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(Incorporated in Hong Kong with limited liability)  
(Stock Code: 388)

## **2012 Corporate Governance Report**

As at the date of this announcement, the Board comprises 12 Independent Non-executive Directors, namely Mr CHOW Chung Kong (Chairman), Mr Ronald Joseph ARCULLI, Mr CHAN Tze Ching, Ignatius, Mr Timothy George FRESHWATER, Mr John Barrie HARRISON, Mr HUI Chiu Chung, Stephen, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Mr LEE Tze Hau, Michael, Mr John Estmond STRICKLAND, Mr John Mackay McCulloch WILLIAMSON and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr LI Xiaojia, Charles, who is also HKEx's Chief Executive.

# 2012 CORPORATE GOVERNANCE REPORT

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(Financial figures in this report are expressed in Hong Kong dollar)

HKEx recognises the importance of a robust governance framework to drive its strategic priorities for long-term sustainable shareholder value in a manner consistent with its public responsibilities as an exchange controller. HKEx is always mindful of its wider obligations towards other stakeholders, such as market participants, the investing public, and the community as a whole, and remains committed to conducting its business in a fair, transparent, and ethical way by adopting the principles set out in the Corporate Governance Code and embedding best governance practices throughout the organisation.

An explanation of how the principles of the Corporate Governance Code were put into practice during the year under review is set out below and in the Audit Committee Report, the Environmental, Social and Governance Committee Report, and the Remuneration Committee Report of the 2012 Annual Report. Further insight into HKEx's corporate governance structure and practices is available in the Corporate Governance section of the HKEx website.

## Compliance with Corporate Governance Code

Throughout the year ended 31 December 2012, HKEx complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code (applicable to financial reports covering a period after 1 April 2012) and the former Code on Corporate Governance Practices, with the exceptions of Code Provisions A.4.1 and A.4.2 as addressed below.

### 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 Section 77 of the SFO. They are normally appointed for a term of approximately 2 years and on expiration of their terms they shall retire and be eligible for re-appointment pursuant to Article 93(5) of HKEx's Articles.

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

- The term of office of HKEx's Chief Executive in his capacity as a Director shall, pursuant to Article 90(4) of HKEx's Articles, be coterminous with his employment with HKEx, and he is not subject to retirement by rotation.
- HKEx's Chief Executive is appointed under an employment contract for a fixed term, normally not more than 3 years, with no automatic renewal provision, and shall be eligible for re-appointment. Pursuant to Articles 111(1) and (3) of HKEx's Articles, his appointment has to be approved by the Board and is subject to the SFC's approval under Section 70 of the SFO.

In addition, to demonstrate HKEx's continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy in February 2013 to comply with a new Code Provision on board diversity which will be effective from September 2013. The Policy is available on the HKEx website.

## Strategic Plans

The year 2012 not only marked the final and critical implementation phase of the HKEx Strategic Plan 2010-2012 but also was the beginning of a new strategic plan for the coming 3 years. Being accountable for the Group's overall direction in pursuit of its strategic priorities and public responsibilities, the Board plays an active role in the strategic development and planning process.

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## Board process to review and develop strategic plans

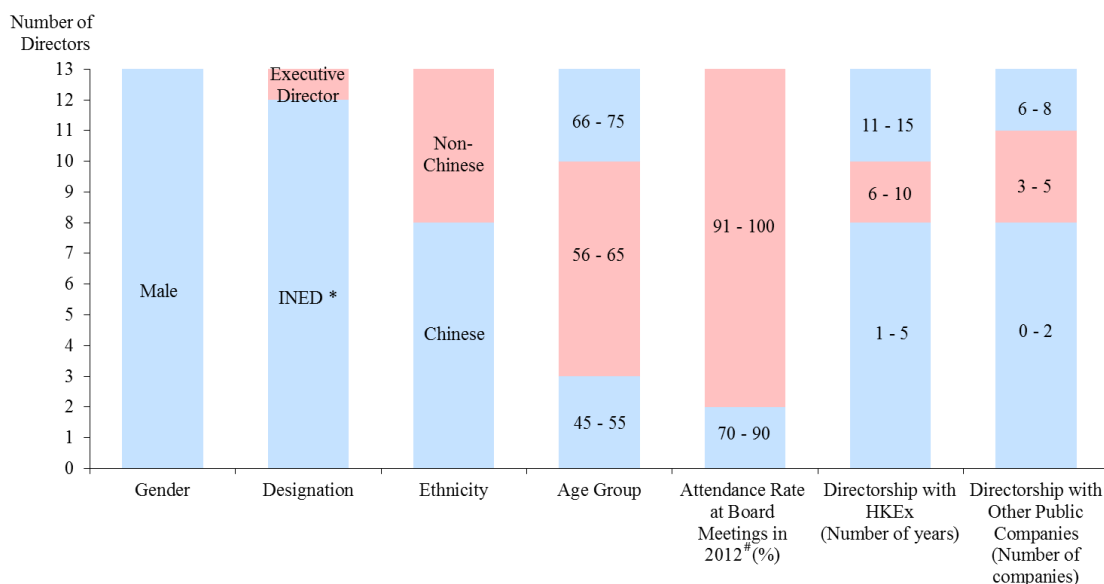
One-day offsite Board meeting in January 2012
<ul style="list-style-type: none"> <li>Initiated by HKEx's Chief Executive</li> <li>Participation by Directors, HKEx's senior executives, and external guest speakers</li> <li>Issues discussed: (i) an update on implementation of the HKEx Strategy Plan 2010-2012; and (ii) key initiatives undertaken in 2012</li> </ul>
One-day offsite Board meeting in November 2012
<ul style="list-style-type: none"> <li>Initiated by HKEx's Chief Executive</li> <li>Participation by Directors, senior executives of HKEx and LME, and external guest speakers</li> <li>Issues discussed: (i) strategic foundations set and accomplishments realised during the past 3 years; and (ii) strategic options available under the current operating environment and challenges in the coming years</li> </ul>
Board meeting in December 2012
HKEx's Chief Executive presented the HKEx Group Strategic Plan 2013-2015 to the Board for its consideration and approval

Details of the strategic plan for 2013-2015 is set out in the HKEx Group Strategic Plan 2013-2015 which is available on both the HKEx and the HKEx Group websites, while the work done in 2012 under the 2010-2012 Strategic Plan will be reported in the Business Review and Financial Review sections of the 2012 Annual Report.

## The Board

### Board Composition

The Board structure is governed by Article 90 of HKEx's Articles and Section 77 of the SFO. It currently comprises 13 members with professional background and/or extensive expertise in the Group's business.



\* 6 Government Appointed Directors and 6 Elected Directors

# Including 2 offsite meetings

The names of the current Directors and their biographies (including their roles, functions, and respective terms of office at HKEx as well as their skills and experience) are available on the HKEx website.

# 2012 CORPORATE GOVERNANCE REPORT

## Appointment and Election of Directors

### Changes in Directors during 2012

- In April 2012, the Government announced the appointment of Messrs C K Chow and Tim Freshwater as Directors for a term of approximately 2 years from the close of the 2012 AGM until the conclusion of the AGM to be held in 2014, and the re-appointment of Mr Ronald Arculli as a Director for a term of approximately 1 year from the close of the 2012 AGM until the conclusion of the 2013 AGM.
- Mrs Laura Cha and Dr Moses Cheng retired from the Board after the conclusion of the 2012 AGM.
- At the 2012 AGM, Messrs Ignatius Chan and John Williamson were re-elected as Directors by Shareholders for a term of approximately 3 years from 23 April 2012 until the conclusion of the AGM to be held in 2015.

There are 6 Directors whose service terms will expire at the conclusion of the 2013 AGM. Pursuant to Article 93(5) of HKEx's Articles, they are all eligible for re-appointment. Regarding the nomination of candidates as Elected Directors, details are set out on page 10 of this report. HKEx will make an announcement on the appointment of Directors, including Government Appointed Directors, as soon as practicable.

### Directors retire in 2013

#### Elected Directors

- John Strickland
- Oscar Wong

#### Government Appointed Directors

- Ronald Arculli
- John Harrison
- Stephen Hui
- Michael Lee

## 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 division of responsibilities. Their respective responsibilities are set out in the Corporate Governance section of the HKEx website.

### C K Chow Chairman (INED)

- Provides leadership to the Board
- Ensures effectiveness of the Board
- Fosters better relationships between Directors

- Promotes integrity and probity
- Ensures effective stakeholder communication

### Charles Li Chief Executive (ex-officio Board member)

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

### Changes in Chairman in 2012

- Pursuant to Article 111(2) of HKEx's Articles, Mr Ronald Arculli who has served as HKEx's Chairman for 6 consecutive years is ineligible for re-appointment as Chairman and his chairmanship ceased after the conclusion of the 2012 AGM.
- The Board on 24 April 2012 appointed Mr C K Chow as HKEx's Chairman for a term to be coterminous with his directorship with HKEx. Pursuant to Section 69 of the SFO, the Chief Executive of the HKSAR approved his appointment which took effect on 27 April 2012.

### Re-appointment of Chief Executive in 2012

- In September 2012, the Board approved the renewal of the employment contract of Mr Charles Li as HKEx's Chief Executive for a further 3-year term from 16 October 2012 to 15 October 2015 and the SFC approved his re-appointment pursuant to Section 70 of the SFO.

## Roles and Responsibilities

The Board believes that good governance emanates from an effective board which sets HKEx's overall strategic direction, reviews its operational and financial performance, and provides oversight to ensure that a sound system of internal control and risk management is in place.

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The responsibilities for the development and implementation of the Group's strategies and the day-to-day management issues are delegated to Board committees and the management. The Board has a formal schedule of matters reserved for its own decisions, as defined in its terms of reference, which are available on the HKEx website.

## Key non-routine matters addressed by the Board during 2012

- Revamp of the Stock Options market
  - Establishment of the OTC derivatives clearing house
  - Establishment of the joint venture with the Shanghai Stock Exchange and the Shenzhen Stock Exchange
  - Revisions to the HKEx Escalation and Incident Reporting Policy and HKEx Market Contingency Plan
  - Consultation Conclusions on HKEx Clearing House Risk Management Reform Measures
  - Implementation of the HKEx Orion programme
  - Implementation of the external consultant's recommendations on IT security risk and infrastructure
  - Acquisition of the LME Group and post-acquisition integration
  - Conversion of LME from a company limited by guarantee to an unlimited liability company with a share capital
  - Issue and substitution of convertible bonds
  - Share placement
  - HKEx Group Strategic Plan 2013-2015
  - 2013 Annual Operating Plan and Budget
  - Review of the Board's standing agenda
  - Renewal of the employment contract of HKEx's Chief Executive
  - Amendments to the HKEx Investment Policy, Restrictions and Guidelines
  - Revisions to the Expense Approval Guide
  - Amendments to the Continuous Disclosure and Communication Policy
  - Non-executive Directors' remuneration for 2012/2013
  - Remuneration proposal for 2012/2013
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## Independence of Non-executive Directors

HKEx has been steered by a Board with a majority of INEDs since its listing, with HKEx's Chief Executive being the only executive Director on the Board. To ensure that the Board has a strong independent element, assessments of Non-executive Directors' independence are carried out upon appointment, annually, and at any other time where the circumstances warrant reconsideration.

### Assessments of Non-executive Directors' independence for 2012

#### Assessment upon Director's appointment

Messrs C K Chow and Tim Freshwater, the Non-executive Directors newly appointed in April 2012, confirmed in writing to the SFC respectively upon their appointment –

- their independence having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules; and
- they have no past or present financial or other interest in the Group's business and no connection with any of HKEx's connected persons (as defined in the Main Board Listing Rules).

#### Annual assessment

On 31 January 2013, the Nomination Committee held a meeting to assess the annual confirmation of independence received from each of the INEDs having regard to the criteria as set out in Rule 3.13 of the Main Board Listing Rules.

- As a good corporate governance practice, every Nomination Committee member abstained from assessing his own independence.
- Particular review was applied in assessing the continued independence of the Government Appointed Directors since one of them is an Executive Councillor and the Government is a Minority Controller of HKEx.
- Consideration was given to the independence of Dr Bill Kwok and Messrs Vincent Lee and John Strickland who have served on the Board for more than 12 years, and the independence of Mr Oscar Wong who has served for more than 9 years.
- Mr Ronald Arculli is a senior partner of King & Wood Mallesons (formerly known as King & Wood) - Hong Kong Office. During the year ended 31 December 2012, King & Wood Mallesons, Australia Office (K&W-AO)

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and King & Wood Mallesons, Shanghai Office (K&W-SO) respectively provided legal services to the Group, details of which were set out below.

- (i) HKEx appointed K&W-AO as its Australia legal counsel to advise on certain listing related matters concerning Australian sanctions laws; and
- (ii) a wholly-owned HKEx's subsidiary, appointed K&W-SO as its PRC legal counsel to advise on the legal issues relating to the establishment of a wholly-owned subsidiary in Shanghai and the scope of business under its business licence.

The legal fees paid to K&W-AO and K&W-SO for the year ended 31 December 2012 amounted to a total of \$348,801.19. Taking into account that both K&W-AO and K&W-SO were selected under a quotation process conducted solely by management, and that the services provided by them were on normal commercial terms and in the ordinary course of the Group's business, the Nomination Committee affirmed that Mr Arculli remained independent.

- In addition, 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.

## 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 2012.
- All Directors do not have any financial, business, family, or other material/relevant relationships with each other. In particular, there are none between HKEx's Chairman and Chief Executive.
- Details of the Directors' interests in the Group's business are set out in the Continuing Connected Transactions and Material Related Party Transactions sections of this report.

## Induction and Development

All new Directors participate in an induction programme which, taking into account their previous experience and background, is designed to further their knowledge and understanding of the Group's culture and operations as well as their associated role and responsibilities. An induction programme was held for Messrs C K Chow and Tim Freshwater who joined the Board in April 2012.

### Induction programme for new Directors held in April 2012

Key matters covered	Facilitated by
<ul style="list-style-type: none"><li>• HKEx's roles and group structure, governance structure, Board procedures, Director's responsibilities, CSR strategy and management</li><li>• HKEx's business (Secondary Markets and Listing)</li></ul>	Company Secretary
<ul style="list-style-type: none"><li>• Financial overview and reporting</li><li>• Organisational structure and management</li><li>• 2012 key initiatives</li></ul>	Chief Operating Officer and Head of Listing Deputy Chief Financial Officer Head of Human Resources Head of Market Development

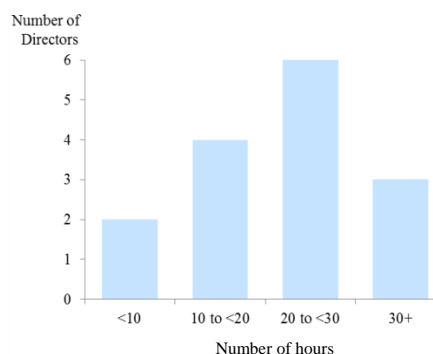
Every Board member receives a copy of the Director's Handbook upon joining the Board. The guide contains the Board's terms of reference, an overview of Directors' responsibilities, the Guidelines on Conduct, and information on other key governance issues. The Director's Handbook is reviewed and updated regularly. The latest version of February 2013 is available on the HKEx website.

Development and training of Directors is an ongoing process so that they can perform their duties appropriately. The Company Secretary regularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses at the Company's expense.

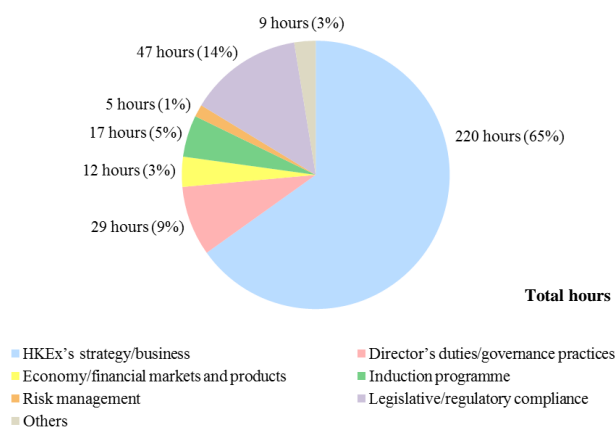
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Since January 2012, all Directors have been required to provide the Company with their training records on a quarterly basis, and such records have been maintained by the Company Secretary for regular review by the ESG Committee. Save for Mrs Laura Cha and Dr Moses Cheng, who attended about 8 hours of training during their service term up to 23 April 2012, each Director received more than 15 hours of training in 2012. The training records of the Directors were reviewed by the ESG Committee in February 2013.

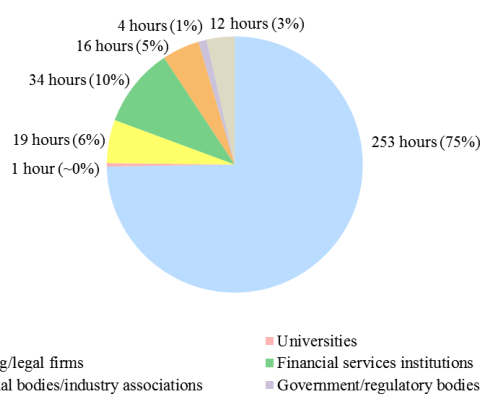
**Training for Directors in 2012 \***



**Analysis of Directors' training in 2012 by training topic \***



**Analysis of Directors' training in 2012 by training organiser \***



\* Including Mrs Laura Cha and Dr Moses Cheng who retired from the Board on 23 April 2012

## Board Process

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. Apart from attending the scheduled meetings which were fixed before the beginning of 2012, all Directors used their best endeavours to attend ad-hoc meetings, even on short notice, or participate by audio and video link.

### Key features of Board process in 2012/2013

- In 2012, a total of 15 Board meetings (comprising 2 one-day offsite meetings, 12 scheduled meetings and 1 ad-hoc meeting) were held.
- In addition, 1 written resolution was passed by the Board in 2012 for the appointment of members of the Cash Market Consultative Panel to fill casual vacancies.
- During 2012, all Directors committed significant additional time to the Company for the acquisition of the LME Group, and 3 of the Board meetings were held mainly for the issues in connection with the acquisition.
- Following the acquisition of the LME Group, the Board has scheduled a meeting to be held in the UK in October 2013 tentatively to gain further insight into LME's operations.
- To supplement the formal Board meetings, the Chairman had regular gatherings with Directors, and occasionally without the presence of HKEx's Chief Executive, to consider issues in an informal setting.
- All Directors are entitled to seek independent professional advice regarding their duties at the Company's expense. No such advice was sought during 2012.
- As part of the commitment to best practices, all Directors were provided with tablet computer in February 2013 for access to Board papers via a dedicated application. The new arrangement ensures fast, timely and securely provision of information to Directors whilst at the same time reducing the environmental impact of Board meetings.
- Directors' and Officers' liability insurance has been arranged. The terms and extent of the cover was reviewed and renewed before the end of 2012 to cover LME's directors and officers. In 2012, no claims under the insurance policy were made.

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## Key features of Board process in 2012/2013

- To safeguard their independence, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from voting. In 2012, no Director withdrew from a meeting due to a potential conflict of interest.

## Attendance record of Directors and Committee Members in 2012

	2012 AGM	Board <sup>1</sup>	Audit Committee	Environmental, Social and Governance Committee	Executive Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee
<b>Number of Meetings</b>	<b>1</b>	<b>15</b>	<b>4</b>	<b>2</b>	<b>10</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>8</b>	<b>9</b>
<b>Total duration (approximate number of hours)</b>	<b>2</b>	<b>56</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>9</b>	<b>7</b>
<b>INEDs</b>										
C K Chow (Chairman) <sup>2</sup>		10/10		2/2	8/8		1/1		7/7	6/6
Ronald Arculli (ex-Chairman) <sup>3</sup>	1/1	14/15		2/2	2/2		1/1		8/8	3/3
Laura Cha <sup>4</sup>	0/1	4/5						–	1/1	
Ignatius Chan	1/1	12/15	4/4				2/2	1/1		
Moses Cheng <sup>4</sup>	1/1	5/5					1/1		1/1	
Timothy Freshwater <sup>5</sup>		7/10					1/1		5/7	
John Harrison	1/1	15/15	4/4	2/2					7/8	
Stephen Hui	1/1	15/15				4/5				
Bill Kwok	1/1	15/15	4/4		10/10			1/1		9/9
Michael Lee	1/1	15/15		2/2		4/5		1/1		8/9
Vincent Lee	1/1	15/15	4/4		10/10			1/1		
John Strickland	1/1	14/15				5/5	2/2			
John Williamson	1/1	15/15	4/4		10/10				8/8	
Oscar Wong	1/1	14/15				5/5	2/2	1/1		
<b>Executive Director</b>										
Charles Li	1/1	15/15		1/2	7/10					
<b>Market Professionals</b>										
Chan Ngai Hang										8/9
He Guangbei <sup>6</sup>										5/9
Edmond Lau <sup>7</sup>										8/9
Michael Liu										4/9
Keith Lui <sup>8</sup>										9/9
David Lui						1/5				
<b>Average Attendance Rate</b>	<b>92%</b>	<b>95%</b>	<b>100%</b>	<b>90%</b>	<b>94%</b>	<b>76%</b>	<b>100%</b>	<b>100%</b>	<b>93%</b>	<b>83%</b>

### Notes:

- Including 2 offsite meetings
- Mr Chow was appointed as Director effective 23 April 2012. He was appointed as the chairman of the Nomination Committee and the Remuneration Committee effective 24 April 2012 as well as the chairman of the ESG Committee, the Executive Committee, and the Risk Management Committee effective 27 April 2012.
- Mr Arculli ceased to be the chairman of the Executive Committee, the Nomination Committee, and the Risk Management Committee effective 23 April 2012.
- Mrs Cha and Dr Cheng retired from the Board and the committees on 23 April 2012. No meeting of the Panel Member Nomination Committee took place during the period from 1 January to 23 April 2012.
- Mr Freshwater was appointed as Director and member of the committees effective 23 April 2012.
- All 5 meetings were attended by Mr He's alternate.
- 1 meeting was attended by Mr Lau's alternate.
- 2 meetings were attended by Mr Lui's alternate.

## Performance Evaluation

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. Independent evaluation of the Board performance was commissioned for 2 consecutive years in 2010 and 2011.



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Given that a vast majority of Directors had been subject to an independent evaluation in 2011 and continued to serve on the Board in 2012, a Board evaluation was not conducted last year. An evaluation is planned to be carried out in the latter part of 2013, and in the future at appropriate intervals.

## Delegation by the Board

### Board Committees

The Board has delegated authority to 8 standing Committees with specific roles and responsibilities. The effective functioning of these Committees is a critical element in the Board's overall effectiveness. Their terms of reference and composition are reviewed and updated regularly to ensure that they remain appropriate and reflect changes in good practice and governance, and are available on the HKEx website. The attendance record of the Committee members is shown on page 8 of this report.

### Ad hoc Review Committee

In 2011, the Board established an ad hoc Review Committee to review HKEx's IT security plans and the existing contingency measures with the aim of ensuring uninterrupted, fair, and even distribution of market information and maintaining an orderly and open market. The Review Committee was dissolved after the completion of the review in April 2012.

<b>Review Committee's membership</b>
<ul style="list-style-type: none"><li>• 3 Directors (Mr Ronald Arculli, Dr Bill Kwok, and Mr John Williamson)</li><li>• 3 advisors with extensive knowledge of the financial industry and strong expertise in IT (Messrs Raymond Cheng, Tan Yong Wah, and Carlson Tong )</li></ul>
<b>Summary of work of Review Committee done in 2012</b>
<ul style="list-style-type: none"><li>• Held 2 meetings each with an attendance rate of 100 per cent</li><li>• Reviewed external IT security specialists' assessment of (i) HKExnews website services; (ii) Internet security infrastructure; (iii) market systems; and (iv) security roadmap</li><li>• Endorsed various IT security enhancement initiatives recommended by external specialists for the Board's approval. Information about the implementation of the initiatives will be set out in the Business Review section of the 2012 Annual Report.</li></ul>

### The Executive Committee

In September 2012, the Board reviewed the functions and duties of the Executive Committee and resolved to delegate certain of its power and duties to the Senior Management Committee (which was renamed as the Management Committee). The revised terms of reference of the Executive Committee took effect on 7 January 2013 upon the establishment of Management Committee on the same date.

### The Nomination Committee

The Nomination Committee, comprising 5 members who are all INEDs, held 3 meetings in 2012 and up to 27 February 2013.

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## Summary of work done in 2012/2013

- Nominated candidates stand for election by Shareholders at the AGMs
- Reviewed and confirmed the independence of the 12 INEDs
- Reviewed Board structure and composition
- Reviewed time commitment from Directors to perform their responsibilities
- Endorsed the Board Diversity Policy, and proposed amendments to the Committee's terms of reference and the Nomination Policy to take into account of the Board Diversity Policy

On 31 January 2013, the Committee nominated Messrs John Strickland and Oscar Wong to the Board for it to recommend them to stand for election by Shareholders at the 2013 AGM. The nomination was made in accordance with the Nomination Policy and against the objective criteria, with due regard for the benefits of diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service). It had also taken into account their respective contributions to the Board and their firm commitment to their roles.

On 27 February 2013, the Committee's nomination was accepted by the Board. As a good governance practice, Messrs Strickland and Wong each abstained from voting at both the Committee meeting and Board meeting on the propositions of themselves for election by Shareholders. Messrs Strickland and Wong do not have any service contracts with any member of the Group that are not determinable by the Group within 1 year without compensation (other than statutory compensation). Their particulars will be set out in the circular to Shareholders to be sent together with the 2012 Annual Report and posted on the HKEx website.

## Consultative Panels

Apart from the Board Committees, there are 3 standing Consultative Panels – Cash Market Consultative Panel, Derivatives Market Consultative Panel (DMCP), and Clearing Consultative Panel (CCP) – with the major responsibility of providing market expertise and advice to the Board in relation to the trading and clearing of securities and derivatives. The composition and respective terms of reference of the Consultative Panels are available on the HKEx website. In 2012, 3 meetings were held by DMCP and 2 by CCP.

## Management Functions

The executive management under the Chief Executive's leadership is responsible for the day-to-day management of the Group's businesses and implementation of the strategy and direction set by the Board. The Management Committee (formerly known as the Senior Management Committee) has an enhanced executive role and is the main executive decision making body of the Group. It currently comprises 13 members (including HKEx's Chief Executive as the chairman) and holds meetings at least two times every month.

To coincide with the 2013-2015 Strategic Plan, the organisational structure was reviewed and the executive team was further strengthened to provide a strong pool of talent for the future development of the Group.

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## Major changes to organisational structure in 2012/2013

### Listing and Regulatory Affairs

- Mr David Graham has been appointed as HKEx's Chief Regulatory Officer effective 9 January 2013 to oversee HKEx's Listing, Enterprise Risk Management and Surveillance, Legal Services and Secretarial Services Departments. Mr Graham is the Head of Listing (Designate) to succeed Mr Mark Dickens who will retire on 1 March 2013. Ms Grace Hui has been appointed as the Chief Operating Officer of Listing effective 9 January 2013 to manage the day-to-day operations of the Listing.

### Global Markets

- Mr Romnesh Lamba, who was HKEx's Head of Market Development, and Mr Martin Abbott, LME's Chief Executive, have been appointed as the Co-heads of the newly established Global Markets Division to oversee the newly established Equities and FIC Business, the Commodities Business, including LME, as well as the Mainland Development and the Business Development and Strategy Departments. The Market Development Division was dissolved upon the establishment of the Global Markets Division.
- Mr Lamba has succeeded Mr Gerald Greiner as the Chief Executive of SEHK and HKFE effective 4 January 2013. The appointments were approved by the SFC pursuant to Section 26 of the SFO. Mr Abbott remains as the LME's Chief Executive.
- Messrs Bryan Chan and Calvin Tai, who were HKEx's Heads of Market Data and Trading respectively, have been appointed as the Co-heads of the Equities and FIC Business and report to the Co-heads of Global Markets Division. While Mr Chan is responsible for cash trading, market data and CESC, Mr Tai oversees derivatives trading, and product and index development, and both of them jointly oversee issuer and client services.
- Ms Liz Milan has been appointed as Head of Asia Commodities effective 6 February 2013. She is responsible for building the commodities franchise of the Group in Asia and remains the Managing Director of LME Asia, LME. She reports to the Co-heads of Global Markets Division.

### Global Clearing

- Mr Gerald Greiner, who was HKEx's Chief Operating Officer, has been appointed as HKEx's Head of Global Clearing to oversee all clearing businesses of the Group, including existing clearing operations, OTC Clear, LME Clear and risk management, and he remains as the HKSCC's Chief Executive.
- To align with global regulatory developments in clearing, risk management for HKEx's clearing operations has been segregated from HKEx's enterprise risk management.
- Messrs Felix Wang and Ketan Patel, who were HKEx's Co-deputy Heads of Risk Management, and Mr Chris Jones, who is LME Clear's Chief Risk Officer, have been appointed as the Co-heads of Clearing Risk Management, and they all report to HKEx's Head of Global Clearing and to HKEx's Chief Executive directly on material risk matters.
- Messrs Wang and Patel are responsible for risk management for equities clearing and for FIC clearing including OTC clearing respectively; Mr Jones is responsible for LME Clear's risk management and also reports to Mr Trevor Spanner, LME's Head of Post Trade Services.

### Corporate Services

- Mr Henry Ingrouille, who joined HKEx as the Chief Administrative Officer on 7 July 2012, has been appointed as HKEx's Chief Operating Officer effective 4 January 2013 as approved by the SFC pursuant to Section 70(1) of the SFO.
- With a redefined role, HKEx's Chief Operating Officer is responsible for the corporate services encompassing human resources, corporate and investor communications, and information security and business continuity.
- The functions of HKEx's Chief Administrative Officer are taken up by Ms Monica Wong who reports to Mr Ingrouille.
- Mr Henry Law, who was HKEx's Head of Corporate Communications, has been appointed as HKEx's Chief Communications Officer to assist in all external communication affairs and directly reports to HKEx's Chief Executive.

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## Major changes to organisational structure in 2012/2013

### Other changes

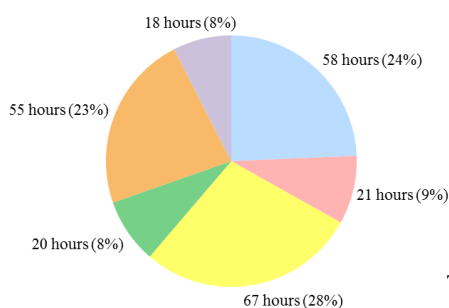
- Mr James Fok has been appointed as HKEx's Chief of Staff responsible for internal and external liaisons as well as the planning and organisation of work within the Chief Executive's Office.
- Mr Stephen Marzo who joined HKEx on 26 June 2012 as HKEx's Chief Financial Officer resigned from the post effective 13 January 2013. A Selection Committee has been formed to identify a suitable candidate to fill the vacancy.
- Mr Kevin King resigned from HKEx's Head of Risk Management effective 1 February 2013. Ms Sylvia Hoosen, HKEx's Head of Human Resources, and Ms Yang Qiumei, HKEx's Head of Mainland Development, had tendered their resignations, which will take effect from 7 and 30 April 2013 respectively.
- Messrs Lawrence Fok and Stewart Shing retired as HKEx's Chief Marketing Officer and Advisor to HKEx's Chief Executive on 1 September and 1 October 2012 respectively.

The updated organisational structure is available on the HKEx website. The list of Senior Management and their biographies will be set out in the Board of Directors and Senior Management section of the 2012 Annual Report.

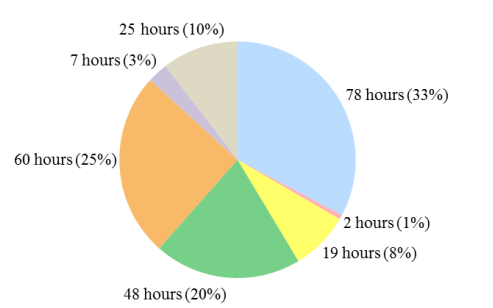
## Management Training

Ongoing professional development is important to Senior Management given the competitive business environment in which the Group operates. To ensure that members of the Senior Management continue to cultivate skills and knowledge for the fulfilment of their duties and responsibilities, the ESG Committee reviewed their training records in February 2013.

Analysis of training attended by Senior Management in 2012 by training topic



Analysis of training attended by Senior Management in 2012 by training organiser



- HKEx's strategy/business
- Economy/financial markets and products
- Legislative/regulatory compliance
- Risk management
- Director's duties/governance practices
- Others
- HKEx
- Accounting/legal firms
- Professional bodies/industry associations
- Others
- Universities
- Financial services institutions
- Government/regulatory bodies

Further information about training attended by HKEx's employees during 2012 will be set out in the 2012 CSR Report, and which will be available on the HKEx website in mid-March 2013.

## Company Secretary

All Directors have access to the advice and services of the Company Secretary, Mr Joseph Mau. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with Shareholders and management. Under the revised organisational structure, the Company Secretary remains as the Head of Secretarial Services Department which is now under the Listing and Regulatory Affairs Division led by HKEx's Chief Regulatory Officer.

# 2012 CORPORATE GOVERNANCE REPORT

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The Company Secretary's biography will be set out in the Board of Directors and Senior Management section of the 2012 Annual Report. During 2012, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

## Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of remuneration policies and other relevant information are set out in the 2012 Remuneration Committee Report which is available on the HKEx website.

## 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 throughout the year ended 31 December 2012.

### Directors' Interests and Short Positions in Shares and Underlying Shares of HKEx

As at 31 December 2012, 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 recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code were as set out below.

#### Long positions in shares and underlying shares of HKEx

Name of Director	Number of shares/underlying shares held				Total	% of issued <sup>1</sup> share capital
	Personal interests	Family interests	Corporate interests	Other interests		
C K Chow	15,000 <sup>2</sup>	–	–	–	15,000	0.00
Charles Li	265,234 <sup>3</sup>	–	–	–	265,234	0.02
John Strickland	18,000 <sup>4</sup>	–	–	–	18,000	0.00

Notes:

1 Based on 1,149,808,087 HKEx shares in issue as at 31 December 2012

2 Mr Chow was the beneficial owner of those shares.

3 It included Mr Li's interests in 198,088 Awarded Shares and 6,607 shares acquired out of the dividends from the Awarded Shares according to the Share Award Scheme. Details of Mr Li's Awarded Shares are set out in the 2012 Remuneration Committee Report.

4 Mr Strickland was the beneficial owner of those shares.

Save for those disclosed above, as at 31 December 2012, 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 recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to HKEx and the Exchange pursuant to the Model Code.

## 2012 CORPORATE GOVERNANCE REPORT

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Apart from the Awarded Shares as disclosed in the 2012 Remuneration Committee Report, none of the Directors (including their spouses and children under the age of 18), during the year ended 31 December 2012, held 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

Under Section 61 of the SFO, no person shall be or become a Minority Controller (ie, a person who either alone or with any associated person or persons is entitled to exercise, or control the exercise of, 5 per cent or more of the voting power at any general meeting of the recognised exchange controller) except with the SFC's approval in writing after consultation with the Financial Secretary.

Since 7 September 2007, the Government has been a Minority Controller. According to the Government, the provisions of Section 61 of the SFO do not expressly, or by necessary implication, bind the Government and accordingly by virtue of Section 66 of the Interpretation and General Clauses Ordinance the provisions of Section 61 of the SFO, requiring a person becoming a Minority Controller to obtain the SFC's approval, do not affect the rights of and are not binding on the Government.

As at the date of this report, the SFC has granted approval to 8 entities to be Minority Controllers on the basis that the shares are held by them in custody for their clients. According to the Participant Shareholding Report as at 31 December 2012, the 8 approved Minority Controllers in aggregate held approximately 58 per cent of HKEx's issued share capital.

As at 31 December 2012, other persons' interests and short positions in the shares and underlying shares of HKEx (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange, were as set out below.

#### Long positions in shares and underlying shares of HKEx

Name	Capacity	Number of shares/underlying shares held	Total	% of issued share capital <sup>1</sup>
The Government of the Hong Kong Special Administrative Region (for the account of the Exchange Fund)	Beneficial owner	66,730,300 <sup>2</sup>	66,730,300	5.80

Notes:

- <sup>1</sup> Based on 1,149,808,087 HKEx shares in issue as at 31 December 2012
- <sup>2</sup> Based on a confirmation to HKEx by the Government in respect of its holding immediately following completion of placing of new HKEx shares as announced on 30 November 2012.

Save for those disclosed above, as at 31 December 2012, no other persons had any interests or short positions in the shares or underlying shares of HKEx as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to HKEx and the Exchange.

# 2012 CORPORATE GOVERNANCE REPORT

## Senior Management

Members of the Senior Management are obliged to strictly follow the Company's restrictions on dealing in securities, futures contracts, and derivatives, which are on terms no less stringent than the Model Code, as set out in the Human Resources Manual. As at 31 December 2012, Senior Management's interests in the shares and underlying shares of HKEx were as set out below.

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of * Awarded Shares	Derivatives (number of underlying shares)
Mark Dickens	50,352	–	82,393	–
Gerald Greiner	53,117	125,000	89,805	–
Henry Ingrouille	–	–	23,539	–
Kevin King	3,230	–	3,292	–
Romnesh Lamba	26,255	–	86,278	–
Henry Law	100,802	–	34,575	–
Stephen Marzo	500	–	–	–
Christine Wong	13,756	–	43,428	–

\* Including shares acquired out of the dividends from the relevant Awarded Shares according to the Share Award Scheme. The beneficial interest of these shares will be vested in accordance with the terms and conditions of the Share Award Scheme.

## 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 the year ended 31 December 2012 and subject to the waiver, the Group had the following continuing connected transactions.

### Continuing connected transactions for the year ended 31 December 2012

- A. Transactions between HKEx or its subsidiaries and the following connected persons arising from or in connection with the use of (i) the facilities provided by the Group for the trading, clearing, and/or settlement of securities and futures products and transactions; and (ii) all services offered by the Group which are ancillary, incidental, or otherwise related to the foregoing:
- (a) Mr Ronald Arculli, an INED, was interested in the transactions entered into by Bokhary Securities Limited, an EP and a CP, in which his sister and his brother-in-law each have a 50 per cent interest.
  - (b) Dr Bill Kwok, an INED, 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.
  - (c) Mr Vincent Lee, an INED, was interested in the transactions entered into by 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 persons arising from or in connection with (i) the listing, or proposed listing, of securities on the Stock Exchange; and (ii) all services offered by the Group which are ancillary, incidental, or otherwise related to the foregoing:
- (a) Mrs Laura Cha, an ex-INED who retired on 23 April 2012, was interested in the transactions entered into by her associates, HKR International Limited and Hanison Construction Holdings Limited. Both companies are listed on the Stock Exchange.
  - (b) Dr Bill Kwok, an INED, 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 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):

## 2012 CORPORATE GOVERNANCE REPORT

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- (a) Dr Bill Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is Dr Kwok's associate by virtue of the Main Board Listing Rules. For the year ended 31 December 2012, the total consideration of such transactions, being the brokerage commission earned by WSL, amounted to \$44,793.

The Audit Committee (AC) comprising 5 INEDs, under the authority delegated by the Board, reviewed the above continuing connected transactions pursuant to Rule 14A.37 of the Main Board Listing Rules. As a good corporate governance practice, Mr Vincent Lee and Dr Bill Kwok, the deputy chairman and a member of the AC respectively, abstained from reviewing the respective transactions in which they had an interest. The AC confirmed that:

- (i) the transactions disclosed above were entered into in the Group's ordinary and usual course of business and conducted on an arm's length basis, and on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (ii) in respect of the transactions as disclosed under (A) and (B) above, they were 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) in respect of the Buy-in Transactions as disclosed under (C) above, they were conducted in accordance with the standard terms and conditions of HKSCC applicable generally to all buy-in brokers in such transactions acting for and on behalf of HKSCC and at the mutually agreed commission rates payable by HKSCC in respect of such Buy-in Transactions generally; and
- (iv) the transactions disclosed above were conducted in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of Shareholders as a whole.

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 issued its unqualified letter containing its findings and conclusions in respect of the transactions disclosed above in accordance with Rule 14A.38 of the Main Board Listing Rules. The Company provided a copy of the said letter to the SFC and the Stock Exchange.

### **Material Related Party Transactions**

During the year ended 31 December 2012, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in note 50 to the consolidated financial statements for the year ended 31 December 2012.



# 2012 CORPORATE GOVERNANCE REPORT

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## Accountability and Audit

### Financial Reporting

The Board is responsible for overseeing the preparation of annual financial statements which give a true and fair view of the Group's state of affairs, results, and cash flows for the year. Management provides the Board with management accounts and updates on a monthly basis, with a view to giving a balanced and understandable assessment of the Group's performance, financial position, and prospects to enable the Board as a whole and each Director to discharge their duties. In preparing the financial statements for the year ended 31 December 2012, the Board:

- (a) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;
- (b) selected suitable accounting policies and applied them consistently;
- (c) made prudent and reasonable judgements and estimates; and
- (d) ensured that the financial statements were prepared on a going concern basis.

In 2012, the annual, interim, and quarterly results were published within 3 months, 2 months and 45 days respectively after the end of the relevant periods to provide stakeholders with transparent and timely financial information.

### Internal Controls and Their Effectiveness

The Board has the overall responsibility for maintaining sound and effective internal controls for the Group (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets. To this end, an internal control and risk management system which is on a par with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards has been established to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure to achieve business objectives.

Details of the internal control procedures are available in the Corporate Governance section of the HKEx website. The key control measures are summarised below.

#### Key control measures undertaken for 2012

- A clear organisational structure with defined responsibilities was in place for the implementation of the HKEx Strategic Plan 2010-2012. To prepare for the integration post acquisition of the LME Group, a concrete implementation programme structure comprising a Steering Committee, an Integration Management Office, and Implementation Workstreams was set up to foster joint collaboration between HKEx and LME to initiate and deliver the implementation plan as well as to build the foundation for enhancing revenue synergies between businesses of HKEx and LME.
- Different policies, procedures, and guidelines have been adopted with defined authority for effective segregation of duties and controls, and are kept under regular review. For example, the Board approved the revised HKEx Market Contingency Plan to benchmark and further enhance the contingency planning and management processes against leading industry standards.
- All division/department Heads confirmed that appropriate internal control policies and procedures had been established and properly complied with in 2012.
- Regular reviews were conducted to identify and assess risks in different areas across the organisation using a common platform and standardised process. More information in this regard will be set out in the Business Review section of the 2012 Annual Report.
- Information about the Group's management of its financial risks is set out in note 53 to the consolidated financial statements for the year ended 31 December 2012.

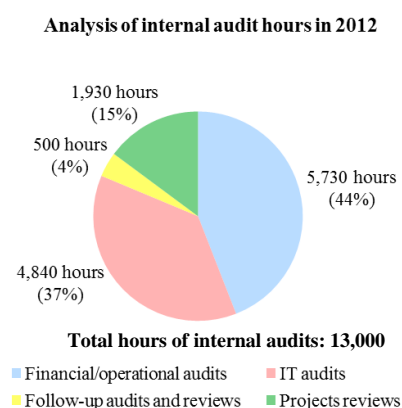
# 2012 CORPORATE GOVERNANCE REPORT

## Key control measures undertaken for 2012

- An Escalation and Incident Reporting Policy is in place to facilitate swift action and timely communication with stakeholders. A review of the policy was conducted in 2012 to further refine the incident escalation and reporting processes.
- Guidelines on reporting and disseminating inside information, maintaining confidentiality, and complying with dealing restrictions are in place for employees to follow. With the acquisition of the LME Group and the introduction of the statutory disclosure regime for inside information under the Securities and Futures (Amendment) Ordinance 2012 effective 1 January 2013, HKEx's Continuous Disclosure and Communication Policy has been amended to ensure that employees of HKEx and LME comply with the relevant statutory obligations.
- A Whistle-blowing Policy is in place to facilitate internal reporting on any malpractice without fear of reprisal or victimisation.
- The Group's IT systems are subject to independent reviews to ensure their integrity, reliability, availability, and stability. For example, an independent IT security risk and infrastructure review was completed in the first quarter of 2012 to assist management in ensuring that HKEx's Internet facing systems are adequately protected from known Internet hacking risks.
- An independent review was completed in October 2012 to provide additional assurance of building management and Hosting Services operational readiness in the new Data Centre in Tseung Kwan O before the data centre and Hosting Services started operations in phases from October and December 2012 respectively.

## Internal Audit

The Internal Audit Department (IAD) is responsible for conducting independent reviews of the adequacy and effectiveness of the Group's internal control and risk management system and regularly reporting the review results to the Board through the AC. Its work covers all material controls, including financial, operational, and compliance controls and risk management functions. During 2012, no suspected cases of fraud, irregularities, or infringement of laws, rules and regulations, or material control failures were identified.



Further details of the IAD's role and its internal audit methodology and process are available in the Corporate Governance section of the HKEx website.

## Assessment of Internal Control System

The AC, on behalf of the Board, assesses the effectiveness of the internal control system in detecting fraud and other irregularities on a regular basis by reviewing the IAD's work and findings.

Further details of the AC's work done in 2012/2013 and its review of the Group's internal control system, and accounting, and financial reporting function will be set out in the Audit Committee Report of the 2012 Annual Report.

## Independence of External Auditor

The AC is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. Prior to the commencement of the audit of the Group's 2012 financial statements, the AC received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The AC reviews

## 2012 CORPORATE GOVERNANCE REPORT

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the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the external auditor's fees are set out in notes 13 and 14 to the consolidated financial statements for the year ended 31 December 2012.

Pursuant to the Group's 5-year rotation policy, the engagement partner of the external auditor was last rotated in 2010. The Group has also adopted a policy of not hiring employees of the external auditor who are or have been involved in the Group's audit so as to ensure no impairment of the auditor's judgement and independence with respect to its auditing. These policies have been strictly complied with since their adoption.

Further details of the external auditor's responsibilities will be set out in the Auditor's Report of the 2012 Annual Report.

### Shareholder Relations

#### Shareholder Engagement and Communication

The Board gives high priority to balanced, clear, and transparent communications which allow Shareholders and investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and investors in a number of different ways to help ensure that their views and concerns are understood and addressed in a constructive way.

#### Key shareholder engagement and communication

- HKEx ensures prompt dissemination of corporate communications to enable Shareholders and other stakeholders to keep abreast of the Group's business affairs and developments. In relation to the acquisition of the LME Group, a number of announcements were issued in 2012 from June onwards to provide timely updates on the acquisition progress and details of financing arrangements, and a letter was issued by HKEx's Chairman in December 2012 to all Shareholders informing them of the successful completion of the acquisition.
- The HKEx website has become the primary method of communication with the majority of Shareholders. As at 31 December 2012, about 80 per cent of Shareholders opted to receive corporate communications via electronic methods. The investor relations section of the website is kept under regular review to ensure that information relevant to Shareholders is provided in an accurate and timely manner.
- HKEx offers Shareholders an option of receiving their dividends in the form of new shares in HKEx instead of cash, which may enable Shareholders to increase their investment in HKEx without incurring brokerage fees, stamp duty, or related dealing costs.
- Pursuant to Article 90(2) of HKEx's Articles, if a Shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination which shall be given to the Company Secretary at HKEx's registered office within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the Directors from time to time). Details for nominating candidates to stand for election as a Director at the 2013 AGM will be set out in the circular to Shareholders to be sent together with the 2012 Annual Report.
- To include a resolution relating to other matters in a general meeting, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the HKEx website.
- A Shareholders Communication Policy is in place to ensure that Shareholders are provided with ready, equal, and timely access to balanced and understandable information about HKEx. The policy is regularly reviewed to ensure its effectiveness and is posted on the HKEx website.
- A Shareholders' Guide is posted on the HKEx website which sets out the answers to the frequently asked questions raised by Shareholders with regard to their interests in HKEx shares.
- Shareholder(s) holding not less than one-twentieth of HKEx's paid-up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at HKEx's registered office.
- Periodic analysis of HKEx's shareholding profile is conducted to help better understand Shareholders' interests and needs, and the analysis for 2012 will be set out in the Shareholding Analysis section of the 2012 Annual Report. HKEx's market capitalisation and public float as at 31 December 2012 will be set out in the Information for Stakeholders and Directors' Report sections of the 2012 Annual Report respectively.

# 2012 CORPORATE GOVERNANCE REPORT

The Company also has an ongoing programme of dialogue and meetings with institutional shareholders. The Corporate and Investor Communications team is the primary contact point for communications with investors and analysts. Further details of the key investor-relation activities during 2012 will be set out in the 2012 CSR Report.

The important dates for Shareholders in 2012 and the results announcement schedule in 2013 are set out in the Financial Calendar under the Investor Relations section of the HKEx website.

The Board is grateful to Shareholders and other stakeholders for their views, and welcomes their questions and concerns raised in relation to 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 Company Secretary by post to HKEx, Secretarial Services Department, 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to [ssd@hkex.com.hk](mailto:ssd@hkex.com.hk).

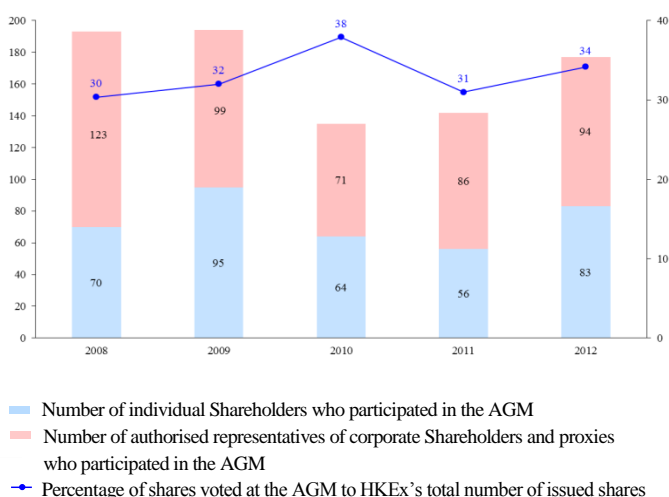
## 2012 Annual General Meeting

The Board and the management are committed to the constructive use of the AGM as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business.

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2012 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included the individuals who were chairing the AC, the Nomination Committee, and the Remuneration Committee on the date of the meeting.

At the 2012 AGM, HKEx continued its practice of proposing separate resolutions on each substantially separate issue. All resolutions were passed by way of a poll conducted by the Company's registrar and verified by an independent scrutineer. The poll voting results and the minutes of the meeting are available on the HKEx website.

Participation in annual general meetings



## Matters resolved at the 2012 AGM

- Received the audited financial statements for the year ended 31 December 2011 together with the Reports of the Directors and the Auditor
- Payment of the final dividend of \$2.09 per share (with scrip alternative) for the year ended 31 December 2011
- Election of Messrs Ignatius Chan and John Williamson as Directors
- Re-appointment of PricewaterhouseCoopers as Auditor of the Company and authorisation to the Directors to fix the Auditor's remuneration
- Approval of a general mandate for the Directors to repurchase shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2012 AGM

# 2012 CORPORATE GOVERNANCE REPORT

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## Matters resolved at the 2012 AGM

- Approval of a general mandate for the Directors to allot and issue of new shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2012 AGM, provided any shares to be allotted and issued (whether for cash or otherwise) under such authority are not at a discount of more than 10 per cent to the "benchmarked price" (as described in Rule 13.36(5) of the Main Board Listing Rules)
  - Approval of remuneration of \$900,000 and \$600,000 payable to the Chairman and each of the other Non-executive Directors respectively for their service during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise
  - Approval of, in addition to an attendance fee of \$3,000 per meeting, remuneration of \$120,000 and \$90,000 payable to the chairman and each of the other members (excluding Executive Director) of certain Board committees respectively during the period between the conclusion of each AGM and the conclusion of the AGM to be held in the immediately following year until Shareholders determine otherwise
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## 2013 Annual General Meeting

All Shareholders are encouraged to attend the 2013 AGM and exercise their right to vote. They are invited to ask questions related to the business of the meeting, and will have an opportunity to meet with the Directors and the management following the conclusion of the meeting.

Apart from normal business at the 2013 AGM, the Board has proposed general mandates for the repurchase of HKEx shares and the issue of HKEx shares. Further details of business to be conducted at the 2013 AGM will be set out in the circular to Shareholders to be sent together with the 2012 Annual Report.

## Recognition and Rating

During 2012, the Group received external recognition for its efforts in pursuing sustainable corporate practices that promote long-term value for Shareholders and other stakeholders.

Recognition/Rating	Organisation	Details
<b>Asian Excellence Recognition Awards 2012</b>	Corporate Governance Asia	For the 2 <sup>nd</sup> consecutive year, HKEx was included in the Best Investor Relations (Hong Kong Company) category, and HKEx's Chief Executive, Mr Charles Li, was chosen as one of Asia's Best CEOs (Investor Relations).
<b>Best Annual Reports Awards</b>	The Hong Kong Management Association	HKEx's 2011 Annual Report was granted the Gold Award (General Category).
<b>Best Corporate Governance Disclosure Awards</b>	HKICPA	HKEx's 2011 Annual Report was granted the Platinum Award (HSI Category) for the 4 <sup>th</sup> consecutive year.
<b>Corporate Governance Score-card 2012 Survey</b>	HKIoD and Hong Kong Baptist University	HKEx was named as one of the top 10 Hong Kong listed companies with respect to corporate governance practices.
<b>GMI's ESG Ratings</b>	GMI Ratings	HKEx received B (above average) Global and Home Market Ratings.

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# 2012 CORPORATE GOVERNANCE REPORT

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## Changes after Closure of Financial Year

This report takes into account the changes that have occurred since the end of the 2012 to the date of approval of this report.

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

Hong Kong, 27 February 2013

# 2012 CORPORATE GOVERNANCE REPORT

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## Glossary

2012 Annual Report	HKEx's annual report for the year ended 31 December 2012 (which will be available on the HKEx website on or about 14 March 2013)
2012 AGM	Annual general meeting held on 23 April 2012 at 4:30 pm at the Exchange Auditorium in the Exchange Exhibition Hall of SEHK
2013 AGM	Annual general meeting to be held on 24 April 2013
AGM(s)	HKEx's annual general meeting(s)
Awarded Shares	Shares awarded under the Share Award Scheme
Board	HKEx's board of directors
Cash Market	HKEx's securities related business excluding stock options
CCASS	The Central Clearing and Settlement System
CESC	China Exchanges Services Company Limited
CNS	Continuous Net Settlement
Corporate Governance Code and Corporate Governance Report	Refers 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)
Elected Director(s)	Director(s) elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
ESG	Environmental, Social and Governance
Exchange or Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
FIC	Fixed income and currency
Financial Secretary	Financial Secretary of the HKSAR
Futures Exchange or HKFE	Hong Kong Futures Exchange Limited
Government	HKSAR Government
Government Appointed Director(s)	Director(s) appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKEx's Articles	HKEx's Articles of Association
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKIoD	The Hong Kong Institute of Directors
HKSAR	Hong Kong Special Administrative Region of the PRC
HKSCC	Hong Kong Securities Clearing Company Limited
HSI	Hang Seng Index
INED(s)	Independent Non-executive Director(s) of HKEx
IT	Information Technology
Listing Rule(s) or Rule(s)	Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
LME	The London Metal Exchange (formerly known as The London Metal Exchange Limited)
LME Clear	LME Clear Limited
LME Group	LMEH and its subsidiaries
LMEH	LME Holdings Limited
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

# 2012 CORPORATE GOVERNANCE REPORT

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Model Code	Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Main Board Listing Rules
OTC Clear	OTC Clearing Hong Kong Limited
PRC	People's Republic of China
Senior Management	HKEx's senior executives, and the list of Senior Management as set out in the 2012 Annual Report
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	HKEx's shareholders
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended on 16 August 2006 and 13 May 2010
UK	United Kingdom