




REMUNERATION COMMITTEE REPORT

 Composition	Chairman Mr Patrick Paul, INED Members Dr Rosanna Wong, INED Mr Andrew Brandler, NED
 Meeting Frequency	<ul style="list-style-type: none"> At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance One meeting and one meeting by written resolutions circulated for approval in 2018
 Responsibilities	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

HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the group and its executives according to an overall framework setting out various guiding principles. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to remain competitive and meet our 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 and the particular 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 incentivise management and individual performance

Remuneration for Executive Directors and Senior Management

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 key executives.

As part of its scope of responsibility, this Committee is involved in reviewing and approving the terms of service of all Executive Directors and senior management, including remuneration and duration of the service contracts. No individual is involved in determining 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. To align with market practice, we have also put two Group Executives under a discretionary bonus plan starting in 2018. Other senior management continues to participate in the HSH Management Bonus Plan²⁶ 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 measurement²⁷
- Individual performance
- Share Price

In 2018, management continued to review the HSH Management Bonus Plan and proposed the Plan to remain largely intact subject to a few refinement areas for the Committee's approval. The main purpose of the proposal

²⁶ Senior staff also participates in the HSH Management Bonus Plan

²⁷ A quality score measuring user experience and/or operational excellence against a set of standards



“On behalf of the Remuneration Committee, I am pleased to present our 2018 Report. This year we continued to review the HSH Management Bonus Plan looking for improvements and the Committee approved the proposed areas for refinement submitted by management. The revised plan will be implemented for the 2020 bonus payout.”


 Patrick B. Paul
 Chairman of the
 Remuneration Committee
 14 March 2019

is to simplify the administrative procedures of the Plan. The proposal includes changing the Committee's approval basis to a percentage of underlying profit which allows the Committee to focus more on the total bonus pool and its relation to the group's performance. The proposal also includes simplifying the methodology for business units' quality measurement and individual performance. These revisions will be implemented starting in 2019 with the first bonus payout in 2020.

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 (NEDs) are fixed by shareholders at shareholders general meetings, while any additional fees of NEDs for serving on Board Committees are fixed by the Board. The Committee has the responsibility of reviewing management's annual recommendations for these

fees. Factors taken account 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 as well as other international companies. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration.

In line with the annual fee review, the Board in March 2018 approved the proposal from the Committee (i) the fees of NEDs and INEDs be fixed at the rate of HK\$325,000 and HK\$375,000 respectively per annum; and (ii) a revision of the fees payable to the Chairman of the Remuneration Committee would be HK\$100,000 per annum. The NED and INED fees were approved by shareholders at the Annual General Meeting on 9 May 2018. These revised fees, took effect on 9 May 2018 and were paid to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ended 31 December 2018.

2018 Main Activities

The Remuneration Committee conducted the following business in 2018:

Remuneration

- Reviewed management's proposals for fees for NEDs and INEDs and additional fees for the same to serve on Board Committees in 2018, and recommended to the Board changes on NEDs and INEDs and Chairman of Remuneration Committee's fees
- Reviewed and approved the 2017 proposed bonus pool for senior staff

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- Reviewed and approved the 2017 annual discretionary bonus proposal for Executive Directors and Group Executives
- Reviewed and approved the proposed change in the discretionary bonus plan for Group Executives
- Reviewed the group-wide 2019 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 2019 salary increases of Executive Directors and senior management
- Reviewed and approved the proposed changes to the HSH Management Bonus Plan

Others

- Reviewed and approved the 2017 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee
- Reviewed and approved the letters of appointment for two NEDs and two INEDs

(HK\$'000)	Executive Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total ⁽⁶⁾ 2018	Total ⁽⁶⁾ 2017
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	316	100	–	–	40	456	440
Mr Andrew C.W. Brandler	316	100	150	60	–	626	604
Mr Ronald J. McAulay ⁽¹⁾	–	–	–	–	–	–	106
Mr William E. Mocatta	316	–	–	–	–	316	300
Mr John A.H. Leigh	316	100	–	–	–	416	400
Mr Nicholas T.J. Colfer	316	–	–	–	–	316	300
Mr James L. Lewis ⁽²⁾	316	–	–	–	–	316	25
Mr Philip L. Kadoorie ⁽³⁾	316	–	–	–	–	316	25
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	366	–	–	–	40	406	390
Mr Patrick B. Paul	366	–	185 ⁽⁴⁾	95 ⁽⁴⁾	–	646	618
Mr Pierre R. Boppe	366	–	–	–	–	366	350
Dr William K.L. Fung ⁽⁴⁾	366	–	–	–	40	406	521
Dr Rosanna Y.M. Wong	366	–	–	60	–	426	410
Dr Kim L. Winser	366	–	–	–	–	366	350
Ms Ada K.H. Tse ⁽⁵⁾	366	–	150	–	–	516	42
	4,774	300	485	215	120	5,894	4,881

Notes:

- Mr Ronald J. McAulay resigned as a Director of the company with effect from 8 May 2017
- Mr James L. Lewis was appointed as a Director of the company with effect from 1 December 2017
- Mr Philip L. Kadoorie was appointed as a Director of the company with effect from 1 December 2017
- Dr William K.L. Fung resigned as a member of the Audit Committee of the company with effect from 1 December 2017
- Ms Ada K.H. Tse was appointed as a Director and a member of the Audit Committee of the company with effect from 1 December 2017
- 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

2018 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2018.

Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2018 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.

Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2018 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total' 2018	Total' 2017
Executive Directors						
Mr Clement K.M. Kwok	7,015	8,156	1,154	223	16,548	15,593
Mr Peter C. Borer	4,808	3,984	779	139	9,710	9,475
Mr Matthew J. Lawson	4,659	2,903	764	179	8,505	7,806
	16,482	15,043	2,697	541	34,763	32,874

* 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:

	2018 Number	2017 Number
HK\$4,000,001 – HK\$5,000,000	1	2
HK\$5,000,001 – HK\$6,000,000	2	2
HK\$6,000,001 – HK\$7,000,000	1	1
HK\$7,000,001 – HK\$8,000,000	1	1

** GMB, the company's management and operations' decision-making authority, comprises the three Executive Directors and five (2017: six) 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 (2017: two members of senior management). The emoluments of the two (2017: two) individuals with highest emoluments are within the following bands:

	2018 Number	2017 Number
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	–

The aggregate of the emoluments in respect of these two (2017: two) individuals is as follows:

(HK\$'000)	2018	2017
Basic compensation	8,475	8,188
Bonuses and incentives	5,173	4,337
Retirement benefits	847	819
Other benefits	225	270
	14,720	13,614

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