

# Remuneration Committee Report



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## ROLE AND COMPOSITION

On behalf of the Remuneration Committee I am pleased to present the Remuneration Committee Report for the year ended 31 December 2014. The Remuneration Committee is empowered by the Board with the authority and duties to review and approve or endorse the management's remuneration or bonus proposals for Directors and senior management as well as the Group's bonuses scheme for senior staff and to note salary increase budgets for all businesses.

<b>Chairman:</b>	Mr Patrick B. Paul (INED)
<b>Members:</b>	Mr Andrew Brandler (Non-Executive Director) (appointed on 12 May 2014)
	Mr Ian D. Boyce (Non-Executive Director) (resigned on 12 May 2014)
	Dr Rosanna Y.M. Wong (INED)
<b>Secretary:</b>	Company Secretary

The Remuneration Committee met three times in 2014 and the Chief Executive Officer and Group Director, Human Resources attended the meetings by invitation. In addition to the scheduled meetings, the Committee has also dealt with a matter by written resolution.

## REMUNERATION PHILOSOPHY

Our HSH Rewards Philosophy which was established and approved by the Remuneration Committee in 2011 has not changed. This 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 taking into account 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. Basic compensation may include 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:

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

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 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. 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 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 the 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 were approved by Shareholders at the Annual General Meeting 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 took effect on 12 May 2014 and was paid to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ended 31 December 2014.

## MAIN ACTIVITIES IN 2014

The Remuneration Committee conducted the following business in 2014:

- reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2014 and recommended the changes to the Board and Shareholders for approval;
- reviewed and approved the 2013 bonus proposal for Head Office and Operations under the HSH Management Bonus Plan;
- approved the 2013 bonus proposal for Executive Directors;
- reviewed and approved the terms of letters of appointment for Non-Executive Directors and INEDs;
- approved the discretionary bonuses for two members of senior management;
- reviewed and approved amendments to the bonus factors for the HSH Management Bonus Plan and the inclusion of a US property into the Management Bonus Plan;
- approved the Group-wide 2015 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 2015 salary increases of senior management; and
- reviewed and approved the remuneration packages of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

## 2014 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2014.

### Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2014 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> 2014	Total <sup>A</sup> 2013
<b>Non-Executive Directors</b>							
The Hon. Sir Michael Kadoorie	232	100	–	–	16	348	310
Mr Andrew Brandler <sup>(1)</sup>	159	64	77	38	–	338	–
Mr Ian D. Boyce <sup>(2)</sup>	73	37	44	18	–	172	470
Mr Ronald J. McAulay	232	–	–	–	–	232	200
Mr William E. Mocatta	232	–	–	–	–	232	200
Mr John A.H. Leigh	232	100	–	–	–	332	300
Mr Nicholas T.J. Colfer	232	–	–	–	–	232	200
<b>Independent Non-Executive Directors</b>							
Dr the Hon. Sir David K.P. Li	282	–	–	–	16	298	260
Mr Robert W. Miller <sup>(3)</sup>	–	–	–	–	–	–	300
Mr Patrick B. Paul	282	–	175 <sup>(c)</sup>	76 <sup>(c)</sup>	–	533	485
Mr Pierre R. Boppe	282	–	–	–	–	282	250
Dr William K.L. Fung	282	–	120	–	16	418	380
Dr Rosanna Y.M. Wong	282	–	–	56	–	338	228
	2,802	301	416	188	48	3,755	3,583

Notes:

(1) Mr Andrew Brandler was appointed as a Director of the Company with effect from 12 May 2014.

(2) Mr Ian D. Boyce resigned as a Director of the Company with effect from 12 May 2014.

(3) Mr Robert W. Miller resigned as a Director of the Company with effect from 1 January 2014.

### Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2014 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total <sup>A</sup> 2014	Total <sup>A</sup> 2013
<b>Executive Directors</b>						
Clement K.M. Kwok	5,836	7,634	960	223	14,653	13,318
Peter C. Borer	4,430	3,579	718	184	8,911	8,122
Alan Clark <sup>+</sup>	2,719	1,950	453	119	5,241	–
Neil J. Galloway <sup>*</sup>	–	–	–	–	–	6,591
	12,985	13,163	2,131	526	28,805	28,031

<sup>+</sup> Mr Alan Clark was appointed as a Director of the Company with effect from 30 March 2014.

<sup>\*</sup> Mr Neil J. Galloway resigned as a 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:

	2014 Number	2013 Number
HK\$3,000,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$5,000,000	3	3
HK\$5,000,001 – HK\$6,000,000	1	1
HK\$6,000,001 – HK\$7,000,000	1	–

\* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2013: 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 (2013: two members of senior management). The emoluments of the two (2013: two) individuals with highest emoluments are within the following bands:

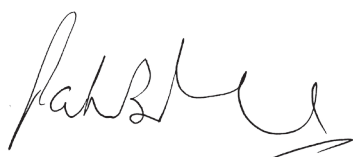
	2014 Number	2013 Number
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	1
HK\$5,500,001 – HK\$6,000,000	–	–
HK\$6,000,001 – HK\$6,500,000	1	–

The aggregate of the emoluments in respect of these two (2013: two) individuals is as follows:

(HK\$'000)	2014	2013
Basic compensation	7,376	6,867
Bonuses and incentives	3,427	2,080
Retirement benefits	738	687
Other benefits	274	259
	<b>11,815</b>	<b>9,893</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  
20 March 2015