

REMUNERATION COMMITTEE REPORT



We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management

Focus 2015

We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management.

Role and Composition

The Remuneration Committee is empowered by the Board with the authority and duty to review and approve or endorse the management's remuneration and bonus proposals for Directors and senior management, as well as the Group's bonus scheme for senior staff, and to note salary increase budgets for all businesses.

Chairman: Mr Patrick B. Paul (INED)

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

The Remuneration Committee met twice in 2015 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 certain matters by written resolutions.

- Promoting internal equity to ensure employees performing similar roles within the same market are rewarded fairly

Remuneration Philosophy

Our HSH Rewards Philosophy which was established and approved by the Remuneration Committee in 2011 has not changed. A review of the philosophy will be carried out in 2016. 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

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 Executive Directors, senior management and other executives.

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 Business Units' quality measurement
- Individual performance
- 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 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 Remuneration Committee has the responsibility for 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, 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 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 will be subject to Shareholders' approval 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 Nomination Committee to HK\$40,000 per annum.

The revised fees will take effect on 11 May 2016 and be payable to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ending 31 December 2016.

Main Activities in 2015

The Remuneration Committee conducted the following business in 2015:

- ✓ Reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2015. No changes were approved in 2015
- ✓ Reviewed and approved amendments relating to the calculation methodology of the 2014 HSH Management Bonus Plan for senior staff
- ✓ Approved the 2014 bonus proposal for Executive Directors and senior management and include 4 additional staff for the participation in the bonus scheme
- ✓ Reviewed and approved the terms of letters of appointment for Non-Executive Directors and INEDs
- ✓ Reviewed benchmarking of total remuneration of top 2 Grades senior staff against market
- ✓ Reviewed and approved 2014 Remuneration Committee Report
- ✓ Reviewed, amended and endorsed the terms of reference of the Committee
- ✓ Noted the group-wide 2016 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance

- ✓ Set the performance themes of the Chief Executive Officer in which his discretionary bonus will be paid
- ✓ Reviewed and approved the 2016 salary increases of Executive Directors and senior management
- ✓ Reviewed the service contract and remuneration package of the new Chief Financial Officer

2015 Remuneration of Directors and Senior Management

The following information is an integral part of the audited Financial Statements for the year ended 31 December 2015.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2015 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)	Executive Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total ^A 2015	Total ^A 2014
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	250	100	–	–	20	370	348
Mr Andrew Brandler ⁽¹⁾	250	100	120	60	–	530	338
Mr Ian D. Boyce ⁽²⁾	–	–	–	–	–	–	172
Mr Ronald J. McAulay	250	–	–	–	–	250	232
Mr William E. Mocatta	250	–	–	–	–	250	232
Mr John A.H. Leigh	250	100	–	–	–	350	332
Mr Nicholas T.J. Colfer	250	–	–	–	–	250	232
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	300	–	–	–	20	320	298
Mr Patrick B. Paul	300	–	175 ^(c)	85 ^(c)	–	560	533
Mr Pierre R. Boppe	300	–	–	–	–	300	282
Dr William K.L. Fung	300	–	120	–	20	440	418
Dr Rosanna Y.M. Wong	300	–	–	60	–	360	338
	3,000	300	415	205	60	3,980	3,755

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.

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2015 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total ^A 2015	Total ^A 2014
Executive Directors						
Clement K.M. Kwok	6,420	7,354	1,056	245	15,075	14,653
Peter C. Borer	4,608	3,729	746	163	9,246	8,911
Alan Clark ⁺	3,432	992	572	331	5,327	5,241
	14,460	12,075	2,374	739	29,648	28,805

⁺ Mr Alan Clark resigned as a Director of the Company with effect from 30 November 2015.

^A 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:

	2015 Number	2014 Number
HK\$4,000,001 – HK\$5,000,000	5	3
HK\$5,000,001 – HK\$6,000,000	1	1
HK\$6,000,001 – HK\$7,000,000	1	1

* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2014: 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 (2014: two members of senior management). The emoluments of the two (2014: two) individuals with highest emoluments are within the following bands:

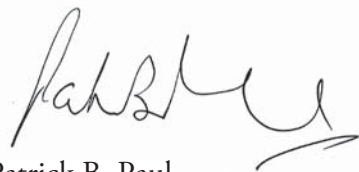
	2015 Number	2014 Number
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–

The aggregate of the emoluments in respect of these two (2014: two) individuals is as follows:

(HK\$'000)	2015	2014
Basic compensation	7,671	7,376
Bonuses and incentives	3,711	3,427
Retirement benefits	767	738
Other benefits	308	274
	12,457	11,815

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

16 March 2016