

# REMUNERATION COMMITTEE REPORT



*The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company*

On behalf of the Remuneration Committee, I am pleased to present our 2016 Report. This year we have carried out a review of the HSH Rewards Philosophy, revising it with the aim of defining more clearly the objectives and the guiding principles.

**Chairman:** Mr Patrick B. Paul (INED)

**Members:** Mr Andrew Brandler (Non-Executive Director)  
Dr Rosanna Y.M. Wong (INED)

## Our Role

The Committee is empowered by the Board with the authority and duty to exercise oversight of all aspects of the Group's remuneration policies, in particular to review and approve the proposals for the basic compensation and bonuses for Executive Directors and senior management, as well as the application of the Group's bonus scheme for senior staff.

The Remuneration Committee had two meetings in 2016, with the Chief Executive Officer and Group Director, Human Resources in attendance. Decisions of the Committee were made at those meetings or by written resolutions.

## HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the Group and its executives according to the framework of various guiding principles. In 2016, we carried out a review of the HSH Rewards Philosophy with the aim of defining more clearly the objectives and refining the guiding principles of our philosophy. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to meet the employees' needs.

## Key Guiding Principles

- Providing benefits that are competitive and support the long-term objective of caring for our employees and ensuring these benefits are legally compliant, locally relevant and globally consistent

- Formulating weightings of variable pay such as bonus and incentive targets taking into account the business performance of the Group or business unit
- Recognising and encouraging long-term careers within HSH through appropriate rewards and succession planning programmes
- Designing a pay mix of the total cash package with an appropriate mix of fixed pay and variable pay taking into account the Group's pay policy and market practice to incentive management and individual performance

## Remuneration for Executive Directors

The Committee recognises that there is a competitive market for successful executive talent and believes that remuneration packages being offered must be set competitively with the market in order to attract and retain the Company's executives.

As part of its scope of responsibility, this Committee is involved in reviewing and approving the key terms of the service of all Executive Directors and senior management, including remuneration and duration of the service contracts. No individual is involved in the decision of his or her own remuneration.

There are four components of remuneration paid to Executive Directors, senior management and other executives:

## Basic Compensation

Basic compensation includes basic salary, housing and other allowances and the general policy is to set them at the level required to retain and motivate employees, taking

into account the scope and complexity of responsibilities, market pay levels in the defined markets, as well as individual performance.

### Bonuses and Incentives

The provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components. Senior management participates in the HSH Management Bonus Plan which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The Group's financial performance
- The Business Units' quality measurement
- Individual performance
- Share price

In addition, the Committee retains discretion in the awarding of non-contractual annual bonuses.

### Retirement Benefits

The Executive Directors and most of the senior management participate in the Company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The employer contributions to the Company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees can opt to pay contributions. One member of the senior management participates in a local plan instead of the Company's plan due to the local requirements.

### Other Benefits

The benefits available to Executive Directors and senior management include, but are not limited to, health, life, disability and accidental insurance.

## Remuneration for Non-Executive Directors

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Committee has the responsibility for reviewing management's annual recommendations for these fees. Factors taken account of in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities. After review, the Committee makes recommendations to the Board, and no Director approves his or her own remuneration.

In line with the above annual fee review's methodology, the Board approved in March 2016 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK\$300,000 and HK\$350,000 respectively per annum. These fees were approved by Shareholders at the Annual General Meeting on 11 May 2016.

The Board also approved the recommendation from the Committee of a revision of the fees payable to the Chairman and members of the Nomination Committee to HK\$40,000 per annum.

The revised fees took effect on 11 May 2016 and was paid to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ended 31 December 2016.

## Main Activities in 2016

The Remuneration Committee conducted the following business in 2016:

### Remuneration

- Reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2016 and recommended the changes to the Board and Shareholders for approval
- Reviewed and approved the 2015 HSH Management Bonus Plan for senior staff
- Noted the group-wide 2017 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance
- Reviewed and approved the 2017 salary increases of Executive Directors and senior management
- Approved the 2015 discretionary bonus proposal for Executive Directors and Group Directors
- Reviewed and approved the scoring changes for the quality factor of the HSH Management Bonus Plan and revised the HSH Rewards Philosophy

### Service terms

- Reviewed and approved the terms of letters of appointment for an INED
- Reviewed and approved the changes to the time commitments for Non-Executive Directors and INEDs

### Others

- Reviewed and approved 2015 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee with no change
- Reviewed and approved the change of quality assurance audit agents

## 2016 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2016.

### Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2016 for their service on the Company's Board and, where applicable, on its Board Committees are set out below.

Higher levels of fees were paid to the Chairmen of the Audit Committee and the Remuneration Committee indicated by "C". Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees.

| (HK\$'000)                                 | Board | Executive Committee | Audit Committee    | Remuneration Committee | Nomination Committee | Total <sup>A</sup> 2016 | Total <sup>A</sup> 2015 |
|--|-------|---------------------|--------------------|------------------------|----------------------|-------------------------|-------------------------|
| <b>Non-Executive Directors</b>             |       |                     |                    |                        |                      |                         |                         |
| The Hon. Sir Michael Kadoorie              | 282   | 100                 | –                  | –                      | 33                   | <b>415</b>              | 370                     |
| Mr Andrew Brandler                         | 282   | 100                 | 120                | 60                     | –                    | <b>562</b>              | 530                     |
| Mr Ronald J. McAulay                       | 282   | –                   | –                  | –                      | –                    | <b>282</b>              | 250                     |
| Mr William E. Mocatta                      | 282   | –                   | –                  | –                      | –                    | <b>282</b>              | 250                     |
| Mr John A.H. Leigh                         | 282   | 100                 | –                  | –                      | –                    | <b>382</b>              | 350                     |
| Mr Nicholas T.J. Colfer                    | 282   | –                   | –                  | –                      | –                    | <b>282</b>              | 250                     |
| <b>Independent Non-Executive Directors</b> |       |                     |                    |                        |                      |                         |                         |
| Dr the Hon. Sir David K.P. Li              | 332   | –                   | –                  | –                      | 33                   | <b>365</b>              | 320                     |
| Mr Patrick B. Paul                         | 332   | –                   | 175 <sup>(c)</sup> | 85 <sup>(c)</sup>      | –                    | <b>592</b>              | 560                     |
| Mr Pierre R. Boppe                         | 332   | –                   | –                  | –                      | –                    | <b>332</b>              | 300                     |
| Dr William K.L. Fung                       | 332   | –                   | 120                | –                      | 33                   | <b>485</b>              | 440                     |
| Dr Rosanna Y.M. Wong                       | 332   | –                   | –                  | 60                     | –                    | <b>392</b>              | 360                     |
| Dr Kim L. Winser*                          | 332   | –                   | –                  | –                      | –                    | <b>332</b>              | –                       |
|  | 3,684 | 300                 | 415                | 205                    | 99                   | <b>4,703</b>            | 3,980                   |

\* Dr Kim L. Winser was appointed as a Director of the Company with effect from 1 January 2016

<sup>A</sup> In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

### Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2016 was as follows:

| (HK\$'000)                       | Basic compensation | Bonuses and incentives | Retirement benefits | Other benefits | Total <sup>(3)</sup> 2016 | Total <sup>(3)</sup> 2015 |
|----------------------------------|--------------------|------------------------|---------------------|----------------|---------------------------|---------------------------|
| <b>Executive Directors</b>       |                    |                        |                     |                |                           |                           |
| Clement K.M. Kwok                | 6,612              | 7,317                  | 1,088               | 280            | <b>15,297</b>             | 15,075                    |
| Peter C. Borer                   | 4,746              | 3,549                  | 769                 | 183            | <b>9,247</b>              | 9,246                     |
| Alan Clark <sup>(1)</sup>        | –                  | –                      | –                   | –              | <b>–</b>                  | 5,327                     |
| Matthew J. Lawson <sup>(2)</sup> | 2,904              | 1,700                  | 476                 | 128            | <b>5,208</b>              | –                         |
|                                  | 14,262             | 12,566                 | 2,333               | 591            | <b>29,752</b>             | 29,648                    |

Notes:

(1) Mr Alan Clark resigned as a Director of the Company with effect from 30 November 2015

(2) Mr Matthew J. Lawson was appointed as a Director of the Company with effect from 3 May 2016

(3) In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management

## Senior Management – Remuneration

Remuneration for senior management (GMB members other than Executive Directors\*) disclosed pursuant to the Listing Rules falls within the following bands:

|                               | 2016 Number | 2015 Number |
|-------------------------------|-------------|-------------|
| HK\$4,000,001 – HK\$5,000,000 | 5           | 5           |
| HK\$5,000,001 – HK\$6,000,000 | 1           | 1           |
| HK\$6,000,001 – HK\$7,000,000 | –           | 1           |
| HK\$7,000,001 – HK\$8,000,000 | 1           | –           |

\* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2015: seven) senior management who represent the various key functions and operations of the Company

## Individuals with Highest Emoluments

The five highest paid individuals in the Group included three Executive Directors and two members of senior management (2015: two members of senior management). The emoluments of the two (2015: two) individuals with highest emoluments are within the following bands:

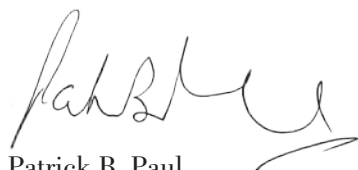
|                               | 2016 Number | 2015 Number |
|-------------------------------|-------------|-------------|
| HK\$5,500,001 – HK\$6,000,000 | 1           | 1           |
| HK\$6,000,001 – HK\$6,500,000 | –           | –           |
| HK\$6,500,001 – HK\$7,000,000 | –           | 1           |
| HK\$7,000,001 – HK\$7,500,000 | 1           | –           |

The aggregate of the emoluments in respect of these two (2015: two) individuals is as follows:

| (HK\$'000)             | 2016          | 2015   |
|------------------------|---------------|--------|
| Basic compensation     | 7,901         | 7,671  |
| Bonuses and incentives | 3,992         | 3,711  |
| Retirement benefits    | 790           | 767    |
| Other benefits         | 299           | 308    |
|                        | <b>12,982</b> | 12,457 |

The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company and to continued transparent disclosure on these matters.

On behalf of the Remuneration Committee



Patrick B. Paul

*Chairman of the Remuneration Committee*

20 March 2017