

# GROUP RISK COMMITTEE AND RISK MANAGEMENT REPORT

Risk lies in every sector of our business and a sound and effective risk management system is crucial to the long term development of the Group.



This is our second year of reporting since the establishment of the Group Risk Committee ("GRC") in 2012 to enhance focus on existing and potential risks. Risk lies in every sector of our business and a sound and effective risk management system is crucial to the long term development of the Group.

Our GRC comprises of the following members:

**Chairman:** Ms. Christobelle Liao (Group Director, Corporate and Legal) – Acting Chairman from 13 September 2013

**Members:** selected members of senior management and corporate Group General Manager

In 2013, the GRC met three times to provide oversight of principal business risks to which the Group is subject. The GRC also issued two updates to the Group Management Board ("GMB") in 2013 on key risks, incidents and mitigating actions, and overall plans, trends and analyses, and shared updates with responsible management.

## Group Risk Committee Charter

The GRC developed the Group Risk Committee Charter ("Charter") as its governing instrument. This document outlines the membership, meeting format and frequency, responsibilities for risk oversight and reporting, implementation of the Group Risk Register ("Register"), and the reporting line that applies to the Committee.

The main responsibilities of the GRC under the Charter are as follows:

- Evaluating and monitoring the Group's principal risks through review and challenge, where necessary, information received; monitoring exposure to risk types in a sufficiently accurate and timely manner and the mitigating actions.
- Evaluating and recommending to GMB the risk profile and risk appetite of the Group.
- Developing and updating risk management procedures including overseeing and advising GMB on the embedding and maintenance of a supportive risk management culture throughout the Group, to ensure effective delegation of risk management responsibilities, identification of key risks, implementation of action plans and remedy of incidents.

- Coordinating and compiling the Register with ongoing maintenance, and preparing summaries of top tier risks and related contingency plans to Audit Committee and Board.
- Implementing the Register including establishing clear roles and responsibilities for risk oversight, risk reporting and escalation, risk ownership, and communicating across the Group.
- Approving policies, procedures and instructions relating to the Register.

- **Business Units:** ensure compliance with the risk management policies and procedures set up by the Group and monitor and report risk profiles and implement actions.

Our risk management approach follows a clear process of identification, assessment, mitigation, reporting and monitoring.

Key risks, after being calibrated, consolidated, and refined by the GRC, are reviewed by the Audit Committee and considered and agreed upon by our Board, with relevant detailed action plans in place.

## Group Risk Management Approach

Risk is inherent in every business. We apply our risk management approach throughout the entire Group from the Board and senior management to staff at operational level with the functions of each being as follows:

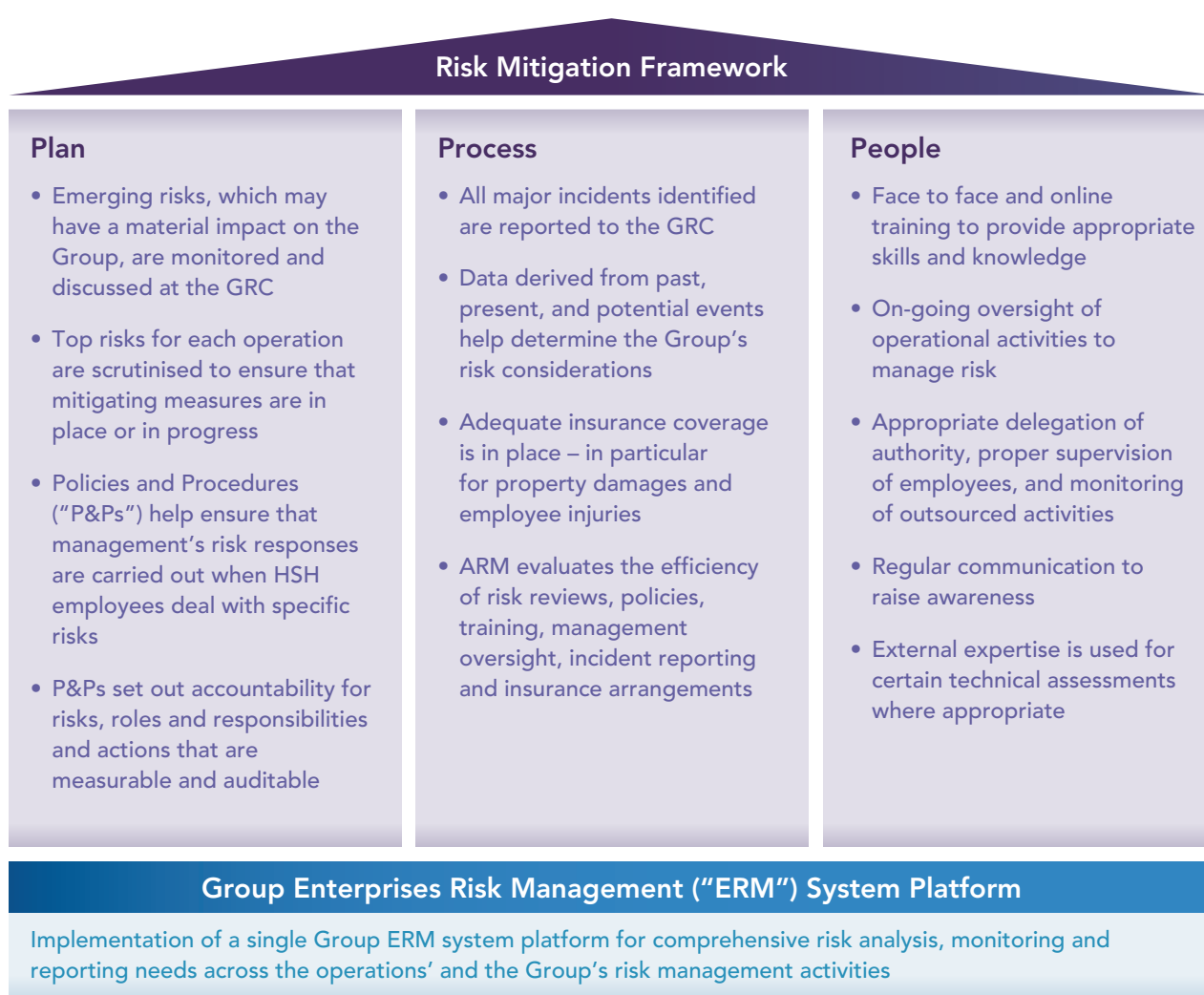
- **Board:** carries the overall accountability for the risk management practice of the Group.
- **Audit Committee:** focuses on the robustness of the risk management process and oversees the Group's major risks.
- **ARM:** assists the Audit Committee by conducting internal reviews of the Group's operations, in particular, the review of material controls in the areas identified in the Register.
- **GMB:** oversees the future of GRC and how our properties and functions have sought to monitor and mitigate the risks and the effectiveness of the Register.
- **GRC:** acts as a co-ordinator to ensure that each operation addresses those risks identified, tracks progress of mitigating plans and activities of key business risks and reports on examination of specific risks as required.



## Risk Mitigation Framework

Our risk mitigation framework is structured around the following key elements:

- **Plan:** Mitigation plans developed and owned by each operation and risk owner.
- **Process:** New controls and mitigation built into operations and continually monitored and reviewed.
- **People:** Clear roles and accountability for risk owners, management and ARM.



Our specific efforts to manage risks are consolidated in our **Group Risk Register** (the “Register”) that allows the Audit Committee and GMB a better overview of the Group’s major business risks and how management has sought to monitor and mitigate them.

The Register, comprising the key risks identified, refined and calibrated by GRC, along with detailed action plans, was reviewed by the Audit Committee. The Register assesses risks in four categories: financial, operational, strategic, and compliance.

Within each category, the principal risks facing HSH that could have a material effect at the Group level are identified and each risk will be regularly evaluated based on its potential financial impact and likelihood of occurrence. For all key risks, existing controls are identified and assessed as well as the ability, benefit and cost to improve them.

A traffic light approach has been adopted to risk assessment in collating the Register – low/green, medium/amber, high/red – in order to allow an easier visual understanding of the risk profile of the Group, as shown in the diagram on the right.

A detailed description of the principal risks of the Company is set out on pages 168 to 171.

Our Group-wide **Incident Reporting Policy** is a tool to allow systematic, timely and informative reporting of all incidents of the Group of a wide range of nature, in the form of a uniform protocol. The GRC continues to monitor the Incident Reporting Policy to improve transparency and oversight of operational risks and to better assess trends and areas of weaknesses. This uniform approach removed inconsistencies of reporting by different operations through different channels and means in the past. The handling of the incidents and follow up actions are also monitored by GRC. There was no incident of a material nature in 2013 which needed to be brought to the attention of the shareholders.

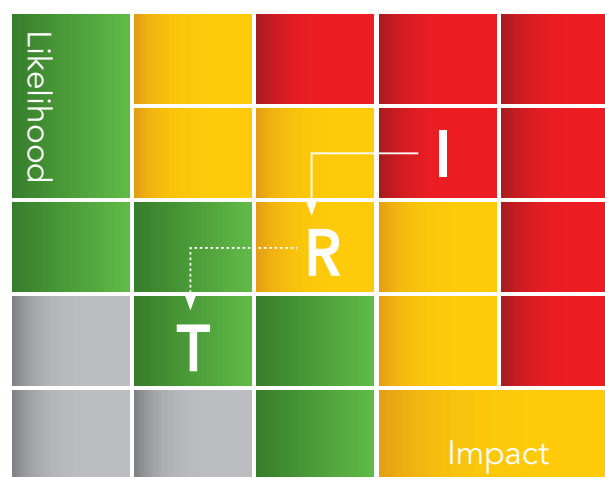
Our risk mitigation framework allow us to continuously assess and address the changing risk universe within which we operate.

## 2013 Main Activities

The Group Risk Committee conducted the following business in 2013:

- expanded the Register to capture eight additional operations;
- selected a single ERM system platform for comprehensive risk reporting analysis, and monitoring needs across the Group;

### Traffic Light Approach Adopted to Risk Assessment



- I** — **Inherent risk**  
(risk level with ineffective or no controls in place)
- R** — **Residual risk**  
(current risk level with existing controls in place)
- T** — **Target risk**  
(desired risk level to optimise investment as required)

- reviewed and implemented the new Group-wide Crisis Response Checklist template at all operations, which will be updated at least semi-annually;
- confirmed security and access rights to confidential information on the Company's intranet, *Sphere*, and formulated an action plan to review information which are posted on this virtual space. Acknowledged the confirmation by Information Technology Department of the technical adequacy of the platform's security;
- reviewed the independent integrated risk assessment reports on property, security and safety prepared by a third party after detailed investigations at our Asian operations including The Peninsula Tokyo, The Peninsula Bangkok, Thai Country Club and The Peninsula Manila, and reviewed the action plans to mitigate identified risk areas;
- discussed incidents with Group-wide impact and implemented policies and procedures to prevent specific recurrence of these risks;

- published the first set of Group-wide policies and procedures improving the operation of guest room key and in-room safe security;
- reviewed data privacy incident relating to Peninsula Merchandising Limited and reassessed controls on data privacy and acknowledged the closure of the matter by the related government authority;
- reviewed the security of the Group's information technology systems, including the quarterly results of security tests ran by an independent third party; and
- reviewed sustainability risk assessment process in investment proposals.

## Selected Principal Risks

A summary of HSH principal risks is presented below. This summary is compiled through aggregation, filtering and prioritisation of the risks from a Group's perspective, taking into account each of the Group's operation's detailed risk registers. The process for compiling the principal risks faced by each operation includes multiple interviews and validations with risk owners of the operation concerned. The risk review process provides an opportunity to highlight emerging risks and/or include new risks to the risk registers. The registers are used to track movements of risks and their specific ratings across the Group, contributing to ensuring their proactive management.

### Disaster Events, Business Continuity and Crisis Management

Risk Nature	Key controls and mitigating factors
A major disaster event, such as an incident, "Act of God," natural disaster, terrorist activity, war or contagious diseases such as Avian Flu and SARS could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings	<ul style="list-style-type: none"> <li>• Multiple risk inspections by external risk consultant on selected properties focusing on insurable risks such as engineering, safety and security risks</li> <li>• Crisis Response Checklist rolled out across all operations and crisis management team with qualified and experienced members that addresses crisis management and business continuity</li> <li>• Comprehensive insurance coverage for properties and businesses</li> </ul>

### Acquisitions, Investments and Developments

Risk Nature	Key controls and mitigating factors
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks related to meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	<ul style="list-style-type: none"> <li>• Engagement with experienced and reputable local partners</li> <li>• Familiarisation with local authorities</li> <li>• Adequate due diligence to be conducted for each project, including but not limited to:             <ul style="list-style-type: none"> <li>– employing services of qualified and experienced professionals (internal and external)</li> <li>– developing complete and detailed integration plans and business strategies</li> </ul> </li> <li>• Continuous monitoring and review of all aspects of developments, planning and construction progress, with regular reporting to the Board and its Committees on material matters</li> <li>• Involvement of Legal and Audit &amp; Risk Management Departments monitor legal, regulatory and internal policy compliance of our projects and developments assisted by professionals</li> <li>• Close monitoring of cost, market trends and developments</li> </ul>

## Capital Requirements

### Risk Nature

Failure to ensure the availability of funds to meet our capital expenditure requirements to develop, maintain and renovate our properties could limit our ability to remain competitive

### Key controls and mitigating factors

- On-going regular reviews of hardware standards
- Continuous monitoring of furniture, fixture and equipment budget and spend by operations
- Regular cash and treasury management and monitoring of allocation of funds and resources

## Brand and Reputation

### Risk Nature

Failure to protect the Group's brand and reputation from significant negative publicity in media, social media or elsewhere could result in a loss of confidence in our brand, a decline in guest, tenant and/or customer base, and affect our business and our ability to recruit and retain good people

### Key controls and mitigating factors

- Care in staff recruitment and training to bring forth the level of service that is befitting of our brand
- Our Code of Conduct and behavioural standards regulate staff conduct including prohibiting accepting benefits in contravention of laws and regulations
- Supplier Code of Conduct implemented to mitigate risks relating to labour standards and product integrity
- Clear guidelines on incident communication and crisis management process by crisis management team
- Implementation of Group-wide social media usage guidelines
- Social media monitored by external service providers
- Hiring staff with social media expertise
- Timely and regular specific updates to GRC on incidents

## People

### Risk Nature

Failure to attract, retain, develop and motivate the best people with the right capabilities, particularly senior executives and at all other levels, could limit our ability to manage and service our business adequately. Shortages of personnel with necessary skills can lead to higher replacement wages and therefore higher operating expenses

### Key controls and mitigating factors

- Clear succession plans for key management positions
- Regular structured employee engagement surveys and action plans
- Training and development, career paths and operational level succession plans
- Regular review of competitiveness of remuneration packages
- Continuation and pursuit of hotel school recruitment programs
- Continuous monitoring of risks and opportunities related to workforce changes

## Health and Safety

Risk Nature	Key controls and mitigating factors
<p>Failure to timely address health and safety issues or comply with laws and regulations that regulate our operations, merchandise and the properties we own and manage could expose us to costs and liabilities and result in damaged trust in our business</p> <p><i>Food Safety &amp; Hygiene, and Health &amp; Safety of Employees and Guests have been identified as material sustainability issues of high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 100 for further detail)</i></p>	<ul style="list-style-type: none"> <li>• Risks reviewed by management during monthly Safety Meetings and action plans are developed to address any areas of concern</li> <li>• Certification of the health and safety of our premises against relevant standards where possible and hiring or training staff with/for certification on health and safety</li> <li>• Policies and procedures on handling food, waste, and any hazardous materials</li> <li>• On-going risk assessments such as regular health consultations</li> <li>• Supplier Code of Conduct to mitigate risks relating to product integrity</li> <li>• Continued improvements in Occupational Safety and Health programs</li> </ul>

## Data Privacy

Risk Nature	Key controls and mitigating factors
<p>Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions, which compliance could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and may adversely affect our brand and business</p> <p><i>Data Privacy &amp; Security has also been identified as a material sustainability issue of relatively high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 100 for further detail)</i></p>	<ul style="list-style-type: none"> <li>• Implementation of Group-wide data privacy policy manual and training (classroom and online formats)</li> <li>• Assessments by data privacy teams across operations</li> <li>• Implementation of a process for reporting and dealing with data breaches</li> <li>• Investment in information technology infrastructure, application and training to protect personal data</li> <li>• Management of risks via e-Commerce functions at operational level</li> </ul>

## Retail and Commercial Tenants

Risk Nature	Key controls and mitigating factors
<p>Our capital investments and commitment of resources in developing retail and commercial space in our properties may not be well received by our retail or commercial tenants or their customers</p> <p>In addition, commercial letting may become difficult due to factors such as decline in spend within the luxury industry, increased competition, or shifts of retail preferences leading to decrease in our arcade traffic</p>	<ul style="list-style-type: none"> <li>• Improvements in design of commercial space to allow flexible usage and conversion possibilities to accommodate tenants</li> <li>• Commitment to maintain high quality properties</li> <li>• Active engagement with current and potential tenants</li> <li>• Diversification and maintenance of an appropriate mix of tenants</li> </ul>

## Security and IT

### Risk Nature

Our reputation and financial performance may be adversely affected if we fail to maintain appropriate security measures, including security over our information systems, to protect our guests, visitors and employees. The threat of terrorism, criminal acts, and fire incidents continue to be a significant concern for the hospitality industry

### Key controls and mitigating factors

- Dedicated Security & Operational Risk teams work with local management to ensure there is adequate level of security in our operations
- Detailed threat and vulnerability assessments and tests are carried out at selected sites
- Crisis Response Checklist rolled out across all operations in 2013 that addresses crisis management and business continuity
- Group Incident Reporting Policy and Procedures launched and monitored by GRC
- Technical robustness of our information systems regularly reviewed by Information Technology Department, including engaging third parties to conduct independent tests

## Labour and Material Cost

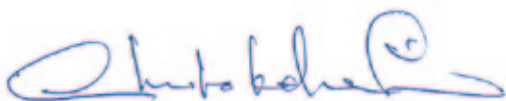
### Risk Nature

Rising labour and material costs while we operate in a highly competitive environment will continue to be a major challenge for our business. Failure to manage our costs, such as payroll and benefits, new taxes and social insurance charges, could adversely affect our business

### Key controls and mitigating factors

- Close monitoring and management of operating costs, including payroll costs, new taxes and social insurance charges
- Strategies to enhance our bargaining power with markets and suppliers
- Professionals engaged to advise on labour related costs and liabilities

On behalf of the Group Risk Committee



**Christobelle Liao**

Acting Chairman of the Group Risk Committee



# AUDIT COMMITTEE REPORT

The Audit Committee views the overall financial and operating controls for the Group during 2013 to be effective, sound and sufficient.



## Role and Composition

The Audit Committee is empowered by the Board with the authority and duties in respect of financial reporting, internal control, risk management, and internal and external audit. The terms of reference of the Audit Committee are summarised on page 146 and posted on the websites of the Company: [www.hshgroup.com/en/Corporate-Governance/Board-Committees](http://www.hshgroup.com/en/Corporate-Governance/Board-Committees) and the Stock Exchange.

Our Audit Committee comprises three members:

**Chairman:** Mr. Patrick B. Paul, a Fellow of the Institute of Chartered Accountants in England and Wales (INED).

**Members:** Dr. William K.L. Fung (INED) and Mr. Ian D. Boyce (Non-Executive Director)

The Audit Committee met four times in 2013, with senior management, the external auditor and the head of Audit & Risk Management ("ARM") in attendance by invitation. The attendance record of the Audit Committee members of such meetings is shown on page 150 of this Report.

The Chairman of the Audit Committee also met separately with the Group General Manager, ARM and the Audit Committee met with external auditor without management being present during the year to discuss 2013 issues.

The Company Secretary is the Secretary to the Audit Committee.

## Main Activities in 2013

During the year the Audit Committee reviewed the functions of the Company's Operations Finance Department and Treasury Department, as well as reviewed the Group's Treasury guidelines. The Audit Committee conducted the following usual business in 2013:

- reviewed and endorsed the 2012 Annual Report for the year ended 31 December 2012 and the annual results announcement, and the 2013 Interim Report for the six months ended 30 June 2013 and the interim results announcement;
- considered audit plans and reports from the external auditor on its audit and its review of the accounts including accounting policies and areas of judgement and its comments on control matters;
- reviewed and approved external auditor's audit and non-audit fees for 2012 as described below, assessed the performance of the external auditors and endorsed the reappointment of KPMG as the Company's independent auditor for 2013;
- considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2012 Annual Report and 2013 Interim Report;
- reviewed the adequacy and effectiveness of internal control and risk management systems;

- reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions;
- considered internal audit reports submitted by Audit & Risk Management;
- reviewed and approved internal audit plan for 2014;
- reviewed connected transactions and related party transactions;
- approved the change in accounting treatment on defined benefit retirement obligation;
- reviewed the valuations of all assets;
- approved the accounting treatment relating to the Company's interests in associates and in new projects and residences for sale; and
- reviewed the purpose and efficacy of the Group Risk Register and incident reporting protocol within the Company's overall risk management framework.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee views the overall financial and operating controls for the Group during 2013 to be effective, sound and sufficient. Issues raised by the internal and external auditors during 2013 have been, or are being addressed, by management and the Audit Committee recommended to the Board that there are no issues required to be raised to shareholders.

In respect of this Annual Report, including the Corporate Governance Report, Sustainability Review, the Directors' Report and Financial Statements for the year ended 31 December 2013 and the annual results announcement, after review and discussion, in March 2014, the Audit Committee endorsed and recommended the same to the Board for approval.

## Ensuring the Independence of our External Auditor

We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. In 2013, apart from audit work, we also awarded non-audit work to our independent auditor including due diligence, taxation and other services. The Audit Committee reviewed non-audit work performed by the external auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial years ended 31 December 2013 and 2012 is as follows:

Nature of Services	2013 HK\$m	2012 HK\$m
Audit Services	10	9
Non-Audit Services		
Taxation and Other Services	2	1
Due Diligence Services	3	–

On behalf of the Audit Committee



**Patrick B. Paul**  
Chairman of the Audit Committee

# NOMINATION COMMITTEE REPORT

The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity.



## Role and Composition

The Nomination Committee is empowered by the Board with duties to review size, structure and composition of the Board. This includes the selection of new Directors for the purpose of maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities. The terms of reference of the Nomination Committee are summarised on page 147 and posted on the websites of the Company: [www.hshgroup.com/en/Corporate-Governance/Board-Committees](http://www.hshgroup.com/en/Corporate-Governance/Board-Committees) and the Stock Exchange.

Our Nomination Committee comprises three members:

**Chairman:** The Hon. Sir Michael Kadoorie (Non-Executive Chairman)

**Members:** Dr. the Hon. Sir David K.P. Li (INED) and Dr. William K.L. Fung (INED)

The Nomination Committee met twice in 2013 and the attendance record of members is shown on page 150 of this Report.

The Company Secretary is Secretary to the Nomination Committee.

## Main Activities in 2013

2013 has been a year of change for the Board requiring Nomination Committee's consideration in the appointment of new directors: the appointment of Dr. Rosanna Wong as our first female Director and INED, in February 2013; the review and selection process of the Chief Financial Officer position and the recommendation of Mr. Alan Clark as Executive Director and Chief Financial Officer from 30 March 2014; and the continued search of a replacement Director for Mr. Robert Miller who resigned with effect from 1 January 2014.

In addition, the Nomination Committee conducted the following business in 2013:

- endorsed the Board Diversity Policy and the proposed amendments to the terms of reference include the Board Diversity Policy for adoption by the Board;
- assessed and reviewed INEDs' confirmations of independence and affirmed the Committee's view over their independence;
- recommended the election of re-retiring Directors;
- reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors; and
- reviewed the value of having measurable objectives for implementing the Board Diversity Policy.

## Board Diversity

The Company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board including accounting, finance, legal, corporate and public sector management, banking and hospitality. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity. As mentioned in my last report, the appointment of Dr. Rosanna Wong was an important milestone being the first female Director appointment in the history of the Company. This year, our Committee continued with that diversity approach in identifying our new Chief Financial Officer who will join on 30 March 2014. The objectives that we have set for our external search consultants are described in pages 152 and 153. We are also in the process of identifying a replacement Director in place of Mr. Robert Miller who resigned and we will follow the same diversity approach.

The Nomination Committee considered that HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with one new female member on the Board. In reviewing the appropriateness of an express diversity quota or measurable objective for implementing the Board Diversity Policy, the Nomination Committee concluded that it was not necessary, however, diversity will continue to be considered in assessing Board composition.

## Non-Executive Deputy Chairmanship

Mr. Ian Boyce will resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. The Nomination Committee has recommended to the Board that Mr. Andrew Brandler be proposed to be elected as a Non-Executive Director of the Company at the Annual General Meeting. If elected, he will be Non-Executive Director and appointed as Deputy Chairman of the Company.

On behalf of the Nomination Committee



**The Hon. Sir Michael Kadoorie**  
Chairman of the Nomination Committee

# REMUNERATION COMMITTEE REPORT

Our philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles.



## Role and Composition

Our Remuneration Committee is empowered by the Board with the authority and duties in respect of the following:

- determine remuneration philosophies and policies;
- review and approve pay increase percentages;
- review and approve structure of bonus schemes for senior staff;
- review and approve remuneration packages for Executive Directors and senior management;
- review and recommend to the Board the Directors' fees of Non-Executive Directors and Board Committee fees of the Directors; and
- approve terms of letters of appointment of Non-Executive Directors.

The terms of reference of the Remuneration Committee are summarised on page 147 and posted on the websites of the Company: [www.hshgroup.com/en/Corporate-Governance/Board-Committees](http://www.hshgroup.com/en/Corporate-Governance/Board-Committees) and the Stock Exchange.

Our Remuneration Committee comprises three members:

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

**Members:** Mr. Robert W. Miller (INED) (resigned on 1 January 2014), Dr. Rosanna Y.M. Wong (INED) (appointed on 1 January 2014) and Mr. Ian D. Boyce (Non-Executive Director)

The Remuneration Committee met twice in 2013 and the Chief Executive Officer and Group Director, Human Resources attended the meetings by invitation. The attendance record of the Remuneration Committee members of such meetings is shown on page 150 of this Report.

The Company Secretary is Secretary to the Remuneration Committee.

## Remuneration Philosophy for Executives

An HSH Rewards Philosophy is established and was approved by the Remuneration Committee in 2011. Our philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles, including:

- linking pay to business results, market practice and non-financial goals;

- ensuring compensation and benefits programmes are legally compliant, locally relevant and globally consistent;
- providing a total remuneration package that rewards good performers competitively subject to periodical adjustments based on market movements and business performance; and
- promoting internal equity to ensure employees performing similar roles within the same market are rewarded fairly.

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 and at the right level to attract and retain the Company's executives.

All Executive Directors and senior management have service contracts, all terminable by notice. Review and approval of such contracts are within the scope of responsibility of this Committee. No individual is involved in the decision of his or her own remuneration. There are four components of remuneration paid to executives including Executive Directors and senior management.

### Basic Compensation

Basic salaries are the primary element of remuneration 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 and tenure of individual in a position. Basic compensation includes basic salary, housing and other allowances.

### Bonuses and Incentives

The Committee believes that 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:

- Group's financial performance;
- individual performance;
- share price; and
- Group's quality measurement.

The Committee retains the discretion in the awarding of non-contractual annual bonuses.

### Other Benefits

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

### 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 retirement contributions of 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 are not required to pay contributions. Some senior management participate in a local plan instead of the Company's plan due to the local requirements.

## 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 Remuneration Committee has the responsibility of reviewing Directors' fees and fees for serving on Board Committees and makes recommendations to Board. These fees are reviewed on an annual basis. No director approves his or her own remuneration.

In reviewing the fees, the Committee takes into account factors including estimated time required to discharge their duties and benchmarking against other Hong Kong listed companies of similar market capitalisation and business.

In line with the above annual fee review's methodology, the Board approved in March 2014 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK\$250,000 and HK\$300,000 respectively per annum. These fees will be subject to Shareholders' approval at the Annual General Meeting to be held on 12 May 2014.

The Board also approved the recommendations from the Committee of a revision of the fees payable to the Chairman and members of the Remuneration Committee to HK\$85,000 and HK\$60,000 respectively per annum and the Chairman and members of Nomination Committee to HK\$20,000 per annum.

The revised fees will take effect on 12 May 2014 and be payable to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ending 31 December 2014.

## Main Activities in 2013

The Remuneration Committee conducted the following business in 2013:

- reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2013. No changes were proposed in 2013;
- reviewed and approved the proposed 2012 senior staff bonus for Head Office and Operations under the Management Bonus Plan;
- reviewed and approved the remuneration package and contract of the new Chief Financial Officer who will join in March 2014;
- approved the 2012 special bonus proposal of one member of senior management and remuneration of two members of senior management;
- reviewed and approved the terms of letters of appointment for an INED;
- approved the discretionary element of the annual bonuses for Executive Directors;
- discussed long and short term incentive plan proposals for Executive Directors and senior staff; and
- approved the Group-wide 2014 general salary increase proposal taking into account various factors including market pay trend, inflationary forecast, labour market outlook and the Group financial performance.

## 2013 Remuneration of Directors and Senior Management

The below information is an integral part of the Audited Financial Statements for the year ended 31 December 2013.

### Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2013 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	2013 Total <sup>A</sup>	2012 Total <sup>A</sup>
<b>Non-Executive Directors</b>							
The Hon. Sir Michael Kadoorie	200	100	–	–	10	310	308
Mr. Ian D. Boyce	200	100	120	50	–	470	470
Mr. Ronald J. McAulay	200	–	–	–	–	200	200
Mr. William E. Mocatta	200	–	–	–	–	200	200
Mr. John A.H. Leigh	200	100	–	–	–	300	300
Mr. Nicholas T.J. Colfer	200	–	–	–	–	200	200
<b>Independent Non-Executive Directors</b>							
Dr. the Hon. Sir David K.P. Li	250	–	–	–	10	260	258
Mr. Robert C.S. Ng <sup>(1)</sup>	–	–	–	–	–	–	117
Mr. Robert W. Miller	250	–	–	50	–	300	300
Mr. Patrick B. Paul	250	–	175 <sup>(c)</sup>	60 <sup>(c)</sup>	–	485	483
Mr. Pierre R. Boppe	250	–	–	–	–	250	250
Dr. William K.L. Fung	250	–	120	–	10	380	378
Dr. Rosanna Y.M. Wong <sup>(2)</sup>	228	–	–	–	–	228	–
	2,678	300	415	160	30	3,583	3,464

(1) Mr. Robert C.S. Ng resigned as a Director of the Company with effect from 19 June 2012.

(2) Dr. Rosanna Y.M. Wong was appointed Director of the Company with effect from 1 February 2013.

### Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2013 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	2013 Total <sup>A</sup>	2012 Total <sup>A</sup>
<b>Executive Directors</b>						
Mr. Clement K.M. Kwok	5,160	6,991	849	318	13,318	11,872
Mr. Neil J. Galloway*	3,052	2,797	492	250	6,591	7,812
Mr. Peter C. Borer	4,045	3,291	650	136	8,122	6,988
	12,257	13,079	1,991	704	28,031	26,672

\* Mr. Neil Galloway resigned as Director of the Company with effect from 13 September 2013.

<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.



## Senior Management – Remuneration

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

	2013 Number	2012 Number
HK\$3,000,001 – HK\$4,000,000	1	2
HK\$4,000,001 – HK\$5,000,000	3	3
HK\$5,000,001 – HK\$6,000,000	1	–

\* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2012: five) 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 (2012: one member of senior management and one other). The emoluments of the two (2012: two) individuals with highest emoluments are within the following bands:

	2013 Number	2012 Number
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	1	1
HK\$5,000,001 – HK\$5,500,000	1	–

The aggregate of the emoluments in respect of these two (2012: two) individuals is as follows:

	2013	2012
Basic compensation	6,867	6,067
Bonuses and incentives	2,080	1,051
Retirement benefits	687	566
Other benefits	259	1,507
	<b>9,893</b>	<b>9,191</b>

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