), and Head of Derivatives Market Development and Operations (2003-2010)

HKFE – head of products (1998-2000)

ABN-Amro Bank NV – senior vice president of treasury division (1995-1998)

Royal Bank of Canada – head of treasury department (1994-1995)

HSBC – various positions in general banking and treasury (1984-1994)

Qualifications

Bachelor of Social Sciences (The University of Hong Kong)

Matthew Chamberlain, Adrian Farnham, David Graham, John Killian, Romnesh Lamba, Roger Lee, Richard Leung, Li Gang, Ferheen Mahomed, Mao Zhirong, Trevor Spanner and Calvin Tai also act as directors in certain HKEX's subsidiaries.

MANAGEMENT COMMITTEE



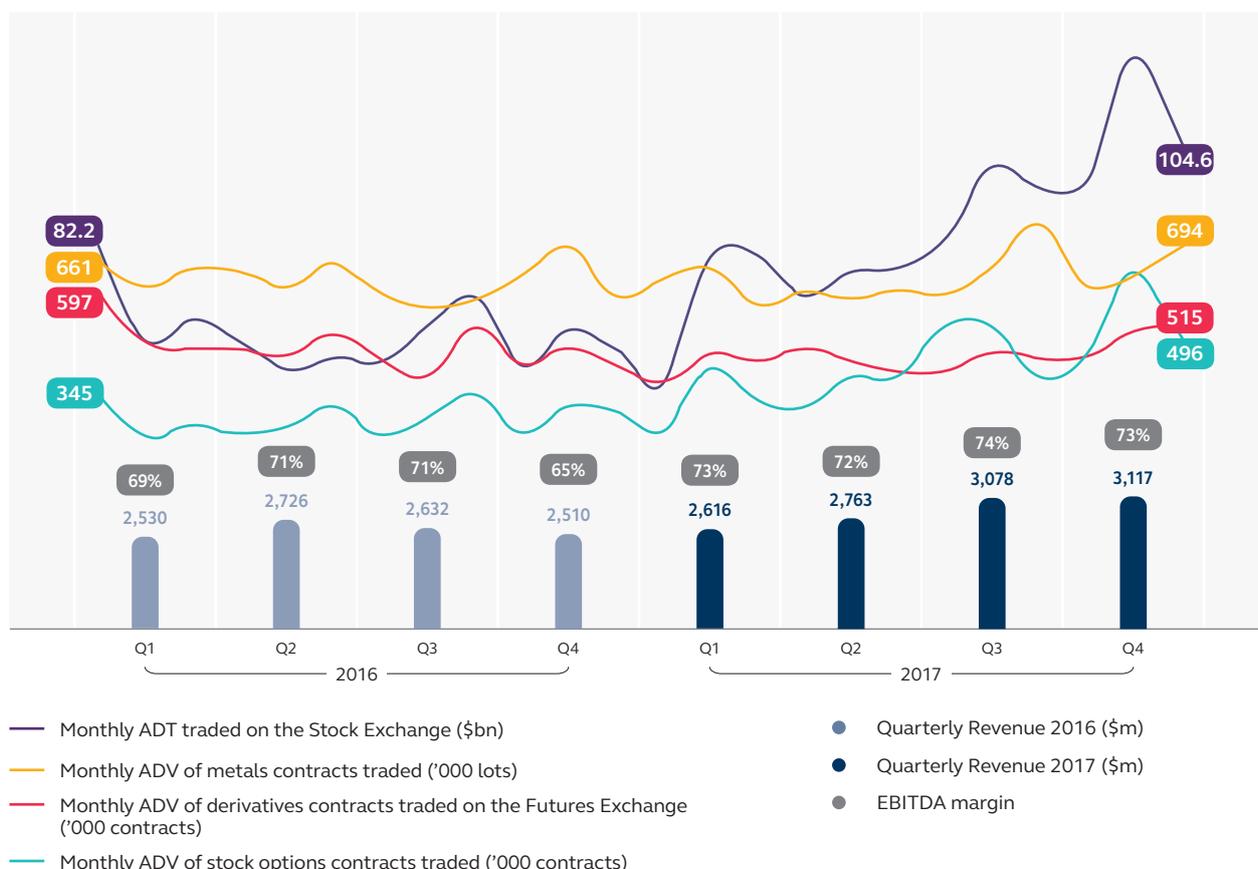
- 1 Charles Li
- 2 Calvin Tai
- 3 Trevor Spanner
- 4 Roger Lee
- 5 Romnesh Lamba
- 6 Li Gang
- 7 Matthew Chamberlain

- 8 Ferheen Mahomed
- 9 Adrian Farnham
- 10 John Killian
- 11 David Graham
- 12 Richard Leung
- 13 Mao Zhirong
- 14 Eva Chau



BUSINESS REVIEW

Overview



Market sentiment turned bullish alongside most global and Asia-Pacific exchanges from early 2017 and continued to gain momentum, with Cash Market headline ADT rising to \$107.3 billion in Q4 2017¹, 15 per cent above Q3 2017, and 67 per cent above Q4 2016. Stock Connect trading volumes continued to increase and reached record quarterly highs in Q4 2017, with Northbound and Southbound ADT being 58 per cent and 26 per cent higher than Q3 2017. Derivatives Market also started to pick up in Q4 2017, with a 12 per cent increase in the ADV of HKFE contracts traded against Q3 2017. As a result, the highest quarterly revenue and other income² were achieved in Q4 2017, despite the seasonal decrease in depository, custody and nominee services fees.

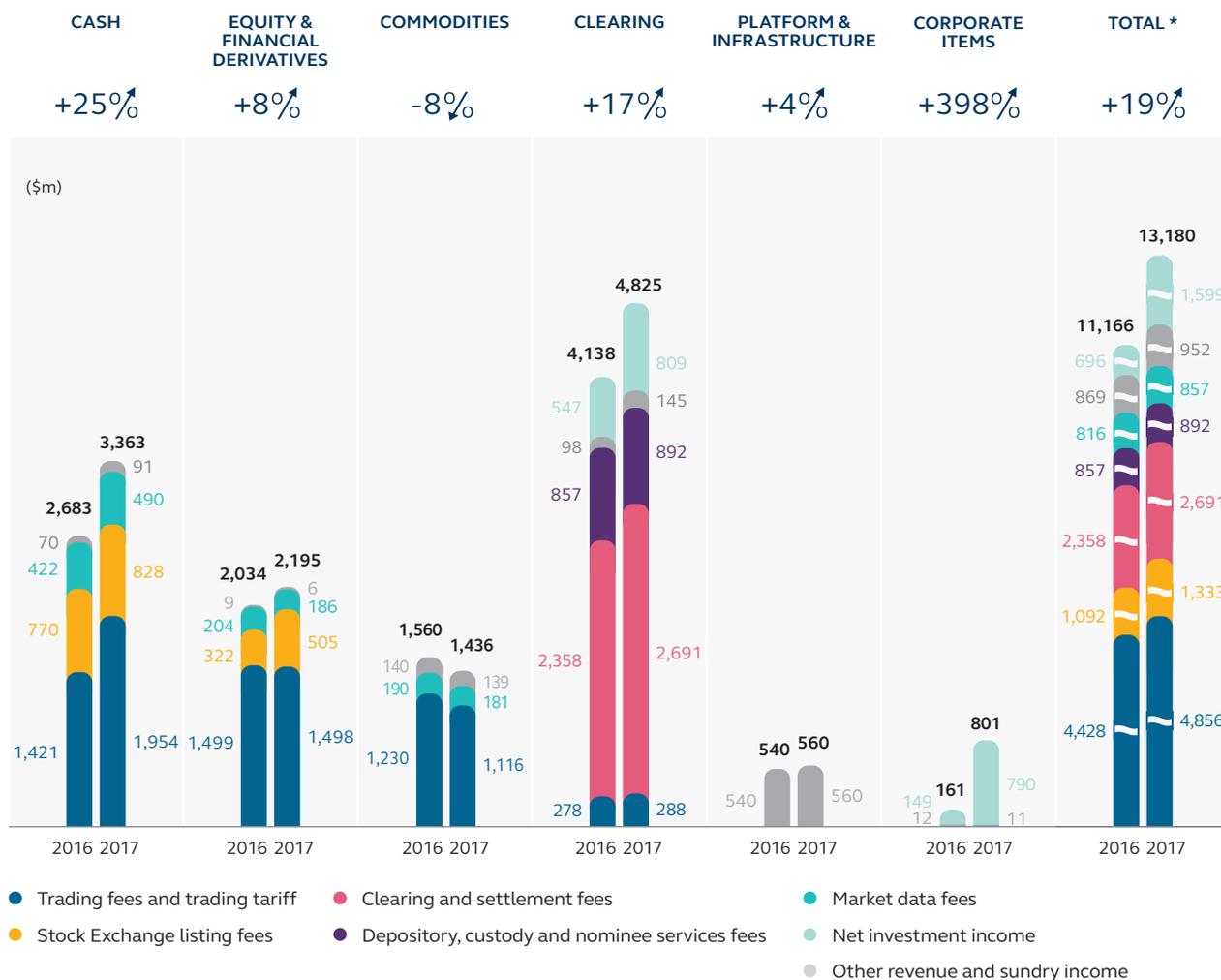
Revenue and other income in 2017 rose by 19 per cent (\$2,064 million) compared to the prior year, driven by higher market volumes, but also helped by a significant increase in net investment income of \$903 million. Revenue and other income, excluding net investment income, increased by 11 per cent, reflecting higher trading and clearing revenue in the Cash Market and higher Stock Exchange listing fees from increased number of newly listed securities, partly offset by lower volumes in HKFE and lower revenue from LME.

Operating expenses in 2017 increased by 3 per cent against the prior year. This resulted from increases in staff and premises costs, expenses relating to strategic initiatives, which were partly offset by savings in IT costs and an insurance recovery relating to LME's US litigation. The Group continues to maintain a prudent approach to cost management while investing in key strategic initiatives.

¹ Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, 1H = first half, 2H = second half
² Other income comprised net investment income and sundry income

Business Update and Analysis of Results by Operating Segment

Analysis of Revenue and Other Income by Segment



* Total revenue and other income is not presented in full scale, but is proportionately resized.

Analysis of EBITDA and EBITDA Margin by Segment *



(%) EBITDA margin = EBITDA divided by Revenue and Other Income

* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

Cash Segment

Key Market Indicators

	2017	2016	Change
ADT of equity products traded on the Stock Exchange ^{1,2} (\$bn)	71.2	50.2	42%
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect ² (RMBbn)	5.6	3.2	75%
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect ² (RMBbn)	4.0	1.5	167%
Average daily number of trades of equity products traded on the Stock Exchange ^{1,2}	1,034,651	895,170	16%
Number of newly listed companies on Main Board ³	94	81	16%
Number of newly listed companies on GEM	80 ⁴	45	78%
Number of companies listed on Main Board at 31 Dec	1,794	1,713	5%
Number of companies listed on GEM at 31 Dec	324	260	25%
Total	2,118	1,973	7%
Market capitalisation of companies listed on Main Board at 31 Dec (\$bn)	33,718	24,450	38%
Market capitalisation of companies listed on GEM at 31 Dec (\$bn)	281	311	(10%)

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes Southbound Trading ADT of \$7.5 billion (2016: \$3.6 billion) under Shanghai-Hong Kong Stock Connect and \$2.3 billion (2016: \$0.5 billion) under Shenzhen-Hong Kong Stock Connect

2 Includes buy and sell trades under Stock Connect. Shenzhen-Hong Kong Stock Connect was launched on 5 December 2016.

3 Includes 13 transfers from GEM (2016: 6)

4 New record high in 2017

	2017 \$bn	2016 \$bn	Change
Total equity funds raised on Main Board			
– IPOs	122.6	190.7	(36%)
– Post-IPO	444.8	280.5	59%
Total equity funds raised on GEM			
– IPOs	5.9	4.6	28%
– Post-IPO	8.1	14.3	(43%)
Total	581.4	490.1	19%

Stock Connect – New Record Highs in 2017

	2017	2016	Change
Northbound Trading value (RMBbn)	2,266	771	194%
Southbound Trading value (\$bn)	2,259	836	170%
Total revenue and other income ¹ (\$m)	412	177	133%

1 \$238 million of which arose from trading and clearing activities (2016: \$81 million)

Analysis of Results

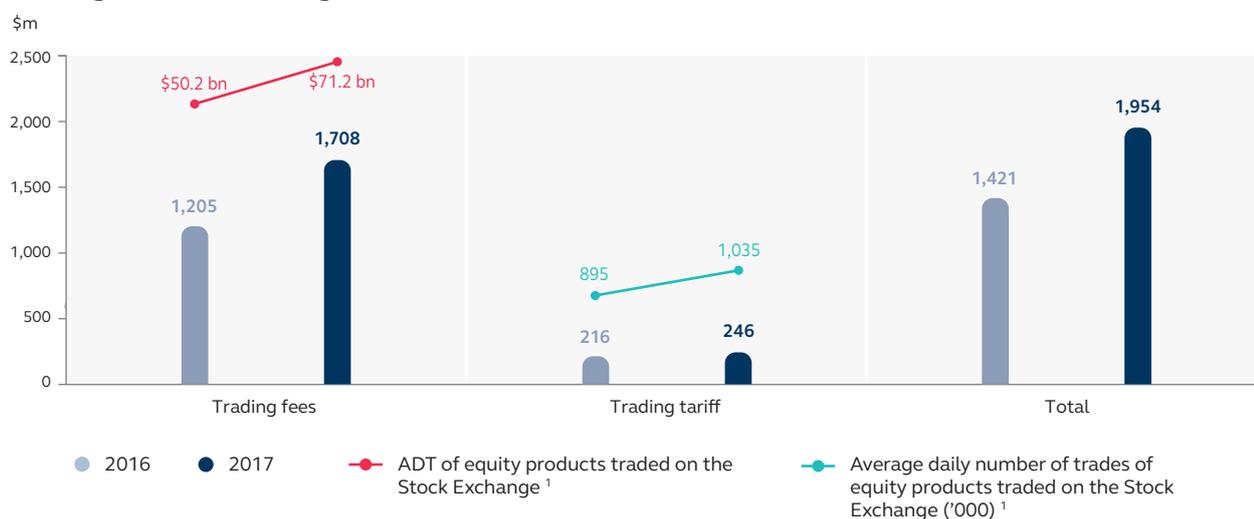
Summary

	2017 \$m	2016 \$m	Change
Trading fees and trading tariff ¹	1,954	1,421	38%
Stock Exchange listing fees ¹	828	770	8%
Market data fees ¹	490	422	16%
Other revenue and sundry income	91	70	30%
Total revenue and other income	3,363	2,683	25%
Operating expenses ²	(581)	(544)	7%
EBITDA	2,782	2,139	30%
EBITDA margin	83%	80%	3%

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

2 Includes Listing Division costs relating to equity products traded on the Stock Exchange

Trading Fees and Trading Tariff



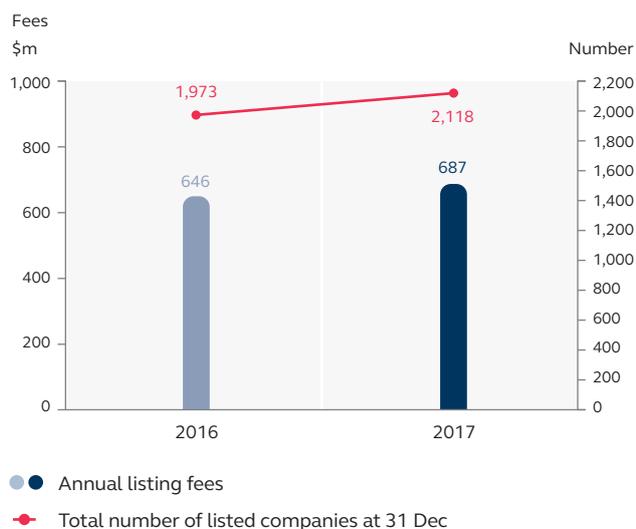
1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

Trading fees and trading tariff increased by \$533 million or 38 per cent. The increase was lower than the 42 per cent growth in ADT of equity products primarily due to an increase in average transaction size, which dampened the increase in trading tariff income.

Stock Exchange Listing Fees

	2017 \$m	2016 \$m	Change
Annual listing fees	687	646	6%
Initial and subsequent issue listing fees	133	117	14%
Others	8	7	14%
Total	828	770	8%

Annual Listing Fees



Annual listing fees increased in line with the rise in the total number of listed companies.

Initial and Subsequent Issue Listing Fees



Initial and subsequent issue listing fees increased with the number of newly listed companies. However, the average fee per listing was lower as a higher proportion of new listings was on GEM, which charges lower fees than the Main Board.

Market Data Fees

Market data fees increased by 16 per cent as a result of higher allocated revenue following a higher percentage increase in the volume of cash equities traded, compared with the increase in the volumes of DWs, CBBCs and warrants traded.

EBITDA

Operating expenses increased by \$37 million or 7 per cent due to additional headcount for strategic projects, annual payroll adjustments and higher variable pay. The increase in EBITDA margin from 80 per cent to 83 per cent reflects the increase in revenue.

Business Update

2017 has been a positive year for the Cash Market, with headline ADT being 32 per cent higher than 2016. In particular, Q4 2017 ADT was up by 67 per cent compared to Q4 2016 and was 15 per cent higher than Q3 2017. Market capitalisation reached a record high of \$33,999 billion on 29 December 2017.

Stock Connect

The Stock Connect programme continued to gather momentum in 2017. As Shanghai and Shenzhen Connect celebrated their third and first anniversaries respectively, a number of record highs (see table under Key Market Indicators section) were reached. The increase in trading volume demonstrates an increasing interest among Mainland investors in diversifying their investments into Hong Kong, and rising demand from Hong Kong and international investors for A shares. Northbound turnover over the longer term could potentially benefit from MSCI's announcement in June 2017 of its plan to include A shares in the Emerging Markets Index and All Country World Index (ACWI) in 2018.

On 30 November 2017, the SFC announced an investor identification regime for Northbound Trading, and HKEX published an information paper on the topic on the same date. The new arrangement, which aims to facilitate market surveillance and monitoring in accordance with the home market rule principle of Stock Connect, requires relevant EPs to assign a unique number to each of their Northbound Trading clients, and tag the number to every Northbound order on a real-time basis. The regime is tentatively scheduled to be implemented in Q3 2018.

Issuer Business

To continue to promote Hong Kong as a preferred listing venue of choice, HKEX organised 24 large-scale events and conducted 86 seminars in both Mainland China and globally in 2017. A key focus for HKEX is to expand Hong Kong's listing regime to facilitate listings of companies from emerging and innovative sectors. In June and August respectively, HKEX jointly organised conferences with two key technology incubators in Hong Kong – Hong Kong Science and Technology Parks Corporation and Hong Kong Cyberport – to promote Hong Kong's fundraising landscape to aspiring “new economy” leaders. Similar symposiums were co-organised with hi-tech parks in China, as well as internationally, to further encourage “new economy” companies to consider Hong Kong as the listing venue of choice.

ETF Market Development

Following the successful introduction of Leveraged and Inverse Products (L&I Products) on foreign equity indices in 2016, HKEX further expanded its Exchange Traded Product (ETP) market (which comprises ETF and L&I Products) with the successful listings of 18 L&I Products tracking HSI and HSCEI in 2017. In 2017, ETP market capitalisation and ADT grew to \$636 billion (up 13 per cent) and \$4.7 billion (up 14 per cent) respectively.

Closing Auction Session

Phase 2 of the Closing Auction Session (CAS) was launched successfully on 24 July 2017 to further facilitate trade execution at closing prices. The list of CAS Securities was also expanded to include constituents of the Hang Seng Composite SmallCap Index, and input of regulated short selling orders during the CAS was also allowed.

Market Structure Development

HKEX has completed the 2017 Annual Attestation and Inspection Programme and will share our findings with the market in 2018. Practical guidance on compliance with the Exchange Rules, including a set of Illustrative Examples on Short Selling Order Flagging Requirements, has been published.

HKEX rolled out enhanced Cash Market and cross market surveillance between SEHK and HKFE markets in order to expand the monitoring coverage in its robust mechanism for market surveillance. In 2018, HKEX will deploy artificial intelligence and machine-learning technology in our real-time surveillance to strengthen market abuse detection.

Bond Connect

Bond Connect is a significant breakthrough in the opening of the Mainland bond market, enhancing HKEX's position in the fixed income market while expanding the mutual market access programme, that began in 2014, from equity into a new asset class. Bond Connect extends HKEX beyond its traditional equities business and lays the foundation for HKEX's further developments in FIC, particularly in the derivatives business. Bond Connect has been operating smoothly since its launch on 3 July 2017, allowing a broader group of international investors to access the China Interbank Bond Market (CIBM).

Since the launch of Bond Connect, the overall foreign investor holdings in the CIBM's domestic debt securities rose to RMB1,147 billion as of 31 December 2017, an increase of 36 per cent from 30 June 2017. As at the end of 2017, 247 approved international investors, 24 onshore dealers, 53 Hong Kong local custodians and 20 Hong Kong foreign exchange settlement banks were participating in Bond Connect.

During 2H 2017, the Bond Connect delegation participated in a number of non-deal roadshows and seminars to help local and international investors understand the practical arrangements and latest developments of Bond Connect. BCCL, a joint venture established by CFETS and HKEX, is now working with the Mainland and Hong Kong authorities and financial infrastructure institutions, to introduce further enhancements to Bond Connect.

Market Data Business

HKEX continues its efforts to further promote market transparency of Stock Connect trading by increasing the visibility and penetration of securities market data in the Mainland. Marketing programmes with an aim to provide more flexible fee packages such as discounts, fixed fees and mobile application services are well received by the market. In addition, historical data products on Stock Connect as well as a complimentary market data feed, which includes Stock Connect turnover statistics and Northbound daily quota balance, were also launched during 2017 enhancing HKEX's market data services.

Listing Regulation

In 2017, the Stock Exchange issued various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2017 as well as the proposals under review in 2018 are set out in the 2017 Listing Committee Report.

Proposals and Conclusions in 2017

	Consultation paper ¹	Consultation conclusions ¹	Effective date of changes (if any)
• Joint Consultation Paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-making and Governance Structure for Listing Regulation	Jun 2016	Sep 2017	N/A ²
• New Board Concept Paper	Jun 2017	Dec 2017	N/A ³
• Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules	Jun 2017	Dec 2017	15 Feb 2018
• Delisting and Other Rule Amendments	Sep 2017	1H 2018 (tentative)	–
• Capital Raisings by Listed Issuers	Sep 2017	1H 2018 (tentative)	–
• Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments	Nov 2017	1H 2018 (tentative)	–
• Review of the Corporate Governance Code and Related Listing Rules	Nov 2017	2H 2018 (tentative)	–
• Proposed Exemption for Aircraft Leasing Activities	Nov 2017	2H 2018 (tentative)	–

1 All the consultation papers and conclusions are available under the News (Market Consultations) section of the HKEX Market website.

2 The SFC and the Stock Exchange have decided to adopt the way forward as set out in the conclusions including establishing a new Listing Policy Panel and enhancing governance within the Stock Exchange's structure for reviewing the Listing Committee's decisions. The Stock Exchange will conduct a separate consultation on the review system for decisions of the Listing Committee.

3 Drawing on the feedback received in response to the New Board Concept Paper and subsequent regulatory discussions with the SFC, the Stock Exchange issued the conclusions to the New Board Concept Paper in December 2017 setting out the proposed way forward to expand the existing listing regime to facilitate the listing of companies from emerging and innovative sectors, subject to appropriate safeguards. Following discussions with the SFC and other stakeholders, the Stock Exchange published a Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors on 23 February 2018 to seek public feedback on the detailed proposals and proposed amendments to the Listing Rules to give effect to the way forward set out in the conclusions.

Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules

- Issued series of listing decisions on interpretation of the Listing Rules, including reasons for rejection and return of new listing applications, whether certain proposed acquisitions would constitute a reverse takeover, sufficiency of operations or assets to meet Listing Rule requirements and suitability of listing
- Published guidance materials including (i) guidance letters on pricing flexibility for IPO and reallocation of shares from placing tranche to the public subscription tranche in an IPO and (ii) revised guidance letters on pre-IPO investments and simplification of listing documents
- Published reports on the Stock Exchange's review of disclosure in issuers' annual reports and key observations under the financial statements review programme, and provided guidance and recommendations to issuers to promote transparency and high quality disclosures
- Published findings of the Stock Exchange's latest review of listed issuers' corporate governance practices which examined the level of issuers' compliance with the Corporate Governance Code and Corporate Governance Report
- Launched a new series of quarterly director training webcasts to assist directors in understanding their roles and responsibilities as a director of a Hong Kong listed company
- Published the first and bi-annual Enforcement Newsletter summarising news and updates on enforcement activities and highlighting specific areas or conduct that might impact on rule compliance

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Stock Exchange's IPO Work

	2017	2016
• Number of listing applications vetted ¹	412	349
• Number of applications brought to the Listing Committees (or their delegates) for decisions ²	194	154
– within 120 calendar days	60	82
– between 121 to 180 calendar days	66	43
– after more than 180 calendar days	68	29
• Number of applications for which approval was granted in principle ³	216	181
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	158	159
– Average response time (in business days)	9	8
• Number of listing applications for transfer of listing from GEM to Main Board accepted	22	12
• Applications listed ⁴	197	163
• New listing applications rejected ⁵	8	13
• New listing applications withdrawn	14	4
• New listing applications returned	5	7
• Application in process at year-end	139	102

1 Comprises 310 (2016: 275) new applications and 102 (2016: 74) existing applications brought forward from previous year

2 Refers to listing applications heard by the Listing Committees (or their delegates) for the first time and excludes Chapter 20 listing applications

3 At the end of 2017, 33 (2016: 20) approved applications had not yet been listed, and 6 (2016: 12) approved applications had lapsed during the year.

4 Includes 23 investment vehicles listed on Main Board and deemed new listings (2016: 37)

5 In 2017, 2 rejection decisions (2016: 1) were subsequently reversed by the Listing (Review) Committee/Listing Appeals Committee upon review.

Number of Compliance and Monitoring Actions

	2017	2016
• Announcements of issuers vetted	57,498	55,946
• Circulars of issuers vetted	1,841	2,214
• Share price and trading volume monitoring actions undertaken ¹	6,461	6,279
• Complaints handled	568	493
• Cases (including complaints) referred to Listing Enforcement Team for investigation	40	35

1 In 2017, monitoring actions undertaken included 603 enquiries (2016: 515) on unusual share price and trading volume movements, and the actions undertaken led to 32 resumption announcements (2016: 24) on trading suspensions.

Long Suspension

Status of Long Suspended Companies (at year-end)	Main Board		GEM	
	2017	2016	2017	2016
Resumption of trading of securities during the year	14	15	1	5
Cancellation/withdrawal of listing during the year	3	2	2	1
Companies in the third stage of delisting	14	11	N/A	N/A
Companies notified of the Stock Exchange's intention to cancel their listing ¹	1	1	2	–
Companies suspended for 3 months or more	53	53	3	3

1 For GEM, the figures represent companies that had failed to maintain sufficient operations or assets to warrant their continued listing. In these cases, the Stock Exchange had notified the companies of its intention to cancel the companies' listing and place them in a one-stage delisting procedure (as compared to three stages for Main Board).

Listing Enforcement

During 2017, the Stock Exchange continued to adopt a themed approach to enforcement activity. Details are set out in the 2017 Listing Committee Report. To enhance the transparency of the Stock Exchange's Listing Rule enforcement work, a bi-annual Enforcement Newsletter was launched in July 2017 which includes news and updates on enforcement activities and specific areas or conduct that might impact on rule compliance while the dedicated "Disciplinary & Enforcement" section on the HKEX Market website continues to provide updated enforcement related information and statistics.

Enforcement Statistics

	2017	2016
Investigations ^{1, 2, 3}	86	71
Public censures ⁴	8	7
Public statements/criticisms ⁴	1	1
Warning/caution letters ⁵	9	15

1 Figures cover cases concluded during the year, and cases which remained active at year-end.

2 There were 28 outstanding investigations (26 of which commenced in 2017) at the end of 2017 as compared to 32 outstanding investigations (all of which commenced in 2016) at the end of 2016.

3 In 2017, 4 cases (2016: 3) originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings after investigation.

4 Figures represent only the primary regulatory action from a disciplinary matter. They exclude any other actions taken at a lower level, eg, private reprimand, in the same case.

5 The warning and caution letters were primarily delivered in circumstances where action before the Listing Committees was not considered appropriate.

Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committees and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments in proportion to the listing fee income of the two segments.

Equity and Financial Derivatives Segment

Key Market Indicators

	2017	2016	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange (\$bn)	17.0	16.7	2%
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	205,518	185,850	11%
ADV of derivatives contracts traded on the Futures Exchange ¹	440,563	463,722	(5%)
ADV of stock options contracts traded on the Stock Exchange	428,499	297,903	44%
Number of newly listed DWs	7,989 ²	4,875	64%
Number of newly listed CBBCs	13,235 ²	8,896	49%
ADV of contracts traded during AHFT ¹	30,148	37,833	(20%)
	At 31 Dec 2017	At 31 Dec 2016	Change
Open interest of futures and options ¹	11,154,897	9,296,057	20%

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

2 New record highs in 2017

Analysis of Results

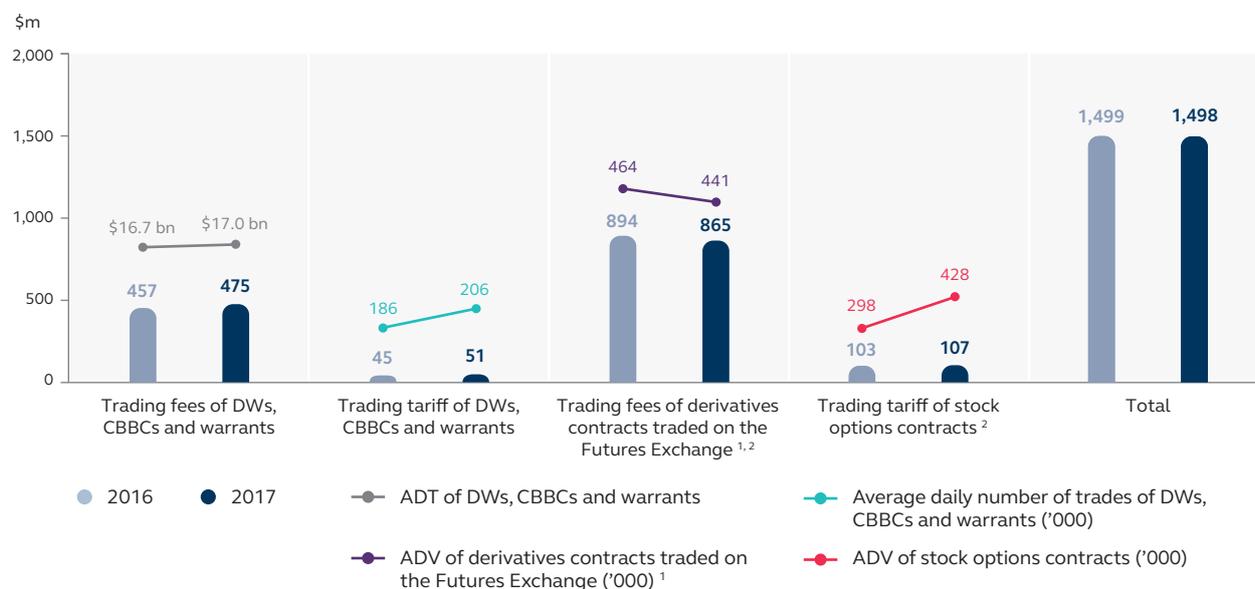
Summary

	2017 \$m	2016 \$m	Change
Trading fees and trading tariff ¹	1,498	1,499	(0%)
Stock Exchange listing fees	505	322	57%
Market data fees ¹	186	204	(9%)
Other revenue	6	9	(33%)
Total revenue	2,195	2,034	8%
Operating expenses ²	(477)	(441)	8%
EBITDA	1,718	1,593	8%
EBITDA margin	78%	78%	0%

1 Excludes cash equities (which are included under the Cash segment)

2 Includes Listing Division costs related to DWs, CBBCs and warrants traded on the Stock Exchange

Trading Fees and Trading Tariff



1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

2 Excludes trading fees and trading tariff allocated to the Clearing segment (Derivatives contracts traded on the Futures Exchange – 2017: \$218 million; 2016: \$229 million; stock options contracts – 2017: \$70 million; 2016: \$49 million)

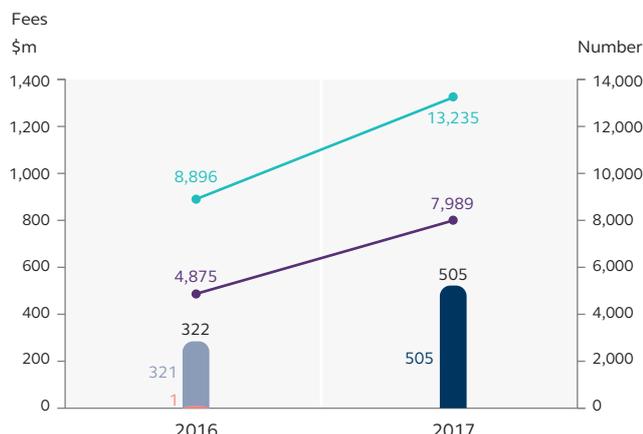
Trading fees and trading tariff for the segment are generated from trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariff for the futures and options contracts is allocated to the Clearing segment (see Clearing Segment below) as the trading and clearing fees of these products are bundled together in the form of trading fees and tariff.

Trading fees and trading tariff from trading of DWs, CBBCs and warrants rose by \$24 million or 5 per cent due to increased ADT and average daily number of trades. The percentage increase was higher than the 2 per cent growth in ADT due to the decrease in average transaction size, which generated a higher growth in trading tariff income.

Market volatility remained subdued in 2017, negatively impacting derivatives trading volumes on the Futures Exchange, similar to equity index derivatives traded on other major exchanges.

Trading fees from futures and options traded on the Futures Exchange dropped by \$29 million or 3 per cent. This drop was lower than the 5 per cent decrease in average daily number of contracts traded, as a higher proportion of derivatives contracts traded in 2017 were related to higher fee contracts including HSI products.

Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees increased by \$183 million or 57 per cent, reflecting an increase in the number of newly listed DWs and CBBCs.

- Initial and subsequent issue listing fees
- Others
- Number of newly listed CBBCs
- Number of newly listed DWs

Market Data Fees

Market data fees dropped by 9 per cent as a result of lower allocated revenue since the percentage volume increase for DWs, CBBCs and warrants traded was significantly lower than the increase for cash equities traded.

EBITDA

Operating expenses rose by \$36 million or 8 per cent principally due to higher staff costs including annual payroll adjustments and higher variable pay. As both revenue and operating expenses rose by 8 per cent, the EBITDA margin remained at 78 per cent.

Business Update

ADV of derivatives contracts traded on the Futures Exchange³ in 2017 dropped by 5 per cent against 2016 due to reduced market volatility, but improved in Q4 2017, which was up 12 per cent against Q3 2017.

ADV of stock options contracts reached a record high in 2017, 14 per cent above the previous record in 2015. Trading volume was the highest in Q4 2017, with ADV up by 11 per cent against Q3 2017.

3 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

New Record Highs – Full Year Trading Volume

	2017 Number of contracts	Pre-2017 record Number of contracts	
Total Futures and Options ¹	214,658,273	189,768,610	(2015)
USD/CNH Futures	732,569	538,594	(2016)
Mini HSI Options	1,640,881	1,424,379	(2016)
HSCEI Options	19,777,920	19,475,726	(2016)
Stock Options	105,839,179	92,463,479	(2015)

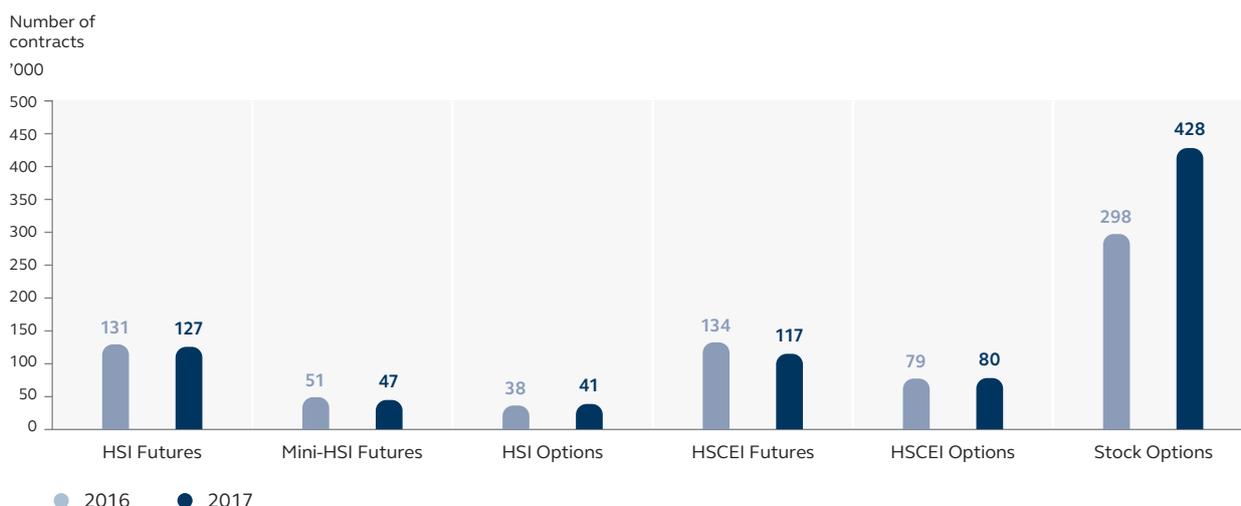
¹ Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

New Record Highs – Single Day Trading Volume and Open Interest

	Single Day Trading Volume		Open Interest	
	Date (2017)	Number of contracts	Date (2017)	Number of contracts
Total Futures and Options ¹	-	-	27 Dec	17,343,759
HSI Futures	-	-	27 Jun	206,082
HSI Dividend Point Index Futures	-	-	28 Dec	13,902
HSCEI Dividend Point Index Futures	14 Feb	27,501	-	-
HSI Options	-	-	28 Nov	594,941
Mini HSI Options	6 Dec	19,094	29 Aug	34,161
HSCEI Options	-	-	27 Dec	3,465,052
Mini-HSCEI Options	30 Oct	9,246	-	-
Stock Options	-	-	28 Nov	12,502,433
USD/CNH Futures	5 Jan	20,338	4 Jan	46,711

¹ Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

Average Daily Volume of Major Futures and Options Contracts



After-hours Trading Enhancements

A market consultation on the enhancement of after-hours trading (T+1 Session) was completed and consultation conclusion issued in August 2017. Responses were received from a broad spectrum of market users with extensive support for the proposal. Subject to regulatory approvals and market readiness, HKEX plans to implement the proposed enhancements in three phases:

- Extension of trading hours for equity index futures to 01:00 was implemented on 6 November 2017. This extension proved to be popular with investors, with a 48 per cent increase in equity index futures volume in the T+1 Session recorded after 6 November 2017 as compared to the volume before the extension⁴, and more than 80 per cent of the HKFE EPs participating in the equity index futures in the T+1 Session also participated in the extended trading hours from 23:45 to 01:00.
- Inclusion of equity index options in the T+1 Session in 1H 2018.
- Further extension of trading hours to 03:00, and the T+1 Session cut-off time will be aligned with the close of trading hours tentatively in Q1 2019.

Equity Futures and Options Market Development

Three new stock options on Hang Seng Index constituents (including the first option on a Real Estate Investment Trust) were introduced on 10 April 2017, expanding the stock options universe to 87 classes. Four new stock futures and five new stock options were also launched on 5 February 2018.

In addition, regulatory approval has been received for various product initiatives to be launched in 2018 – contract month extension for HSI/HSCEI futures and options up to 5.5 years, and narrow strike intervals for stock index options.

Over 60 product educational seminars and briefing sessions were held in 2017, with over 6,000 attendees in Hong Kong, China, Taiwan, Singapore and Malaysia.

RMB Currency Futures and Options Market Development

HKEX USD/CNH futures continued to see growth in liquidity and reached a record single-day volume of 20,338 contracts (US\$2.0 billion in notional value) and record open interest of 46,711 contracts (US\$4.7 billion in notional value) in January 2017. To complement HKEX's existing RMB Currency Futures suite, RMB Currency Options were launched on 20 March 2017.

Enhancements were made to the RMB currency products in 2017. The introduction of an additional contract month in Q1 2017 and the extension of trading hours in Q3 2017 further facilitated efficient hedging on RMB-related risks. Revision of margin levels in Q4 2017 also enhanced capital efficiency and reduced market funding costs on RMB-denominated derivatives products.

Other FIC Development

On 8 June 2017, HKEX hosted its fourth annual RMB FIC Conference, attracting over 500 industry experts and business leaders, discussing key regulatory and business issues with a special focus on Bond Connect.

Stock Option Position Limits

An enhanced stock option position limits (SOPL) regime, which included tripling the maximum position limit for stock options to 150,000 contracts, and expanding the scope of activities for hedge exemption, was introduced on 1 June 2017. The enhancements were designed to cope with market growth and enhance Hong Kong's competitiveness as an international financial centre. Since the launch of the regime, investors have increasingly utilised derivatives contracts on HKEX to manage risk.

⁴ A comparison between T+1 Session's average daily volume of the six weeks from 6 November 2017 to 15 December 2017 and the average daily volume in the T+1 Session from the beginning of 2017 up to 3 November 2017. T Session volume increased by 22 per cent over the same period.

HKEX has enhanced the Large Open Position (LOP) surveillance systems to support the introduction of the revised SOPL model and new products including RMB Currency Options, Ministry of Finance Treasury Bond (MOF T-Bond) Futures, CNH and USD Gold Futures and Iron Ore Futures during the year.

HKEX issued a set of Frequently Asked Questions (FAQ) on Position Limits and LOP Reporting to provide guidance on when LOP reporting obligations would be triggered under certain scenarios.

Market Data Business

The derivatives data marketing programme to promote derivatives real-time data in Mainland and overseas has been extended to Thailand and Vietnam, thereby covering a total of 11 regions. HKEX has extended this programme until the end of 2019, demonstrating strong commitment to promoting new derivatives products. Over 40 companies from different regions have joined this marketing programme.

Commodities Segment

Key Market Indicators

	2017	2016	Change
ADV of metals contracts traded on the LME (lots)			
Aluminium	217,412	221,671	(2%)
Copper	141,602	153,121	(8%)
Zinc	123,037	111,161	11%
Nickel	87,279	81,779	7%
Lead	44,136	43,227	2%
Ferrous	1,476	228	547%
Precious	2,917	-	N/A
Others	6,621	7,440	(11%)
	624,480	618,627	1%
	At 31 Dec 2017	At 31 Dec 2016	Change
Total futures Market Open Interest (lots)	2,253,477	2,212,501	2%

Analysis of Results

Summary

	2017 \$m	2016 \$m	Change
Trading fees and trading tariff	1,116	1,230	(9%)
Market data fees	181	190	(5%)
Other revenue:			
Commodities stock levies and warehouse listing fees	77	87	(11%)
Others	62	53	17%
Total revenue	1,436	1,560	(8%)
Operating expenses	(659)	(597)	10%
EBITDA	777	963	(19%)
EBITDA margin	54%	62%	(8%)

Trading Fees and Trading Tariff



While the ADV of metals contracts traded was 1 per cent higher compared to 2016, the impact of fee reductions for short- and medium-dated carry trades, a position transfer fee cap, and new non-fee generating administrative trades introduced in June 2017, reduced trading fees by \$114 million or 9 per cent.

EBITDA

Operating expenses rose by \$62 million (10 per cent). Excluding the one-off insurance recovery of \$23 million (relating to the costs of warehouse litigation in the US incurred in prior years), operating expenses rose by 14 per cent, largely driven by increased costs for strategic initiatives, including the establishment of QME in the Mainland. The overall increase was partly offset by savings on IT and LME operating costs. As a result of the drop in revenue and the increase in operating expenses for strategic initiatives, EBITDA margin dropped from 62 per cent in 2016 to 54 per cent in 2017.

Business Update

LME

2017 was a key year for the LME's information technology programme, and several systems upgrades were undertaken during the year. These included the LMEselect electronic trading engine and the LMEsmart matching platform. Work was also undertaken to ensure that the LME is compliant with all applicable Markets in Financial Instruments Directive II (MiFID II) regulations, which came into force on 3 January 2018.

In April 2017, the LME published a Discussion Paper on Market Structure, covering various topics of relevance to the ongoing development of the market. In September 2017, the LME published an analysis of the feedback received, which included 162 written responses, together with an announcement of the "LME Strategic Pathway". The Strategic Pathway set out the LME's proposed route to further develop its franchise on the basis of four key principles: serve the physical market, ensure fairness, increase user choice and maximise trading efficiency. It also provided insight into the LME's strategic direction, setting out key projects and changes for the LME Group over the next three years – including proposed new contracts, systems upgrades and market structure changes.

The most immediate impact of the Strategic Pathway was that the LME reduced fees on both short- and medium-dated carries (on 1 October 2017 and 1 November 2017 respectively) to further support the physical user base and encourage use of the daily date structure.

The LMEprecious contracts were successfully launched on 10 July 2017, and 639,546 lots (1,989 tonnes) of gold and 95,625 lots (14,871 tonnes) of silver have been traded up to the end of 2017. Since the first day of trading, there has been liquidity out to 5 years and open interest reached 23,938 and 2,033 lots of gold and silver respectively as of 29 December 2017. This strong start has demonstrated the industry's appetite to trade precious metals on-exchange and to clear centrally, and is also an indication of the commitment from the industry to the LMEprecious initiative. Going forward, the LME will look to launch Asian hours market making, trade at settlement functionality and options for gold and silver.

In November 2017, the LME launched a consultation on the introduction of a financial OTC booking fee and trading regulations in support of market fairness. The aim of the financial OTC booking fee is to rebalance the current disparity between the fees paid by members servicing their clients with an LME client contract and those servicing their clients with an OTC contract based on LME prices at a substantially reduced fee. The consultation closed on 12 January 2018 and the LME will issue a decision notice to market participants in due course.

2017 also saw the conclusion of the LME's warehouse reform programme – designed to reduce structural queues at LME-listed warehouses to below 50 days – with the final structural queue dissipating by the end of the third quarter. The LME will continue to monitor any operational queues which emerge during the normal course of warehouse operations.

Product Development

HKFE launched dual currencies physically-delivered Gold Futures contracts and Iron Ore Futures contracts in July and November 2017 respectively. These products aim to give a boost to RMB internationalisation and strengthen Hong Kong as a comprehensive capital market that can serve as a risk management centre for both Mainland and international investors. As of 31 December 2017, a total of 110,763 contracts of CNH Gold Futures, and 55,372 contracts of USD Gold Futures have been traded, with the combined ADV increasing from 1,690 contracts in July 2017 (equivalent to 1.69 tonnes) to 2,823 contracts (equivalent to 2.823 tonnes) at the end of December. For Iron Ore Futures, a total of 18,230 contracts (equivalent to 1,823,000 tonnes) were traded up to 31 December 2017.

LME Week

The annual LME Asia Week 2017 event, held in Hong Kong on 10 May 2017, attracted over 800 attendees to the Metals Seminar and over 1,800 participants to the Gala Dinner. As part of the programme, HKEX hosted an industry forum at QME, attracting more than 300 guests. The annual LME Week 2017 was held in London, attracting over 900 delegates to the Metals Seminar on 30 October 2017, and 1,950 participants to the Annual Dinner on 31 October 2017.

QME

The development of QME as HKEX's onshore commodity trading platform is continuing, with the aim of building an efficient onshore commodities trading platform that serves the Mainland's real economy by meeting the needs of domestic producers and industrial users. The operational plans for the delivery of QME are periodically reviewed with our partners to synchronise its development with the emerging regulatory environment, which dictates the pace at which the platform can develop.

Clearing Segment

Key Market Indicators

	2017	2016	Change
ADT on the Stock Exchange (\$bn)	88.2	66.9	32%
Average daily number of Stock Exchange trades	1,240,169	1,081,020	15%
Average value per trade (\$)	71,159	61,908	15%
Average daily value of Settlement Instructions (SIs) settled by CCASS (\$bn)	220.5	181.9	21%
Average daily number of SIs	92,459	83,194	11%
Average value per SI (\$)	2,385,005	2,186,693	9%
ADV of metals contracts traded on the LME (lots)	624,480	618,627	1%

Analysis of Results

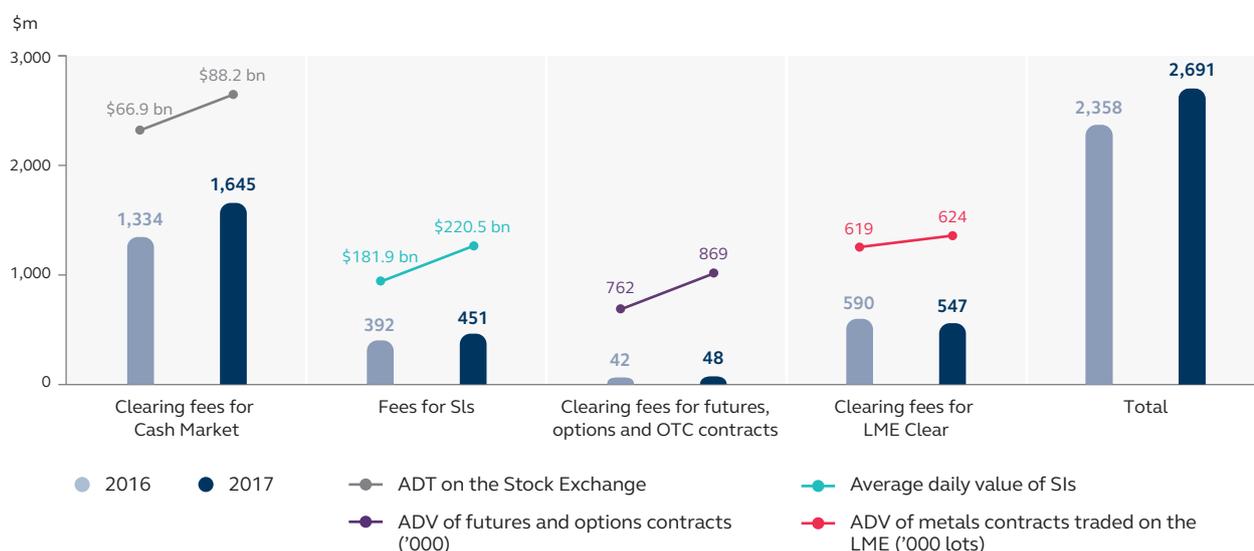
Summary

	2017 \$m	2016 \$m	Change
Trading fees and trading tariff – allocated from Equity and Financial Derivatives segment	288	278	4%
Clearing and settlement fees	2,691	2,358	14%
Depository, custody and nominee services fees	892	857	4%
Other revenue and sundry income	145	98	48%
	4,016	3,591	12%
Net investment income	809	547	48%
Total revenue and other income	4,825	4,138	17%
Operating expenses	(752)	(702)	7%
EBITDA	4,073	3,436	19%
EBITDA margin	84%	83%	1%

Trading Fees and Trading Tariff

Trading fees and trading tariff allocated for clearing derivatives products rose 4 per cent, due to a 44 per cent growth in ADV of stock options traded, partially offset by a 5 per cent drop in ADV of derivatives contracts traded on the Futures Exchange (see commentary for the Equity and Financial Derivatives segment).

Clearing and Settlement Fees



Clearing and settlement fees for the Cash Market and for SIs increased by 23 per cent and 15 per cent respectively. The increase was primarily driven by a higher number of transactions, and 7 per cent and 3 per cent higher average fee per Cash Market trade and per SI transaction respectively.

Despite a 1 per cent increase in ADV of metals contracts traded, clearing fees for LME Clear dropped by \$43 million or 7 per cent due to a position transfer fee cap, fee reductions for short- and medium-dated carry trades, and new non-fee generating administrative trades introduced in June 2017.

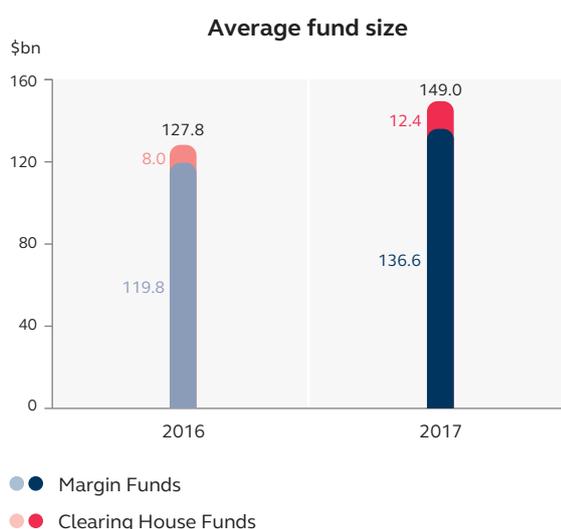
Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees are not directly impacted by changes in market activity. They rose by \$35 million or 4 per cent due to higher portfolio fees from the increase in the overall portfolio value held under Southbound and Northbound Trading of Stock Connect, and increase in electronic IPO services fees, but was partly offset by lower scrip fees.

Other Revenue and Sundry Income

Other revenue rose by \$47 million due to a one-off post-liquidation interest payment of \$55 million received from Lehman's liquidators in March 2017. The post-liquidation interest was then appropriated to the HKSCC Guarantee Fund reserve from retained earnings in 2017.

Net Investment Income



The increase in the average size of Margin Funds during the year arises from increased margin requirements per contract cleared through HKCC and LME Clear together with higher open interest and market prices compared to 2016.

The analysis of net investment income is as follows:

	2017			2016		
	Margin Funds \$m	Clearing House Funds \$m	Total \$m	Margin Funds \$m	Clearing House Funds \$m	Total \$m
Net investment income from:						
Cash and bank deposits	746	24	770	512	20	532
Debt securities	36	-	36	13	-	13
Exchange gains	3	-	3	2	-	2
Total net investment income	785	24	809	527	20	547
Net investment return	0.57%	0.19%	0.54%	0.44%	0.26%	0.43%

The higher net investment income on Margin Funds in 2017 arose from higher interest income on cash and bank deposits, attributable to both higher average fund size and higher bank deposit rates in Hong Kong.

EBITDA

Operating expenses rose by \$50 million or 7 per cent over 2016, as a result of higher staff costs including annual payroll adjustments and higher variable pay, and higher premises costs. As the percentage increase in revenue and other income was higher than the percentage increase in operating expenses, EBITDA margin increased to 84 per cent in 2017 (2016: 83 per cent).

Business Update

Cash and Derivatives Clearing

The portfolio value held under Southbound and Northbound Trading of Stock Connect continued to increase and reached \$927 billion at 31 December 2017 (31 December 2016: \$364 billion) and RMB531 billion (31 December 2016: RMB186 billion) respectively. As a result, Stock Connect related depository, custody and nominee services fee income rose by 146 per cent to \$69 million in 2017 (2016: \$28 million).

As part of HKSCC's ongoing efforts to enhance Stock Connect, Realtime Delivery versus Payment (RDP) money settlement in RMB, HKD and USD for Northbound SIs of Stock Connect was introduced to reduce counterparty risk exposure between CCASS participants in November 2017. This new feature is expected to enable more European fund managers to invest in A shares through Stock Connect.

USD and CNH Gold Futures contracts launched in July 2017 are the first physically delivered commodities contracts cleared in Hong Kong. The physical delivery process has been smooth and the number of "Physical Delivery Participants" has grown as CPs are showing increasing interest in the newly launched contracts.

HKCC continues to improve margining efficiencies for CPs by offering margin offsets between correlated equity derivatives (HSI and HSCEI futures and options) and foreign exchange/commodity derivatives (USD, Gold and CNH futures and options).

HKEX has undertaken a comprehensive review of its risk management framework across HKSCC, HKCC and SEOC and is in the process of implementing changes to its default fund structure and the introduction of a new value-at-risk (VaR) margin model for the Cash Market. This will offer overall capital savings to market participants through the implementation of Next Generation Risk Management Platform scheduled for 2019.

To complement the extension of trading hours for equity index futures to 01:00 from November 2017, HKCC has also extended its clearing risk management and operations coverage to 01:45 to provide CPs with greater flexibility in managing their post-trade activities.

HKEX, together with ChinaClear, Central Depository Company Pakistan and National Securities Depository India, co-organised the World Forum of Central Securities Depositories (WFC 2017) in Hong Kong from 14 to 17 November 2017. Over 250 delegates from 58 regions around the world attended, exchanging ideas on the business development, application of fintech and market outlook of the Central Securities Depository industry.

OTC Clear

OTC Clear was awarded the "Best OTC Clearing and Risk Management System Implementation" by the Asian Banker and the "Clearing House of the Year" by Asia Risk in recognition of its Cross Currency Swap (CCS) propositions. In 2017, a total of US\$38.7 billion notional was cleared by OTC Clear, nearly nine times of that in 2016.

Apart from launching client clearing services and accepting non-cash collateral in Q1 2017, OTC Clear expanded its product suite to HKD basis swaps and non-deliverable interest rate swaps denominated in four Asian currencies in Q2 2017 and increased the daily notional exchanges risk limits for CCS in response to strong market demand in Q3 2017. OTC Clear also admitted banks incorporated in Australia, Singapore and France, bringing the number of clearing members to 20 by December 2017 (December 2016: 13).

LME Clear

In 2017, LME Clear delivered two upgrades to its clearing system: providing clearing services for LMEprecious; and implementing changes to ensure that LME Clear is compliant with all applicable MiFID II regulations. In addition, changes were made to its reporting tools to meet the requirements of the Bank of England's new reporting regime.

Platform and Infrastructure Segment

Analysis of Results

Summary

	2017 \$m	2016 \$m	Change
Network, terminal user, dataline and software sub-license fees	413	406	2%
Hosting services fees	143	129	11%
Others	4	5	(20%)
Total revenue	560	540	4%
Operating expenses	(151)	(152)	(1%)
EBITDA	409	388	5%
EBITDA margin	73%	72%	1%

Network, Terminal User, Dataline and Software Sub-license Fees

Network, terminal user, dataline and software sub-license fees increased due to organic growth from new EPs and China Connect Exchange Participants (CCEPs) migrating from Open Gateway to China Connect Central Gateway (CCCG), but this was partly offset by a decrease in sales of throttles.

Hosting Services Fees

Hosting services fees increased due to organic growth from both new customer subscriptions and increased usage by existing customers.

EBITDA

EBITDA margin increased from 72 per cent to 73 per cent, reflecting the increase in revenue and other income.

Business Update

During 2017, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably. The LME experienced two software incidents during 1H 2017, the second of which temporarily delayed the clearing processes for a number of trades. These matters have been duly resolved.

The Orion Trading Platform – Securities Market platform, which replaces the current Third Generation Automatic Order Matching and Execution System (AMS/3.8), was successfully launched in February 2018. This new system allows HKEX to provide new functionalities and support increased trading capacity for 400 million transactions daily, double that of the previous AMS/3.8 system.

CCCG was successfully introduced on 17 July 2017 to facilitate Northbound Trading for CCEPs. Over 90 per cent of Northbound Trading is now traded through CCEPs which have migrated onto the CCCG infrastructure, with full migration expected by Q1 2018.

HKEX continued development work on upgrades to the derivatives platforms, the Hong Kong Futures Automated Trading System (HKATS) and the Derivatives Clearing and Settlement System (DCASS), which are scheduled for rollout by 2H 2018. The upgrades will bring simplified infrastructure to the Derivatives Market, with a reduction of the hardware footprint required at participants' premises. Project and technical briefing sessions were held in 2017 and a web corner for the project has been established to foster communication with participants.

The HKEX Market website was rebuilt and rolled out in November 2017 with an entirely new design that aligns with HKEX's new corporate image released in 2016. The new website contains multiple enhancements which streamline navigation and enhance market data functionality.

At the end of December 2017, 108 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 52 per cent of the Cash Market turnover and 64 per cent of the trading volume of the Derivatives Market.

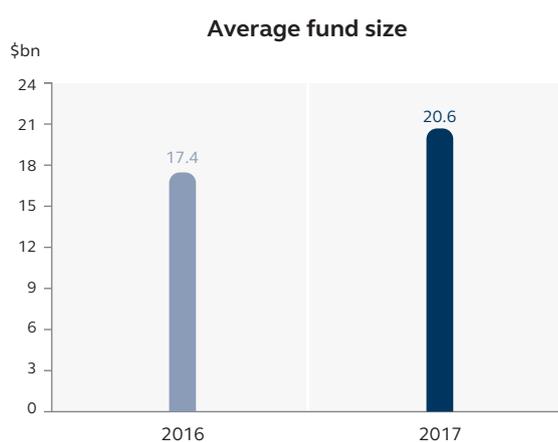
Corporate Items

"Corporate Items" is not a business segment but comprises central income (including net investment income of the Corporate Funds), the costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments.

Revenue and Other Income

	2017 \$m	2016 \$m	Change
Net investment income	790	149	430%
Others	11	12	(8%)
Total revenue and other income	801	161	398%

Net Investment Income



The average fund size increased principally due to cash generated and retained by the business after cash dividends paid.

● Corporate Funds

The analysis of net investment income is as follows:

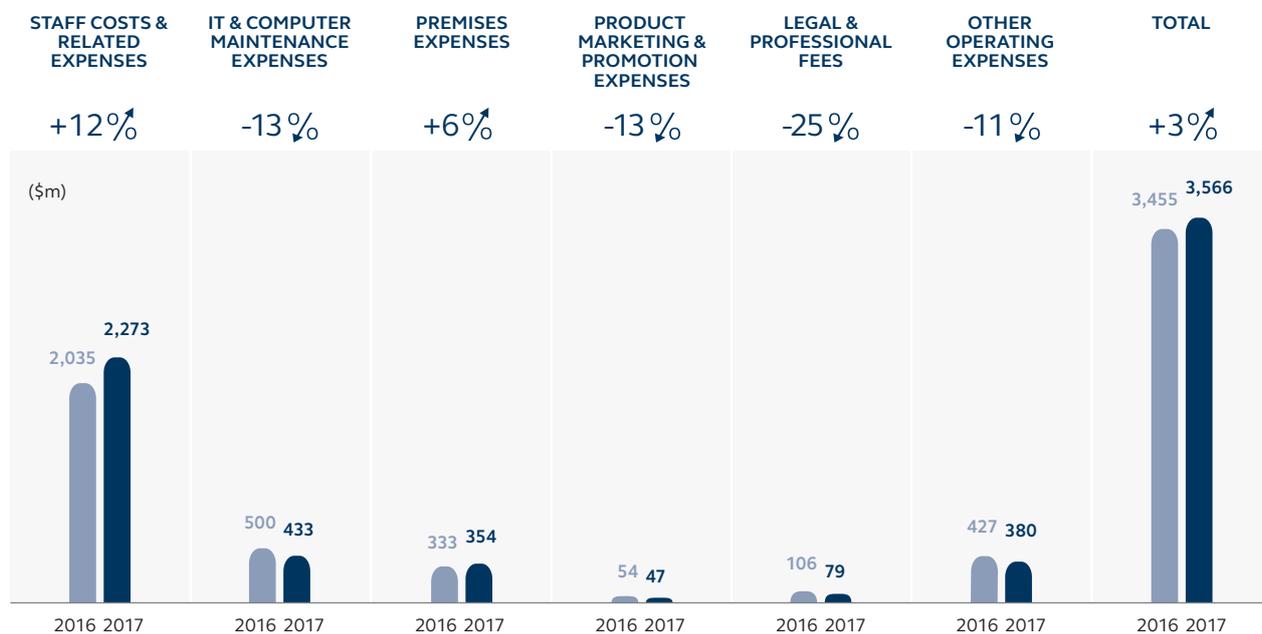
	2017 \$m	2016 \$m
Net investment income from:		
Cash and bank deposits	142	82
Collective investment schemes	632	6
Equity securities	14	27
Debt securities	-	75
Exchange gains/(losses)	2	(41)
Total net investment income	790	149
Net investment return	3.83%	0.86%

In 2017, a one-off receipt of \$14 million deferred consideration on sale of LCH shares was recognised in net investment income under equity securities. Excluding such gain, net investment income of the Corporate Funds in 2017 increased by \$627 million principally due to the fair value gains on collective investment schemes held under the external portfolio in 2017. Higher interest income on cash and bank deposits, attributable to both higher interest rates and higher average fund size, also contributed to the increase in net investment income.

As the valuation of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or redeemed.

Expenses, Other Costs and Taxation

Operating Expenses



Staff costs and related expenses increased by \$238 million or 12 per cent mainly due to annual payroll adjustments, increase in performance-related variable pay, and increased headcount for strategic initiatives including QME.

IT and computer maintenance expenses fell by \$67 million or 13 per cent, mainly attributable to lower IT costs of the LME Group as a result of cost savings for renewal of IT maintenance contracts and the depreciation of GBP. IT costs of services and goods directly consumed by Participants amounted to \$73 million, same as in 2016.

Premises expenses increased due to the net effect of the expiry of a number of lease agreements and the consolidation of office locations to increase operating efficiency.

Legal and professional fees decreased by \$27 million or 25 per cent, attributable to a one-off insurance recovery of \$23 million relating to the warehouse litigation in the US.

Other operating expenses decreased by \$47 million or 11 per cent due to the reclassification of banking facility commitment fees of \$41 million (2016: \$38 million)⁵ under finance costs (see below). Excluding such commitment fees, other operating expenses dropped by \$9 million or 2 per cent, due to lower investment management services costs.

Depreciation and Amortisation

	2017 \$m	2016 \$m	Change
Depreciation and amortisation	858	771	11%

Depreciation and amortisation increased by \$87 million or 11 per cent, attributable to new offices completed during the year and depreciation of new IT systems.

Finance Costs

	2017 \$m	2016 \$m	Change
Finance costs	134	82	63%

The increase in finance costs was due to the reclassification of bank facility commitment fees from other operating expenses of \$41 million for 2017 (see above), and negative interest paid for Euro and Japanese Yen margin deposits.

Taxation

	2017 \$m	2016 \$m	Change
Taxation	1,255	1,058	19%

Taxation increased due to higher profit before taxation in 2017 and a deferred tax credit of \$31 million in 2016 arising from reduction in UK Corporation Tax rate, but was partly offset by higher non-taxable investment income.

⁵ No restatement of prior year comparatives was made as the amount was considered immaterial.

FINANCIAL REVIEW

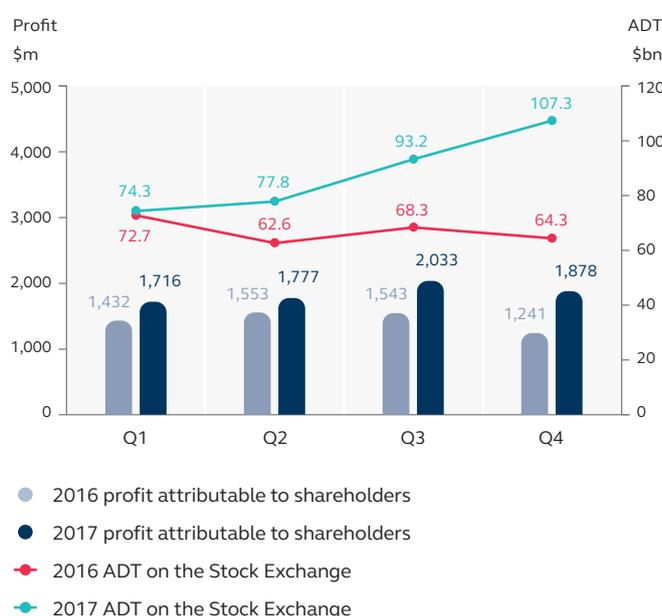
Analysis of Results by Quarter

Quarterly Results

	Q1 2017 \$m	Q2 2017 \$m	Q3 2017 \$m	Q4 2017 \$m	Total 2017 \$m
Revenue and other income	3,048	3,155	3,454	3,523	13,180
Operating expenses	(833)	(878)	(887)	(968)	(3,566)
EBITDA	2,215	2,277	2,567	2,555	9,614
Depreciation and amortisation	(175)	(187)	(185)	(311)	(858)
Operating profit	2,040	2,090	2,382	2,244	8,756
Finance costs	(29)	(36)	(28)	(41)	(134)
Share of losses of joint ventures	(2)	(3)	(3)	(4)	(12)
Profit before taxation	2,009	2,051	2,351	2,199	8,610
Taxation	(299)	(283)	(328)	(345)	(1,255)
Profit for period/year	1,710	1,768	2,023	1,854	7,355
Loss attributable to non-controlling interests	6	9	10	24	49
Profit attributable to shareholders	1,716	1,777	2,033	1,878	7,404

	Q1 2016 \$m	Q2 2016 \$m	Q3 2016 \$m	Q4 2016 \$m	Total 2016 \$m
Profit attributable to shareholders	1,432	1,553	1,543	1,241	5,769

Analysis of Quarterly Results



Market sentiment turned bullish in early 2017 and continued to gain momentum throughout the year, with headline ADT rising to \$107.3 billion in Q4 2017. The increase in ADT compared to corresponding quarters in 2016 resulted in 2017 profit attributable to shareholders being higher than 2016 for all quarters.

Q3 2017 was the most profitable quarter notwithstanding the higher ADT achieved in Q4 2017, due to an increase in operating costs towards the end of the year. This reflects seasonal decreases in depository and custody fees, year-end adjustments to performance related variable pay together with depreciation of new IT systems.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Financial Assets and Financial Liabilities

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	Change
Financial assets			
Cash and cash equivalents	155,660	115,723	35%
Financial assets measured at fair value through profit or loss	95,037	70,066	36%
Financial assets measured at amortised cost	30,817	29,167	6%
Total	281,514	214,956	31%

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base and precious metals derivatives contracts, and cash prepayments for A shares traded under Stock Connect, as follows:

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	Change
Financial assets			
Corporate Funds ¹	21,464	17,670	21%
Margin Funds ²	155,384	125,803	24%
Clearing House Funds	17,642	9,602	84%
Base and precious metals derivatives contracts cleared through LME Clear	85,335	61,618	38%
Cash prepayments for A shares	1,689	263	542%
Total	281,514	214,956	31%

1 The amounts at 31 December 2016 exclude a prepayment of \$600 million for collective investment schemes but include \$300 million of investments purchased for collective investment schemes not yet settled.

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of \$2,430 million (31 December 2016: \$1,043 million), which are included in accounts receivable, prepayments and other deposits.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	Change
Financial liabilities			
Base and precious metals derivatives contracts cleared through LME Clear	85,335	61,618	38%
Other financial liabilities at fair value through profit or loss	-	9	(100%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	157,814	126,846	24%
CPs' contributions to Clearing House Funds	16,626	8,656	92%
Total	259,775	197,129	32%

The 24 per cent increase in financial assets and financial liabilities of Margin Funds at 31 December 2017 against those at 31 December 2016 was mainly attributable to increased contributions required from members of LME Clear and CPs of SEOCH in response to an increase in open positions on metal contracts and stock options respectively, and higher metal contract prices.

The increase in financial assets and financial liabilities of Clearing House Funds was mainly attributable to higher contributions required from members of LME Clear and CPs of SEOCH in response to changes in risk exposures.

After adjusting for prepayments and unsettled investments in collective investment schemes (footnote 1 above), Corporate Funds at 31 December 2017 increased by \$3,494 million as compared to those at 31 December 2016 due to the retention of cash generated by the business over the past year partly offset by the cash paid for the 2016 final dividend and 2017 interim dividend.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. Further details of investment in collective investment schemes are included in note 48(a)(iv) to the Consolidated Financial Statements of this Annual Report.

(B) Fixed Assets, Intangible Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets rose by \$83 million from \$19,311 million at 31 December 2016 to \$19,394 million at 31 December 2017. The increase was mainly due to additions of \$788 million, and exchange gains of \$153 million arising from the effect of the appreciation of USD against HKD on the Group's investments in overseas subsidiaries, but was partly offset by depreciation and amortisation of \$858 million. Additions during the year mainly related to the establishment of a commodities trading platform in Mainland China, the renovation of new offices, and the development and upgrade of various trading and clearing systems including the enhancement of Stock Connect technology infrastructure.

The Group's capital expenditure commitments at 31 December 2017, including those authorised by the Board but not yet contracted for, amounted to \$1,433 million (31 December 2016: \$981 million). These related mainly to the renovation of new offices, and the development and upgrade of various IT systems including the cash, derivatives and commodities trading and clearing systems, and IT systems to facilitate mutual stock market access between Mainland China and Hong Kong.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

On 22 March 2017, the Group entered into an agreement to sell a 9.99 per cent stake in QME (formerly known as Gangrong Trading Services (Shenzhen) Limited) to an independent third party at a consideration of RMB25 million. After the transfer, the Group's interest in QME dropped to 90.01 per cent. On 26 May 2017 and 1 June 2017, RMB135 million and RMB15 million were further injected by the Group and the non-controlling interests respectively into QME as its registered capital.

BCCL, a joint venture established by CFETS and HKEX, was incorporated on 6 June 2017. On 10 August 2017, the Group injected \$14 million into BCCL for a 40 per cent stake in BCCL.

Save for those disclosed in this Annual Report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this Annual Report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this Annual Report.

(D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by \$5,007 million to \$37,273 million at 31 December 2017 from \$32,266 million at 31 December 2016. This arose principally from the \$3,037 million shares issued in lieu of cash dividends and an increase in retained earnings of \$1,756 million mainly attributable to profit for the year less dividends declared.

Equity attributable to Shareholders and Return on Equity



Return on equity increased by 2 per cent due to the increase in profit attributable to shareholders in 2017.

1 Based on equity attributable to shareholders at year-end

Liquidity, Financial Resources and Gearing

Working capital rose by \$2,330 million to \$19,452 million at 31 December 2017 (31 December 2016: \$17,122 million). The increase was mainly due to profit attributable to shareholders of \$7,404 million, which was partly offset by the 2016 final dividend and 2017 interim dividend (net of scrip dividends) of \$2,587 million, early repayment of USD floating rate bank borrowings of \$1,586 million and reclassification of borrowings of \$1,027 million from non-current liabilities to current liabilities as they became repayable within twelve months.

At 31 December 2017, the Group had the following outstanding borrowings:

	At 31 Dec 2017		At 31 Dec 2016	
	Carrying value \$m	Maturity	Carrying value \$m	Maturity
USD floating rate bank borrowings	–	N/A	1,586	Jul 2020 & Jul 2021
2 USD fixed rate notes with average coupon of 2.8 per cent	1,533	Dec 2018 & Jan 2019	1,519	Dec 2018 & Jan 2019
Written put options to non-controlling interests	327	N/A	317	N/A
	1,860		3,422	

At 31 December 2017, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 5 per cent (31 December 2016: 11 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2016: zero per cent). For this purpose, gross debt is defined as total borrowings and net debt is defined as total borrowings less cash and cash equivalents of Corporate Funds (and will be zero when the amount of cash and cash equivalents of Corporate Funds is greater than total borrowings), and adjusted capital as all components of equity attributable to shareholders other than designated reserves.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 31 December 2017, the Group's total available banking facilities for its daily operations amounted to \$18,963 million (31 December 2016: \$18,947 million), which included \$11,954 million (31 December 2016: \$11,938 million) of committed banking facilities and \$7,000 million (31 December 2016: \$7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2017, the total amount of the facilities was RMB21,500 million (31 December 2016: RMB21,500 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2016: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect, eg, natural disasters or extreme weather conditions in Hong Kong.

At 31 December 2017, 88 per cent (31 December 2016: 85 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Pledges of Assets

Details of pledges of assets are included in note 46 to the Consolidated Financial Statements of this Annual Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 48(a)(i) – Foreign exchange risk to the Consolidated Financial Statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 43 to the Consolidated Financial Statements of this Annual Report.

10-YEAR FINANCIAL STATISTICS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
KEY MARKET STATISTICS										
ADT traded on the Stock Exchange (\$bn)	88.2	66.9	105.6	69.5	62.6	53.9	69.7	69.1	62.3	72.1
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	441	464	394	275	284	260	269	222	206	207
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	428	298	374	302	249	228	303	246	192	225
ADV of metals contracts traded on LME* ('000 lots)	624	619	670	700	676	634	N/A	N/A	N/A	N/A

* HKEX completed the acquisition of the LME Group on 6 December 2012.

CONSOLIDATED INCOME STATEMENT

(\$m)										
Revenue and other income	13,180	11,116	13,375	9,849	8,723	7,211	7,855	7,566	7,035	7,549
Operating expenses	(3,566)	(3,455)	(3,290)	(2,958)	(2,777)	(1,957)	(1,733)	(1,505)	(1,392)	(1,511)
EBITDA	9,614	7,661	10,085	6,891	5,946	5,254	6,122	6,061	5,643	6,038
Depreciation and amortisation	(858)	(771)	(684)	(647)	(507)	(158)	(90)	(107)	(101)	(110)
Costs relating to acquisition of LME Group	-	-	-	-	-	(138)	-	-	-	-
Finance costs	(134)	(82)	(114)	(196)	(183)	(55)	-	-	-	-
Fair value loss on derivative component of convertible bonds	-	-	-	-	-	(55)	-	-	-	-
Share of losses of joint ventures	(12)	(9)	(9)	(10)	(10)	(3)	-	-	-	-
Profit before taxation	8,610	6,799	9,278	6,038	5,246	4,845	6,032	5,954	5,542	5,928
Taxation	(1,255)	(1,058)	(1,347)	(900)	(700)	(761)	(939)	(917)	(838)	(799)
Profit for the year	7,355	5,741	7,931	5,138	4,546	4,084	5,093	5,037	4,704	5,129
Loss attributable to non-controlling interests	49	28	25	27	6	-	-	-	-	-
Profit attributable to shareholders	7,404	5,769	7,956	5,165	4,552	4,084	5,093	5,037	4,704	5,129
Dividend per share (\$)	5.40	4.25	5.95	3.98	3.54	3.31	4.25	4.20	3.93	4.29
Basic earnings per share (\$)	6.03	4.76	6.70	4.44	3.95	3.75	4.71	4.66	4.36	4.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$m)										
Non-current assets	19,586	19,508	19,622	19,672	20,797	20,260	1,580	2,350	2,637	425
Current assets	298,018	227,810	218,571	232,188	65,146	60,577	52,448	45,534	42,695	62,397
Current liabilities	(278,566)	(210,688)	(203,976)	(222,564)	(57,538)	(55,337)	(44,809)	(39,160)	(36,985)	(55,220)
Net current assets	19,452	17,122	14,595	9,624	7,608	5,240	7,639	6,374	5,710	7,177
Total assets less current liabilities	39,038	36,630	34,217	29,296	28,405	25,500	9,219	8,724	8,347	7,602
Non-current liabilities	(1,663)	(4,246)	(4,255)	(7,937)	(7,887)	(7,736)	(60)	(47)	(320)	(308)
Total equity	37,375	32,384	29,962	21,359	20,518	17,764	9,159	8,677	8,027	7,294
Non-controlling interests	(102)	(118)	(146)	(86)	(113)	-	-	-	-	-
Equity attributable to HKEX's shareholders	37,273	32,266	29,816	21,273	20,405	17,764	9,159	8,677	8,027	7,294
Equity per share ¹ (\$)	30.14	26.42	24.74	18.26	17.59	15.48	8.50	8.06	7.46	6.79

FINANCIAL RATIOS

Dividend payout ratio	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio ²	27%	31%	25%	30%	32%	27%	22%	20%	20%	20%
Pre-tax profit margin ²	65%	61%	69%	61%	60%	67%	77%	79%	79%	79%
Return on equity ³	20%	18%	27%	24%	22%	23%	56%	58%	59%	70%
Current ratio	1.1	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.1

Notes:

- Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
- For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes share of losses of joint ventures.
- Based on equity attributable to HKEX's shareholders at year end

CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and recognises that good governance is vital for the long-term success and sustainability of HKEX's business.

HKEX's key corporate governance practices and activities during the year ended 31 December 2017 are highlighted in this report and certain Committee Reports, as well as the 2017 CSR Report which will be published on the HKEX Group website together with this Annual Report. All the Committee Reports form part of this report.

More details about HKEX's corporate governance structure, principles and practices are available on the HKEX Group website [CG](#).

Committee Reports

Nomination Committee Report: pages 74 to 76

Audit Committee Report: pages 77 to 79

Risk Committee Report: pages 80 to 82

Remuneration Committee Report: pages 83 to 89

ESG Committee Report: pages 90 and 91

HKEX Group website

About HKEX (Organisation) section [ORG](#)

Investor Relations section [IR](#)

Corporate Governance section [CG](#)

Corporate Social Responsibility section [CSR](#)

Governance Highlights

- High level of independence
- Periodic Board refreshment
- Rigorous nomination process
- Diverse range of Board expertise and experience
- Strong time commitment by Directors
- Ample training attended by Directors
- Board evaluation by independent consultant
- Effective oversight by Board and committees
- Annual compensation policies review
- Robust risk management and internal controls framework
- Embedded compliance culture
- Accountability and transparency
- Proactive and ongoing stakeholder engagement

Compliance with Corporate Governance Code

Throughout the year 2017, HKEX complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the following exceptions:

Code Provision A.4.1 (Re-election of non-executive directors)

The Government Appointed Directors, all being Non-executive Directors, are not subject to election or re-election by Shareholders as their appointments are governed by the SFO.

Code Provision A.4.2 (Retirement by rotation of directors)

HKEX's Chief Executive in his capacity as a Director is not subject to retirement by rotation, as his term on the Board is coterminous with his employment with HKEX under HKEX's Articles.

HKEX has applied the principles of the Corporate Governance Code to its corporate governance structure and practices in the manner as described in this report and on the HKEX Group website [CG/IR/ORG](#). A checklist detailing HKEX's compliance with the Corporate Governance Code is available on the HKEX Group website [CG](#). The Board has delegated its corporate governance functions to the ESG Committee. A summary of the work done by the ESG Committee in 2017/2018 is set out in the ESG Committee Report.

Strategic Planning

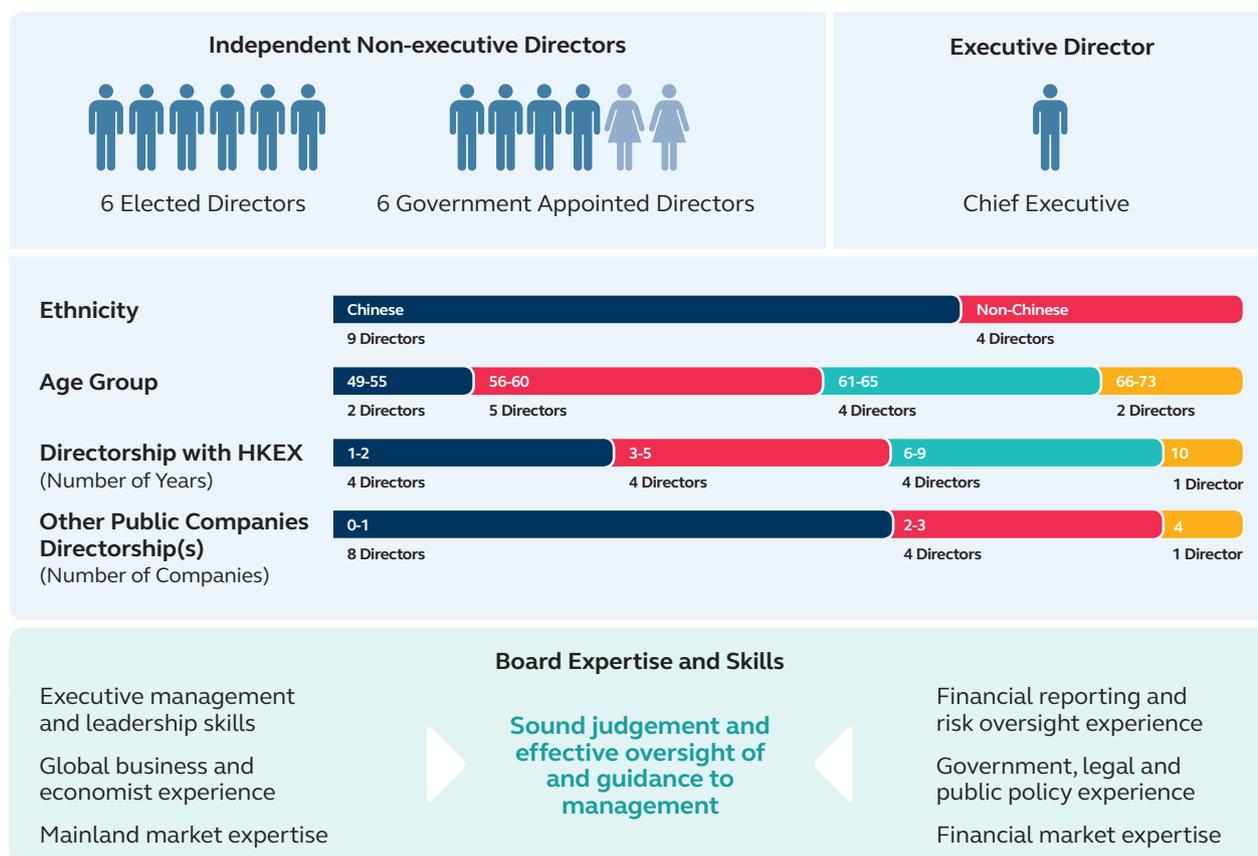
HKEX adopts a rigorous and continuing strategic planning process, including a full-day offsite Strategic Day, to identify and assess the opportunities and challenges that the Group might face and to develop a planned course of action for the Group to generate sustainable long-term value for Shareholders.

HKEX's three-year strategic plan for 2016-2018 is available on the HKEX Group website (About HKEX section). The annual Board offsite meeting was held to review the achievements under the plan, and discuss and explore potential strategic moves. Details of the progress made during the year are reported in the Chief Executive's Review and Business Review sections of this Annual Report.

The Board

Board Composition

The Board's structure is governed by HKEX's Articles and the SFO. The Board has adopted a Board Diversity Policy which is available on the HKEX Group website [CG](#). Its composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to HKEX's strategy, governance and business and contribute to the Board's effectiveness.



The names of the Directors in office during 2017 and brief biographies of the current Directors are included in the Board and Committees section and the Board of Directors and Senior Management section respectively of this Annual Report.

Under HKEX's Articles, the term of office of Non-executive Directors is not more than three years (subject to re-appointment or re-election), although each Government Appointed Director is normally appointed for a term of approximately two years. The staggered terms of service enable the Board to have a good balance of experienced and new Directors, with an average tenure of 4.4 years as of the date of this report. The service term of C K Chow and Tim Freshwater (Government Appointed Directors), and T C Chan, Fred Hu and John Williamson (Elected Directors) will expire at the conclusion of the 2018 AGM. On 12 February 2018, the Government appointed Cha May-Lung, Laura and Hung Pi Cheng, Benjamin as members of the Board, each for a term of approximately two years from the conclusion of the 2018 AGM until the end of the annual general meeting to be held in 2020. On 28 February 2018, the Board accepted the nomination by the Nomination Committee and recommended Mr Chan, Dr Hu and Mr Williamson to stand for re-election at the 2018 AGM.

Information about the Board Diversity Policy along with the review of the Board's composition, nomination of Board candidates and independence assessment of INEDs during 2017/2018 is set out in the Nomination Committee Report.

Roles and Responsibilities

Good governance emanates from an effective and accountable board. At HKEX, the Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation by management. It monitors the Group's operational and financial performance, reviews the Group's compensation policies and succession planning, and ensures that effective governance and CSR policies and sound internal control and risk management systems are in place. The Board operates under defined terms of reference which set out matters specifically reserved for its decision. The terms of reference are available on the HKEX Group website [ORG](#).

For effective oversight and leadership, the Board regularly reviews reports from HKEX's Chief Executive and senior management on the progress of the approved strategies, plans and budgets, and receives updates/advice from the Board committees, Consultative Panels and management on the governance, business performance and development of the Group. Further details relating to the Board committees, Consultative Panels and HKEX's management functions are set out in the Board Delegation section below.

Board Effectiveness

The Board recognises that conducting regular evaluation of its performance is essential to good corporate governance and Board effectiveness. In 2017, the Board engaged an independent external consultant to evaluate the performance of the boards of HKEX and its two subsidiaries, the LME and LME Clear.

The evaluation concluded that at HKEX, the Board's practices are compliant with the Corporate Governance Code and are in line with international best practices, and the Board operates effectively and performs well in its governance of HKEX. The evaluation also concluded that the performance of the LME Board and the LME Clear Board was in compliance with the applicable laws and governance codes and is largely well aligned with international best practices. The findings and recommendations from the evaluation were presented to the Board in November 2017.

Key evaluation findings for HKEX Board

- The Directors discharge effectively their overall duties on the Board and its committees.
- The dynamics of the Board are strong, with an appropriate level of debate during Board discussions.
- The mechanics of the Board function well, with timely and quality information provided to the Board and comprehensive induction training to new Directors.
- The Board composition is broadly reflective of the competencies, knowledge and experience required for HKEX's forward looking strategy.
- The relationship between the Board and the management is open, respectful and professional.

Chairman and Chief Executive

The roles of HKEX's Chairman and Chief Executive are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Details of their respective roles and responsibilities are available on the HKEX Group website [CG](#).

Key Responsibilities of HKEX's Chairman and Chief Executive

C K Chow

HKEX's Chairman (INED)

- Provides leadership to the Board
- Monitors Board effectiveness
- Fosters constructive relationships among Directors

- Promote integrity and probity
- Ensure effective stakeholder communication

Charles Li

HKEX's Chief Executive
(ex-officio Board member)

- Develops strategies for the Board's approval
- Executes strategies agreed by the Board
- Leads day-to-day management of the Group

Induction and Development

On appointment, Directors are provided with comprehensive induction training to ensure that they have a thorough understanding of the Group's operations and governance policies as well as their role and responsibilities. C H Cheah, Hugo Leung and Stephen Yiu, who became Directors on 26 April 2017, received the induction training after their appointment. Every new Board member also receives a Director's Handbook which contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct and information on other key governance issues. The Director's Handbook and more information about induction training for new Directors are available on the HKEX Group website [CG](#).

Ongoing training helps Directors keep abreast of current trends and issues facing the Group, while enabling them to update and refresh their skills and knowledge necessary for the performance of their duties. All Directors are required to provide HKEX with their training records, and to confirm their respective records on a semi-annual basis. The records are maintained by the Group Company Secretary for annual review by the ESG Committee. During 2017, the Directors received an aggregate of about 480 hours of training by attending management briefings, or participating as speakers, members or attendees in conferences, seminars, and workshops on various topics relevant to HKEX's strategy and business, development of the financial markets, and directors' duties.

2017 Directors' Training by Topic

Average hours of training: 36¹

	HKEX's strategy/business	Economy/financial markets and products	Director's duties/ESG practices	Financial reporting/risk management	Legislative/regulatory compliance	Others ²
INEDs						
C K Chow (Chairman)	√	√	√	√	√	
Apurv Bagri	√	√		√	√	
T C Chan	√	√	√	√	√	√
C H Cheah ³	√	√	√	√	√	√
Timothy Freshwater	√	√	√	√	√	
Anita Fung	√	√	√	√	√	
Rafael Gil-Tienda	√	√	√	√	√	
John Harrison ¹	√	√		√	√	
Fred Hu	√	√		√	√	
Bill Kwok ¹	√	√		√	√	
Vincent Lee ¹	√	√	√	√	√	
Margaret Leung	√	√	√	√	√	
Hugo Leung ³	√	√	√	√	√	√
John Williamson	√	√		√	√	
Stephen Yiu ⁴	√	√	√	√	√	
Executive Director						
Charles Li	√	√		√	√	

1 This figure excludes the training hours received by Mr Harrison, Dr Kwok and Mr Lee, who retired from the Board at the end of the 2017 AGM.

2 Include topics such as investor relations and management

3 Messrs Cheah and Leung were elected as Directors on 26 April 2017.

4 Mr Yiu was appointed as a Director effective 26 April 2017.

Board Process

In addition to the annual offsite meeting in September, the Board held nine regular meetings in 2017 to discuss matters relating to the Group's strategies, business operations, performance, governance, risk management, regulatory compliance and human capital. A site visit to the Qianhai commodities trading platform project in Shenzhen, Mainland China was arranged for Directors in March 2017. HKEX's Chairman also had regular gatherings with other Directors, occasionally without the presence of HKEX's Chief Executive, to consider issues in an informal setting.

Attendance Record of Directors and Committee Members in 2017

	2017 AGM	Board	Audit Committee	ESG Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Project Oversight Committee	Remuneration Committee	Risk Committee	Risk Management Committee (statutory)
Number of Meetings	1	9	4	1	4	4	1	- ¹	4	3	4	4
Total Duration (Approximate number of hours)	1	25	8	1	2	8	1	-	5	3	6	3
INEDs												
C K Chow (Chairman)	1/1	9/9		1/1	4/4		1/1			3/3	4/4	3/4
Apurv Bagri ²	1/1	9/9		1/1			-		4/4			
T C Chan	1/1	9/9	4/4				1/1	-			3/4	4/4
C H Cheah ³		7/7			3/3	2/2	-	-		2/2		
Timothy Freshwater	1/1	8/9				4/4	1/1			3/3		
Anita Fung	1/1	9/9	4/4			4/4		-	4/4			
Rafael Gil-Tienda ⁴	1/1	9/9		-				-	4/4		4/4	
John Harrison ⁵	1/1	2/2	1/1								1/1	
Fred Hu ⁶	1/1	8/9				4/4	1/1		3/4	2/2		
Bill Kwok ⁵	1/1	2/2	1/1		1/1			-	3/3	1/1		
Vincent Lee ⁵	1/1	2/2		1/1	1/1	2/2		-		1/1		
Margaret Leung	1/1	9/9			4/4						3/4	4/4
Hugo Leung ⁷		7/7	3/3	-	3/3			-				
John Williamson ⁸	1/1	9/9	4/4	1/1			1/1		1/1	2/3		
Stephen Yiu ⁹		7/7	3/3								3/3	
Executive Director												
Charles Li	1/1	9/9		1/1	4/4							
Market Professionals												
Henry Cheng												3/4
Raymond Cheng												3/4
Lawrence Lam												4/4
Keith Lui												4/4
Barbara Shiu												4/4
Average Attendance Rate	100%	98%	100%	100%	100%	100%	100%	N/A	95%	93%	90%	91% ¹⁰

1 Although no meeting was held, all members approved a resolution in writing in 2017.

2 Mr Bagri was appointed to the Nomination Committee on 27 April 2017 and ceased to be a member of the ESG Committee on the same date. No meeting of the Nomination Committee took place between 27 April and 31 December 2017.

3 Mr Cheah was elected as a Director on 26 April 2017 and appointed to the Executive Committee, the Investment Advisory Committee, the Nomination Committee, the Panel Member Nomination Committee and the Remuneration Committee on 27 April 2017. No meeting of the Nomination Committee and the Panel Member Nomination Committee took place between 27 April and 31 December 2017.

4 Mr Gil-Tienda was appointed to the ESG Committee on 27 April 2017. No meeting of the ESG Committee took place between 27 April and 31 December 2017.

5 Mr Harrison, Dr Kwok and Mr Lee retired from the Board and the committees on 26 April 2017.

6 Dr Hu was appointed to the Remuneration Committee on 27 April 2017 and ceased to be a member of the Nomination Committee on the same date.

7 Mr Leung was elected as a Director on 26 April 2017 and appointed to the Audit Committee, the ESG Committee, the Executive Committee and the Panel Member Nomination Committee on 27 April 2017. No meeting of the ESG Committee and the Panel Member Nomination Committee took place between 27 April and 31 December 2017.

8 Mr Williamson was appointed to the Project Oversight Committee on 27 April 2017 and ceased to be a member of the Nomination Committee on the same date.

9 Mr Yiu was appointed as a Director effective 26 April 2017, and as the chairman of the Audit Committee and a member of the Risk Committee on 27 April 2017.

10 The attendance rate took into account the attendance by the alternate member of the committee.

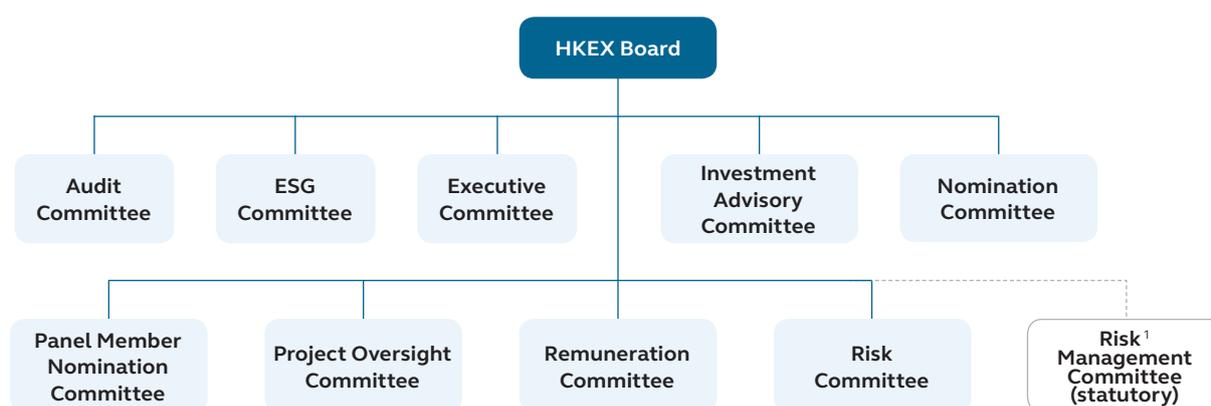
To facilitate effective oversight and decision making of the Board, HKEX has established the Group Escalation and Incident Reporting Policy to set out the guidelines on handling critical concerns relating to the Group's operations and performance. The Continuous Disclosure and Communication Policy is also in place to ensure timely reporting of inside information to the Board and communication with the Group's stakeholders, which together with other key features of the Board process are available on the HKEX Group website [CG](#).

Group Company Secretary

All Directors have access to the advice and services of the Group Company Secretary. The Group Company Secretary reports to HKEX's Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management.

The Group Company Secretary's biography is set out in the Board of Directors and Senior Management section of this Annual Report. During 2017, the Group Company Secretary had over 15 hours of professional training.

Board Delegation Committees



1 A statutory committee established under Section 65 of the SFO

The Board has delegated authority to various committees to deal with specific matters under defined terms of reference. The composition and terms of reference of the Board committees are reviewed and updated regularly to ensure that they remain appropriate and in line with the Group's business and changes in governance practices. The list of members of the Board committees is set out in the Board and Committees section of this Annual Report, and their attendance record is set out in "Board Process" above. More information about the Board committees is available on the HKEX Group website [CG/ORG](#).

Consultative Panels

HKEX has three Consultative Panels which provide market expertise and advice to the Board in relation to the trading and clearing in Hong Kong's securities and derivatives markets. The composition and terms of reference of the Consultative Panels are available on the HKEX Group website [ORG](#).

Number of Panel Meeting(s) Held in 2017	
Cash Market Consultative Panel	1
Derivatives Market Consultative Panel	2
Clearing Consultative Panel	2

Management

Senior management, under the leadership of HKEX's Chief Executive, is responsible for the day-to-day management of the Group's businesses and implementation of the strategies approved by the Board. The Management Committee, a management decision-making body chaired by HKEX's Chief Executive with defined authorities delegated by the Board, aims to meet at least twice a month. Its membership as at the date of this report is set out in the Management Committee section of this Annual Report, and its duties are available on the HKEX Group website [ORG](#).

During 2017, several senior management changes were made to support the latest strategic focus and accountability and to replace retiring executives. Details are set out in the Media Centre (News Releases) section of the HKEX Group website. HKEX's updated organisation structure is available on the HKEX Group website [ORG](#). The members of the Senior Management and their biographies are set out in the Board of Directors and Senior Management section of this Annual Report.

The Board recognises the importance of ensuring continuity in senior management and identifying leaders with appropriate skills and experience to support delivery of the Group's strategic initiatives. Succession planning for senior management is considered by the Board annually.

Given the competitive business environment in which the Group operates, HKEX arranges professional development programmes for its senior executives from time to time to support its long-term growth and success. During 2017, the Senior Management received an aggregate of about 470 hours of training by participating as speakers, members or attendees in conferences, seminars, and workshops on various topics, including HKEX's strategy and business, development of the financial markets, regulatory compliance, ESG practices and risk management. Other employees of the Group also attended training throughout the year. Details are set out in the 2017 CSR Report.

Subsidiary Governance

HKEX is committed to fostering good governance and a strong compliance culture at all levels of the organisation. To ensure there is an integrated, Group-wide approach towards upholding high governance standards, efforts have been made to strengthen the governance structures and processes of HKEX's subsidiaries.

For effective oversight of its subsidiaries, HKEX promotes governance linkages within the Group through common memberships between the Board and the subsidiaries' boards/committees and appointment of HKEX's senior management to the subsidiaries' boards. Details about the governance structures of the Group's principal subsidiaries (including composition and terms of reference of their boards and committees) are available on the HKEX Group website [ORG](#). Induction training has also been provided to subsidiaries' non-executive directors to facilitate their understanding of the Group's business and their duties and obligations as a director. A list of HKEX subsidiaries' directors is set out in the Directors' Report contained in this Annual Report.

HKEX has implemented a number of Group-wide governance policies, which are subject to review from time to time, to support its commitment to high standards of business, professional and ethical conduct and to ensure best practices across the organisation. During 2017, all the Group employees were required to complete training on risk awareness and compliance matters.

Key governance policies for employees

- Code of Conduct
- Continuous Disclosure and Communication Policy
- Group Anti-Bribery and Anti-Corruption Policy
- Group Personal Account Dealing Policy
- Group Whistleblowing Policy

Information about the Group's governance policies and practices is available on the HKEX Group website [CG/CSR](#).

Remuneration of Directors and Senior Management

HKEX has formal and transparent procedures for fixing the remuneration packages of individual Directors and senior management. Information about HKEX's remuneration policies and the Remuneration Committee, including its work in 2017/2018, is set out in the Remuneration Committee Report.

Directors' Securities Transactions and Interests in HKEX

Compliance with Model Code

HKEX has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code at all applicable times during 2017.

Directors' Interests and Short Positions in Shares and Underlying Shares of HKEX

The interests and short positions of Directors, including HKEX's Chief Executive, in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code, are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name of Director	Number of shares/underlying shares held				Total	% of HKEX ¹ shares in issue
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 ²	–	–	–	15,000	0.00
Charles Li	967,971 ³	–	–	–	967,971	0.07
Stephen Yiu	–	2,000 ⁴	–	–	2,000	0.00

¹ Based on 1,239,809,477 HKEX shares in issue as at 31 December 2017

² Mr Chow was the beneficial owner of those shares.

³ It included Mr Li's interests in Awarded Shares and shares acquired out of the dividends from the Awarded Shares in an aggregate of 448,997 shares which remained unvested under the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the Remuneration Committee Report.

⁴ Mr Yiu's spouse was the beneficial owner of those shares.

Save as disclosed above, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of HKEX or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEX and the SFC under the Model Code.

Apart from the Awarded Shares as disclosed in the Remuneration Committee Report, during 2017, none of the Directors (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of HKEX or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

Other Persons' Interests and Short Positions in Shares and Underlying Shares of HKEX

Minority Controllers

As at the date of this report, other than the Government which has been a Minority Controller since 7 September 2007, nine entities have been approved as Minority Controllers on the basis that they hold HKEX shares in custody for their clients. According to the Participant Shareholding Report as at 31 December 2017, these Minority Controllers in aggregate held approximately 61 per cent of HKEX shares in issue. More information about Minority Controllers is set out on the HKEX Group website [CG](#).

Other persons' interests and short positions in the shares and underlying shares of HKEX (within the meaning of Part XV of the SFO) as at 31 December 2017 as recorded in the register required to be kept under Section 336 of the SFO are set out below.

Long Positions in Shares and Underlying Shares of HKEX

Name	Capacity	Number of shares/ underlying shares held	Total	% of HKEX ¹ shares in issue
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 ²	66,730,300	5.38

¹ Based on 1,239,809,477 HKEX shares in issue as at 31 December 2017

² Based on a confirmation to HKEX by the Government in respect of its holding immediately following completion of a placing of new HKEX shares as announced on 30 November 2012

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of HKEX as at 31 December 2017 as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEX and the Stock Exchange.

Senior Management

Members of the senior management are obliged to follow the Company's restrictions on dealing in securities, futures contracts and other derivatives, which are on terms no less stringent than the Model Code, as set out in the Group Personal Account Dealing Policy. Senior Management's interests in the shares and underlying shares of HKEX as at 31 December 2017 are set out below.

Senior Management	Number of shares held	Number of shares remained unvested under the Share Award Scheme	Derivatives (number of underlying shares)
Matthew Chamberlain	–	48,737	–
Eva Chau	–	18,671	–
Adrian Farnham	22,724	29,895	–
David Graham	32,697	54,236	–
Romnesh Lamba	45	57,552	–
Roger Lee	331,730	65,250	–
Richard Leung	78,890	31,806	–
Li Gang	13,917	53,793	–
Ferheen Mahomed	8,050	34,350	–
Mao Zhirong	26,252	24,437	–
Trevor Spanner	–	47,642	–
Calvin Tai	112,531	50,828	–

Continuing Connected Transactions

In June 2000, the SFC granted a waiver to HKEX from strict compliance with the Main Board Listing Rules with respect to certain continuing connected transactions as referred to in (A), (B) and (C) below. The waiver has remained valid since then. During 2017 and subject to the waiver, the Group had the following continuing connected transactions:

A. Transactions between HKEX or its subsidiaries and the following connected persons arising from or in connection with the use of the facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Bill Kwok, who retired as an INED on 26 April 2017, was interested in the transactions entered into by Wocom Securities Limited (WSL) and Wocom Limited, EPs and CPs, which are Dr Kwok's associates by virtue of the Main Board Listing Rules.
- Vincent Lee, who retired as an INED on 26 April 2017, was interested in the transactions entered into by Hang Tai Securities Limited, Tung Tai Securities Company Limited and Tung Tai Futures Limited, EPs and CPs, which are Mr Lee's associates by virtue of the Main Board Listing Rules.

B. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the listing of securities on the Stock Exchange, and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- Bill Kwok was interested in the transactions entered into by his associate, Wing On Company International Limited, which is listed on the Stock Exchange.

C. Transactions between HKEX or its subsidiaries and the following connected person arising from or in connection with the HKSCC arrangement on behalf of CCASS Participants for: (i) carrying out "buy-in" when a CCASS Participant has failed to deliver securities on time for settlement under the CNS System or the Isolated Trades System operated by CCASS; (ii) the purchase or sale of securities in connection with the liquidation of the positions of a CCASS Participant that has been declared by HKSCC to be in default; and (iii) the sale of entitlements of securities held through CCASS (collectively referred as Buy-in Transactions):

- WSL is one of the brokers appointed by HKSCC to assist it in carrying out Buy-in Transactions. Bill Kwok is interested in any Buy-in Transactions entered into by WSL which is his associate by virtue of the Main Board Listing Rules. During 2017, no Buy-in Transactions were conducted by WSL.

The Board has delegated authority to the Audit Committee to review the above continuing connected transactions pursuant to Rule 14A.55 of the Main Board Listing Rules. The results of the Audit Committee's review are set out in the Audit Committee Report.

The Company's external auditor was engaged to report on the above continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The external auditor has issued an unqualified report containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.56 of the Main Board Listing Rules. The Company provided a copy of the report to the SFC and the Stock Exchange.

Related Party Transactions

During 2017, the Group entered into certain transactions with “related parties” as defined under the applicable accounting standards. Related party transactions are disclosed in note 45 to the Consolidated Financial Statements. They include the following connected transactions under the Main Board Listing Rules.

Related party transactions which constitute connected transactions	Compliance with Listing Rules
Transactions in connection with services incidental or related to facilities provided by the Group for the trading, clearing and/or settlement of securities and futures products and transactions, or listing of securities on the Stock Exchange as described in note 45(a) to the Consolidated Financial Statements	These are continuing connected transactions which have satisfied the conditions of the waiver granted by the SFC from strict compliance with the Main Board Listing Rules.
Compensation to HKEX’s Chief Executive and directors of HKEX’s subsidiaries and remuneration to HKEX’s Non-executive Directors, which form part of the “Key management personnel compensation” described in note 45(b) to the Consolidated Financial Statements	These are continuing connected transactions exempt from the connected transaction requirements under Rule 14A.76 or 14A.95 of the Main Board Listing Rules.

Accountability and Audit

Financial Reporting

The Board, which is responsible for overseeing the preparation of annual financial statements, receives monthly management accounts and updates on the Group’s performance, financial position and prospects. In 2017, HKEX published its annual, interim and quarterly results within three months, two months and 45 days respectively after the relevant period end. In preparing the financial statements for the year ended 31 December 2017, the Board adopted appropriate accounting policies consistently, made prudent and reasonable judgements and estimates, and ensured that the financial statements were prepared on a going concern basis and show a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of the Group’s consolidated financial performance and cash flows for the year.

Risk Management and Internal Control

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks (including ESG-related risks) it is willing to take in achieving the Group’s strategic objectives, maintaining sound and effective risk management and internal control systems (including those for ESG-related risks) and reviewing their effectiveness to safeguard Shareholders’ investment and the Group’s assets. To this end, management continues to allocate resources for internal control and risk management systems compatible with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework 2013 principles to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. Details of the Group’s risk governance structure and the Group Risk Management Framework are set out in the Risk Committee Report. Details of the Group’s key control procedures and internal audit functions are available on the HKEX Group website [CG](#).

The Board has reviewed the adequacy and effectiveness of the Group’s risk management and internal control systems, at least quarterly, through the Risk Committee and the Audit Committee. Information about the Risk Committee and the Audit Committee, including their work in 2017/2018, is set out in their respective reports contained in this Annual Report.

Independence of External Auditor

HKEX has engaged PricewaterhouseCoopers as its external auditor. In accordance with the Group's audit partner rotation policy, a new engagement partner was assigned to HKEX in 2017. An analysis of remuneration for audit and non-audit services provided by PricewaterhouseCoopers and details of the Audit Committee's work in assessing the independence of PricewaterhouseCoopers and ensuring audit effectiveness are set out in the Audit Committee Report.

Information about HKEX's policies and procedures in safeguarding and supporting the independence and objectivity of the external auditor is available on the HKEX Group website [CG](#).

Shareholder Relations

The Board gives high priority to maintaining balanced, clear and transparent communications with Shareholders and other investors to facilitate their understanding of the Group's performance and prospects as well as the market environment in which it operates. HKEX has an ongoing dialogue with Shareholders and other investors through various communication channels and takes any areas of concern into consideration when formulating its business strategies.

Investor Engagement and Communications

The investor relations team focuses on effective communication with investors and analysts. Under its well-established and across-the-board engagement programme, institutional investors and analysts can interact with HKEX's Chief Executive and other senior executives. Through the programme, the investment community is updated on the development of the Group's strategic initiatives and operations. In 2017, around 260 meetings were held with institutional investors and analysts in Hong Kong, Mainland China and overseas. To facilitate effective investor relations, shareholding analyses were conducted under Section 329 of the SFO to gain a better view of HKEX's shareholding structure.

Investor Relations Activities in 2017

- Small group/one-to-one meetings
- Non-deal roadshows
- Analyst briefings
- Investor conferences

Investor Relations Contact Details

Email: info@hkex.com.hk
 Fax: (852) 2868 4084
 Tel: (852) 2840 3330

Investment community views are communicated regularly to the Board, including sell-side consensus rating and target price for HKEX shares and summaries of questions and feedback from investors and analysts. During 2017, investors' major areas of interest included:

- Updates on financial performance of the Group;
- Updates on HKEX Strategic Plan 2016-2018; and
- Latest developments regarding the Group's initiatives, including Bond Connect, ETF Connect, Primary Connect, LME Strategic Pathway and New Board Consultation.

To foster institutional investors' understanding of the Group's governance performance, HKEX continues to provide related information to international ESG rating agencies upon request.

Shareholder Engagement and Communications

Corporate communications	<ul style="list-style-type: none"> • HKEX ensures prompt dissemination of corporate communications to enable Shareholders and other stakeholders to keep abreast of the Group's business and developments so that they can make informed decisions. • The HKEX Group website has been adopted as the designated company website for publication of HKEX's announcements, notices and other corporate communications. As at 31 December 2017, about 63 per cent of Shareholders had opted to receive corporate communications via electronic means.
Financial key dates	<ul style="list-style-type: none"> • The financial calendar highlighting important dates for Shareholders in 2018 is set out in the Shareholder Information section of this Annual Report and is also available on the HKEX Group website IR.
Scrip dividend scheme	<ul style="list-style-type: none"> • HKEX offers Shareholders the option of receiving their dividends in the form of scrip. The Board has, since 2015, offered a discount (currently at 3 per cent) on the subscription price to Shareholders who elect the scrip alternative to facilitate their reinvestment of their dividends in HKEX shares. Further details of the HKEX scrip dividend scheme are set out in the Shareholder Information section of this Annual Report and are also available on the HKEX Group website IR.
General meetings	<ul style="list-style-type: none"> • One or more Shareholders representing at least 5 per cent of the total voting rights of all Shareholders having a right to vote at general meetings may request the Board to call a general meeting. The request must state the general nature of the business to be dealt with, and it may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests must be sent to the Company Secretary at HKEX's registered office, or by email to ssd@hkex.com.hk. • Under HKEX's Articles, if a Shareholder wishes to propose a person for election as a Director at a general meeting, he or she should give written notice of the nomination to the Company Secretary at HKEX's registered office. Details of the procedures for nominating candidates to stand for election as a Director at the 2018 AGM will be set out in the circular to Shareholders to be sent together with this Annual Report. • Shareholders may put forward proposals at general meetings by sending written notice of their proposals to the Company Secretary at HKEX's registered office, or by email to ssd@hkex.com.hk. Details of the procedures for putting forward proposals by Shareholders are set out on the HKEX Group website CG.
Policies and guidelines	<ul style="list-style-type: none"> • The Shareholders Communication Policy ensures that Shareholders are provided with ready, equal and timely access to information about HKEX. The policy is regularly reviewed to ensure its effectiveness and is posted on the HKEX Group website CG. • The Shareholders' Guide with answers to the frequently asked questions of Shareholders with regard to their interests in HKEX shares is also available on the HKEX Group website CG.
Shareholding analysis	<ul style="list-style-type: none"> • Based on publicly available information and within the Directors' knowledge as at the date of this report, approximately 100 per cent of the HKEX shares were held by the public. HKEX's market capitalisation and shareholding distribution as at 31 December 2017 are set out in the Shareholder Information section of this Annual Report.

Further information about the Group's stakeholder engagement activities in 2017 is set out in the 2017 CSR Report.

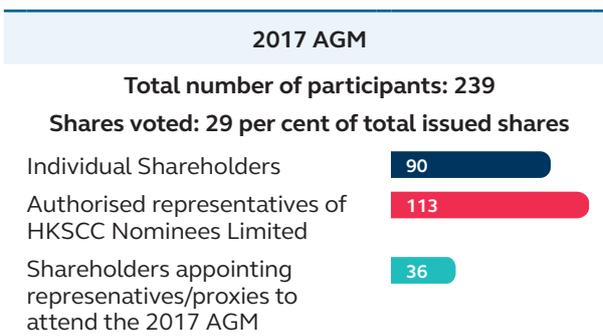
The Board is grateful to Shareholders and other stakeholders for their continued support and welcomes their views as well as any questions they may have about the management and governance of the Group. Shareholders and other stakeholders may at any time send their enquiries and concerns to the Board by addressing them to the Group Company Secretary and sending them by post to the Secretarial Services Department, HKEX, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to ssd@hkex.com.hk.

2017 Annual General Meeting

HKEX uses the AGM as a forum to establish constructive dialogue with Shareholders. Separate resolutions are proposed on each substantially separate issue, with all resolutions considered in a poll conducted by HKEX's registrar and verified by an independent scrutineer. Electronic voting is used at the AGMs to enhance efficiency and transparency of the vote counting process.

At the 2017 AGM, all Directors in office on the meeting date, including HKEX's Chairman and the chairmen of the Audit Committee and other Board committees, attended the meeting along with key senior executives and the external auditor.

The voting results and the minutes of the 2017 AGM are available on the HKEX Group website [IR](#).



Key Matters Resolved at the 2017 AGM¹

- Receipt of the 2016 audited financial statements
- Declaration of 2016 final dividend of \$2.04 per share
- Election of C H Cheah and Hugo Leung as Directors
- Re-appointment of PricewaterhouseCoopers as the Company's auditor
- Granting a general mandate to buy back HKEX shares (not exceeding 10 per cent of the number of shares in issue)
- Granting a general mandate to issue HKEX shares (not exceeding 10 per cent of the number of shares in issue and at a price not exceeding a discount of 10 per cent)
- Remuneration of \$180,000 and \$120,000 per annum respectively payable to the chairman and each of the other member (excluding Executive Director, if any) of the Project Oversight Committee, in addition to the attendance fee of \$3,000 per meeting

¹ The full text of the resolutions is set out in the Notice of the 2017 AGM.

2018 Annual General Meeting

The 2018 AGM will be held on Wednesday, 25 April 2018 at 4:30 pm at the HKEX Connect Hall on the 1st Floor, One and Two Exchange Square, Central, Hong Kong. The Notice of the 2018 AGM, which constitutes part of a circular to Shareholders, will be sent together with this Annual Report. The Notice of the 2018 AGM, the circular which sets out details of the business to be conducted at the 2018 AGM and the proxy form will be available on the HKEX Group website [IR](#). The results of the voting on the proposed resolutions will be published on the HKEX Group website [IR](#) shortly after the 2018 AGM is held.

All Shareholders are encouraged to attend the 2018 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting, and will be able to meet with Directors and the senior management.

Changes after Closure of Financial Year

This report takes into account the changes that occurred between the end of 2017 and the date of the approval of this report.

On behalf of the Board
MAU Kam Shing, Joseph
 Group Company Secretary

Hong Kong, 28 February 2018

NOMINATION COMMITTEE REPORT

The Nomination Committee

The Nomination Committee is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and assess INED's independence and commitment. Its terms of reference are available on the HKEX Group website [ORG](#).

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

Summary of Work in 2017/2018

- Nominated Board candidates for election by Shareholders at the AGM
 - Reviewed the independence of the INEDs
 - Reviewed time commitment of Directors for performance of their responsibilities
 - Reviewed the succession plan for the Board
-

Changes in Directors during 2017

In March 2017, the Government appointed Stephen Yiu and re-appointed Anita Fung, Rafael Gil-Tienda and Margaret Leung to the Board, each for a term of approximately two years from the close of the 2017 AGM until the conclusion of the AGM in 2019.

At the 2017 AGM, C H Cheah and Hugo Leung were elected by Shareholders for a term of approximately three years from 26 April 2017 until the conclusion of the AGM in 2020. John Harrison, Bill Kwok and Vincent Lee retired from the Board after the conclusion of the 2017 AGM.

Retiring Directors

The service term of C K Chow and Tim Freshwater (Government Appointed Directors), and T C Chan, Fred Hu and John Williamson (Elected Directors) will expire at the conclusion of the 2018 AGM.

Board Diversity

HKEX sees increasing diversity at the Board level as an essential element in attaining its strategic objectives and achieving sustainable and balanced development for the Group. Since 2013, HKEX has followed the Board Diversity Policy which is available on the HKEX Group website [CG](#). As part of the Board's succession planning, the Nomination Committee reviews the Board structure, size and diversity annually and considers any proposed changes to the Board composition.

To further enhance Board diversity and strike an appropriate balance between continuity of experience and Board refreshment, HKEX has, since 2015, set a maximum tenure of 12 consecutive years for the Non-executive Directors to be eligible for nomination by the Board to stand for re-election by Shareholders.

Nomination of Candidates

On 14 February 2018, the Nomination Committee, having reviewed the Board's composition, nominated T C Chan, Fred Hu and John Williamson to the Board for it to recommend to Shareholders for re-election at the 2018 AGM. The nominations were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out under the Board Diversity Policy. The Nomination Committee had also taken into account the respective contributions of Mr Chan, Dr Hu and Mr Williamson to the Board and their firm commitment to their roles, and it was satisfied with their independence having regard to the criteria laid down in the Main Board Listing Rules. Mr Chan, who is a member of the Nomination Committee, abstained from voting at the Committee meeting when his own nomination was being considered.

Mr Chan, Dr Hu and Mr Williamson do not have any service contracts with any member of the Group that are not determinable by the Group within one year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with this Annual Report and posted on the HKEX Group website [IR](#).

Independence of Non-executive Directors

An independent Board has the benefit of providing objective judgement and constructive challenge to the viewpoints presented by management. Non-executive Directors' independence is assessed upon appointment, annually and at any other time where the circumstances warrant reconsideration.

Assessment upon Director's Appointment

Each of C H Cheah, Hugo Leung and Stephen Yiu, upon his appointment, confirmed the following in writing to the SFC:

- his independence having regard to the criteria under Rule 3.13 of the Main Board Listing Rules;
- he has no connection with any of HKEX's core connected persons (as defined in the Main Board Listing Rules); and
- he has no past or present financial or other interest in the Group's business, except for his respective interest in a company which has certain business dealings with the Group (as stated below):
 - Mr Cheah is the chairman and co-chief investment officer of Value Partners Group Limited, a company listed on the Stock Exchange, in which he holds less than 30 per cent of the issued shares.
 - Mr Leung is a director and the chief executive officer of BNP Paribas Securities (Asia) Limited, which is an EP and CP.
 - Mr Yiu is a non-executive director of China Mobile Limited, a company listed on the Stock Exchange.

Each of Messrs Cheah, Leung and Yiu considered that his respective interest in the relevant company as stated above would not affect his exercise of independent judgement.

Ongoing Assessment

- Each INED is required to inform HKEX as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence. No such notification was received during 2017.
- None of the Directors have any financial, business, family or other material/relevant relationships with each other, in particular, between HKEX's Chairman and Chief Executive.
- Details of the Directors' interests in the Group's business are set out on pages 69 and 70 of this Annual Report.

On 14 February 2018, the Nomination Committee assessed the annual independence confirmation received from each INED, having regard to the criteria under Rule 3.13 of the Main Board Listing Rules.

Annual Assessment

- As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence.
 - Particular attention was given to assessing the independence of the Government Appointed Directors (including C K Chow, who is an Executive Councillor) given that the Government is a Minority Controller of HKEX.
 - Consideration was given to the independence of T C Chan and John Williamson, who will have served on the Board for more than nine years by the end of the 2018 AGM.
 - The Nomination Committee affirmed that all INEDs continued to demonstrate strong independence in judgement and were free from any business or other relationship which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.
-

CHOW Chung Kong

Chairman of the Nomination Committee

Hong Kong, 14 February 2018

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee (AC) is delegated with the authority from the Board to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external and internal audits. The AC is provided with sufficient resources to perform its duties including support, as necessary, from the Internal Audit Department (IAD), the external auditor, legal counsel and management in examining all matters relating to the Group's adopted accounting principles and practices, and in reviewing all material financial, operational and compliance controls. The AC's terms of reference are available on the HKEX Group website [ORG](#).

The AC comprises five INEDs whose names and biographies are set out in the Board and Committees section of this Annual Report. None of the AC members are employed by or otherwise affiliated with the auditor of HKEX.

The AC held four 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 AC's terms of reference and HKEX Internal Audit Charter
- Endorsed amendments to the Group Anti-Bribery and Anti-Corruption Policy, the Group Whistleblowing Policy, the Group Personal Account Dealing Policy and the Group Record Retention Policy
- Reviewed the Group's quarterly, half-yearly and annual financial results
- Reviewed the external auditor's statutory audit scope for the 2017 audit
- Reviewed, with both the external auditor and management, the audit approach and methodology applied, and in particular to those Key Audit Matters included in the year end auditor's report
- Approved the annual internal audit plan and internal audit three year strategic plan (2018 to 2020)
- Reviewed significant findings of the IAD, the external auditor and regulators, and management's response to their recommendations
- Reviewed quarterly reports on legal and regulatory compliance matters, including anti-bribery and anti-corruption matters and whistleblowing disclosures
- Reviewed the adequacy and effectiveness of the Group's internal control systems and its accounting, financial reporting and internal audit functions
- Reviewed the continuing connected transactions
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Approved the 2017 external audit engagement letters and fees
- Reviewed changes in accounting principles and practices proposed by management

Review of Financial Results

The AC reviewed the 2017 Consolidated Financial Statements in conjunction with HKEX's external auditor. Based on this review and discussions with management, the AC was satisfied that the Consolidated Financial Statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2017. The AC therefore recommended the Consolidated Financial Statements for the year ended 31 December 2017 be approved by the Board.

Review of Key Audit Matters

The AC reviewed and discussed with the external auditor and management the following key audit matters for the audit of the 2017 Consolidated Financial Statements.

Key Audit Matters	Assessment by the AC
Goodwill impairment assessment	The AC reviewed results of the goodwill impairment assessment prepared by management and was satisfied that sufficient analysis (including the sensitivity analysis on key assumptions) had been performed in this area to conclude that there was no impairment in respect of the goodwill allocated to the group of Cash Generating Units within the respective Commodities and Clearing operating segments. The impairment review was also an area of focus for the external auditor, which reported its findings to the AC, as detailed in the Auditor's Report on pages 99 and 100.
IT systems and controls over financial accounting and reporting	The external auditor's key audit matters included IT systems and controls since the Group's financial accounting and reporting processes are highly dependent on the design and operating effectiveness of key IT systems and automated controls. The AC noted and agreed with the external auditor that the key IT systems are reliable in ensuring the accuracy and completeness of the revenue recognition during the financial accounting and reporting processes. The findings of the external auditor are set out in the Auditor's Report on page 101.

Review of Internal Control Systems

The AC reviewed the effectiveness of the Group's policies and procedures regarding internal control systems (including the financial, operational, IT, risk management, information security, outsourcing, legal, compliance and those controls designed to detect material fraud) by reviewing the work of the IAD and the Group's external auditor, and regular reports from management including those on risk management, regulatory compliance and legal matters.

The AC reviewed and concurred with the management confirmation that for the year ended 31 December 2017, the Group's risk management and internal control systems were effective with reference to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013) principles. The management confirmation was separately endorsed by the Risk Committee. The AC is satisfied that the Group has adopted necessary control mechanisms to monitor and correct non-compliance and complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control systems.

Review of Accounting, Financial Reporting and Internal Audit Functions

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

Review of Continuing Connected Transactions

During 2017, the Group entered into certain continuing connected transactions as disclosed in the Corporate Governance Report contained in this Annual Report. The AC, under the authority delegated by the Board, reviewed these continuing connected transactions pursuant to Rule 14A.55 of the Main Board Listing Rules. The AC confirmed that the transactions were entered into by the Group in accordance with the requirements of the Main Board Listing Rules and the conditions of the waiver granted by the SFC that:

- (i) continuing connected transactions are entered into in the Group's ordinary and usual course of business, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;

- (ii) continuing connected transactions other than Buy-in Transactions are conducted in accordance with the rules and regulations of the relevant Group company governing such transactions, and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (iii) continuing connected transactions in respect of Buy-in Transactions are conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers and at the mutually agreed commission rates payable by HKSCC in respect of Buy-in Transactions generally; and
- (iv) continuing connected transactions are entered into according to the relevant agreements governing each of the continuing connected transactions on terms that are fair and reasonable and in the interests of Shareholders as a whole.

The Company's external auditor was engaged to report on the transactions in accordance with Rule 14A.56 of the Main Board Listing Rules. The AC reviewed the unqualified report issued by the external auditor dated 26 February 2018.

Independence of External Auditor

The AC is mandated to monitor the independence of the Group's external auditor, PricewaterhouseCoopers (PwC), to ensure objectivity in the financial statements. In general, the external auditor has to refrain from engaging in non-assurance services required by the Group except for limited tax-related services or specifically approved items. All services provided by PwC must be approved by the AC. To ensure that the policy of restricting the non-audit work done by the external auditor is followed strictly by all entities within the Group, appropriate policies and procedures have been established which set out: (i) the classification of services as pre-approved, not pre-approved and prohibited; and (ii) the approval process for services that have not been pre-approved.

With respect to the independence of the Group's external auditor, the AC received confirmation from and discussed with PwC on its independence and objectivity.

During the year, the AC reviewed PwC's statutory audit scope and non-audit services and approved its fees. Under the approval procedures for audit fees, all audit fees for entities within the Group were coordinated and presented by PwC Hong Kong, and all statutory audit fees for the Group companies were approved by the AC.

External Auditor's Services and Fees		
	2017 \$m	2016 \$m
Audit services	14	14
Non-audit services		
• Tax advisory and compliance	1	5
• Other services	4	1
Total	19	20

Re-appointment of External Auditor

The AC was satisfied with PwC's work, its independence, and its objectivity, and therefore recommended the re-appointment of PwC (which has indicated its willingness to continue in office) as the Group's external auditor for 2018 for Shareholders' approval at the 2018 AGM.

YIU Kin Wah, Stephen

Chairman of the Audit Committee

Hong Kong, 26 February 2018

RISK COMMITTEE REPORT

Risk Statement

Effective risk management is important to HKEX Group's achievement of its strategic goals. HKEX Group manages risk across multiple risk domains, including but not limited to financial, business and strategic, operational (including IT and cyber security) and legal and regulatory risks. Business operations are managed in line with risk appetite tolerances set by the HKEX Board.

HKEX Group seeks to ensure it achieves its strategic goal of being the global exchange and clearing provider of choice for investors and other market participants seeking exposure in the Hong Kong, Mainland China and international markets. This includes maintaining stakeholder trust and supporting the integrity of the financial system. The Group recognises its role as a market infrastructure provider and manager of systemic risk, and that its long-term sustainability is dependent on its pursuit of strategic goals while simultaneously managing risks, having sufficient capital and liquidity, ensuring continuity of operations, and protecting its reputation.

HKEX Group aims to maintain sufficient capital and liquidity to meet its regulatory obligations, which require it to have financial resources to cover potential losses and liquidity needs for a range of stress scenarios taking into account extreme but plausible market conditions. As a business, the Group also aims to maintain sufficient capital over and above that required to meet its regulatory obligations in order to fund its strategic development objectives while ensuring the appropriate balance between risk and shareholder returns. HKEX Group applies risk management measures to strategic initiatives that are designed to limit the Group's exposure to potential losses. It also seeks to maintain liquid financial resources to meet unforeseen cash outflows. The Group strives to maintain stakeholder trust by avoiding business practices that could lead to reputational damage or harm to the Group. The Group, therefore, seeks to operate within all relevant rules and regulations and to avoid disruptions to its business operations that would have a negative impact on stakeholders.

The Risk Committee

The Risk Committee is delegated by the Board to oversee the Group's overall Risk Management Framework and to advise the Board on the Group's risk-related matters. The Committee is also responsible for endorsing the Group's risk policies for Board approval and assessing the effectiveness of the Group's risk management and internal control systems. The Committee's terms of reference are available on the HKEX Group website [ORG](#). The Committee comprises five INEDs whose names and biographies are set out in the Board and Committees section of this Annual Report. The Committee held four meetings in 2017. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Summary of Work in 2017/2018

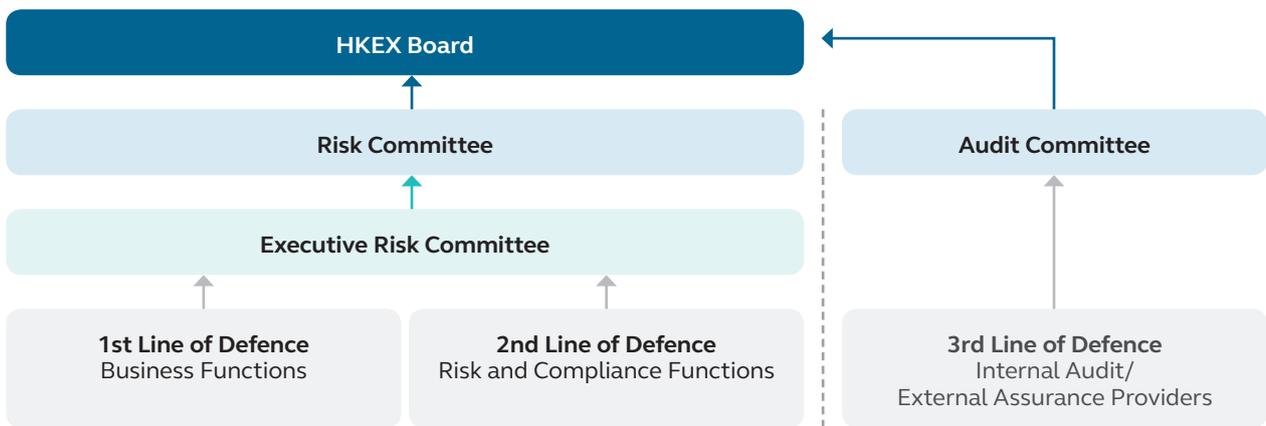
During the period, the Risk Committee oversaw key risk management activities including:

- Enhancements to the risk governance model including an update of the Executive Risk Committee's terms of reference and the establishment of additional management forums for specific risks;
- Review of the risk appetite statements and risk tolerances;
- Improvements to the enterprise risk and compliance reporting and management attestation processes;
- Implementation of risk and compliance culture initiatives;
- Enhancements to the clearing house default management and margining practices;
- Review of the LME market surveillance system and the European MIFID II compliance programme to ensure compliance;
- Implementation of the HKEX Compliance Monitoring Programme (CMP) and receipt of the CMP Review Report for HKSCC;
- Receipt of the assessment of the state of Regulatory Compliance at HKEX and the results of an independent high-level assessment of HKEX's Regulatory Compliance;
- Receipt of the results of the Group's quarterly Enterprise Risk Management processes including risk heatmaps and dashboards, summaries of assurance activities, emerging risks and clearing house liquidity, capital adequacy and solvency levels; and
- Endorsement of the management confirmation on the effectiveness of the Group's risk management and internal control systems.

Operating an appropriate and effective risk management and internal control system is essential to achieving HKEX Group strategic objectives and maintaining service delivery targets. The Risk Committee is responsible for overseeing the Group’s risk management approach, policy and framework. HKEX Group operates a consistent methodology using the Group Risk Management Framework for the identification, assessment, reporting and management of risks. Risk identification and management is the responsibility of HKEX Group Management. HKEX Group operates a risk governance model to effectively identify and manage risk.

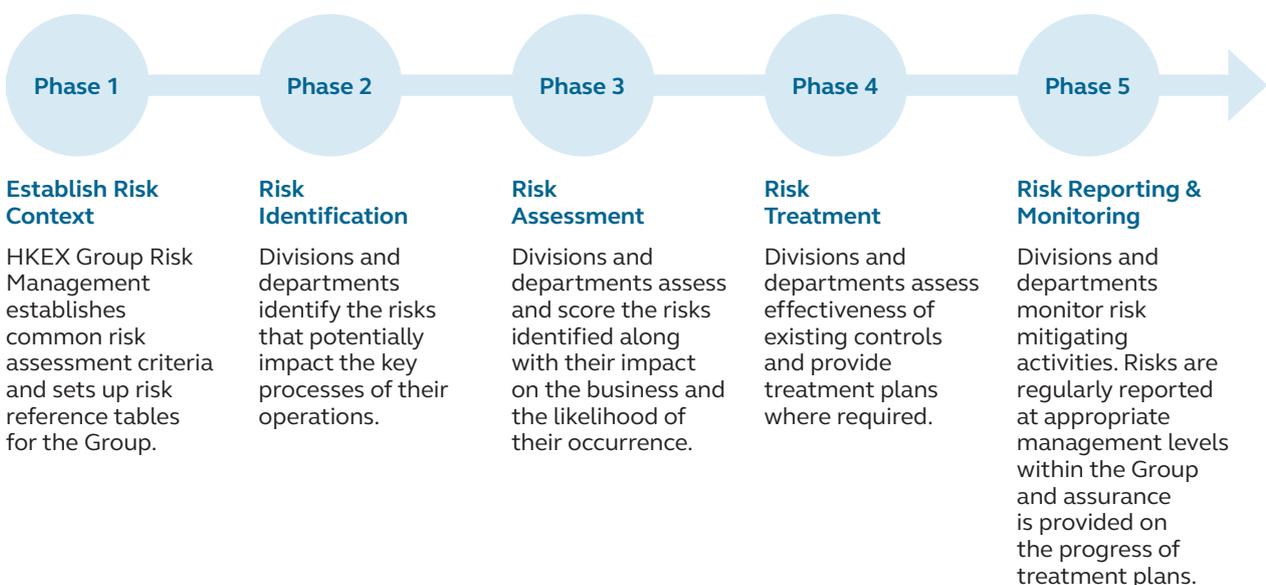
Risk Governance

The Group’s risk governance structure is based on a “Three Lines of Defence” model, with oversight and directions from the Board, the Risk Committee, and Group Management through the Executive Risk Committee.



Group Risk Management

The Group Risk Management Framework, approved by the Risk Committee, mandates a consistent and effective approach applied across the Group to manage the risks associated with its business and operations. The framework is based on the International Standard ISO (International Organisation for Standardisation) ISO 31000:2009 Risk Management – Principles and Guidelines. The following diagram illustrates the key processes adopted under the Group Risk Management Framework.



Principal Risks

HKEX Group faces a number of principal risks and uncertainties that if not properly managed could create an exposure for the Group. Thorough risk assessment and mitigation help ensure these risks are well managed and governed effectively. HKEX Group focuses on addressing the following principal risks.

Principal Risks	Description	Key Mitigations
Business and Strategic Risk	The risk of material adverse changes to the Group's business performance, development prospects and/or ability to deliver its strategy, caused by changes in the business, economic, competitive, regulatory or political environment in which the Group operates.	<ul style="list-style-type: none"> Proactive monitoring of global exchange industry trends, competitors and innovations; Proactive monitoring of and preparation for global and local changes in regulations affecting the Group; and Responsive project controls to allow strategic flexibility and dedicated strategy resources.
Credit Risk	The risk that a counterparty will not settle an obligation in full value, either when due or at any time thereafter.	<ul style="list-style-type: none"> Default management and recovery procedures in place; Established credit risk management function; Stress tested collateral and margin deposits; and Clearing market risk managed through collateral management and margin practices.
Market Risk	The risk resulting from adverse movements in market rates or prices such as foreign exchange rates, interest rates or equity prices impacting the Group's investment portfolio (Investment Market Risk).	<ul style="list-style-type: none"> Investment capital at risk limited by investment policies, restrictions and guidelines; and Exposure to foreign exchange risk through subsidiaries limited due to HKD/USD peg.
Liquidity Risk	The risk of being unable to settle obligations as they fall due whether relating to HKEX's cash flow requirements and/or regulatory requirements for clearing coverage confidence levels under extreme but plausible market conditions.	<ul style="list-style-type: none"> Investment policy, restrictions and guidelines in place covering Corporate Funds, Margin Funds and Clearing House Funds; and Clearing liquidity risk management requirements met through established stress testing practices.
Operational Risk	The risk of financial or reputational loss or inability to deliver services and products to customers due to inadequate or failed internal processes, IT systems or external events.	<ul style="list-style-type: none"> Environment, Social and Governance programmes; Low latency, highly resilient IT service design; Defence-in-depth cyber security controls; Comprehensive cyber testing programme; and Service delivery controls covering people, process and technology.
Legal and Compliance Risk	The risk of loss resulting from breach of or non-compliance with applicable laws, regulations or contractual obligations.	<ul style="list-style-type: none"> Internal and where appropriate external legal advice sought and compliance reviews conducted on business activities and new initiatives; Legal review of contracts; and Compliance review monitoring programme.
Listing Risk	The risk of reputational damage resulting from a failure on the part of SEHK to comply fully with its statutory obligations or the provisions of, or obligations under, the January 2003 MOU	<ul style="list-style-type: none"> Existing checks and balances under three-tiered regulatory structure (including the Listing Committee); Listing Division Market Contingency Plan to deal with potential business disruption events; Monitoring of unusual movements in price or trading volume of issuers' listed securities; and Segregation from other parts of HKEX using Chinese Wall arrangements to avoid leakage of inside information.

CHOW Chung Kong

Chairman of the Risk Committee

Hong Kong, 12 February 2018

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

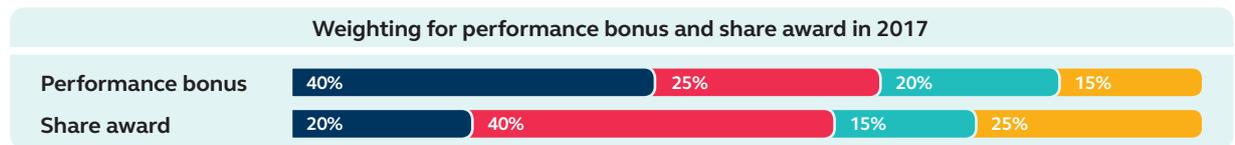
Policy

- 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The ESG Committee

The ESG Committee is delegated with the authority from the Board to review and monitor the Group's ESG policies and practices to ensure compliance with the relevant legal and regulatory requirements, monitor and respond to emerging ESG issues and make recommendations to the Board where appropriate to improve the Group's ESG performance. Its terms of reference are available on the HKEX Group website [ORG](#).

The ESG Committee comprises four INEDs and HKEX's Chief Executive, whose names and biographies are set out in the Board and Committees section of this Annual Report. The ESG Committee held one meeting 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 training and continuing professional development of the Directors and Senior Management
- Endorsed the annual Corporate Governance Report and the annual CSR Report

ESG Policies and Performance

HKEX is committed to the highest standards of corporate governance and aims to integrate CSR into its business strategy and management approach. Details of HKEX's key corporate governance practices and activities during 2017 are disclosed in the Corporate Governance Report. HKEX's Corporate Governance Statement and CSR Policy are available on the HKEX Group website [CG / CSR](#).

In view of the business nature of the Group, HKEX is not aware of any environmental laws or regulations that would have a significant impact on the Group. The Group, however, continues to do more than is required by adopting measures to reduce energy and other resource utilisation, minimise waste and increase recycling, encourage its employees to adopt environmentally responsible behaviour and promote environmental protection in its supply chain and marketplace. During 2017, HKEX was awarded the "Excellence" Level Wastewiŝe Certificate under the Hong Kong Green Organisation Certification scheme. HKEX was also awarded the CarbonCare® ESG Label by CarbonCare InnoLab in recognition of its effort to adopt high standards of reporting in respect of its environmental policies and performance.

HKEX promotes the development of socially responsible practices in its marketplace and community in accordance with its Community Investment Policy. In 2017, the Group donated a total of \$3.1 million to different causes in communities where it operates and helped raise \$73 million for The Community Chest of Hong Kong via the Stock Code Balloting for Charity Scheme, and approximately £47,000 for the LME's charity partner, Little Havens Hospice. Throughout the year, the Group continued to encourage its employees to participate in different events organised by charities in their communities. The Group's employees and their guests contributed over 4,300 hours of volunteer services in total. To further deepen the Group's connection with communities, the Board has approved the plan to establish a charitable foundation to implement a more structured approach to the determination and oversight of the Group's corporate giving in the future.

HKEX supports efforts by its Directors and Senior Management to develop and refresh their knowledge and skills to ensure that their contributions to the Board and the Group remain informed and relevant. On 14 February 2018, the ESG Committee reviewed the training records of Directors and Senior Management for 2017 and concluded that the training they received was appropriate and adequate.

Relationships with Major Stakeholders

HKEX continues to engage with its employees, market participants, investors, suppliers and other stakeholders through different channels to develop mutually beneficial relationships and promote sustainability.

Employees are remunerated equitably and competitively. Training and development opportunities are provided to equip staff members to deliver their best performance and achieve corporate goals. HKEX conducted its latest employee engagement survey in May 2017 and communicated the survey results to its employees in November 2017. The survey had a high response rate of 89 per cent.

The market is usually consulted (formally or informally) on major initiatives and the views of the respondents are carefully and thoroughly considered to ensure that decisions are made in an informed manner and any changes are acceptable to the market. The Exchange launched a two-month consultation in June 2017 to seek market views on the New Board Concept Paper and a consultation paper on the GEM reform, and the respective conclusions were issued in December 2017. In addition, five other market consultations on listing matters were undertaken in 2017 to seek views on capital raisings, delisting, the Corporate Governance Code and various proposed amendments to the Listing Rules. In August 2017, HKEX published its conclusions on proposed after-hours derivatives trading (T+1 session) enhancements following a two-month market consultation. In September 2017, the SFC and the Exchange published conclusions to their consultation regarding proposed enhancements to the Exchange's decision-making and governance structure for listing regulation. In the UK, the LME announced its strategic pathway in September 2017, following publication of a discussion paper in April 2017 – a comprehensive market engagement process undertaken to elicit market feedback on its market structure. The LME further issued a market consultation in November 2017 on the introduction of an OTC booking fee for financial participants and enhanced trading regulations in support of market fairness, and the consultation decision notice will be published in due course.

HKEX uses suppliers that reflect its values and commitment to being a good corporate citizen. During 2017, 10 representatives from HKEX's suppliers and other business partners supported and attended seminars related to anti-discrimination and prevention of bribery organised by HKEX under its ongoing stakeholder engagement programme.

CSR Reporting

During 2017, HKEX's Chief Executive provided to the Board quarterly CSR progress reports summarising the CSR initiatives undertaken by the Group. Details of the Group's CSR performance in 2017 are disclosed in the 2017 CSR Report.

CHOW Chung Kong

Chairman of the ESG Committee

Hong Kong, 14 February 2018

DIRECTORS' REPORT

The Directors are pleased to present this Annual Report together with the audited consolidated financial statements for the year ended 31 December 2017.

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 clearing and settlement services for interest rate and foreign exchange derivatives traded over-the-counter. 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 principal subsidiaries as of 31 December 2017 and their particulars are set out in note 24 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 2017 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 48 to the Consolidated Financial Statements.

Throughout 2017, 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/ regulations ¹	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.	A corporate governance structure ² is in place to enable HKEX to balance its public functions and its commercial profit making objectives.
	SEHK and HKFE are recognised exchange companies; and HKSCC, HKCC, SEOCH and OTC Clear are recognised clearing houses (RCHs).	The Regulatory Compliance Department is responsible for ensuring compliance with rules and regulations.
		Rule amendments by SEHK, HKFE and each of the RCHs are approved by the SFC under section 24 (for recognised exchange companies) and section 41 (for RCHs).
		Fees imposed by SEHK, HKFE and each of the RCHs are approved by the SFC under section 76.

Primary legislation/ regulations ¹	Key scope	Compliance measures
PFMI	HKSCC, HKCC, SEOCH and OTC Clear as the 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 Market website.
Exchange and clearing business in the 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 Part XVIII 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>
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>The LME conducts a bottom-up in-depth analysis, listing all of the recognition requirements, systems, procedures and policies in place to demonstrate how each requirement has been met.</p> <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>
FSMA	LME Clear is a recognised clearing house under Part XVIII 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 which, when appropriate, will approve the change. The Rules are publicly disclosed on the LME website.

Primary legislation/regulations ¹	Key scope	Compliance measures
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 the 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).	HKEX has adopted the Group Anti-Bribery and Anti-Corruption Policy to ensure that employees within the Group comply with the Prevention of Bribery Ordinance and the Bribery Act 2010, where applicable.
Bribery Act 2010	The Group's subsidiaries in the UK and persons who are British citizens are subject to the Bribery Act provisions.	

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

2 HKEX's corporate governance structure is available on the HKEX Group 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.

Disclosures related to the Group's environmental policies and performance, and relationships with major stakeholders are included in the ESG Committee Report.

Major Customers and Suppliers

During the year ended 31 December 2017, the combined value of the Group's contracts with its five 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 five largest customers combined contributed less than 30 per cent of its total revenue and other income during the year ended 31 December 2017.

Results and Appropriations

The Group's results for the year ended 31 December 2017 are set out in the Consolidated Income Statement.

An interim dividend of \$2.55 per share (2016: \$2.21 per share) was declared by the Board.

On 21 September 2017, dividends in the total sum of \$3.1 billion (2016: \$2.7 billion) were paid to Shareholders. This included the dividends of \$8 million (2016: \$7 million) paid to shares held in trust under the Share Award Scheme.

The Board recommends the payment of a final dividend of \$2.85 per share (2016: \$2.04 per share) to Shareholders whose names appear on HKEX's Register of Members on 3 May 2018, and the retention of the remaining profit for the year. Including the interim dividend, total dividend for 2017 amounts to a total of \$5.40 per share (2016: \$4.25 per share), which represents a payout ratio of 90 per cent (2016: 90 per cent) of the profit attributable to shareholders for the year ended 31 December 2017. Dividends for shares held in trust under the Share Award Scheme amount to \$16 million (2016: \$14 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. More information about the final dividend for 2017 is set out in the Shareholder Information section of this Annual Report.

Donations

The Group's charitable donations during the year amounted to \$3.1 million (2016: \$2.1 million). 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 2017, a total sum of \$73 million (2016: \$62 million) was raised via the Stock Code Balloting for Charity 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 36 to the Consolidated Financial Statements. HKEX shares were issued during the year on election of scrip in lieu of cash dividends for the 2016 final dividend and 2017 interim dividend pursuant to HKEX's scrip dividend scheme. Details are set out in note 36(a) to the Consolidated Financial Statements.

Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Reserves

As at 31 December 2017, HKEX's distributable reserves, calculated under Part 6 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), amounted to \$7.3 billion (31 December 2016: \$6.4 billion).

Details of the movements in the reserves of the Group and HKEX during the year are set out in the Consolidated Statement of Changes in Equity and notes 37 to 40 and note 49(a) to the Consolidated Financial Statements.

Purchase, Sale or Redemption of HKEX's Listed Securities

During 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of 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 999,700 HKEX shares at a total consideration of \$228 million.

Directors

The following is the list of Directors during the year and up to the date of this report (unless otherwise stated). Brief biographies of the current Directors are set out in the Board of Directors and Senior Management section of this Annual Report. Their interests in 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)
 Apurv BAGRI
 CHAN Tze Ching, Ignatius
 CHEAH Cheng Hye (Elected on 26 April 2017)
 Timothy George FRESHWATER
 FUNG Yuen Mei, Anita (Re-appointed on 26 April 2017)
 Rafael GIL-TIENDA (Re-appointed on 26 April 2017)
 John Barrie HARRISON (Retired on 26 April 2017)
 HU Zulu, Fred
 KWOK Chi Piu, Bill (Retired on 26 April 2017)
 LEE Kwan Ho, Vincent Marshall (Retired on 26 April 2017)
 LEUNG KO May Yee, Margaret (Re-appointed on 26 April 2017)
 LEUNG Pak Hon, Hugo (Elected on 26 April 2017)
 John Mackay McCulloch WILLIAMSON
 YIU Kin Wah, Stephen (Appointed on 26 April 2017)

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	Marye Louise HUMPHERY	Ferheen MAHOMED ²
Matthew James CHAMBERLAIN ²	Garry Peter JONES ³	MAO Zhirong ²
CHAN Wing Kwong ³	Paul Michael KENNEDY ³	Ketan B PATEL
CHENG Mo Chi, Moses	John Patrick KILLIAN ²	POON Hon Cheung
CHEUNG Man Leung, Billy	KWAN Wai Hung	POON Tim Fung
CHIN Chin Fai	KWOK Chi Piu, Bill ³	David Bolton RUSSELL
CHOW Chung Kong ¹	LAI Tat Sze, Darcy ³	Trevor William SPANNER ²
Adrian John Winston FARNHAM ²	LAM Kin	Marco Andrea STRIMER
Rafael GIL-TIENDA ¹	Romnesh LAMBA ²	Antony John STUART
David GRAHAM ²	LEE Kwok Keung ²	TAI Chi Kin ²
Hugh Edward GRAHAM	LEUNG Chung Kwong, Richard ²	Richard John THORNHILL
GUO Xiaoli	LI Gang ²	YIU Kin Wah, Stephen ¹
John Barrie HARRISON ³	LI Xiaojia, Charles ¹	ZUO Tao
Elizabeth Noel HARWERTH	LIANG Cheng	
HUI Ching Yu	LIN Jiemin	

¹ Member of the Board

² Member of Senior Management

³ No longer a director of any subsidiary of HKEX as at the date of this report

Directors' Interests in Transactions, Arrangements and Contracts

Details of the continuing connected transactions and related party transactions are set out in the Corporate Governance Report and note 45 to the Consolidated Financial Statements.

Notwithstanding the above, no 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 2017 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 2017.

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 37 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 2017.

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 2017.

Permitted Indemnity Provision

Pursuant to the HKEX's Articles, subject to the provisions of the statutes, every Director shall be entitled to be indemnified by the 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. The Directors and Officers Liability Insurance (D&O Insurance) undertaken by the Company provides such indemnities to all the directors of the Company and its subsidiaries. The relevant provisions in the HKEX's Articles and the D&O Insurance were in force during the financial year ended 31 December 2017 and as of the date of this report.

Auditor

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, which retires and, being eligible, offers itself for re-appointment at the 2018 AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the 2018 AGM.

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

Approved by the Board on 28 February 2018

CHOW Chung Kong
Chairman

AUDITOR'S REPORT

Independent Auditor's Report to the Members of Hong Kong Exchanges and Clearing Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and of its subsidiaries (together, "the Group") set out on pages 104 to 188, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- IT systems and controls over financial accounting and reporting

Key Audit Matters (continued)

Goodwill impairment assessment

Nature of the Key Audit Matter

As at 31 December 2017, the Group has goodwill of HK\$13,277 million arising from the acquisition of LME Holdings Limited and its subsidiaries (collectively "LME Group") in 2012. Goodwill was allocated to groups of Cash Generating Units ("CGUs") within the "Commodities" segment, HK\$10,396 million, and the "Clearing" segment, HK\$2,881 million and is monitored by management at the operating segment level.

Management has performed an impairment assessment over the goodwill allocated to the Commodities and Clearing segments at the operating segment level by:

1. calculating the "value-in-use" for groups of CGUs within each operating segment using a discounted cash flow model. These models use future cash flow projections (revenue, expenses and capital expenditure) for each group of CGUs over a five-year period, with a terminal growth rate applied to the period beyond the fifth year. These cash flows are discounted to net present value using the weighted average cost of capital ("WACC") of groups of CGUs; and
2. comparing the resulting value-in-use of each group of CGUs to their respective book values.

We focus on goodwill due to the size of the balance and significant judgement applied by management in the value-in-use assessments.

Significant judgement was involved on the key assumptions underlying the future cash flow projections for the LME Group, including expected trade volume and pricing within the CGUs in each of the operating segments. Other assumptions involved are the discount rates applied and growth rates applied to the period beyond the fifth year ("terminal growth rate") to those future cash flow projections.

How our audit addressed the Key Audit Matter

Our work included testing management's key controls over the goodwill impairment assessment including:

1. controls exercised by management over the development of future cash flow projections used in the budget;
2. approval by the board of directors over the budget developed by management; and
3. control processes performed by management to monitor the actual performance against the budget approved by the board of directors.

Our audit procedures also included the following:

1. We have assessed the discounted cash flow model used by management to estimate the value-in-use of the respective groups of CGUs within the Commodities and Clearing segments.
2. We have assessed the reasonableness of the WACCs used and the terminal growth rates applied to the period beyond the fifth year by reviewing management's assumptions underlying the cash flow projections from the commodities and clearing business and comparing them to independent market data, industry forecasts and historical average daily volume growth for trading and clearing;
3. We have evaluated the reasonableness of management's key assumptions used in the underlying cash flow projections for the five-year period, by comparing historical budgets and achievements and the reasons for any deviations. We have also agreed the cash flow projections against the latest budgets approved by the board of directors;

Key Audit Matters (continued)

Goodwill impairment assessment (continued)

Nature of the Key Audit Matter

Management has also assessed and monitored the budgeted future cash flow projections used in calculating the value-in-use for each group of CGUs against the actual performance.

Management has concluded that there is no impairment in respect of the goodwill allocated to the groups of CGUs within the respective Commodities and Clearing segments using the value-in-use model.

Refer to note 3 for critical accounting estimates and assumptions and note 26 for the goodwill disclosure relating to the impairment assessment.

How our audit addressed the Key Audit Matter

4. We have obtained and have evaluated management's sensitivity analyses to assess the impact of reasonably possible changes to the key assumptions (cash flow projections, WACCs and growth rates). We have also performed our own independent sensitivity analyses on these key assumptions, including those applied to the period beyond the fifth year, and evaluated the impact that such possible changes have on the recoverable amount of the goodwill allocated to each group of CGUs at the financial year end;
5. We have reviewed the appropriateness of the goodwill impairment assessment disclosure.

Based on the above audit procedures, no material exceptions to management's assessment were noted.

Key Audit Matters (continued)

IT systems and controls over financial accounting and reporting

Nature of the Key Audit Matter

The Group operates securities and derivatives trading, clearing and settlement systems, which process significant volumes of daily transactions and market data. The trading, clearing and settlement fees generated from the transactions processed are the key drivers of the Group's revenue. The revenue recognition of these fees rely heavily on the Information Technology ("IT") systems processing those transactions and data.

Our audit effort focused on the key IT systems and related controls we planned to rely on over the revenue recognition and financial reporting processes. This focus includes (1) the core trading, clearing and settlement systems that process transactions for revenue recognition of these fees, (2) the financial accounting and reporting system that generates financial information utilised in the preparation of the Group's financial statements and (3) the interfaces between the core systems and the financial accounting and reporting system ("key IT systems").

We focused on these areas as the Group's revenue recognition and financial reporting processes are highly dependent on automated controls, system generated information and system interfaces, which are underpinned by the design and operating effectiveness of the IT general controls over the key IT systems and the automated application controls over the processes. The Group relied on the key IT systems and controls to ensure the accuracy and completeness of the revenue recognition during the financial accounting and reporting processes.

How our audit addressed the Key Audit Matter

As part of our audit, we obtained a front-to-end understanding of the revenue recognition and financial reporting processes and identified the automated controls we planned to rely on and the corresponding key IT systems that support the processes.

Our audit procedures over the relevant IT systems and related controls included the following:

1. We have assessed the IT control environment, examined the IT governance framework and tested the IT general controls of the key IT systems that support the revenue recognition and financial reporting processes to evaluate whether the system functionality, data and controls could be relied on throughout the period. Our testing of IT general controls covered access to programs and data, program changes, computer operations and program development.
2. We have tested the identified automated application controls, which are critical to the revenue recognition and financial reporting processes. Our testing procedures included the testing of system logical access, system automated calculations and validations, testing of system generated information, system interfaces and reconciliations.
3. We have placed certain reliance on the work of HKEX's internal audit function over the testing of automated calculations and system interfaces. In order to rely on their work, we have evaluated the objectivity and competence of the internal audit function and determined the nature and extent of work that can be relied on by us. Additionally, we have independently performed audit procedures to evaluate the results of the work of the internal audit function.

Based on the above audit procedures, no material exceptions that would impact our level of reliance on the key IT systems and the related controls for the purpose of our audit were noted.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the section Overview, Organisation, Management Discussion and Analysis, Governance, Shareholder Information and Glossary included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee of the Group assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Colin Stuart Shaftesley.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 \$m	2016 \$m
Trading fees and trading tariff	5(a)	4,856	4,428
Stock Exchange listing fees	5(b)	1,333	1,092
Clearing and settlement fees		2,691	2,358
Depository, custody and nominee services fees		892	857
Market data fees		857	816
Other revenue	5(c)	945	847
REVENUE	5	11,574	10,398
Investment income		2,171	826
Interest rebates to Participants		(572)	(130)
Net investment income	6	1,599	696
Sundry income	7	7	22
REVENUE AND OTHER INCOME	4	13,180	11,116
OPERATING EXPENSES			
Staff costs and related expenses	8	(2,273)	(2,035)
Information technology and computer maintenance expenses	9	(433)	(500)
Premises expenses		(354)	(333)
Product marketing and promotion expenses		(47)	(54)
Legal and professional fees		(79)	(106)
Other operating expenses	10	(380)	(427)
		(3,566)	(3,455)
EBITDA	4	9,614	7,661
Depreciation and amortisation		(858)	(771)
OPERATING PROFIT	11	8,756	6,890
Finance costs	12	(134)	(82)
Share of losses of joint ventures		(12)	(9)
PROFIT BEFORE TAXATION	4	8,610	6,799
TAXATION	15(a)	(1,255)	(1,058)
PROFIT FOR THE YEAR		7,355	5,741
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of HKEX	40	7,404	5,769
Non-controlling interests	24(a)(i)	(49)	(28)
PROFIT FOR THE YEAR		7,355	5,741
Basic earnings per share	16(a)	\$6.03	\$4.76
Diluted earnings per share	16(b)	\$6.02	\$4.75

The notes on pages 109 to 188 are an integral part of these consolidated financial statements.

Details of dividends are set out in note 17 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 \$m	2016 \$m
PROFIT FOR THE YEAR		7,355	5,741
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences of foreign subsidiaries recorded in exchange reserve	2(e)(iii)	156	(6)
Cash flow hedges	38	1	-
OTHER COMPREHENSIVE INCOME		157	(6)
TOTAL COMPREHENSIVE INCOME		7,512	5,735
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of HKEX		7,561	5,763
Non-controlling interests	24(a)(i)	(49)	(28)
TOTAL COMPREHENSIVE INCOME		7,512	5,735

The notes on pages 109 to 188 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	At 31 Dec 2017			At 31 Dec 2016		
		Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
ASSETS							
Cash and cash equivalents	18, 19	155,660	-	155,660	115,723	-	115,723
Financial assets measured at fair value through profit or loss	18, 20	95,037	-	95,037	70,066	-	70,066
Financial assets measured at amortised cost	18, 21	30,757	60	30,817	29,093	74	29,167
Accounts receivable, prepayments and deposits	23	16,564	21	16,585	12,928	21	12,949
Interests in joint ventures	25	-	61	61	-	59	59
Goodwill and other intangible assets	26	-	17,925	17,925	-	17,812	17,812
Fixed assets	27	-	1,469	1,469	-	1,499	1,499
Lease premium for land		-	20	20	-	21	21
Deferred tax assets	35(d)	-	30	30	-	22	22
Total assets		298,018	19,586	317,604	227,810	19,508	247,318
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	28	85,335	-	85,335	61,627	-	61,627
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	18, 29	157,814	-	157,814	126,846	-	126,846
Accounts payable, accruals and other liabilities	30	16,159	51	16,210	12,246	30	12,276
Deferred revenue		957	-	957	842	-	842
Taxation payable		505	-	505	356	-	356
Other financial liabilities	31	58	-	58	37	-	37
Participants' contributions to Clearing House Funds	18, 32	16,626	-	16,626	8,656	-	8,656
Borrowings	33	1,027	833	1,860	-	3,422	3,422
Provisions	34	85	68	153	78	81	159
Deferred tax liabilities	35(d)	-	711	711	-	713	713
Total liabilities		278,566	1,663	280,229	210,688	4,246	214,934
Equity							
Share capital	36			25,141			22,085
Shares held for Share Award Scheme	36			(606)			(599)
Employee share-based compensation reserve	37			222			226
Hedging reserve	38			1			-
Exchange reserve	2(e)(iii)			(104)			(260)
Designated reserves	32, 39			822			773
Reserve relating to written put options to non-controlling interests				(293)			(293)
Retained earnings	40			12,090			10,334
Equity attributable to shareholders of HKEX				37,273			32,266
Non-controlling interests	24(a)(i)			102			118
Total equity				37,375			32,384
Total liabilities and equity				317,604			247,318
Net current assets				19,452			17,122

The notes on pages 109 to 188 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 28 February 2018

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to shareholders of HKEX									
	Share capital and shares held for Share Award Scheme (note 36) \$m	Employee share-based compensation reserve (note 37) \$m	Hedging reserve (note 38) \$m	Exchange reserve \$m	Designated reserves (note 39) \$m	Reserve relating to written put options to non-controlling interests \$m	Retained earnings (note 40) \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
At 1 Jan 2016	18,695	199	-	(254)	778	(293)	10,691	29,816	146	29,962
Profit for the year	-	-	-	-	-	-	5,769	5,769	(28)	5,741
Other comprehensive income	-	-	-	(6)	-	-	-	(6)	-	(6)
Total comprehensive income	-	-	-	(6)	-	-	5,769	5,763	(28)	5,735
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2015 final dividend at \$2.87 per share	-	-	-	-	-	-	(3,459)	(3,459)	-	(3,459)
- 2016 interim dividend at \$2.21 per share	-	-	-	-	-	-	(2,683)	(2,683)	-	(2,683)
- Unclaimed HKEX dividends forfeited (note 30(a))	-	-	-	-	-	-	22	22	-	22
- Shares issued in lieu of cash dividends	2,782	-	-	-	-	-	-	2,782	-	2,782
- Shares purchased for Share Award Scheme	(188)	-	-	-	-	-	-	(188)	-	(188)
- Vesting of shares of Share Award Scheme	197	(186)	-	-	-	-	(11)	-	-	-
- Employee share-based compensation benefits	-	213	-	-	-	-	-	213	-	213
- Transfer of reserves	-	-	-	-	(5)	-	5	-	-	-
	2,791	27	-	-	(5)	-	(6,126)	(3,313)	-	(3,313)
At 31 Dec 2016	21,486	226	-	(260)	773	(293)	10,334	32,266	118	32,384
At 1 Jan 2017	21,486	226	-	(260)	773	(293)	10,334	32,266	118	32,384
Profit for the year	-	-	-	-	-	-	7,404	7,404	(49)	7,355
Other comprehensive income	-	-	1	156	-	-	-	157	-	157
Total comprehensive income	-	-	1	156	-	-	7,404	7,561	(49)	7,512
Total transactions with shareholders of HKEX, recognised directly in equity:										
- 2016 final dividend at \$2.04 per share	-	-	-	-	-	-	(2,491)	(2,491)	-	(2,491)
- 2017 interim dividend at \$2.55 per share	-	-	-	-	-	-	(3,133)	(3,133)	-	(3,133)
- Unclaimed HKEX dividends forfeited (note 30(a))	-	-	-	-	-	-	26	26	-	26
- Shares issued in lieu of cash dividends	3,037	-	-	-	-	-	-	3,037	-	3,037
- Shares purchased for Share Award Scheme	(228)	-	-	-	-	-	-	(228)	-	(228)
- Vesting of shares of Share Award Scheme	240	(224)	-	-	-	-	(16)	-	-	-
- Employee share-based compensation benefits	-	220	-	-	-	-	-	220	-	220
- Tax credit relating to Share Award Scheme	-	-	-	-	-	-	3	3	-	3
- Transfer of reserves	-	-	-	-	49	-	(49)	-	-	-
- Changes in ownership interests in a subsidiary (note 44)	-	-	-	-	-	-	12	12	33	45
	3,049	(4)	-	-	49	-	(5,648)	(2,554)	33	(2,521)
At 31 Dec 2017	24,535	222	1	(104)	822	(293)	12,090	37,273	102	37,375

The notes on pages 109 to 188 are an integral part of these consolidated financial statements.

OVERVIEW

ORGANISATION

MD & A

GOVERNANCE

FINANCIALS

OTHERS

GLOSSARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 \$m	2016 \$m
CASH FLOWS FROM PRINCIPAL OPERATING ACTIVITIES			
Net cash inflow from principal operating activities	41(a)	8,013	6,164
CASH FLOWS FROM OTHER OPERATING ACTIVITIES			
Net payments to external fund managers for purchases of financial assets measured at fair value through profit or loss		(600)	(2,701)
Net cash inflow from operating activities		7,413	3,463
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets and intangible assets		(688)	(620)
Payment for interest in a joint venture		(14)	-
Net decrease/(increase) in financial assets of Corporate Funds:			
Decrease/(increase) in time deposits with original maturities more than three months		2,285	(2,419)
Payments for purchases of financial assets measured at amortised cost (excluding time deposits)		(315)	(312)
Sales proceeds from financial assets measured at fair value through profit or loss		14	-
Interest received from financial assets measured at fair value through profit or loss		32	16
Net cash inflow/(outflow) from investing activities		1,314	(3,335)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank borrowings	41(b)	(1,603)	-
Purchases of shares for Share Award Scheme		(228)	(188)
Payments of interest on borrowings	41(b)	(66)	(69)
Payments of other finance costs		(54)	-
Dividends paid to shareholders of HKEX		(2,561)	(3,329)
Proceeds from disposal of interest in a subsidiary without loss of control		28	-
Capital injection by non-controlling interest to a subsidiary		17	-
Net cash outflow from financing activities		(4,467)	(3,586)
Net increase/(decrease) in cash and cash equivalents		4,260	(3,458)
Cash and cash equivalents at 1 Jan		9,286	12,744
Cash and cash equivalents at 31 Dec		13,546	9,286
Analysis of cash and cash equivalents			
Cash on hand and balances and deposits with banks and short-term investments of Corporate Funds	19	13,546	9,286

The notes on pages 109 to 188 are an integral part of these consolidated financial statements.

- (a) “Cash flows from principal operating activities” is a non-Hong Kong Financial Reporting Standard (non-HKFRS) measure used by management for monitoring cash flows of the Group (defined in note 1) and represents the cash flows generated from the trading and clearing operations of the three exchanges and five clearing houses and ancillary services of the Group. Cash flows from principal operating activities and cash flows from other operating activities together represent cash flows from operating activities as defined by Hong Kong Accounting Standard (HKAS) 7: Statement of Cash Flows. This non-HKFRS measure may not be comparable to similar measures presented by other companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Hong Kong Exchanges and Clearing Limited (HKEX or the Company) and its subsidiaries (collectively, the Group) own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses, a clearing house for clearing over-the-counter derivatives contracts in Hong Kong, and an exchange and a clearing house for the trading and clearing of base and precious metals futures and options contracts operating in the United Kingdom (UK).

HKEX is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Hong Kong.

These consolidated financial statements were approved for issue by the Board of Directors (Board) on 28 February 2018.

2. Principal Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the consolidated financial statements, other principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules) and the applicable requirements of the Hong Kong Companies Ordinance (Chapter 622).

(b) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates, and requires management to exercise its judgement when applying the Group's accounting policies. Areas involving significant estimates and judgement are disclosed in note 3.

Adoption of new/revised HKFRSs

In 2017, the Group has adopted the following amendments to HKFRSs which were effective for accounting periods beginning on or after 1 January 2017:

Amendments to HKAS 7	Statement of Cash Flows – Disclosure Initiative
Amendments to HKAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these amendments to HKFRSs does not have any financial impact on the Group. Only amendments to HKAS 7 require the disclosure of changes in liabilities arising from financing activities (note 41(b)).

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

New/revised HKFRSs issued before 31 December 2017 but not yet effective and not early adopted

The Group has not applied the following new/revised HKFRSs which were issued before 31 December 2017 and are pertinent to its operations but not yet effective:

HKFRS 9 (2014)	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments ²

¹ Effective for accounting periods beginning on or after 1 January 2018

² Effective for accounting periods beginning on or after 1 January 2019

HKFRS 9 (2014) will only affect the classification of debt securities held for Margin Funds and recognition of impairment provisions. It will not affect the classification of other securities held by the Group.

Currently, debt securities held for Margin Funds amounting to \$3,059 million are classified as financial assets measured at fair value through profit or loss. Under HKFRS 9 (2014), they will satisfy the conditions for classification as a new category of financial assets, financial assets measured at fair value through other comprehensive income. Accordingly, the related cumulative fair value losses of \$4 million will have to be transferred from retained earnings to the revaluation reserve on 1 January 2018. Subsequent changes in fair value of these debt securities shall be taken to the revaluation reserve. Interest income, foreign exchange differences, impairment losses, and gains or losses on disposal of these debt securities will continue to be recognised in consolidated income statement.

The new impairment model under HKFRS 9 (2014) requires the recognition of provision for impairment losses based on expected credit losses rather than incurred credit losses. There will be no significant change in the amount of provision for impairment losses to be recognised at 1 January 2018.

The Group will apply the new rules retrospectively from 1 January 2018. With the practical expedients permitted under the standard, comparatives for 2017 will not be restated.

HKFRS 15 is based on the principle that revenue is recognised when control of goods or services is transferred to customers. Based on the assessments undertaken to date, the Group does not expect significant financial impact arising from the change in revenue recognition policy adopted by the Group. The Group will apply the standard using the modified retrospective approach and comparatives will not be restated.

HKFRS 16 will primarily affect the accounting for the Group's operating leases. At 31 December 2017, the Group had non-cancellable operating lease commitments of \$2,629 million (note 42(b)). Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognised in the consolidated statement of financial position as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be measured at cost and depreciated on a straight-line basis during the lease term. The Group intends to apply the simplified transition approach and will not restate comparatives amounts for the year prior to its first adoption.

2. Principal Accounting Policies (continued)

(b) Basis of preparation (continued)

New/revised HKFRSs issued before 31 December 2017 but not yet effective and not early adopted (continued)

The adoption of HK(IFRIC) Interpretation 22 and HK(IFRIC) Interpretation 23 would not have any financial impact on the Group.

There are no other new/revised HKFRSs not yet effective that are expected to have any impact on the Group.

(c) Basis of consolidation

Subsidiaries are entities (including structured entities) over which the Group has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

Accounting policies of subsidiaries have been aligned on consolidation to ensure consistency with the policies adopted by the Group.

(d) Impairment of non-financial assets

Assets with an indefinite useful life, which include interests in joint ventures, goodwill and tradenames, are not subject to amortisation and are tested at least annually for impairment. Assets subject to amortisation are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value-in-use). Such impairment losses are recognised in the consolidated income statement. An impairment loss other than goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong Dollar (HKD), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. They are deferred in hedging reserve under equity if they relate to qualifying cash flow hedges (note 38).

Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

2. Principal Accounting Policies (continued)

(e) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities that have a non-HKD functional currency are translated into HKD as follows:

- assets and liabilities (including goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries) for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions; and
- all resulting currency translation differences are recognised in other comprehensive income in the exchange reserve under equity.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future when the consolidated financial statements are prepared. The resulting accounting estimates may differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Goodwill and tradenames

The Group tests annually whether goodwill and tradenames have suffered any impairment in accordance with the accounting policy stated in note 26.

The recoverable amounts of relevant cash generating units (CGUs) and relevant group of CGUs have been determined based on value-in-use calculations which are disclosed in note 26. These calculations require the use of estimates and significant judgement by management, including the future cash flows expected to arise from the CGUs, discount rates for calculating the present value and growth rates used to extrapolate cash flow projections beyond the financial forecasts approved by management.

Changes in facts and circumstances may result in revisions to estimates of recoverable amounts and to the conclusion as to whether an indication of impairment exists, which could affect the consolidated income statement in future years.

3. Critical Accounting Estimates and Assumptions (continued)

(b) Valuation of investments

The Group has a significant amount of investments that are not classified as Level 1 investments under HKFRS 13: Fair Value Measurement. The valuations have been determined based on quotes from market makers, alternative pricing sources supported by observable inputs, latest transactions prices or redemption prices provided by funds administrators of collective investment schemes.

At 31 December 2017, the financial assets that were not classified as Level 1 investments (excluding the base and precious metals futures and options contracts cleared through LME Clear Limited (LME Clear) that did not qualify for netting under the current accounting standards) under HKFRS 13 amounted to \$4,802 million (31 December 2016: \$3,201 million) which represented investments under collective investment schemes (31 December 2016: mainly comprised of \$2,886 million of investments under collective investment schemes).

As the valuation of investments reflects movements in their estimated fair value, fair value gains or losses may fluctuate or reverse until the investments are sold, mature or realised upon redemption. The potential impact of the fair value change of such investments on the Group's consolidated income statement is disclosed in note 48(a)(iv).

4. Operating Segments

Accounting Policy

Operating segments are reported in a manner consistent with the internal management reports that are used to make strategic decisions provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Chief Executive of HKEX. Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Taxation charge/credit is not allocated to reportable segments.

The Group has five reportable segments ("Corporate Items" is not a reportable segment). The segments are managed separately as each segment offers different products and services and requires different information technology systems and marketing strategies. The operations in each of the Group's reportable segments are as follows:

The **Cash** segment covers all equity products traded on the Cash Market platforms, the Shanghai Stock Exchange and the Shenzhen Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (Stock Connect), sales of market data relating to these products and other related activities. The major sources of revenue of the segment are trading fees, trading tariff, listing fees of equity products and market data fees.

4. Operating Segments (continued)

The **Equity and Financial Derivatives** segment refers to derivatives products traded on The Stock Exchange of Hong Kong Limited (Stock Exchange) and Hong Kong Futures Exchange Limited (Futures Exchange) and other related activities. These include the provision and maintenance of trading platforms for a range of equity and financial derivatives products, such as stock and equity index futures and options, derivative warrants (DWs), callable bull/bear contracts (CBBCs) and warrants and sales of related market data. The major sources of revenue are trading fees, trading tariff, listing fees of derivatives products and market data fees.

The **Commodities** segment refers to the operations of The London Metal Exchange (LME), which operates an exchange in the UK for the trading of base and precious metals futures and options contracts, and the development of a new commodity trading platform in the Mainland. It also covers the Asia Commodities contracts and gold and iron ore futures contracts traded on the Futures Exchange. The major sources of revenue of the segment are trading fees of commodity products, commodity market data fees and fees from ancillary operations.

The **Clearing** segment refers to the operations of the five clearing houses, which are responsible for clearing, settlement and custodian activities of the exchanges of the Group and Northbound trades under Stock Connect, and clearing and settlement of over-the-counter derivatives contracts. Its principal sources of revenue are derived from providing clearing, settlement, depository, custody and nominee services and net investment income earned on the Margin Funds and Clearing House Funds.

The **Platform and Infrastructure** segment refers to all services in connection with providing users with access to the platform and infrastructure of the Group. Its major sources of revenue are network, terminal user, dataline and software sub-license fees and hosting services fees.

Central income (including net investment income of Corporate Funds) and central costs (costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segment) are included as “Corporate Items”.

The chief operating decision-maker assesses the performance of the operating segments principally based on their EBITDA (defined below).

EBITDA is defined as earnings before interest expenses and other finance costs, taxation, depreciation and amortisation. It excludes the Group’s share of results of the joint ventures. EBITDA is a non-HKFRS measure used by management for monitoring business performance. It may not be comparable to similar measures presented by other companies.

4. Operating Segments (continued)

An analysis by operating segment of the Group's EBITDA, profit before taxation and other selected financial information for the year is as follows:

	2017						Group \$m
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	
Revenue from external customers	3,363	2,195	1,436	4,009	560	11	11,574
Net investment income	-	-	-	809	-	790	1,599
Sundry income	-	-	-	7	-	-	7
Revenue and other income	3,363	2,195	1,436	4,825	560	801	13,180
Operating expenses	(581)	(477)	(659)	(752)	(151)	(946)	(3,566)
Reportable segment EBITDA	2,782	1,718	777	4,073	409	(145)	9,614
Depreciation and amortisation	(69)	(77)	(395)	(196)	(42)	(79)	(858)
Finance costs	-	-	-	(38)	-	(96)	(134)
Share of losses of joint ventures	(4)	(8)	-	-	-	-	(12)
Reportable segment profit before taxation	2,709	1,633	382	3,839	367	(320)	8,610
Other segment information:							
Interest income	-	-	-	1,342	-	142	1,484
Interest rebates to Participants	-	-	-	(572)	-	-	(572)
Other material non-cash item: Employee share-based compensation expenses	(36)	(25)	(40)	(39)	(2)	(78)	(220)
	2016						
	Cash \$m	Equity and Financial Derivatives \$m	Commodities \$m	Clearing \$m	Platform and Infrastructure \$m	Corporate Items \$m	Group \$m
Revenue from external customers	2,683	2,034	1,560	3,577	540	4	10,398
Net investment income	-	-	-	547	-	149	696
Sundry income	-	-	-	14	-	8	22
Revenue and other income	2,683	2,034	1,560	4,138	540	161	11,116
Operating expenses	(544)	(441)	(597)	(702)	(152)	(1,019)	(3,455)
Reportable segment EBITDA	2,139	1,593	963	3,436	388	(858)	7,661
Depreciation and amortisation	(88)	(86)	(298)	(179)	(44)	(76)	(771)
Finance costs	-	-	-	-	-	(82)	(82)
Share of loss of a joint venture	-	(9)	-	-	-	-	(9)
Reportable segment profit before taxation	2,051	1,498	665	3,257	344	(1,016)	6,799
Other segment information:							
Interest income	-	-	-	663	-	81	744
Interest rebates to Participants	-	-	-	(130)	-	-	(130)
Other material non-cash item: Employee share-based compensation expenses	(33)	(23)	(41)	(37)	(2)	(77)	(213)

4. Operating Segments (continued)

(a) Geographical information

The Group's revenue from external customers is derived from its operations in Hong Kong and the UK. Such information and the Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location are detailed below:

	Revenue		Non-current assets	
	2017 \$m	2016 \$m	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Hong Kong (place of domicile)	9,544	8,192	2,067	1,978
United Kingdom	2,030	2,206	17,351	17,333
Mainland China	-	-	78	101
	11,574	10,398	19,496	19,412

(b) Information about major customers

In 2017 and 2016, the revenue from the Group's largest customer amounted to less than 10 per cent of the Group's total revenue.

5. Revenue

Accounting Policy

Revenue excludes value added tax or other sales tax, and is recognised in the consolidated income statement on the following basis:

Trading fees and trading tariff are recognised on a trade date basis.

Stock Exchange listing fees mainly comprise annual listing fees and initial listing fees. Annual listing fees are recognised on a straight-line basis over the period covered. Initial listing fees for initial public offering (IPO) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial and subsequent listing fees for warrants, CBBCs and other securities are recognised upon the listing of the securities.

Clearing and settlement fees arising from trades between Participants transacted on the Stock Exchange are recognised on the day following the trade day, upon acceptance of the trades. Fees for clearing and settlement of trades transacted on the Shanghai Stock Exchange and Shenzhen Stock Exchange through Stock Connect (A shares) are recognised on the trade day upon acceptance of the trades. Fees for clearing and settlement of trades in respect of base and precious metals futures and options contracts transacted on LME are recognised on the trade day (or trade match day, if later). Fees for all other settlement transactions are recognised upon completion of the settlement.

Custody fees for securities held in the Central Clearing and Settlement System (CCASS) depository are calculated and accrued on a monthly basis. Portfolio fees for A shares held or recorded in the CCASS depository and for Hong Kong securities held by China Securities Depository and Clearing Corporation Limited (ChinaClear) are calculated and accrued on a daily basis.

Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

Market data fees and other fees are recognised when the related services are rendered.

5. Revenue (continued)

(a) Trading Fees and Trading Tariff

	2017 \$m	2016 \$m
Equity securities traded on the Stock Exchange and through Stock Connect	1,954	1,421
DWs, CBBCs and warrants traded on the Stock Exchange	526	502
Futures and options contracts traded on the Stock Exchange and the Futures Exchange	1,260	1,275
Base and precious metals futures and options contracts traded on the LME	1,116	1,230
	4,856	4,428

(b) Stock Exchange Listing Fees

	2017				2016			
	Equity		CBBCs, DWs & others	Total	Equity		CBBCs, DWs & others	Total
	Main Board	GEM			Main Board	GEM		
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Annual listing fees	642	42	3	687	609	34	4	647
Initial and subsequent issue listing fees	87	32	519	638	85	22	331	438
Other listing fees	5	3	-	8	5	2	-	7
	734	77	522	1,333	699	58	335	1,092

(c) Other Revenue

	2017 \$m	2016 \$m
Network, terminal user, dataline and software sub-license fees	413	406
Hosting services fees	143	129
Commodities stock levies and warehouse listing fees	77	87
Participants' subscription and application fees	84	76
Accommodation income (note (i))	48	48
Sales of Trading Rights	41	26
Post-liquidation interest arising from a Participant's default on market contracts (note (ii))	55	-
Miscellaneous revenue	84	75
	945	847

- (i) Accommodation income mainly comprises income from Participants on securities deposited as alternatives to cash deposits of Margin Funds, income from Participants on currencies deposited if the relevant bank deposit rates are negative, and interest shortfall collected from LME Clear Participants on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.
- (ii) In 2017, the liquidators of Lehman Brothers Securities Asia Limited (LBSA) paid post-liquidation interest of \$55 million on LBSA's debts arising from its default on market contracts, and an equal amount was appropriated to the Guarantee Fund reserve of Hong Kong Securities Clearing Company Limited (HKSCC) from retained earnings during the year ended 31 December 2017 (note 39).

6. Net Investment Income

Accounting Policy

Interest income on investments and interest rebates to Participants are recognised on a time apportionment basis using the effective interest method.

Gains and losses arising from changes in fair value of financial assets measured at fair value through profit or loss and financial liabilities at fair value through profit or loss are included under net investment income in the consolidated income statement.

	2017 \$m	2016 \$m
Gross interest income from financial assets measured at amortised cost	1,484	744
Interest rebates to Participants	(572)	(130)
Net interest income	912	614
Net fair value gains including interest income on financial assets mandatorily measured at fair value through profit or loss and financial liabilities at fair value through profit or loss	682	98
Others	5	(16)
Net investment income	1,599	696

7. Sundry Income

	2017 \$m	2016 \$m
Forfeiture of unclaimed dividends (note (a))	7	14
Others	-	8
	7	22

- (a) In accordance with CCASS Rule 1109, the Group exercised its forfeiture right to appropriate cash dividends of \$7 million (2016: \$14 million) held by HKSCC Nominees Limited, which had remained unclaimed for a period of more than seven years and recognised these as sundry income. The Group has, however, undertaken to honor all forfeited claims amounting to \$178 million at 31 December 2017 (31 December 2016: \$171 million) if adequate proof of entitlement is provided by the beneficial owner claiming any dividends forfeited.

8. Staff Costs and Related Expenses

	2017 \$m	2016 \$m
Salaries and other short-term employee benefits	1,865	1,675
Employee share-based compensation benefits of Share Award Scheme (note 37)	220	213
Termination benefits	38	10
Retirement benefit costs (note (a)):		
– ORSO Plan	116	111
– MPF Scheme	2	2
– LME Pension Scheme	23	24
– PRC Retirement Schemes	9	–
	2,273	2,035

(a) Retirement Benefit Costs

Accounting Policy

Contribution to the defined contribution plans are expensed as incurred.

The Group has sponsored a defined contribution provident fund scheme (ORSO Plan) which is registered under the Occupational Retirement Schemes Ordinance (ORSO) and a Mandatory Provident Fund scheme (MPF Scheme) for the benefits of its employees in Hong Kong. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance. Forfeited contributions of the ORSO Plan for employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that Plan, and are available for distribution to the members of the Plan at the discretion of the trustees.

The Group has also sponsored a defined contribution pension scheme for all employees of HKEX Investment (UK) Limited, LME Holdings Limited (LMEH), LME and LME Clear (collectively, LME Group) (LME Pension Scheme). For all employees who joined the LME Group before 1 May 2014, the Group contributes 15 per cent to 17 per cent of the employee's basic salary to the LME Pension Scheme. For all employees who joined the LME Group on or after 1 May 2014, they are automatically enrolled into the LME Pension Scheme on a matched contribution basis and may choose a personal contribution level ranging from 3 per cent to 5 per cent of their basic salaries, which is matched by the Group's contribution ranging from 6 per cent to 10 per cent of their basic salaries. Staff may opt-out of the scheme if they wish. There are no forfeited contributions for the LME Pension Scheme as the contributions are fully vested to the employees upon payment to the scheme.

8. Staff Costs and Related Expenses (continued)

(a) Retirement Benefit Costs (continued)

Pursuant to the relevant laws and regulations in the People's Republic of China (PRC), the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Assets of the ORSO Plan, MPF Scheme, LME Pension Scheme and PRC Retirement Schemes are held separately from those of the Group and are independently administered and are not included in the consolidated statement of financial position.

9. Information Technology and Computer Maintenance Expenses

	2017 \$m	2016 \$m
Costs of services and goods:		
– consumed by the Group	360	427
– directly consumed by Participants	73	73
	433	500

10. Other Operating Expenses

	2017 \$m	2016 \$m
Bank charges (note 12(a))	19	57
Communication expenses	14	14
Contribution to Financial Reporting Council	8	7
Custodian and fund management related fees	27	35
Financial data subscription fees	28	25
Insurance	11	11
License fees	31	32
Repairs and maintenance expenses	61	62
Security expenses	18	18
Travel expenses	54	39
Other miscellaneous expenses	109	127
	380	427

11. Operating Profit

	2017 \$m	2016 \$m
Operating profit is stated after charging/(crediting):		
Auditor's remuneration		
– audit fees	14	14
– other non-audit fees	5	6
Operating lease rentals		
– land and buildings	263	241
– computer systems and equipment	31	28
Net foreign exchange (gains)/losses on financial assets and liabilities (excluding financial assets and financial liabilities measured at fair value through profit or loss)	(5)	7

12. Finance Costs

Accounting Policy

Interest expenses are charged to the consolidated income statement and recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. Other finance costs are recognised in the consolidated income statement in the period in which they are incurred.

	2017 \$m	2016 \$m
Interest and finance charges for financial liabilities not at fair value through profit or loss (note (a))	121	81
Negative interest on Euro and Japanese Yen deposits	13	–
Net foreign exchange losses on financing activities	–	1
	134	82

- (a) For the year ended 31 December 2017, the total interest expenses for financial liabilities not at fair value through profit or loss amounted to \$80 million (2016: \$81 million). For the year ended 31 December 2017, banking facility commitment fees of \$41 million (2016: \$38 million) that relate to liquidity support provided to the Group's clearing houses, have been reclassified from bank charges, under other operating expenses, to finance costs to more appropriately reflect the nature of the costs incurred. No restatement of prior year comparatives was made as the amount was considered immaterial to the overall financial statements.

13. Directors' Emoluments and Interests of Directors

All Directors, including one Executive Director (HKEX's Chief Executive), received emoluments during the years ended 31 December 2017 and 31 December 2016. The aggregate emoluments paid and payable to the Directors during the year were as follows:

	2017 \$'000	2016 \$'000
Executive Director:		
Salaries and other short-term employee benefits	9,403	9,217
Performance bonus	15,000	11,250
Retirement benefit costs	1,125	1,125
	25,528	21,592
Employee share-based compensation benefits (note (a))	23,328	22,471
	48,856	44,063
Non-executive Directors:		
Fees	16,140	15,727
	64,996	59,790

- (a) Employee share-based compensation benefits represent the fair value of share awards granted under the Share Award Scheme (Awarded Shares) on grant date (note 37) amortised to the consolidated income statement during the year.
- (b) The emoluments of all Directors, including HKEX's Chief Executive who is an ex-officio member, are set out below. The amounts represent emoluments paid or receivable in respect of their services as a director.

Name of Director	2017							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
C K Chow	3,240	-	-	-	-	3,240	-	3,240
Charles X Li	-	9,000	403	15,000	1,125	25,528	23,328	48,856
Apurv Bagri (note (iii))	793	-	-	-	-	793	-	793
T C Chan	961	-	-	-	-	961	-	961
C H Cheah (note (v))	816	-	-	-	-	816	-	816
Timothy G Freshwater	1,021	-	-	-	-	1,021	-	1,021
Anita Y M Fung	1,102	-	-	-	-	1,102	-	1,102
Rafael Gil-Tienda	1,259	-	-	-	-	1,259	-	1,259
John B Harrison (note (vii))	700	-	-	-	-	700	-	700
Fred Z Hu	1,018	-	-	-	-	1,018	-	1,018
Bill C P Kwok (note (vii))	432	-	-	-	-	432	-	432
Vincent K H Lee (note (vii))	277	-	-	-	-	277	-	277
Margaret M Y Leung Ko	961	-	-	-	-	961	-	961
Hugo P H Leung (note (vi))	723	-	-	-	-	723	-	723
John M M Williamson	1,051	-	-	-	-	1,051	-	1,051
Stephen K W Yiu (note (vi))	1,786	-	-	-	-	1,786	-	1,786
Total	16,140	9,000	403	15,000	1,125	41,668	23,328	64,996

13. Directors' Emoluments and Interests of Directors (continued)

(b) (continued)

Name of Director	2016							
	Fees \$'000	Salary \$'000	Other benefits (note (i)) \$'000	Performance bonus \$'000	Retirement benefit costs (note (ii)) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	Total \$'000
C K Chow	3,283	-	-	-	-	3,283	-	3,283
Charles X Li	-	9,000	217	11,250	1,125	21,592	22,471	44,063
Apurv Bagri (note (iii))	525	-	-	-	-	525	-	525
T C Chan	964	-	-	-	-	964	-	964
Timothy G Freshwater	1,018	-	-	-	-	1,018	-	1,018
Anita Y M Fung	964	-	-	-	-	964	-	964
Rafael Gil-Tienda	832	-	-	-	-	832	-	832
John B Harrison (note (vii))	2,486	-	-	-	-	2,486	-	2,486
Fred Z Hu	829	-	-	-	-	829	-	829
Bill C P Kwok (note (vii))	1,597	-	-	-	-	1,597	-	1,597
Vincent K H Lee (note (vii))	1,075	-	-	-	-	1,075	-	1,075
Margaret M Y Leung Ko	964	-	-	-	-	964	-	964
John M M Williamson	964	-	-	-	-	964	-	964
Oscar S H Wong (note (iv))	226	-	-	-	-	226	-	226
Total	15,727	9,000	217	11,250	1,125	37,319	22,471	59,790

Notes:

- (i) Other benefits represented estimated money value of leave pay, insurance premium, club membership and UK tax liability of Non-Resident Director.
- (ii) Employees who retire before normal retirement age are 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 at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (iii) Elected on 28 April 2016
- (iv) Retired on 28 April 2016
- (v) Elected on 26 April 2017
- (vi) Appointment effective 26 April 2017
- (vii) Retired on 26 April 2017

(c) Directors' material interests in transactions, arrangement or contracts

No significant transactions, arrangements and contracts in relation to HKEX's business to which HKEX was a party and in which a director of HKEX had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14. Five Top-paid Employees

One (2016: one) of the five top-paid employees was a Director whose emoluments are disclosed in note 13. Details of the emoluments of the other four (2016: four) top-paid employees were as follows:

	2017 \$'000	2016 \$'000
Salaries and other short-term employee benefits	22,196	19,651
Performance bonus	17,946	16,219
Sign-on bonus	3,050	–
Retirement benefit costs	2,211	2,465
	45,403	38,335
Employee share-based compensation benefits (note (a))	17,583	21,221
	62,986	59,556

- (a) Employee share-based compensation benefits represent the fair value of Awarded Shares on grant date (note 37) amortised to the consolidated income statement during the year.
- (b) The emoluments of these four (2016: four) employees, including share-based compensation benefits, were within the following bands:

	2017 Number of employees	2016 Number of employees
\$14,000,001 – \$14,500,000	1	1
\$14,500,001 – \$15,000,000	–	2
\$15,000,001 – \$15,500,000	1	–
\$16,000,001 – \$16,500,000	1	1
\$17,500,001 – \$18,000,000	1	–
	4	4

The above employees included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

15. Taxation

Accounting Policy

Tax charge for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity, in which case, the tax is also recognised directly in equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where HKEX and its subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Group's accounting policy for recognition of deferred tax is described in note 35.

(a) Taxation charge/(credit) in the consolidated income statement represented:

	2017 \$m	2016 \$m
Current tax – Hong Kong Profits Tax		
– Provision for the year	1,047	879
– Over provision in respect of prior years	(4)	(3)
	1,043	876
Current tax – Overseas Tax		
– Provision for the year	229	223
– (Over)/under provision in respect of prior years	(4)	8
	225	231
Total current tax (note (i))	1,268	1,107
Deferred tax		
– Reversal of temporary differences	(13)	(18)
– Impact of changes in UK Corporation Tax rate (note (ii))	–	(31)
Total deferred tax (note 35(a))	(13)	(49)
Taxation charge	1,255	1,058

- (i) Hong Kong Profits Tax has been provided at the rate of 16.5 per cent (2016: 16.5 per cent) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates, with the average corporation tax rate applicable to the subsidiaries in the UK being 19.25 per cent (2016: 20 per cent).
- (ii) The UK Corporation Tax rate will be reduced to 17 per cent effective from 1 April 2020 through the enactment of the 2016 Finance Act. As a result of the reduction in UK Corporation Tax rate, the Group's net deferred tax liabilities decreased by \$31 million in 2016.

15. Taxation (continued)

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017 \$m	2016 \$m
Profit before taxation	8,610	6,799
Tax calculated at domestic tax rates applicable to profits in the respective countries (note (i))	1,424	1,144
Income not subject to taxation	(267)	(107)
Expenses not deductible for taxation purposes	32	31
Remeasurement of deferred tax assets and liabilities arising from changes in UK Corporation Tax rate	-	(31)
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	74	16
(Over)/under provision in respect of prior years	(8)	5
Taxation charge	1,255	1,058

- (i) The weighted average applicable tax rate was 16.5 per cent (2016: 16.8 per cent).

16. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

- (a) Basic earnings per share

	2017	2016
Profit attributable to shareholders (\$m)	7,404	5,769
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,227,674	1,212,376
Basic earnings per share (\$)	6.03	4.76

- (b) Diluted earnings per share

	2017	2016
Profit attributable to shareholders (\$m)	7,404	5,769
Weighted average number of shares in issue less shares held for Share Award Scheme (in '000)	1,227,674	1,212,376
Effect of Awarded Shares (in '000)	3,124	3,071
Weighted average number of shares for the purpose of calculating diluted earnings per share (in '000)	1,230,798	1,215,447
Diluted earnings per share (\$)	6.02	4.75

17. Dividends

Accounting Policy

Dividends declared are recognised as liabilities in the consolidated financial statements in the period in which the dividends are approved by shareholders or directors, where appropriate.

	2017 \$m	2016 \$m
Interim dividend paid:		
\$2.55 (2016: \$2.21) per share	3,141	2,690
Less: Dividend for shares held by Share Award Scheme (note (a))	(8)	(7)
	3,133	2,683
Final dividend proposed (note (b)):		
\$2.85 (2016: \$2.04) per share based on issued share capital at 31 Dec	3,533	2,498
Less: Dividend for shares held by Share Award Scheme at 31 Dec (note (a))	(8)	(7)
	3,525	2,491
	6,658	5,174

- (a) The results and net assets of The HKEx Employees' Share Award Scheme (Share Award Scheme) are included in HKEX's financial statements. Therefore, dividends for shares held by the Share Award Scheme were deducted from the total dividends.
- (b) The final dividend proposed after 31 December was not recognised as a liability at 31 December as it had not been approved by the shareholders.
- (c) The 2017 final dividend will be payable in cash with a scrip dividend alternative subject to the permission of the Securities and Futures Commission (SFC) of the listing of and permission to deal in the new shares to be issued.

18. Financial Assets

Accounting Policy

Investments and other financial assets of the Group are classified under financial assets measured at fair value through profit or loss (note 20) or financial assets measured at amortised cost (note 21).

Financial assets of Clearing House Funds and Margin Funds are classified as current assets as they will be liquidated whenever liquid funds are required.

Other financial assets are classified as current assets unless they are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case, they are included in non-current assets. For collective investment schemes which have no maturity date, they are included in current assets unless they cannot be redeemed within twelve months from the end of the reporting period.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership of the assets.

The financial assets of the Group include:

- Margin Funds (note 29);
- Clearing House Funds (note 32);
- Metals derivatives contracts (note 20);
- Cash prepayments for A shares (note 19); and
- Corporate Funds (note 22).

19. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value (mainly reverse repurchase investments and time deposits), with original maturities of three months or less.

	At 31 Dec 2017				Total \$m
	Cash prepayments for A shares (notes (a) and (b)) \$m	Corporate Funds (note 22) \$m	Margin Funds (notes (b) and 29) \$m	Clearing House Funds (notes (b) and 32) \$m	
Cash on hand and balances and deposits with banks	1,689	12,540	42,410	8,413	65,052
Reverse repurchase investments	-	1,006	80,434	9,168	90,608
	1,689	13,546	122,844	17,581	155,660

19. Cash and Cash Equivalents (continued)

At 31 Dec 2016					
	Cash prepayments for A shares (notes (a) and (b)) \$m	Corporate Funds (note 22) \$m	Margin Funds (notes (b) and 29) \$m	Clearing House Funds (notes (b) and 32) \$m	Total \$m
Cash on hand and balances and deposits with banks	263	8,079	31,142	4,969	44,453
Reverse repurchase investments	-	1,207	65,556	4,507	71,270
	263	9,286	96,698	9,476	115,723

- (a) Cash prepayments for A shares represent cash received by HKSCC from its Clearing Participants for releasing their allocated A shares for same day settlement. Such prepayments will be used to settle HKSCC's Continuous Net Settlement (CNS) obligations payable on the next business day.
- (b) The cash and cash equivalents of Margin Funds, Clearing House Funds and cash prepayments for A shares are held for specific purposes and cannot be used by the Group to finance other activities. These balances are not included in cash and cash equivalents of the Group for cash flow purpose in the consolidated statement of cash flows.

20. Financial Assets Measured at Fair Value through Profit or Loss

Accounting Policy

Classification

Investments and other financial assets are classified under financial assets measured at fair value through profit or loss if they do not meet the conditions to be measured at amortised cost (note 21). Derivative financial instruments (see below) are classified as financial assets measured at fair value through profit or loss when their fair values are positive.

Recognition and measurement

Purchases and sales of financial assets measured at fair value through profit or loss are recognised on the trade date. They are initially recognised at fair value with transaction costs recognised as expenses in the consolidated income statement and subsequently carried at fair value. Gains and losses arising from changes in fair value are included in the consolidated income statement in the period in which they arise.

Interest income is included in net fair value gains/(losses) from these financial assets.

Fair values of quoted investments are based on the most representative prices within the bid-ask spreads which are currently considered as the bid-prices. The collective investment schemes are valued based on the latest available transaction price or redemption price for each fund, as determined by the fund's administrator. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Derivative financial instruments

Derivative financial instruments include outstanding derivatives contracts of LME Clear, which acts as a central counterparty to the base and precious metals futures and options contracts traded on the LME, and forward foreign exchange contracts. Derivatives are initially recognised at fair value on trade date and subsequently remeasured at their fair values. Except where outstanding derivatives contracts are held in the capacity as a central counterparty, derivatives are categorised as held for trading with changes in fair value recognised in the consolidated income statement.

20. Financial Assets Measured at Fair Value through Profit or Loss (continued)

	At 31 Dec 2017			
	Corporate Funds (note 22) \$m	Margin Funds (note 29) \$m	Metals derivatives contracts (note (a)) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Collective investment schemes:				
– listed outside Hong Kong	1,841	–	–	1,841
– unlisted	4,802	–	–	4,802
	6,643	–	–	6,643
Unlisted debt securities	–	3,059	–	3,059
Derivative financial instruments:				
– base and precious metals futures and options contracts cleared through LME Clear (note (a))	–	–	85,335	85,335
	6,643	3,059	85,335	95,037
<u>At 31 Dec 2016</u>				
	Corporate Funds (note 22) \$m	Margin Funds (note 29) \$m	Metals derivatives contracts (note (a)) \$m	Total \$m
<u>Mandatorily measured at fair value</u>				
Collective investment schemes:				
– listed outside Hong Kong	2,225	–	–	2,225
– unlisted	2,886	–	–	2,886
	5,111	–	–	5,111
Unlisted debt securities	–	3,323	–	3,323
Derivative financial instruments:				
– base and precious metals futures and options contracts cleared through LME Clear (note (a))	–	–	61,618	61,618
– forward foreign exchange contracts (note 48(b))	14	–	–	14
	14	–	61,618	61,632
	5,125	3,323	61,618	70,066

- (a) Metals derivatives contracts represent the fair value of the outstanding base and precious metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

21. Financial Assets Measured at Amortised Cost

Accounting Policy

Classification

Investments are classified under financial assets measured at amortised cost if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The nature of any derivatives embedded in the financial assets is considered in determining whether the cash flows are solely payment of principal and interest on the principal outstanding and are not accounted for separately. If the combined cash flow of the derivatives embedded in the financial assets are considered not satisfying the “solely payment of principal and interest” condition, the financial assets are classified as financial assets measured at fair value through profit or loss (note 20).

Accounts receivable and other deposits are also classified under this category (note 23).

Recognition and measurement

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method less any impairment.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred when there is objective evidence of impairment that, as a result of one or more loss events that have occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

21. Financial Assets Measured at Amortised Cost (continued)

Accounting Policy (continued)

Impairment (continued)

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates.

The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be shown to relate objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in the consolidated income statement.

	At 31 Dec 2017			
	Corporate Funds (note 22) \$m	Margin Funds (note 29) \$m	Clearing House Funds (note 32) \$m	Total \$m
Debt securities listed outside Hong Kong	627	-	-	627
Time deposits with original maturities over three months	588	29,481	61	30,130
Other financial assets	60	-	-	60
	1,275	29,481	61	30,817
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	1,215	29,481	61	30,757
More than twelve months	60	-	-	60
	1,275	29,481	61	30,817
	At 31 Dec 2016			
	Corporate Funds (note 22) \$m	Margin Funds (note 29) \$m	Clearing House Funds (note 32) \$m	Total \$m
Debt securities listed outside Hong Kong	312	-	-	312
Time deposits with original maturities over three months	2,873	25,782	126	28,781
Other financial assets	74	-	-	74
	3,259	25,782	126	29,167
The expected recovery dates of the financial assets are analysed as follows:				
Within twelve months	3,185	25,782	126	29,093
More than twelve months	74	-	-	74
	3,259	25,782	126	29,167

(a) The fair values of financial assets maturing after twelve months are disclosed in note 48(d)(ii).

22. Corporate Funds

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Corporate Funds comprised the following instruments:		
Cash and cash equivalents (note 19)	13,546	9,286
Financial assets measured at fair value through profit or loss (note 20)	6,643	5,125
Financial assets measured at amortised cost (note 21)	1,275	3,259
	21,464	17,670

Financial assets held by the Group which are funded by share capital and funds generated from operations are classified as Corporate Funds (ie, other than financial assets of Margin Funds, Clearing House Funds, cash prepayments for A shares and base and precious metals derivatives contracts).

23. Accounts Receivable, Prepayments and Deposits

Accounting Policy

Accounts receivable and other deposits are financial assets measured at amortised cost less impairment. The accounting policy for financial assets measured at amortised cost is disclosed in note 21.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Receivable from ChinaClear, Exchange and Clearing Participants:		
– CNS money obligations receivable (note (a))	12,515	10,052
– transaction levy, stamp duty and fees receivable	676	469
– Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear (note 29)	2,421	1,032
– others	12	14
Payment in advance for collective investment schemes traded on 1 Jan 2017	–	600
Other receivables, prepayments and deposits	970	785
Less: Provision for impairment losses of receivables (note (b))	(9)	(3)
	16,585	12,949

23. Accounts Receivable, Prepayments and Deposits (continued)

- (a) Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables (note 30) when they are confirmed and accepted on the day after the trade day.

For a trade in A shares transacted for Stock Exchange Participants, the rights and obligations of the parties to the trade will be transferred to ChinaClear, and a market contract between HKSCC and the relevant HKSCC Clearing Participant is created through novation. The CNS money obligations due by/to HKSCC Clearing Participants and ChinaClear are recognised as receivables and payables (note 30) when they are confirmed on the trade day.

- (b) The movements in provision for impairment losses of receivables were as follows:

	2017 \$m	2016 \$m
At 1 Jan	3	4
Provision for/(reversal of provision for) impairment losses of receivables under other operating expenses	6	(1)
At 31 Dec	9	3

- (c) CNS money obligations receivable mature within two days after the trade date. The majority of the remaining accounts receivable, prepayments and deposits were due within three months.

24. Principal Subsidiaries and Controlled Structured Entity

Accounting Policy

Subsidiaries are entities (including structured entities (note (b))) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group considers all of its investments in collective investment schemes to be investments in unconsolidated structured entities, which are classified as financial assets measured at fair value through profit or loss (note 20).

24. Principal Subsidiaries and Controlled Structured Entity (continued)

(a) Principal Subsidiaries

HKEX had direct or indirect interests in the following principal subsidiaries:

Company	Place of incorporation and operation	Issued and fully paid up share/ registered capital	Principal activities	Interest held by the Group	
				At 31 Dec 2017	At 31 Dec 2016
Direct principal subsidiaries:					
The Stock Exchange of Hong Kong Limited	Hong Kong	929 ordinary shares (\$929)	Operates the single Stock Exchange in Hong Kong	100%	100%
Hong Kong Futures Exchange Limited	Hong Kong	230 ordinary shares (\$28,750,000)	Operates a futures and options exchange	100%	100%
Hong Kong Securities Clearing Company Limited	Hong Kong	2 ordinary shares (\$2)	Operates a clearing house for securities traded on the Stock Exchange in Hong Kong, Shanghai Stock Exchange and Shenzhen Stock Exchange in Mainland China through Stock Connect and the central securities depository, and provides custody and nominee services for eligible securities listed in Hong Kong and Mainland China	100%	100%
OTC Clearing Hong Kong Limited (OTC Clear) (note (i))	Hong Kong	4,860 ordinary shares (\$614,600,001) 1,620 non-voting ordinary shares (\$340,200,000)	Operates a clearing house for over-the-counter derivatives	75%	75%
The SEHK Options Clearing House Limited (SEOCH)	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for stock options contracts traded on the Stock Exchange in Hong Kong	100%	100%
HKFE Clearing Corporation Limited (HKCC)	Hong Kong	1,000,000 ordinary shares (\$1,000,000)	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%	100%
Indirect principal subsidiaries:					
The London Metal Exchange	United Kingdom	100 ordinary shares of £1 each	Operates an exchange for the trading of base and precious metals futures and options contracts	100%	100%
LME Clear Limited	United Kingdom	107,500,001 ordinary shares of £1 each	Operates a clearing house for base and precious metals futures and options contracts	100%	100%
Qianhai Mercantile Exchange Co., Ltd. (QME) (note (i))	Mainland China	RMB400,000,000	Developing a commodity trading platform in Mainland China	90.01%	100%

The above table lists the subsidiaries of the Group which, in the opinion of its directors, principally affect the results or assets of the Group.

24. Principal Subsidiaries and Controlled Structured Entity (continued)

(a) Principal Subsidiaries (continued)

(i) Subsidiaries with non-controlling interests

At 31 December 2017, the Group held 75 per cent (31 December 2016: 75 per cent) interest in OTC Clear, while the remaining 25 per cent (31 December 2016: 25 per cent) interest was held by non-controlling interests. The non-controlling interests do not have voting rights at general meetings of OTC Clear.

QME (formerly known as Gangrong Trading Services (Shenzhen) Limited) is a limited company established in Mainland China. At 31 December 2017, the Group held 90.01 per cent (31 December 2016: 100 per cent) interest in QME, while the remaining 9.99 per cent (31 December 2016: Nil) interest was held by non-controlling interests.

Set out below is the financial information related to the non-controlling interests of each subsidiary:

	OTC Clear		QME	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Loss allocated to non-controlling interests	27	28	22	-

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
	Accumulated non-controlling interests	91	118	11

No summarised financial information of OTC Clear and QME is presented as the non-controlling interests are not material to the Group.

(ii) Significant restrictions

Cash and savings deposits are held by subsidiaries in Mainland China and are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2017 was \$148 million (31 December 2016: \$218 million).

(b) Controlled structured entity

HKEX controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
The HKEx Employees' Share Award Scheme (HKEX Employee Share Trust)	Purchases, administers and holds HKEX shares for the Share Award Scheme for the benefit of eligible HKEX employees (note 37)

HKEX has the power to direct the relevant activities of the HKEX Employee Share Trust and it has the ability to use its power over the HKEX Employee Share Trust to affect its exposure to returns. Therefore, the assets and liabilities of HKEX Employee Share Trust are included in HKEX's statement of financial position and the HKEX shares it held are presented as a deduction in equity as Shares held for Share Award Scheme.

25. Interests in Joint Ventures

Accounting Policy

Interests in joint ventures are accounted for in the consolidated financial statements under the equity method. The entire carrying amount of the investment is tested for impairment in accordance with the accounting policy stated in note 2(d).

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Share of net assets of joint ventures	61	59

(a) Details of the joint ventures were as follows:

Name	Place of business and country of incorporation	Principal activities	% of ownership interest	
			At 31 Dec 2017	At 31 Dec 2016
China Exchanges Services Company Limited (CESC)	Hong Kong	Development of index-linked and equity derivatives products	33.33%	33.33%
Bond Connect Company Limited (BCCL)	Hong Kong	Provision of support services related to Bond Connect	40%	N/A

In 2012, HKEX, the Shanghai Stock Exchange and the Shenzhen Stock Exchange established a joint venture, CESC, with an aim of developing financial products and related services. CESC is a strategic investment for the Group and it is expected to enhance the competitiveness of Hong Kong, help promote the development of Mainland China's capital markets and the internationalisation of the Group.

In 2017, HKEX and China Foreign Exchange Trade System (CFETS) established a joint venture, BCCL, which provides support services related to Bond Connect. BCCL is a strategic investment of the Group as it provides services to facilitate the trading of Bond Connect, which enhances HKEX's position in the fixed income market and expands the mutual market programme from equity into a new asset class.

Set out below is the measurement method and the carrying amounts of the two joint ventures:

Name	Measurement method	Carrying amount	
		At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
CESC	Equity	51	59
BCCL	Equity	10	-
		61	59

The two joint ventures are private companies and no quoted market prices are available for their shares.

No summarised financial information of CESC and BCCL is presented as the joint ventures are not material to the Group.

26. Goodwill and Other Intangible Assets

Accounting Policy

Goodwill

Goodwill arising on the acquisition of subsidiaries is carried at cost as established at the date of acquisition less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each CGU, or group of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes (ie, operating segment level).

Goodwill is not amortised but impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

Tradenames

Tradenames acquired in a business combination are recognised at fair value at the acquisition date. The fair value is based on the discounted estimated royalty payments that are expected to be avoided as a result of the tradenames being owned.

Tradenames arising from the acquisition of the LME Group have indefinite useful lives and are carried at cost less accumulated impairment losses, if any.

Tradenames are reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment.

Customer relationships

Customer relationships acquired in a business combination are recognised initially at fair value at the acquisition date. The fair value is determined using the multi-period excess earnings method, whereby the asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Subsequently, the customer relationships are carried at cost (ie, the initial fair value) less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method over the expected lives of the customer relationships, which are determined to be 20 to 25 years.

26. Goodwill and Other Intangible Assets (continued)

Accounting Policy (continued)

Computer software systems

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets if the related software does not form an integral part of the hardware on which it operates (ie, system software without which the related hardware can still operate) and when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use it;
- There is an ability to use the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised in the consolidated income statement as incurred. Development costs previously recognised in the consolidated income statement are not recognised as an asset in a subsequent period.

Qualifying software system development expenditure and related directly attributable costs capitalised as intangible assets are amortised when they are available for use. They are amortised at rates sufficient to write off their costs net of residual values over their estimated useful lives of three to five years on a straight-line basis. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Costs associated with maintaining computer systems and software programmes are recognised in the consolidated income statement as incurred.

The Group's accounting policy for impairment is described in note 2(d).

26. Goodwill and Other Intangible Assets (continued)

	Other Intangible Assets				Total \$m
	Goodwill \$m	Tradenames \$m	Customer relationships \$m	Software systems \$m	
Cost:					
At 1 Jan 2016	13,162	890	3,109	1,876	19,037
Exchange differences	5	1	2	-	8
Additions	-	-	-	422	422
Disposals	-	-	-	(6)	(6)
At 31 Dec 2016	13,167	891	3,111	2,292	19,461
At 1 Jan 2017	13,167	891	3,111	2,292	19,461
Exchange differences	110	7	25	15	157
Additions	-	-	-	537	537
Disposals	-	-	-	(11)	(11)
At 31 Dec 2017	13,277	898	3,136	2,833	20,144
Accumulated amortisation:					
At 1 Jan 2016	-	-	397	768	1,165
Exchange differences	-	-	1	-	1
Amortisation	-	-	129	360	489
Disposals	-	-	-	(6)	(6)
At 31 Dec 2016	-	-	527	1,122	1,649
At 1 Jan 2017	-	-	527	1,122	1,649
Exchange differences	-	-	4	8	12
Amortisation	-	-	130	439	569
Disposals	-	-	-	(11)	(11)
At 31 Dec 2017	-	-	661	1,558	2,219
Net book value:					
At 31 Dec 2017	13,277	898	2,475	1,275	17,925
At 31 Dec 2016	13,167	891	2,584	1,170	17,812
Cost of software systems under development included above:					
At 31 Dec 2017	-	-	-	547	547
At 31 Dec 2016	-	-	-	560	560

Amortisation of \$569 million (2016: \$489 million) is included in “depreciation and amortisation” in the consolidated income statement.

Tradenames are regarded as having indefinite useful lives and there is no foreseeable limit to the period over which they are expected to generate cash flows for the Group as it is expected that their values will not be reduced through usage and there are no legal or similar limits on the period for their use.

26. Goodwill and Other Intangible Assets (continued)

Impairment tests for CGUs containing goodwill and intangible assets with indefinite useful lives

Goodwill and tradenames that arose on the acquisition of the LME Group in 2012 are allocated to and monitored by management at the operating segment level, which comprises CGUs, or groups of CGUs that are expected to benefit from synergies of combination with the acquired businesses. A summary of the allocation of goodwill and tradenames to these operating segments is as follows:

	At 31 Dec 2017		At 31 Dec 2016	
	Goodwill \$m	Tradenames \$m	Goodwill \$m	Tradenames \$m
Commodities segment	10,396	703	10,310	698
Clearing segment	2,881	195	2,857	193
	13,277	898	13,167	891

The Commodities segment comprises the commodities trading platform in the UK (LME commodities CGU) and the development of the commodities trading platform in Mainland China (China commodities CGU). As the China commodities CGU is still at an early stage of development, its valuation has not been taken into account in determining the recoverable amount of the Commodities segment at 31 December 2017.

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below. The key assumptions, EBITDA margins, growth rates and discount rates used for value-in-use calculations are as follows:

	At 31 Dec 2017		At 31 Dec 2016	
	Commodities segment	Clearing segment	Commodities segment	Clearing segment
EBITDA margin (average of next five years)	61%	50%	57%	63%
Growth rate	3%	3%	3%	3%
Discount rate	9%	9%	9-11%	9%

For the LME commodities CGU and the Clearing segment, management determined the EBITDA margins based on past performance and expectations regarding market development. The growth rates do not exceed the long-term average growth rate for the business in the markets in which each of the CGUs currently operates. The discount rates used are pre-tax and reflect specific risks relating to each CGU.

The recoverable amounts of the operating segments (including goodwill and tradenames) based on the estimated value-in-use calculations were higher than their carrying amounts at 31 December 2017 and 31 December 2016. Accordingly, no provision for impairment loss for goodwill or tradenames is considered necessary.

If the LME trading fee in the forecast period was 10 per cent lower than forecast, or the discount rate increased to 10 per cent, the recoverable amount of the Commodities segment would be approximately equal to its carrying amount. Except for this, any reasonably possible changes in the key assumptions used in the value-in-use assessment would not affect management's view on impairment at 31 December 2017.

27. Fixed Assets

Accounting Policy

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Tangible fixed assets are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives of major categories of fixed assets are as follows:

Leasehold buildings	Up to 35 years or remaining lives of the leases if shorter
Leasehold improvements	Over the remaining lives of the leases but not exceeding 10 years
Computer trading and clearing systems – hardware and software	3 to 5 years
Other computer hardware and software	3 years
Furniture, equipment and motor vehicles	3 to 5 years
Data centre facilities and equipment	3 to 20 years

Expenditure incurred in the construction of leasehold buildings and other directly attributable costs are capitalised when it is probable that future economic benefits associated with the expenditure will flow to the Group and the costs can be measured reliably.

Qualifying software expenditure and related directly attributable costs are capitalised and recognised as a fixed asset if the software forms an integral part of the hardware on which it operates (ie, operating system software without which the related hardware cannot operate).

Subsequent costs and qualifying development expenditure incurred after the completion of a system are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with that item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs and other subsequent expenditure are charged to the consolidated income statement when incurred.

The Group's accounting policy for impairment is described in note 2(d).

27. Fixed Assets (continued)

	Leasehold buildings \$m	Computer trading and clearing systems \$m	Other computer hardware and software \$m	Data centre facilities and equipment \$m	Leasehold improvements, furniture, equipment and motor vehicles \$m	Total \$m
Cost:						
At 1 Jan 2016	708	1,411	512	406	794	3,831
Exchange differences	-	(1)	-	-	(2)	(3)
Additions	-	56	34	4	130	224
Disposals	-	(118)	(23)	-	(34)	(175)
At 31 Dec 2016	708	1,348	523	410	888	3,877
At 1 Jan 2017	708	1,348	523	410	888	3,877
Exchange differences	-	5	2	-	5	12
Additions	-	75	29	6	141	251
Disposals	-	(7)	(8)	-	(37)	(52)
At 31 Dec 2017	708	1,421	546	416	997	4,088
Accumulated depreciation:						
At 1 Jan 2016	93	1,256	389	86	447	2,271
Depreciation	28	49	72	26	107	282
Disposals	-	(118)	(23)	-	(34)	(175)
At 31 Dec 2016	121	1,187	438	112	520	2,378
At 1 Jan 2017	121	1,187	438	112	520	2,378
Exchange differences	-	2	1	-	1	4
Depreciation	28	55	44	27	135	289
Disposals	-	(7)	(8)	-	(37)	(52)
At 31 Dec 2017	149	1,237	475	139	619	2,619
Net book value:						
At 31 Dec 2017	559	184	71	277	378	1,469
At 31 Dec 2016	587	161	85	298	368	1,499
Cost of fixed assets in the course of construction included above:						
At 31 Dec 2017	-	110	14	1	103	228
At 31 Dec 2016	-	71	10	1	72	154

28. Financial Liabilities at Fair Value through Profit or Loss

Accounting Policy

Financial liabilities at fair value through profit or loss are initially recognised at fair value on trade date and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in the consolidated income statement. Derivative financial instruments (note 20) outstanding on the reporting date are classified as financial liabilities at fair value through profit or loss when their fair values are negative.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
<u>Held by LME Clear in its capacity as a central counterparty</u>		
Derivative financial instruments:		
– base and precious metals futures and options contracts cleared through LME Clear (note (a))	85,335	61,618
<u>Held for trading</u>		
Derivative financial instruments:		
– forward foreign exchange contracts (note 48(b))	–	9
	85,335	61,627

- (a) The amount represents the fair value of outstanding base and precious metals futures and options contracts cleared through LME Clear that do not qualify for netting under HKAS 32: Financial Instruments: Presentation, where LME Clear is acting in its capacity as a central counterparty to the contracts traded on the LME.

29. Margin Deposits, Mainland Security and Settlement Deposits, and Cash Collateral from Clearing Participants

Accounting Policy

The obligation to refund the Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants is disclosed under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

Margin Funds are established by cash received or receivable from Clearing Participants in respect of margin deposits, Mainland security and settlement deposits, and cash collateral of the five clearing houses to cover their open positions. Part of the Mainland security and settlement deposits is used by HKSCC to satisfy its obligations as a clearing participant of ChinaClear in respect of trades transacted through Stock Connect. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

29. Margin Deposits, Mainland Security and Settlement Deposits, and Cash Collateral from Clearing Participants (continued)

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants comprised:		
SEOCH Clearing Participants' margin deposits	14,571	5,389
HKCC Clearing Participants' margin deposits	49,245	46,974
HKSCC Clearing Participants' margin deposits, Mainland security and settlement deposits, and cash collateral	8,553	5,484
OTC Clear Clearing Participants' margin deposits	1,730	296
LME Clear Clearing Participants' margin deposits	83,715	68,703
	157,814	126,846
The margin deposits, Mainland security and settlement deposits, and cash collateral were invested in the following instruments for managing the obligations of the Margin Funds (note 18):		
Cash and cash equivalents (note 19)	122,844	96,698
Financial assets measured at fair value through profit or loss (note 20)	3,059	3,323
Financial assets measured at amortised cost (note 21)	29,481	25,782
Settlement Reserve Fund and Settlement Guarantee Fund held by ChinaClear (note 23)	2,421	1,032
Margin receivable from Clearing Participants	9	11
	157,814	126,846

30. Accounts Payable, Accruals and Other Liabilities

Accounting Policy

Financial liabilities, other than financial liabilities at fair value through profit or loss (note 28) and financial guarantee contracts (note 31), are initially recognised at fair value and subsequently carried at amortised cost (which is same as the initial fair value due to their short-term nature).

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Payable to ChinaClear, Exchange and Clearing Participants:		
– CNS money obligations payable (note 23(a))	14,204	10,315
– others	212	174
Transaction levy payable to the SFC	120	79
Unclaimed dividends (note (a))	269	257
Stamp duty payable to the Collector of Stamp Revenue	416	258
Payables for collective investment schemes traded before 31 Dec 2016	–	300
Other payables, accruals and deposits received	989	893
	16,210	12,276

30. Accounts Payable, Accruals and Other Liabilities (continued)

- (a) Unclaimed dividends represent dividends declared by listed companies which were held by HKSCC Nominees Limited (HKSX) but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEX but not yet claimed by its shareholders. During the year, cash dividends held by HKSX which had remained unclaimed for a period of more than seven years amounting to \$7 million (2016: \$14 million) were forfeited and recognised as sundry income (note 7) and dividends declared by HKEX which were unclaimed over a period of six years from the date of payment amounting to \$26 million (2016: \$22 million) were forfeited and transferred to retained earnings in accordance with HKEX's Articles of Association (note 40).
- (b) CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

31. Other Financial Liabilities

Accounting Policy

Financial guarantee contracts are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the best estimate of the amount required to settle the guarantee and the amount initially recognised less, where appropriate, cumulative amortisation over the life of the guarantee on a straight-line basis.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Financial liabilities of Clearing House Funds (note 32)	38	17
Financial liabilities of Corporate Funds:		
Financial guarantee contract (note (a))	20	20
	58	37

- (a) The amount represents the carrying value of a financial guarantee provided by the Group to the Collector of Stamp Revenue, details of which are disclosed in note 43(b).

32. Clearing House Funds

Accounting Policy

Clearing Participants' cash contributions to Clearing House Funds are included under current liabilities. Non-cash collateral received from Clearing Participants is not recognised on the consolidated statement of financial position.

Clearing House Funds are established under the Clearing House Rules. Assets contributed by the Clearing Participants and the Group are held by the respective clearing houses (together with the accumulated income less related expenses for the clearing houses in Hong Kong) expressly for the purpose of ensuring that the respective clearing houses are able to fulfil their counterparty obligations in the event that one or more of the Clearing Participants fail to meet their obligations to the clearing houses. The HKSCC Guarantee Fund also provides resources to enable HKSCC to discharge its liabilities and obligations if defaulting Clearing Participants deposit defective securities into CCASS. The amounts earmarked for contribution to the Rates and FX Guarantee Resources of OTC Clear and its accumulated investment income was also included in Clearing House Funds for presentation purpose. These funds are held in segregated accounts of the respective clearing houses for this specified purpose and cannot be used by the Group to finance any other activities.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
The Clearing House Funds comprised:		
Clearing Participants' cash contributions	16,626	8,656
Contribution to OTC Clear Rates and FX Guarantee Resources	156	156
Designated reserves (notes (a) and 39)	822	773
	17,604	9,585
The Clearing House Funds were invested in the following instruments for managing the obligations of the Funds (note 18):		
Cash and cash equivalents (note 19)	17,581	9,476
Financial assets measured at amortised cost (note 21)	61	126
	17,642	9,602
Less: Other financial liabilities of Clearing House Funds (note 31)	(38)	(17)
	17,604	9,585
The Clearing House Funds comprised the following Funds:		
HKSCC Guarantee Fund	2,712	2,219
SEOCH Reserve Fund	2,454	724
HKCC Reserve Fund	1,887	1,316
OTC Clear Rates and FX Guarantee Fund	1,222	659
OTC Clear Rates and FX Guarantee Resources	161	160
LME Clear Default Fund	9,168	4,507
	17,604	9,585

- (a) Designated reserves comprise contributions from the clearing houses and accumulated income net of expenses of the Clearing House Funds appropriated from retained earnings.

33. Borrowings

Accounting Policy

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred (net proceeds). The difference between the net proceeds and the redemption value is amortised and recognised in the consolidated income statement as interest expense over the period of the borrowings using the effective interest method and added to borrowings.

The borrowings are subsequently carried at amortised cost (ie, net proceeds plus the cumulative amortisation using the effective interest method less payments).

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Bank borrowings (note (a))	–	1,586
Notes (note (b))	1,533	1,519
Written put options to non-controlling interests (note (c))	327	317
Total borrowings	1,860	3,422
Analysed as:		
Non-current liabilities	833	3,422
Current liabilities	1,027	–
	1,860	3,422

The borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Within one year	–	–	1,027	–
After one year but within two years	–	–	751	1,012
After two years but within five years	–	1,586	82	824
	–	1,586	1,860	1,836

(a) Bank borrowings

In 2017, the bank borrowings were fully repaid. Prior to the repayment in 2017, the bank borrowings bore average coupons of 2.2 per cent (2016: 1.7 per cent) per annum, and the average effective interest rate was 2.5 per cent (2016: 1.8 per cent) per annum.

(b) Notes

In December 2013 and January 2014, HKEX issued US\$100 million (HK\$775 million) and US\$95 million (HK\$737 million) of fixed rate senior notes which will be due in December 2018 and January 2019 respectively. The average effective interest rate of the senior notes was 2.9 per cent (2016: 2.9 per cent) per annum.

33. Borrowings (continued)

- (c) Written put options to non-controlling interests

Accounting Policy

The potential cash payments related to put options issued by HKEX for the non-voting ordinary shares of a subsidiary held by non-controlling interests are accounted for as financial liabilities, which are initially recognised at fair value with a corresponding charge directly to equity under “reserve relating to written put options to non-controlling interests”.

The written put option financial liabilities are subsequently measured at amortised cost (ie, the initial fair value plus cumulative amortisation of the difference between the initial fair value and the cash payments related to put options using the effective interest method). The interest charge arising is recorded under finance costs in the consolidated income statement.

	2017 \$m	2016 \$m
At 1 Jan	317	308
Interest expenses (note (ii))	10	9
At 31 Dec	327	317

- (i) OTC Clear issued non-voting ordinary shares to certain third party shareholders at a total consideration of \$340 million. As part of the arrangement, put options were written by HKEX to the non-controlling interests to sell part or all of their non-voting ordinary shares in OTC Clear to HKEX at the initial subscription price of \$210,000 per share less accumulated dividends received by the non-controlling interests. The put options are exercisable by the non-controlling interests at any time following the date falling five years after the shares were issued if the non-controlling interests can demonstrate to HKEX that they have used reasonable endeavours for at least three months to find a suitable purchaser for their shares at a price equal to or more than their fair market values. The carrying amount of written put options represents the present value of the amount payable by HKEX to acquire the shares held by non-controlling interests at the date at which the written put options first become exercisable.

\$245 million of the written put options will become exercisable in October 2018 and the remaining \$82 million will become exercisable in August 2020.

- (ii) The effective interest rate of the liabilities was 3.0 per cent (2016: 3.0 per cent) per annum.

34. Provisions

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

	Reinstatement costs \$m	Employee benefit costs \$m	Total \$m
At 1 Jan 2017	90	69	159
Exchange differences	2	-	2
(Reversal of provision for)/provision for the year	(3)	94	91
Amount used during the year	-	(84)	(84)
Amount paid during the year	(8)	(7)	(15)
At 31 Dec 2017	81	72	153

- (a) The provision for reinstatement costs represents the estimated costs of restoring the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within 13 years.
- (b) The provision for employee benefit costs represents unused annual leave that has been accumulated at the end of the reporting period. It is expected to be fully utilised in the coming twelve months.

35. Deferred Taxation

Accounting Policy

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except that deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

- (a) The movements on the net deferred tax liabilities account were as follows:

	2017 \$m	2016 \$m
At 1 Jan	691	739
Exchange differences	4	-
Credited to the consolidated income statement (note 15(a))	(13)	(49)
(Credited)/charged directly to retained earnings	(1)	1
At 31 Dec (note (d))	681	691

35. Deferred Taxation (continued)

- (b) The Group had unrecognised tax losses of \$1,068 million at 31 December 2017 (31 December 2016: \$764 million) that may be carried forward for offsetting against future taxable income. Tax losses of a PRC entity amounting to \$340 million will expire 5 years after it commences operations, and the remaining tax losses can be carried forward indefinitely and have no expiry date.
- (c) The movements on the net deferred tax liabilities/(assets) were as follows:

	Accelerated tax depreciation		Intangible assets ¹		Financial assets		Tax losses		Employee benefits		Total	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
At 1 Jan	161	168	599	655	2	-	(52)	(64)	(19)	(20)	691	739
Exchange differences	-	-	4	-	-	-	-	-	-	-	4	-
Charged/(credited) to the consolidated income statement	13	(7)	(25)	(56)	(2)	2	1	12	-	-	(13)	(49)
(Credited)/charged directly to retained earnings	-	-	-	-	-	-	-	-	(1)	1	(1)	1
At 31 Dec	174	161	578	599	-	2	(51)	(52)	(20)	(19)	681	691

1 Intangible assets include customer relationships and tradenames.

- (d) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same taxation authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Deferred tax assets	(30)	(22)
Deferred tax liabilities	711	713
	681	691

- (e) The analysis of deferred tax (assets)/liabilities is as follows:

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Deferred tax assets		
Amounts to be recovered after more than 12 months	(24)	(17)
Amounts to be recovered within 12 months	(6)	(5)
	(30)	(22)
Deferred tax liabilities		
Amounts to be recovered or settled after more than 12 months	695	699
Amounts to be recovered or settled within 12 months	16	14
	711	713
Net deferred tax liabilities	681	691

36. Share Capital and Shares Held for Share Award Scheme

Accounting Policy

Shares

Ordinary shares are classified as equity.

Shares held for Share Award Scheme

Where HKEX shares are acquired by the Share Award Scheme from the market or by electing for scrip in lieu of cash dividends, the total consideration of shares acquired from the market (including any directly attributable incremental costs) or under the scrip dividend scheme is presented as Shares held for Share Award Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired under the scrip dividend scheme (dividend shares) are credited to Shares held for Share Award Scheme, with a corresponding decrease in employee share-based compensation reserve for Awarded Shares, and decrease in retained earnings for dividend shares.

Issued and fully paid – ordinary shares with no par:

	Number of shares '000	Number of shares held for Share Award Scheme ¹ '000	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
At 1 Jan 2016	1,208,536	(3,259)	19,285	(590)	18,695
Shares issued in lieu of cash dividends (note (a))	15,786	(92)	2,798	(16)	2,782
Shares purchased for Share Award Scheme (note (b))	–	(992)	–	(188)	(188)
Vesting of shares of Share Award Scheme (note (c))	–	1,126	2	195	197
At 31 Dec 2016	1,224,322	(3,217)	22,085	(599)	21,486
At 1 Jan 2017	1,224,322	(3,217)	22,085	(599)	21,486
Shares issued in lieu of cash dividends (note (a))	15,487	(74)	3,052	(15)	3,037
Shares purchased for Share Award Scheme (note (b))	–	(1,000)	–	(228)	(228)
Vesting of shares of Share Award Scheme (note (c))	–	1,297	4	236	240
At 31 Dec 2017	1,239,809	(2,994)	25,141	(606)	24,535

¹ Excluding shares vested but not yet transferred to awardees of 29,005 shares at 31 December 2017 (31 December 2016: 2,750 shares)

36. Share Capital and Shares Held for Share Award Scheme (continued)

- (a) During the year, the following shares were issued to shareholders who elected to receive HKEX shares in lieu of cash dividends pursuant to the scrip dividend scheme:

	2017				
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2016 final scrip dividends:					
– total	7,275,254	186.05	1,354	–	1,354
– to Share Award Scheme	(34,906)	186.05	–	(7)	(7)
Issued as 2017 interim scrip dividends:					
– total	8,211,651	206.77	1,698	–	1,698
– to Share Award Scheme	(39,379)	206.77	–	(8)	(8)
	15,412,620		3,052	(15)	3,037
	2016				
	Number of shares	Scrip price \$	Share capital \$m	Shares held for Share Award Scheme \$m	Total \$m
Issued as 2015 final scrip dividends:					
– total	8,862,992	172.81	1,531	–	1,531
– to Share Award Scheme	(53,390)	172.81	–	(9)	(9)
Issued as 2016 interim scrip dividends:					
– total	6,923,255	183.01	1,267	–	1,267
– to Share Award Scheme	(38,754)	183.01	–	(7)	(7)
	15,694,103		2,798	(16)	2,782

- (b) During the year, the Share Award Scheme (note 37) acquired 999,700 HKEX shares (2016: 991,700 shares) through purchases on the open market. The total amount paid to acquire the shares during the year was \$228 million (2016: \$188 million).
- (c) During the year, a total of 1,296,700 HKEX shares (2016: 1,125,802 shares) were vested. The total cost of the vested shares was \$236 million (2016: \$195 million). In 2017, \$4 million (2016: \$2 million) was credited to share capital in respect of vesting of certain shares whose fair values were higher than the costs.

37. Employee Share-based Arrangements

Accounting Policy

The Group operates the Share Award Scheme (the Scheme), which is an equity-settled share-based compensation plan under which Awarded Shares are granted to employees of the Group (including the Executive Director) as part of their remuneration package.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants on grant date. The total expense is recognised on a straight-line basis over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to an employee share-based compensation reserve under equity.

For those Awarded Shares which are amortised over the vesting periods, the Group revises its estimates of the number of Awarded Shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to the employee share-based compensation reserve.

The movements of employee share-based compensation reserve were as follows:

	2017 \$m	2016 \$m
At 1 Jan	226	199
Employee share-based compensation benefits (note 8)	220	213
Vesting of shares of Share Award Scheme	(224)	(186)
At 31 Dec	222	226

The Scheme allows shares to be granted to employees under the following two categories of awards:

- (i) Employee Share Awards – for all employees of the Group (including the Executive Director); and
- (ii) Senior Executive Awards – for selected senior executives of the Group (including the Executive Director).

Following the Board's decision to award an award sum for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by regranteeing the forfeited or unallocated shares held by the Scheme. Before vesting, the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares), and are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

37. Employee Share-based Arrangements (continued)

(a) Employee Share Awards

Employee Share Awards vest progressively over the vesting period after the awards are granted, provided that the relevant awardee (i) remains employed by the Group (ii) is made redundant or (iii) is deemed to be a “good leaver”, and Employee Share Awards vest immediately if the relevant awardee retires on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the Board, the Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted is three years, and the shares will be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the other awardees, taking into consideration recommendations of the Board.

Details of Employee Share Awards awarded during 2016 and 2017

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Vesting period
12 Aug 2016	11,648	197.45	6 Jul 2018 – 6 Jul 2019
12 Aug 2016	4,051	197.45	1 Feb 2017 – 25 Jul 2019
25 Aug 2016	4,700	189.45	3 May 2018 – 3 May 2019
30 Dec 2016	1,083,456 ^{1,2}	190.33	7 Dec 2018 – 7 Dec 2019
1 Mar 2017	24,939	193.76	1 May 2017 – 1 May 2019
1 Mar 2017	25,960	193.76	1 Mar 2017 – 13 Jan 2020
15 May 2017	1,100	197.23	13 Jan 2018 – 13 Jan 2019
23 Jun 2017	2,900	200.82	3 Apr 2018 – 18 Mar 2019
12 Sep 2017	600	213.29	23 Jun 2019 – 23 Jun 2020
29 Dec 2017	1,017,886 ^{1,2}	229.99	8 Dec 2019 – 8 Dec 2020

1 63,210 and 58,853 shares were awarded to HKEX’s Chief Executive on 30 December 2016 and 29 December 2017 respectively.

2 179,706 and 135,970 shares were awarded by re-granting the forfeited or unallocated shares held by the Scheme on 30 December 2016 and 29 December 2017 respectively.

Details of Employee Share Awards vested during 2016 and 2017

During the year, 1,175,914 HKEX shares (2016: 1,046,334 shares) were vested at an aggregate fair value of \$218 million (2016: \$183 million), of which 74,387 shares (2016: 68,513 shares) were for HKEX’s Chief Executive.

37. Employee Share-based Arrangements (continued)

(b) Senior Executive Awards

The actual number of shares to be transferred to the awardees under the Senior Executive Awards is conditional on the satisfaction of performance conditions set by the Board. The Board has full discretion to determine the actual amount of award to be paid at the end of a performance assessment period (which shall normally be a period of at least three financial years) in accordance with these criteria.

The vesting of Senior Executive Awards is not affected by the awardees ceasing employment with the Group before the end of the performance assessment period. The Senior Executive Awards are considered to be vested immediately upon grant and the performance conditions are considered as non-vesting conditions.

Details of Senior Executive Awards awarded during 2016 and 2017

Date of award	Number of Awarded Shares awarded	Average fair value per share \$	Total fair value \$m	Performance period
30 Dec 2016	67,400	142.25	10	2017 – 2019
29 Dec 2017	62,123	172.49	11	2018 – 2020

All of the Senior Executive Awards were awarded to HKEX's Chief Executive. The fair value per share is determined by taking into account various factors including the probability of the performance conditions being satisfied.

Details of Senior Executive Awards vested during 2016 and 2017

In 2017, 42,720 HKEX shares (2016: 23,021 shares) granted under the Senior Executive Awards were vested at a fair value of \$6 million (2016: \$3 million). An additional \$1 million (2016: \$1 million) was charged to retained earnings in respect of the vesting as the cost of Awarded Shares vested was higher than the fair value of shares previously charged to the consolidated income statement.

37. Employee Share-based Arrangements (continued)

(c) Summary of Awarded shares awarded and dividend shares

Movements in number of Awarded Shares awarded and dividend shares

	2017	2016
Number of Awarded Shares and dividend shares:		
Outstanding at 1 Jan	3,217,209	3,248,284
Awarded ³	1,135,508	1,171,255
Forfeited	(132,444)	(160,473)
Vested	(1,218,634)	(1,069,355)
Dividend shares:		
– allocated to awardees	71,305	89,211
– allocated to awardees but subsequently forfeited	(4,690)	(5,266)
– vested ⁴	(78,066)	(56,447)
Outstanding at 31 Dec	2,990,188	3,217,209

³ Average fair value per share was \$225.11 (2016: \$187.66).

⁴ In 2017, 78,066 dividend shares (2016: 56,447 shares), including 7,509 shares (2016: 4,388 shares) for HKEX's Chief Executive, at a cost of \$15 million (2016: \$10 million) were vested.

Remaining vesting periods or performance period of Awarded Shares awarded and dividend shares outstanding at 31 December

	At 31 Dec 2017		At 31 Dec 2016	
	Remaining vesting or performance period	Number of Awarded Shares and dividend shares outstanding	Remaining vesting or performance period	Number of Awarded Shares and dividend shares outstanding
Shares awarded in				
2014	N/A	–	0.00 year to 0.05 year	50,754
2015	0.00 year to 1.00 year	687,790	0.05 year to 2.00 years	1,917,691
2016	0.34 year to 2.00 years	1,124,409	0.09 year to 3.00 years	1,171,255
2017	0.04 year to 3.00 years	1,111,931	N/A	–
Dividend shares	0.00 year to 2.48 years	66,058	0.02 year to 2.56 years	77,509
		2,990,188		3,217,209

(d) Total number of shares held by Share Award Scheme

	At 31 Dec 2017	At 31 Dec 2016
Number of Awarded Shares and dividend shares (note (c))	2,990,188	3,217,209
Forfeited or unallocated shares ⁵	4,456	150
Number of shares held by Share Award Scheme ⁶ (note 36)	2,994,644	3,217,359

⁵ These shares will be regranted to eligible employees in future.

⁶ Excluding shares vested but not yet transferred to awardees of 29,005 shares (31 December 2016: 2,750 shares)

38. Hedging Reserve

Accounting Policy

The Group designates certain bank balances as hedges of foreign exchange risks associated with the cash flows of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The changes in the fair value relating to the effective portion of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedging reserve in equity. The gains or losses relating to the ineffective portion are recognised immediately in the consolidated income statement.

Amounts accumulated in hedging reserve are reclassified to the consolidated income statement in the periods when the hedged item affects the consolidated income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserve at that time remains in hedging reserve and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was retained in hedging reserve is immediately reclassified to the consolidated income statement.

The movements of hedging reserve were as follows:

	2017 \$m
At 1 Jan	-
Cash flow hedges:	
– net fair value gains of hedging instruments	8
– transfer to the consolidated income statement as staff costs and related expenses	(6)
– transfer to the consolidated income statement as information technology and computer maintenance expenses	(1)
At 31 Dec	1
Fair value of hedging instruments at 31 Dec 2017	86

The functional currency of the LME Group is United States Dollars (USD). To hedge the foreign currency exposure of its operating expenses, the LME Group has designated bank balances of Pound sterling (GBP) 31 million as cash flow hedges in 2017 for hedging the foreign exchange risk of its staff costs and related expenses, and information technology and computer maintenance expenses of GBP 31 million from August 2017 to March 2018. At 31 December 2017, GBP 8 million of the bank balances was outstanding.

The amounts arising from ineffective cash flow hedges credited to the consolidated income statement of the Group during the year amounted to \$Nil.

39. Designated Reserves

Clearing House Funds reserves (note 32(a))

	HKSCC Guarantee Fund reserve \$m	SEOCH Reserve Fund reserve \$m	HKCC Reserve Fund reserve \$m	OTC Clear Rates and FX Guarantee Fund reserve \$m	OTC Clear Rates and FX Guarantee Resources reserve \$m	Total \$m
At 1 Jan 2016	318	104	351	3	2	778
(Deficit)/surplus of net investment income net of expenses of Clearing House Funds transferred (to)/from retained earnings (note 40)	(7)	-	(1)	1	2	(5)
At 31 Dec 2016	311	104	350	4	4	773
At 1 Jan 2017	311	104	350	4	4	773
Post-liquidation interest arising from a Participant's default on market contracts (note 5(c)(ii))	55	-	-	-	-	55
(Deficit)/surplus of net investment income net of expenses of Clearing House Funds	(9)	1	(1)	2	1	(6)
Transfer from/(to) retained earnings (note 40)	46	1	(1)	2	1	49
At 31 Dec 2017	357	105	349	6	5	822

40. Retained Earnings

	2017 \$m	2016 \$m
At 1 Jan	10,334	10,691
Profit attributable to shareholders	7,404	5,769
Transfer (to)/from Clearing House Funds reserves (note 39)	(49)	5
Dividends:		
2016/2015 final dividend	(2,491)	(3,459)
2017/2016 interim dividend	(3,133)	(2,683)
Unclaimed HKEX dividends forfeited (note 30(a))	26	22
Vesting of shares of Share Award Scheme	(16)	(11)
Tax credit relating to Share Award Scheme	3	-
Changes in ownership interests in a subsidiary (note 44)	12	-
At 31 Dec	12,090	10,334

41. Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation of profit before taxation to net cash inflow from principal operating activities

	2017 \$m	2016 \$m
Profit before taxation	8,610	6,799
Adjustments for:		
Net interest income	(912)	(614)
Net fair value gains including interest income on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	(682)	(98)
Finance costs	134	82
Depreciation and amortisation	858	771
Employee share-based compensation benefits	220	213
Provision for/(reversal of provision for) impairment losses of receivables	6	(1)
Other non-cash adjustments	37	(6)
Net increase in financial assets of Margin Funds	(30,964)	(11,636)
Net increase in financial liabilities of Margin Funds	30,968	11,633
Net increase in Clearing House Fund financial assets	(8,040)	(1,172)
Net increase in Clearing House Fund financial liabilities	7,991	1,177
Increase in cash prepayments for A shares	(1,426)	(134)
Net decrease/(increase) in financial assets measured at fair value through profit or loss less financial liabilities at fair value through profit or loss	5	(380)
(Increase)/decrease in accounts receivable, prepayments and deposits	(2,833)	3,432
Increase/(decrease) in other liabilities	4,245	(3,241)
Net cash inflow from principal operations	8,217	6,825
Dividends received	-	7
Interest received from financial assets measured at amortised cost and cash and cash equivalents	1,484	744
Interest received from financial assets measured at fair value through profit or loss	-	120
Interest paid to Participants	(572)	(130)
Income tax paid	(1,116)	(1,402)
Net cash inflow from principal operating activities	8,013	6,164

(b) Reconciliation of liabilities arising from financing activities

	Borrowings due within one year \$m	Borrowings due after one year \$m
At 1 Jan 2017	-	3,422
Borrowings becoming due within one year in 2017	1,025	(1,025)
Interest on borrowings (note 12(a))	2	78
Cash flows		
- Repayment of bank borrowings	-	(1,603)
- Payments of interest on borrowings	-	(66)
Exchange differences	-	27
At 31 Dec 2017	1,027	833

42. Commitments

(a) Commitments in respect of capital expenditures

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Contracted but not provided for:		
– fixed assets	13	66
– intangible assets	65	57
Authorised but not contracted for:		
– fixed assets	400	273
– intangible assets	955	585
	1,433	981

(b) Commitments for total future minimum lease payments under non-cancellable operating leases

Accounting Policy

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under such operating leases net of any incentives received from the lessor are charged to the consolidated income statement on a straight-line basis over the lease term.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Land and buildings		
– within one year	321	230
– in the second to fifth years	1,008	490
– after the fifth year	1,026	155
	2,355	875
Computer systems, software and equipment		
– within one year	58	18
– in the second to fifth years	216	54
	274	72
	2,629	947

At 31 December 2017 and 31 December 2016, the Group did not have any purchase options in respect of computer systems, software and equipment.

42. Commitments (continued)

- (c) Commitments in respect of financial contributions to Financial Reporting Council

The Financial Reporting Council (FRC) is an independent statutory body established to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances with accounting requirements in the financial reports of listed companies. Since the establishment of the FRC in 2006, the Group has been contributing to the funding of the FRC's operations.

Under a memorandum of understanding signed in November 2014, the Group has agreed to make recurrent contributions to the FRC as follows:

- 2015 – 2016: \$7 million per annum
- 2017 – 2019: \$8 million per annum

43. Contingent Liabilities

Accounting Policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable or when the amount of obligation becomes reliably measurable, it will then be recognised as a provision.

At 31 December 2017, the Group's material contingent liabilities were as follows:

- (a) The Group had a contingent liability in respect of potential calls to be made by the SFC to replenish all or part of compensation less recoveries paid by the Unified Exchange Compensation Fund established under the repealed Securities Ordinance up to an amount not exceeding \$71 million (31 December 2016: \$71 million). Up to 31 December 2017, no calls had been made by the SFC in this connection.
- (b) The Group had undertaken to indemnify the Collector of Stamp Revenue against any underpayment of stamp duty by its Participants of up to \$200,000 for each Participant (note 31(a)). In the unlikely event that all of its 622 trading Participants (31 December 2016: 556) covered by the indemnity at 31 December 2017 defaulted, the maximum contingent liability of the Group under the indemnity would amount to \$124 million (31 December 2016: \$111 million).
- (c) HKEX has given an undertaking in favour of HKSCC to contribute up to \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEX or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEX, for payment of the liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEX, and for the costs of winding up.

44. Transactions with Non-Controlling Interests

Accounting Policy

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between the fair value of any consideration paid/received and the relevant share of the carrying value of net assets of the subsidiary acquired/disposed of is recorded in retained earnings.

- (a) Disposal of interest in a subsidiary without loss of control

In 2017, the Group entered into an agreement to sell a 9.99 per cent stake in QME to an independent third party at a consideration of RMB25 million. After the sale, the Group's interest in QME dropped to 90.01 per cent. The effect of the partial disposal of QME on equity attributable to HKEX's shareholders is summarised as follows:

	\$m
Consideration received from non-controlling interests	28
Less: carrying amount of non-controlling interests disposed of	(16)
Gain on disposal credited to retained earnings (note 40)	12

- (b) Subsequent to the disposal (note (a)), RMB135 million and RMB15 million were further injected by the Group and the non-controlling interests into QME respectively as its registered capital in 2017 in proportion to their interests.

45. Connected Transactions and Material Related Party Transactions

- (a) Connected transactions and related party transactions

Certain Directors of HKEX may be directors and/or shareholders of (i) Exchange Participants of the Stock Exchange, Futures Exchange and the LME (Exchange Participants) and Clearing Participants of HKSCC, HKCC, SEOCH, LME Clear and OTC Clear (Clearing Participants); (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants and Clearing Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

45. Connected Transactions and Material Related Party Transactions (continued)

(b) Material related party transactions

In addition to the above and those disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions:

(i) Key management personnel compensation

	2017 \$m	2016 \$m
Salaries and other short-term employee benefits	173	157
Employee share-based compensation benefits	77	76
Retirement benefit costs	8	8
	258	241

(ii) Post-retirement benefit plans

The Group has sponsored an ORSO Plan and the LME Pension Scheme as its post-retirement benefit plans (note 8(a)).

(iii) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies that are related parties but the amounts were immaterial.

46. Pledges of Assets

LME Clear receives securities, gold bullion and warrants as collateral for margins posted by its Clearing Participants. The total fair value of this collateral was US\$1,319 million (HK\$10,311 million) at 31 December 2017 (31 December 2016: US\$1,781 million (HK\$13,808 million)). LME Clear is obliged to return this non-cash collateral upon request when the Clearing Participants' collateral obligations have been substituted with cash collateral or otherwise discharged.

LME Clear also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was US\$11,462 million (HK\$89,602 million) at 31 December 2017 (31 December 2016: US\$9,418 million (HK\$73,022 million)).

The above non-cash collateral, which LME Clear is permitted to sell or repledge in the absence of default by the counterparties, was not recorded on the consolidated statement of financial position of the Group at 31 December 2017. Such non-cash collateral, together with certain financial assets amounting to US\$471 million (HK\$3,686 million) at 31 December 2017 (31 December 2016: US\$430 million (HK\$3,334 million)), have been repledged to LME Clear's investment agent and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of LME Clear.

47. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To provide capital for the purpose of strengthening the Group's risk management capability; and
- To ensure that the Group's regulated entities comply with their respective regulatory capital requirements.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and shareholder returns. The Group takes into consideration the expected capital requirements and capital efficiency, regulatory capital requirements of its regulated entities, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group has a number of regulated entities that are subject to capital requirements set by the respective regulators. The regulatory capital requirements of the Group's subsidiaries at 31 December 2017 are summarised as follows:

Subsidiaries	Regulatory authority	Regulatory capital requirements
Stock Exchange, Futures Exchange	SFC, Hong Kong	Maintain at all times net current assets funded by equity sufficient to cover each subsidiary's projected total operating expenses for at least the following six months (approximately \$1,116 million), and net current assets funded by equity or long-term loans from HKEX sufficient to cover its projected total operating expenses for at least the following twelve months (approximately \$2,232 million).
HKSCC, HKCC, SEOCH, OTC Clear	SFC, Hong Kong	Maintain at all times liquid net assets funded by equity (ie, liquid assets of Corporate Funds minus non-current liabilities) sufficient to cover each subsidiary's projected total operating expenses for at least the following six months (approximately \$522 million), and net current assets funded by equity or long-term loans from HKEX sufficient to cover its projected total operating expenses for at least the following twelve months (approximately \$1,049 million).
LME	Financial Conduct Authority, UK	Maintain at all times liquid financial assets amounting to at least six months' operating costs plus a risk based capital charge (approximately US\$58.9 million (HK\$460 million)), and net capital of at least this amount.
LME Clear	Bank of England, UK	Maintain cash or highly liquid financial instruments with minimal market and credit risk, amounting to US\$81.3 million (HK\$636 million), plus 10 per cent minimum reporting threshold of US\$8.1 million (HK\$63 million) and US\$20.3 million (HK\$159 million) financial resources available to set off losses in the event of default. Capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

At 31 December 2017, the Group had set aside \$4,000 million (31 December 2016: \$4,000 million) of shareholders' funds for the purpose of supporting the risk management regime of the clearing houses in their roles as central counterparties.

47. Capital Management (continued)

All regulated entities of the Group had adequate capital to meet their regulatory requirements at 31 December 2017 and 31 December 2016.

The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of 90 per cent of the Group's profit of the year and it also offers a scrip dividend alternative to shareholders. The consideration of share capital issued under the scrip dividend scheme, together with the 10 per cent of the profit not declared as dividends, are retained as capital of the Group for future use.

The Group monitors capital on the basis of its gross gearing ratio (ie, gross debt divided by adjusted capital) and net gearing ratio (ie, net debt divided by adjusted capital). For this purpose, the Group defines gross debt as total borrowings, net debt as total borrowings less cash and cash equivalents of Corporate Funds, and adjusted capital as all components of equity attributable to shareholders of HKEX other than designated reserves. The Group's strategy is to maintain the ratios at less than 50 per cent.

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Total borrowings	1,860	3,422
Less: cash and cash equivalents of Corporate Funds (note 19)	(13,546)	(9,286)
Net debt (note (a))	-	-
Equity attributable to shareholders of HKEX	37,273	32,266
Less: designated reserves	(822)	(773)
Adjusted capital	36,451	31,493
Gross gearing ratio	5%	11%
Net gearing ratio	0%	0%

- (a) Net debt is zero when the amount of cash and cash equivalents of Corporate Funds is higher than total borrowings.

48. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

- (a) Market risk

Nature of risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its financial assets and financial liabilities (including borrowings).

48. Financial Risk Management (continued)

(a) Market risk (continued)

Risk management

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management by HKEX and the Group's subsidiaries is governed by the HKEX Investment Policy, Restrictions and Guidelines (Investment Guidelines), which is approved by the Board and reviewed regularly. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund (ie, Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares). Specific limits are set for each fund to control risks (eg, permissible asset type, asset allocation, liquidity, credit requirement, counterparty concentration, maturity, foreign exchange exposures and interest rate risks) of the investments.

From the fourth quarter of 2016 onwards, part of the Corporate Funds is invested in collective investment schemes (External Portfolio) under the External Investment Guidelines (the Investment Policy, Restrictions and Guidelines for externally-managed Corporate Funds) approved by the Board. The guidelines include an asset allocation policy which aims to preserve and enhance the return of the External Portfolio by investing in a diverse mix of asset classes whose returns are not highly correlated to each other over time to mitigate portfolio volatility and asset class concentration risk. The guidelines also define the risk-return parameters for the External Portfolio and restrictions to be observed, and the governance structure on selection and monitoring of fund managers. The fund managers of the collective investment schemes are selected based on their performance track records and areas of expertise, and each should be financially strong and stable, and their selection are approved by the Investment Advisory Committee as delegated by the Board. Specific risk management limits are set for the External Portfolio (eg, permissible asset type, asset allocation, liquidity and foreign exchange exposures).

The Investment Advisory Committee, comprised of Non-executive Directors of HKEX, advises the Board on portfolio management and monitors the risk and performance of HKEX's investments. A Treasury team in the Finance Division is dedicated to the day-to-day management and investment of the internally-managed funds and execute the subscription for and redemption of the External Portfolio based on the selection by the Investment Advisory Committee, and monitor its performance.

48. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

Nature of risk

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the entity to which the transactions relate) will fluctuate because of changes in foreign exchange rates. The functional currency of the Hong Kong and PRC entities are HKD and Renminbi (RMB) respectively and the functional currency of LME entities is USD. Foreign exchange risks arise mainly from the Group's investment and bank deposits in currencies other than HKD and USD and its GBP expenditure for the LME entities.

Risk management

Forward foreign exchange contracts and foreign currency bank deposits may be used to hedge the currency exposure of the Group's non-HKD and non-USD assets and liabilities and highly probable forecast transactions to mitigate risks arising from fluctuations in exchange rates.

Under the Investment Guidelines, investment in non-HKD financial instruments is subject to the following restrictions:

- Under the External Investment Guidelines, up to 50 per cent of the External Portfolio may be invested in non-HKD or non-USD investments not hedged back to HKD or USD.
- For internally-managed Corporate Funds, Clearing House Funds, Margin Funds and cash prepayments for A shares, unhedged investments in currencies other than HKD or USD must fully match the respective liabilities or forecast payments for the funds. Unhedged investments in USD may not exceed 20 per cent of the respective funds. Holdings in RMB are permitted if the currencies have been received in connection with the trading, clearing, settlement or services in respect of the Group's RMB products (including products traded through Stock Connect).

The Group's non-HKD borrowings by the Hong Kong entities are denominated in USD, which is pegged against HKD, and are therefore not subject to significant foreign currency risks.

For LME Clear, investments of the Margin Fund and Default Fund will generally be in the currency in which cash was received.

In 2017, the LME Group designated bank balances of GBP 31 million as cash flow hedges for hedging the foreign exchange risk of certain operating expenses from August 2017 to March 2018.

48. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Exposure

The following table details the Group's financial assets and financial liabilities denominated in a currency other than the functional currency of the entity to which they relate and the net open foreign currency positions (ie, gross positions less forward foreign exchange contracts and other offsetting exposures (hedges)), at 31 December presented in HKD equivalents.

	Foreign currency	At 31 Dec 2017			At 31 Dec 2016		
		Gross open position \$m	Hedges \$m	Net open position \$m	Gross open position \$m	Hedges \$m	Net open position \$m
Financial assets ¹	EUR	5,471	(5,465)	6	5,161	(5,158)	3
	GBP	9,125	(8,775)	350	7,926	(7,490)	436
	JPY	232	(231)	1	1,058	(1,057)	1
	RMB	6,514	(6,502)	12	5,470	(5,453)	17
	USD	2,847	(445)	2,402	3,401	(2,102)	1,299
	Others	1	-	1	-	-	-
Financial liabilities ²	EUR	(5,465)	5,465	-	(5,158)	5,158	-
	GBP	(8,942)	8,775	(167)	(7,668)	7,490	(178)
	JPY	(231)	231	-	(1,057)	1,057	-
	RMB	(6,505)	6,502	(3)	(5,456)	5,453	(3)
	USD	(2,012)	445	(1,567)	(5,555)	2,107	(3,448)
Total net open positions for the Group	EUR			6			3
	GBP			183			258
	JPY			1			1
	RMB			9			14
	USD			835			2,149
	Others			1			-
				1,035			2,425

1 Financial assets comprised cash and cash equivalents, financial assets measured at fair value through profit or loss (excluding collective investment schemes), financial assets measured at amortised cost, and accounts receivable and deposits.

2 Financial liabilities comprised margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants, financial liabilities at fair value through profit or loss, borrowings and accounts payable and other liabilities.

(ii) Equity and commodity price risk

Nature of risk

The Group is exposed to equity price risk as collective investment schemes are held as part of the External Portfolio. The movements of fair value of base and precious metals futures and options contracts cleared through LME Clear would not have any financial impact on the Group's results as the assets and liabilities will move by the same amount and fully offset each other.

48. Financial Risk Management (continued)

(a) Market risk (continued)

(ii) Equity and commodity price risk (continued)

Risk management

The Group sets prudent investment limits and restrictions to control investment in collective investment schemes. The Group selects fund managers after an extensive assessment of the underlying funds, their strategy and the overall quality of the fund managers, and the performance of the funds is monitored on a monthly basis.

(iii) Interest rate risk

Nature of risk

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities (including borrowings) which are interest-bearing.

Risk management

The Group manages its interest rate risks by setting limits on the residual maturity of the investments and on the fixed and floating rate mismatches of its assets and liabilities.

Exposure

The following tables present the carrying value and highest and lowest contractual interest rates of the financial assets held by the Group (excluding bank deposits held at savings and current accounts) at 31 December:

	Fixed rate financial assets		Floating rate financial assets	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Carrying value (\$m)	70,863	62,707	94,365	73,818
Highest contractual interest rates	3.80%	10.50%	1.93%	1.99%
Lowest contractual interest rates ¹	0.00%	0.00%	-4.00%	-7.25%

¹ The contractual interest rates for certain reverse repurchase investments denominated in GBP and Euro held by LME Clear were below 0 per cent.

The contractual interest rates of the borrowings are disclosed in note 33 to the consolidated financial statements.

48. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Sensitivity analysis

Investments other than collective investment schemes

The Group uses Value-at-Risk (VaR) and portfolio stress testing to identify, measure, monitor and control foreign exchange risk and interest rate risks of the Group's investments other than collective investment schemes.

VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). VaR is monitored on a weekly basis and the Board sets a limit on total VaR for the Group.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. The calculation is based on historical simulation and therefore vulnerable to sudden changes in market behaviour. The use of a 10-day holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risks but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments other than collective investment schemes and related hedges of the Group at 31 December were as follows:

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Foreign exchange risk	10	16
Interest rate risk	7	11
Total VaR	12	21

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

48. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Sensitivity analysis (continued)

Collective investment schemes

At 31 December, the fair value of the Group's collective investment schemes (Funds) by strategy employed was as follows:

Strategy	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Low Volatility Equities	2,225	1,798
Credit	644	602
Absolute Return	1,245	904
Multi-Asset Fixed Income	1,278	601
US Government Bonds and Mortgage-backed Securities	1,251	1,206
Total	6,643	5,111
Number of Funds	15	11

The Group monitors the market value sensitivity of the Funds through a high-level simulation of the Funds' 1-year Value at Risk (simplified 1-year VaR) using the Funds' returns and volatilities. The simplified 1-year VaR helps to determine the potential changes in the market values of the Funds over a 1-year period. At 31 December 2017, the simplified 1-year VaR calculated at a 95 per cent confidence level was 0.2 per cent (31 December 2016: 3.8 per cent), implying that the market value of the Group's Funds during the year ended 31 December 2017 could potentially change by approximately \$13 million (2016: \$193 million). At 31 December 2017 and 31 December 2016, the maximum exposure to loss from the Funds was equal to their carrying amounts.

The simplified 1-year VaR is computed using historical monthly returns of the Funds with the following steps:

1. Compute blended monthly returns of the Group's Funds using monthly historical returns of the respective Funds, from the period January 2015 to December 2017 (2016: January 2015 to December 2016), and their corresponding portfolio weights, assuming monthly rebalancing to the intended portfolio weights of the respective Funds;
2. Compute the average monthly return and standard deviation of the Funds' returns and derive the annualised amounts; and
3. Compute the simplified 1-year VaR, at a 95 per cent confidence level, by subtracting 1.65 times of the annualised standard deviation from the annualised average return.

The simplified 1-year VaR is a statistical measure of the historical risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in the respective Funds' monthly performance reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. In addition, it does not cover stressed market events, nor does it represent the Group's forecast of the Funds' future returns.

48. Financial Risk Management (continued)

(b) Liquidity risk

Nature of risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

Risk management

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met.

Investments are kept sufficiently liquid to meet operational needs and regulatory requirements, and possible liquidity requirements of the Clearing House Funds and Margin Funds. The Group sets minimum levels of highly liquid assets for Corporate Funds, Clearing House Funds and Margin Funds.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 31 December 2017, the Group's total available banking facilities for its daily operations amounted to \$18,963 million (31 December 2016: \$18,947 million), which included \$11,954 million (31 December 2016: \$11,938 million) of committed banking facilities and \$7,000 million (31 December 2016: \$7,000 million) of repurchase facilities.

The Group also put in place foreign exchange facilities for its daily clearing operations and for the RMB Equity Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2017, the total amount of such facilities was RMB21,500 million (HK\$25,809 million) (31 December 2016: RMB21,500 million (HK\$23,927 million)).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (HK\$15,606 million) (31 December 2016: RMB13,000 million (HK\$14,468 million)) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect.

48. Financial Risk Management (continued)

(b) Liquidity risk (continued)

Exposure

The Group is not exposed to liquidity risk on the outstanding base and precious metals futures and options contracts cleared through LME Clear. Accordingly, they are not included in the analyses for financial assets and financial liabilities in the tables below.

The tables below analyse the Group's financial assets into the relevant maturity buckets based on the following criteria:

- Investments held under the collective investment schemes are allocated taking into account the redemption notice periods, lock-up periods and redemption restrictions;
- the expected amounts, subject to costs to liquidate that are expected to be immaterial, that could be realised from the investments (other than collective investment schemes), bank deposits and cash and cash equivalents within one month to meet cash outflows on financial liabilities if required are allocated to the up to 1 month bucket; and
- other financial assets are allocated based on their contractual maturity dates or the expected dates of disposal.

	At 31 Dec 2017					Total \$m
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	
Cash and cash equivalents	155,660	-	-	-	-	155,660
Financial assets measured at fair value through profit or loss	9,047	334	321	-	-	9,702
Financial assets measured at amortised cost	30,757	-	-	9	51	30,817
Accounts receivable and deposits ¹	16,420	32	29	-	-	16,481
	211,884	366	350	9	51	212,660

	At 31 Dec 2016					Total \$m
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m	>5 years \$m	
Cash and cash equivalents	115,723	-	-	-	-	115,723
Financial assets measured at fair value through profit or loss	8,448	-	-	-	-	8,448
Financial assets measured at amortised cost	29,093	-	-	74	-	29,167
Accounts receivable and deposits ¹	12,814	35	7	-	-	12,856
	166,078	35	7	74	-	166,194

¹ Amounts excluded prepayments of \$104 million (31 December 2016: \$93 million).

48. Financial Risk Management (continued)

(b) Liquidity risk (continued)

Exposure (continued)

The table below analyses the Group's financial liabilities (excluding forward foreign exchange contracts) at 31 December into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	At 31 Dec 2017					Total \$m
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m		
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	157,814	-	-	-	157,814	
Accounts payable, accruals and other liabilities ²	16,037	11	111	-	16,159	
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	38	-	-	-	38	
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 43(b))	124	-	-	-	124	
Participants' contributions to Clearing House Funds	16,122	453	51	-	16,626	
Borrowings:						
Notes	11	-	813	753	1,577	
Written put options to non-controlling interests	-	-	252	88	340	
Total	190,146	464	1,227	841	192,678	

	At 31 Dec 2016					Total \$m
	Up to 1 month \$m	>1 month to 3 months \$m	>3 months to 1 year \$m	>1 year to 5 years \$m		
Margin deposits, Mainland security and settlement deposits, and cash collateral from Clearing Participants	126,846	-	-	-	126,846	
Accounts payable, accruals and other liabilities ²	12,135	8	103	-	12,246	
Other financial liabilities:						
Other financial liabilities of Clearing House Funds	17	-	-	-	17	
Other financial liabilities of Corporate Funds:						
Financial guarantee contract (maximum amount guaranteed) (note 43(b))	111	-	-	-	111	
Participants' contributions to Clearing House Funds	7,815	793	48	-	8,656	
Borrowings:						
Bank borrowings	3	5	24	1,686	1,718	
Notes	11	-	31	1,564	1,606	
Written put options to non-controlling interests	-	-	-	340	340	
Total	146,938	806	206	3,590	151,540	

² Amounts excluded non-financial liabilities of \$51 million (31 December 2016: \$30 million).

48. Financial Risk Management (continued)

(b) Liquidity risk (continued)

Exposure (continued)

The table below analyses the Group's outstanding forward foreign exchange contracts at 31 December (which include all contracts regardless of whether they had gains or losses at the year end) that would be settled on a gross basis into relevant maturity buckets based on their contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amounts (ie, fair values) in the consolidated statement of financial position.

	At 31 Dec 2017			At 31 Dec 2016		
	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m	Up to 1 month \$m	>1 month to 3 months \$m	Total \$m
Forward foreign exchange contracts						
– outflows	–	–	–	1,323	201	1,524
– inflows	–	–	–	1,328	201	1,529

(c) Credit risk

Nature of risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and accounts receivable. Impairment provisions are made for losses that have been incurred at the end of the reporting period.

The Group is also exposed to clearing and settlement risk, as the clearing houses of the Group act as the counterparties to eligible trades concluded on the Stock Exchange, the Futures Exchange, the over-the-counter market and the LME through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these consolidated financial statements.

48. Financial Risk Management (continued)

(c) Credit risk (continued)

Risk management – Investment and accounts receivable risk

The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie, deposit-takers, bond issuers, debtors and fund managers) and by diversification. At 31 December 2017, the investment in debt securities held by the Group (excluding those held by the collective investment schemes) were of investment grade and had a weighted average credit rating of Aaa (Moody) (31 December 2016: A1 (Moody)). External fund managers are financially strong and stable and their selection are approved by the Investment Advisory Committee as delegated by the Board. Deposits are placed only with the investment grade banks (licensed banks and restricted licence banks regulated by the Hong Kong Monetary Authority, and banks regulated by local banking regulators in the countries where the Group's subsidiaries operate). All investments are subject to a maximum concentration limit per counterparty and investments in debt securities are subject to a minimum investment grade rating. The LME Group invests a significant portion of cash in reverse repurchase investments, where high quality assets are held against such investments as collateral.

The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

Risk management – Clearing and settlement risk

The Group mitigates its exposure to clearing and settlement-related risks by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as imposing position limits and requiring Clearing Participants to deposit margins, Mainland security and settlement deposits, and cash collateral and contribute to the Clearing House Funds set up by the Group's five clearing houses. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Under the HKSCC Margining and Guarantee Fund arrangements, each HKSCC Clearing Participant is allowed by HKSCC a Margin Credit of \$5 million and a Dynamic Contribution Credit of \$1 million. If a Clearing Participant defaults and any loss arises, HKSCC will absorb the default loss up to the Margin Credit and Dynamic Contribution Credit utilised by the defaulting Clearing Participant, after deducting its collateral and Guarantee Fund contribution kept by HKSCC. After the initial losses, HKSCC is required to absorb further losses after the HKSCC Guarantee Fund reserve and the Guarantee Fund contribution (excluding the Dynamic Contribution portion) of non-defaulting Clearing Participants are depleted. The amount of losses borne by HKSCC will be calculated on a pro rata basis with reference to the non-defaulting Clearing Participants' Dynamic Contributions and Dynamic Contribution Credits granted by HKSCC. At 31 December 2017, HKSCC has 605 Clearing Participants (31 December 2016: 542) and the total amounts of Margin Credit and Dynamic Contribution Credit granted to Clearing Participants amounted to \$1,017 million (31 December 2016: \$865 million).

The HKSCC Margin Credit and Dynamic Contribution Credit are supported by the \$4,000 million of shareholders' funds set aside by the HKEX Group for risk management purpose.

48. Financial Risk Management (continued)

(c) Credit risk (continued)

Exposure

At 31 December, the maximum exposure to credit risk of the financial assets of the Group was equal to their carrying amounts. The maximum exposure to credit risk of the financial guarantee contract issued by the Group was as follows:

	At 31 Dec 2017		At 31 Dec 2016	
	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Maximum exposure to credit risk \$m
Financial guarantee contract				
Undertaking to indemnify the Collector of Stamp Revenue (note 43(b))	(20)	124	(20)	111

Collateral held for mitigating credit risk

Certain securities, cash deposits and non-cash collateral are being held by the Group to mitigate the Group's exposure to credit risk. The financial effect of the collateral, which is capped by the amount receivable from each counterparty, was as follows:

	At 31 Dec 2017		At 31 Dec 2016	
	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m	Carrying amount in consolidated statement of financial position \$m	Collateral held for mitigating credit risk \$m
Accounts receivable and deposits ¹	16,481	3,424	12,856	3,536
Fair value of base and precious metals futures and options contracts cleared through LME Clear	85,335	85,335	61,618	61,618
Reverse repurchase investments	90,608	90,608	71,270	71,270

¹ Amounts excluded prepayments of \$104 million (31 December 2016: \$93 million).

Financial assets that were not impaired

At 31 December 2017, accounts receivable and deposits of \$15,914 million (31 December 2016: \$12,415 million) were neither past due nor impaired. They relate to a wide range of customers for whom there was no recent history of default.

At 31 December 2017, the age analysis of the financial assets (which mainly relate to receivables from Participants and listed companies) of the Group that were determined to be not impaired according to the period past due was as follows:

	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Up to six months	567	441

48. Financial Risk Management (continued)

(c) Credit risk (continued)

Financial assets that were impaired at the end of the reporting period

At 31 December 2017, receivables of the Group amounting to \$9 million (31 December 2016: \$3 million) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days at the end of the reporting period or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 21.

(d) Fair values of financial assets and financial liabilities

(i) Financial assets and financial liabilities carried at fair value

At 31 December 2017 and 31 December 2016, no non-financial assets or liabilities were carried at fair values.

The following tables present the carrying value of financial assets and financial liabilities measured at fair value according to the levels of the fair value hierarchy defined in HKFRS 13: Fair Value Measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

48. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities carried at fair value (continued)

Recurring fair value measurements:	At 31 Dec 2017			At 31 Dec 2016		
	Level 1 \$m	Level 2 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Total \$m
Financial assets						
Financial assets measured at fair value through profit or loss:						
– collective investment schemes	1,841	4,802	6,643	2,225	2,886	5,111
– debt securities	3,059	–	3,059	3,022	301	3,323
– base and precious metals futures and options contracts cleared through LME Clear	–	85,335	85,335	–	61,618	61,618
– forward foreign exchange contracts	–	–	–	–	14	14
	4,900	90,137	95,037	5,247	64,819	70,066
Financial liabilities						
Financial liabilities at fair value through profit or loss:						
– base and precious metals futures and options contracts cleared through LME Clear	–	85,335	85,335	–	61,618	61,618
– forward foreign exchange contracts	–	–	–	–	9	9
	–	85,335	85,335	–	61,627	61,627

During 2017 and 2016, there were no transfers of instruments between Level 1 and Level 2.

Level 2 fair values of debt securities, forward foreign exchange contracts, base and precious metals futures and options contracts and collective investment schemes have been determined based on quotes from market makers, funds administrators or alternative pricing sources supported by observable inputs. The most significant input are market interest rates, market prices of metals, net asset values and latest redemption prices or transaction prices of the respective collective investment schemes.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

48. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities (continued)

(ii) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the consolidated statement of financial position at their fair values. These assets and liabilities were classified under Level 2 in the fair value hierarchy.

	At 31 Dec 2017		At 31 Dec 2016	
	Carrying amount in consolidated statement of financial position \$m	Fair value \$m	Carrying amount in consolidated statement of financial position \$m	Fair value \$m
Assets				
Financial assets measured at amortised cost:				
– other financial assets maturing over one year ¹	60	54	74	66
Liabilities				
Borrowings:				
– notes ²	1,533	1,537	1,519	1,542
– written put options to non-controlling interests ²	327	329	317	320
Financial guarantee to the Collector of Stamp Revenue ³	20	90	20	76

1 The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets, adjusted by an estimated credit spread. The discount rates used ranged from 1.84 per cent to 2.56 per cent at 31 December 2017 (31 December 2016: 2.62 per cent to 3.72 per cent).

2 The fair values are based on cash flows discounted using the prevailing market interest rates for loans with similar credit rating and similar tenor of the respective loans. The discount rates used ranged from 2.26 per cent to 2.75 per cent at 31 December 2017 (31 December 2016: 2.09 per cent to 2.95 per cent).

3 The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity but capped at the maximum exposure of the financial guarantee. The discount rate used was 1.74 per cent at 31 December 2017 (31 December 2016: 1.83 per cent).

The carrying amounts of bank borrowings with floating interest rates, short-term receivables (eg, accounts receivable, financial assets measured at amortised cost and cash and cash equivalents) and short-term payables (eg, accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

48. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities

Accounting Policy

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

For base and precious metals futures and options contracts cleared through LME Clear, the asset and liability positions of LME Clear arising through its activities as a central counterparty are matched. Therefore, the same amounts are recorded for both assets and liabilities with the fair value gains and losses recognised, but offset, in the consolidated income statement.

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

48. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

Type of financial instruments	At 31 Dec 2017					
	Gross amount \$m	Gross amount offset in the consolidated statement of financial position \$m	Net amount presented in the consolidated statement of financial position ³ \$m	Related amounts not offset in the consolidated statement of financial position		
				Amounts subject to master netting arrangements \$m	Cash collateral \$m	Net amount \$m
Financial assets:						
CNS money obligations receivable ¹	141,775	(129,260)	12,515	(2,042)	(3,006)	7,467
Base and precious metals futures and options contracts cleared through LME Clear ²	1,572,390	(1,487,055)	85,335	(43,037)	(42,298)	-
Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	2,888	-	2,888	(171)	(203)	2,514
Total	1,717,053	(1,616,315)	100,738	(45,250)	(45,507)	9,981
Financial liabilities:						
CNS money obligations payable ¹	143,464	(129,260)	14,204	(2,213)	-	11,991
Base and precious metals futures and options contracts cleared through LME Clear ²	1,572,390	(1,487,055)	85,335	(43,037)	-	42,298
Total	1,715,854	(1,616,315)	99,539	(45,250)	-	54,289

48. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities (continued)

(i) Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

Type of financial instruments	At 31 Dec 2016					
	Gross amount \$m	Gross amount offset in the consolidated statement of financial position \$m	Net amount presented in the consolidated statement of financial position ³ \$m	Related amounts not offset in the consolidated statement of financial position		Net amount \$m
				Amounts subject to master netting arrangements \$m	Cash collateral \$m	
Financial assets:						
CNS money obligations receivable ¹	82,814	(72,762)	10,052	(455)	(3,298)	6,299
Base and precious metals futures and options contracts cleared through LME Clear ²	1,122,855	(1,061,237)	61,618	(38,427)	(23,191)	-
Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	1,353	-	1,353	-	(89)	1,264
Total	1,207,022	(1,133,999)	73,023	(38,882)	(26,578)	7,563
Financial liabilities:						
CNS money obligations payable ¹	83,077	(72,762)	10,315	(455)	-	9,860
Base and precious metals futures and options contracts cleared through LME Clear ²	1,122,855	(1,061,237)	61,618	(38,427)	-	23,191
Total	1,205,932	(1,133,999)	71,933	(38,882)	-	33,051

1 HKSCC currently has a legally enforceable right to set off certain CNS money obligations receivable and payable relating to the same Clearing Participant and it intends to settle on a net basis.

2 LME Clear has a legally enforceable right to set off open positions of certain contracts within an individual member's account for those contracts settling on the same date and it intends to settle on a net basis.

3 For the net amounts of CNS money obligations receivable or payable and net fair value of base and precious metals futures and options contracts (ie, after set-off) and other accounts receivable due from customers, they do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default of the customers. In addition, the Group does not intend to settle the balances on a net basis.

48. Financial Risk Management (continued)

(e) Offsetting financial assets and financial liabilities (continued)

- (ii) The tables below reconcile the “net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the “accounts receivable, prepayments and deposits”, “accounts payable, accruals and other liabilities”, “financial assets measured at fair value through profit or loss” and “financial liabilities at fair value through profit or loss” presented in the consolidated statement of financial position.

	Accounts receivable, prepayments and deposits		Financial assets measured at fair value through profit or loss	
	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Net amount of financial assets after offsetting as stated above:				
– CNS money obligations receivable	12,515	10,052	–	–
– Other accounts receivable from Participants, ChinaClear, information vendors and hosting services customers, net of provision for impairment losses	2,888	1,353	–	–
– Base and precious metals futures and options contracts cleared through LME Clear	–	–	85,335	61,618
Financial assets not in scope of offsetting disclosures	1,078	1,451	9,702	8,448
Prepayments	104	93	–	–
Amounts presented in the consolidated statement of financial position	16,585	12,949	95,037	70,066
	Accounts payable, accruals and other liabilities		Financial liabilities at fair value through profit or loss	
	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m	At 31 Dec 2017 \$m	At 31 Dec 2016 \$m
Net amount of financial liabilities after offsetting as stated above:				
– CNS money obligations payable	14,204	10,315	–	–
– Base and precious metals futures and options contracts cleared through LME Clear	–	–	85,335	61,618
Financial liabilities not in scope of offsetting disclosures	1,955	1,931	–	9
Non-financial liabilities	51	30	–	–
Amounts presented in the consolidated statement of financial position	16,210	12,276	85,335	61,627

49. Statement of Financial Position and Reserve Movement of HKEX

Accounting Policy

In HKEX's statement of financial position, investments in subsidiaries are stated at cost less impairment losses. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than HKEX's respective cost of investment. The results of subsidiaries are accounted for by HKEX on the basis of dividends received and receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in HKEX's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.

Written put options to non-controlling interests initially recognised at fair value are accounted for as an investment in subsidiaries with a corresponding credit to financial liabilities at fair value through profit or loss under other financial liabilities. Subsequent changes in fair value of the financial liabilities are recognised in HKEX's income statement.

Financial guarantee contracts issued by HKEX to guarantee borrowings of subsidiaries are eliminated on consolidation.

49. Statement of Financial Position and Reserve Movement of HKEX (continued)

Statement of Financial Position of HKEX

	At 31 Dec 2017			At 31 Dec 2016		
	Current \$m	Non- current \$m	Total \$m	Current \$m	Non- current \$m	Total \$m
ASSETS						
Cash and cash equivalents	5,715	-	5,715	4,357	-	4,357
Financial assets measured at fair value through profit or loss	6,643	-	6,643	5,125	-	5,125
Financial assets measured at amortised cost	1	1	2	980	1	981
Accounts receivable, prepayments and deposits	45	21	66	633	21	654
Amounts due from subsidiaries	1,123	12,908	14,031	2,097	16,708	18,805
Interests in joint ventures	-	114	114	-	100	100
Intangible assets	-	129	129	-	109	109
Fixed assets	-	250	250	-	193	193
Investments in subsidiaries	-	12,115	12,115	-	7,349	7,349
Total assets	13,527	25,538	39,065	13,192	24,481	37,673
LIABILITIES AND EQUITY						
Liabilities						
Financial liabilities at fair value through profit or loss	278	-	278	230	-	230
Accounts payable, accruals and other liabilities	389	-	389	668	-	668
Amounts due to subsidiaries	422	-	422	1,882	-	1,882
Taxation payable	5	-	5	41	-	41
Other financial liabilities	11	-	11	11	-	11
Borrowings	782	751	1,533	-	3,105	3,105
Provisions	67	1	68	66	1	67
Deferred tax liabilities	-	18	18	-	14	14
Total liabilities	1,954	770	2,724	2,898	3,120	6,018
Equity						
Share capital		25,141			22,085	
Shares held for Share Award Scheme		(606)			(599)	
Employee share-based compensation reserve		222			226	
Merger reserve		694			694	
Retained earnings		10,890			9,249	
Equity attributable to shareholders of HKEX		36,341			31,655	
Total liabilities and equity		39,065			37,673	
Net current assets		11,573			10,294	

Approved by the Board of Directors on 28 February 2018

CHOW Chung Kong
Director

LI Xiaojia, Charles
Director

49. Statement of Financial Position and Reserve Movement of HKEX (continued)

(a) Reserve movement of HKEX

	Employee share-based compensation reserve \$m	Merger reserve \$m	Retained earnings \$m
At 1 Jan 2016	199	694	8,783
Profit attributable to shareholders	-	-	6,597
2015 final dividend at \$2.87 per share	-	-	(3,459)
2016 interim dividend at \$2.21 per share	-	-	(2,683)
Unclaimed HKEX dividends forfeited	-	-	22
Vesting of shares of Share Award Scheme	(186)	-	(11)
Employee share-based compensation benefits	213	-	-
At 31 Dec 2016	226	694	9,249
At 1 Jan 2017	226	694	9,249
Profit attributable to shareholders	-	-	7,255
2016 final dividend at \$2.04 per share	-	-	(2,491)
2017 interim dividend at \$2.55 per share	-	-	(3,133)
Unclaimed HKEX dividends forfeited	-	-	26
Vesting of shares of Share Award Scheme	(224)	-	(16)
Employee share-based compensation benefits	220	-	-
At 31 Dec 2017	222	694	10,890

SHAREHOLDER INFORMATION

Financial Calendar 2018

Announce 2017 final results	28 February
2018 AGM	25 April
Ex-dividend date for final dividend	27 April
Despatch scrip dividend circular and election form	On or about 9 May
Announce scrip share subscription price	On or about 15 May
Despatch dividend warrants/ definitive share certificates	1 June
Announce 2018 first quarter results	May
Announce 2018 interim results	August
Announce 2018 third quarter results	November

2017 Dividends

Interim dividend	\$2.55 per share
Proposed final dividend	\$2.85 per share
Dividend payout ratio	90 per cent

Subject to Shareholders' approval at the 2018 AGM of the proposed final dividend and a general mandate to issue shares, the final dividend will be payable in cash with a scrip alternative where a 3 per cent discount on the subscription price will be offered to Shareholders who elect to subscribe for shares. The scrip dividend alternative is also conditional upon the SFC's granting the listing of, and permission to deal in, new shares of HKEX to be issued pursuant thereto. Details of the scrip dividend alternative will be set out in a circular to Shareholders.

Further information about HKEX's scrip dividend scheme and dividend history is available on the HKEX Group website [IR](#).

Share Information

HKEX shares are listed on the Stock Exchange. HKEX is currently a constituent stock of the HSI and a number of sustainability indices as disclosed on the HKEX Group website [CG](#).

Listing	
As at 31 December 2017	
– Number of issued shares	1,239,809,477 shares
– Market capitalisation	\$297.3 billion
Board lot size	100 shares

For Shareholders to attend and vote at 2018 AGM

Latest time to lodge transfer documents for registration with HKEX's registrar	At 4:30 pm on 19 April 2018
Closure of HKEX's Register of Members	20 to 25 April 2018 (both dates inclusive)
Record date	25 April 2018

For Shareholders to be entitled to 2017 final dividend

Latest time to lodge transfer documents for registration with HKEX's registrar	At 4:30 pm on 30 April 2018
Closure of HKEX's Register of Members	2 to 3 May 2018 (both dates inclusive)
Record date	3 May 2018

Stock Codes

Stock Exchange	388
Reuters	0388.HK
Bloomberg	388 HK Equity
SEDOL 1	6267359 HK
ISIN	HK0388045442

American Depositary Receipts

Ticker Symbol	HKXCY
CUSIP	43858F109

HKEX share price performance vs HSI in 2017



Shareholding Distribution as at 31 December 2017 (based on HKEX’s Register of Members)

Size of shareholding	Number of Shareholders	% of Shareholders	Number of shares held ('000)	% of HKEX ¹ shares in issue
1 – 1,000	2,591	47.3	1,195	0.1
1,001 – 5,000	1,783	32.5	4,405	0.4
5,001 – 10,000	439	8.0	3,348	0.3
10,001 – 100,000	543	9.9	16,098	1.3
100,001 and above	127	2.3	1,214,763	98.0
Total	5,483	100.0	1,239,809	100.0

¹ Percentage is for reference only, and may not add up to the total due to rounding.

Details about HKEX’s major Shareholder are disclosed in the Corporate Governance Report contained in this Annual Report.

Electronic Communication

This Annual Report is printed in English and Chinese, and is available in the Investor Relations (Regulatory Disclosure) section of the HKEX Group website [IR](#).

Shareholders are encouraged to access HKEX’s corporate communications electronically via the HKEX Group website to help protect the environment. Shareholders may at any time change their choice of language or means of receiving HKEX’s corporate communications free of charge by giving not less than seven days’ notice in writing to HKEX’s registrar.

HKEX’s Registrar – Hong Kong Registrars Limited

For corporate communications:

By post: 17M Floor, Hopewell Centre
183 Queen’s Road East
Wan Chai, Hong Kong

By email: hkex.ecom@computershare.com.hk

For transfer of shares:

Address: Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wan Chai, Hong Kong

Tel: (852) 2862 8555

Fax: (852) 2865 0990 / (852) 2529 6087

Registration for News Alerts

Shareholders who would like to be notified when HKEX publishes its corporate communications on the HKEXnews website can register for the News Alerts service in the Market Data section of the HKEX Market website (www.hkex.com.hk). Further information about Shareholder communications can be found in the Corporate Governance Report contained in this Annual Report.

Feedback on Annual Report

HKEX values feedback on this Annual Report as well as its reporting of the Group’s financial and governance performance. Shareholders may give their comments via the online form at www.hkexgroup.com/Investor-Relations/Regulatory-Disclosure/Regulatory-Reports or email at ssd@hkex.com.hk.

GLOSSARY

2017 AGM	AGM held on 26 April 2017 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall, One and Two Exchange Square, Central, Hong Kong
2018 AGM	AGM to be held on 25 April 2018
ADT	Average daily turnover value
ADV	Average daily volume (in number of contracts/lots)
AGM(s)	HKEX's annual general meeting(s)
AHFT	After-Hours Futures Trading
Awarded Shares	Shares awarded under the Share Award Scheme
BBS	Bronze Bauhinia Star
BCCL	Bond Connect Company Limited
Board	HKEX's board of directors
Bond Connect	A mutual bond market access programme between Hong Kong and Mainland China, under which Northbound trading enables overseas investors to invest in the China Interbank Bond Market, and Southbound trading will be explored at a later stage
Cash Market	HKEX's securities related business excluding stock options
CBBCs	Callable Bull/Bear Contracts
CCASS	Central Clearing and Settlement System
CCP	Central counterparty
CFETS	China Foreign Exchange Trade System (National Interbank Funding Center)
ChinaClear	China Securities Depository and Clearing Corporation Limited
CNH	Offshore RMB traded outside Mainland China
CNS	Continuous Net Settlement
Corporate Governance Code and Corporate Governance Report	Refer to Appendix 14 to the Main Board Listing Rules
CP(s)	Clearing Participant(s)
CSR	Corporate Social Responsibility
Derivatives Market	HKEX's derivatives related business including stock options
Director(s)	HKEX's director(s)
DWs	Derivative warrants
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
ETF(s)	Exchange Traded Fund(s)
Euro	The official currency of the Eurozone
Exchange or SEHK or Stock Exchange	The Stock Exchange of Hong Kong Limited
FCA	Financial Conduct Authority
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
GBS	Gold Bauhinia Star
GEM	Formerly known as "Growth Enterprise Market"
GEM Listing Rules	Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group or HKEX Group	HKEX and its subsidiaries
HKCC	HKFE Clearing Corporation Limited
HKEX or the Company	Hong Kong Exchanges and Clearing Limited
HKEX's Articles	HKEX's Articles of Association
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKSCC	Hong Kong Securities Clearing Company Limited
HSCEI	Hang Seng China Enterprises Index
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s) of HKEX
IPO(s)	Initial Public Offering(s)

GLOSSARY

Iron Ore Futures	TSI Iron Ore Fines 62 per cent Fe CFR China Futures
IT	Information Technology
January 2003 MOU	Memorandum of Understanding Governing Listing Matters between the SFC and SEHK, dated 28 January 2003
JP	Justice of the Peace
Lehman	Lehman Brothers Securities Asia Limited
LCH	LCH.Clearnet Group Limited
Listing Committees	Listing Committee and GEM Listing Committee
Listing Rule(s)	Main Board Listing Rules and GEM Listing Rules
LME	The London Metal Exchange
LME Clear	LME Clear Limited
LME Group	HKEX Investment (UK) Limited, LMEH, the LME and LME Clear
LMEH	LME Holdings Limited
LMEmercury	LME Clear's clearing system which enables its Members to view their risk positions in real time
London Metal Mini Futures	London Aluminium/Zinc/Copper/Nickel/Tin/Lead Mini Futures
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
MSCI	MSCI Inc.
Northbound Trading	Hong Kong and overseas investors trading in eligible securities that are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through Stock Connect
OTC	Over-the-counter
OTC Clear	OTC Clearing Hong Kong Limited
PFMI	"Principles for financial market infrastructures" published by the Committee on Payment and Settlement Systems (now known as the Committee on Payments and Market Infrastructures) and the International Organization of Securities Commissions
QME	Qianhai Mercantile Exchange Co., Ltd.
RMB	Renminbi
SBS	Silver Bauhinia Star
Senior Management	The Group's senior executives, and the list of Senior Management as at the date of this Annual Report is set out in the Board of Directors and Senior Management section of this Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai-Hong Kong Stock Connect or Shanghai Connect	A mutual market access programme that links the stock markets in Shanghai and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Shareholder(s)	HKEX's shareholder(s)
Share Award Scheme or the Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006, 13 May 2010, 17 December 2013 and 17 June 2015
Shenzhen-Hong Kong Stock Connect or Shenzhen Connect	A mutual market access programme that links the stock markets in Shenzhen and Hong Kong, enabling investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their home market
Southbound Trading	Mainland investors trading in eligible securities that are listed on the Stock Exchange through Stock Connect
Stock Connect	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
UK	United Kingdom
US	United States of America
US\$/USD	United States dollar
\$/HK\$/HKD	Hong Kong dollar
\$bn/bn	Hong Kong dollar in billion/billion
\$m	Hong Kong dollar in million
£/GBP	Pound sterling



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