

# Remuneration Report

The Board delegates authority to the Remuneration Committee to ensure that the Company adopts properly structured and fair remuneration policies, which are in line with the interests of Directors, staff and other stakeholders of the Company. The Committee has four members, three of whom are Independent Non-executive Directors and one of whom is a Non-executive Director. The Committee is chaired by Independent Non-executive Director Dr John CHAN Cho Chak, who is the Deputy Chairman of the Company, and the other members are Independent Non-executive Director Dr Eric LI Ka Cheung, Independent Non-executive Director Professor LIU Pak Wai and Non-executive Director Ms Winnie NG.

The Remuneration Committee makes recommendations to the Board on the remuneration packages of Directors and employees of the Company and its subsidiaries (the “Group”). The level of remuneration is determined in accordance with the principles of performance, fairness, transparency and market competitiveness. The Group’s remuneration packages are designed to attract, retain and incentivise high calibre individuals who will make significant contributions to the Group. The Remuneration Committee is authorised to obtain independent professional advice on relevant issues if required.

The main remuneration policies adopted by the Group are as follows:

- ⊙ Remuneration policy and practice including that relating to Directors should be fair, transparent and compliant with relevant legislation;
- ⊙ No Director or member of senior management should be involved in deciding his or her own remuneration; and
- ⊙ Directors and employees should be rewarded on a fair basis according to their merits, job responsibilities, qualifications and experience, taking into account market practices and packages offered for similar posts by comparable companies.

The Remuneration Committee’s written terms of reference, which are published on the Company’s website, comply with the Code Provisions set out in Appendix 14 of the Listing Rules. The main duties of the Committee are to:

- ⊙ Determine the policies on remuneration of the Directors and the employees of the Group for approval by the Board;
- ⊙ Set appropriate criteria for performance-related bonuses for employees, having regard to achievement against the assessment criteria with reference to market norms, and the Group’s business objectives and targets;
- ⊙ Establish guidelines for determining the remuneration of Directors, including the terms and conditions of employment, remuneration and retirement benefits of the Executive Directors;
- ⊙ Review and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, as well as Non-executive Directors; and
- ⊙ Review and consider proposals submitted by the Managing Director on human resources or related policies and make appropriate recommendations to the Board.

In 2017, the Remuneration Committee:

- ⊙ Reviewed the remuneration policy for 2017;
- ⊙ Reviewed the annual performance-related bonuses for Group employees, with reference to the performance of the Group, individual achievement, the assessment criteria and market norms;

- ⊙ Examined employees' wage and salary increments on a merit basis with reference to relevant factors including market pay trends and inflation forecasts; and
- ⊙ Reviewed the remuneration of Executive and Non-executive Directors, benchmarked against the remuneration level of comparable listed companies in respect of workload, scale and complexity of business.

### Criteria for Determination of the Remuneration of Directors

In line with good corporate governance practice, assessment of the remuneration of Directors is based on formal principles, which take into account both market practices and a tried and tested methodology. As in previous years, Directors' fees for 2017 were determined based on the methodology developed in the "Higgs Report" on the "Review of the Role and Effectiveness of Non-executive Directors" in the United Kingdom, which takes into account the likely workload, the scale and complexity of the business, and the responsibility involved. Reference was also made to the results of a desk-top survey conducted by the Company on the remuneration of the directors of 20 major companies listed on The Stock Exchange of Hong Kong Limited. The fee structure for Directors in 2017 is set out as follows:

Fee per annum  
HK\$

<b>Board Members</b>	
– Chairman	453,600
– Other Directors	324,000
<b>Audit and Risk Management Committee Members</b>	
– Chairman	200,000
– Other members	180,000
<b>Remuneration Committee Members</b>	
– Chairman	70,000
– Other members	60,000
<b>Nomination Committee Members</b>	
– Chairman	70,000
– Other members	60,000
<b>Standing Committee Members (except Executive Director)</b>	
– Chairman	1,352,800
– Other members	252,000

Except as disclosed above, no Independent Non-executive Director or Non-executive Director received any pension benefits or bonuses from the Group in 2017.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2017, together with 2016 comparisons, are given in note 7 to the consolidated financial statements on pages 150 and 151 of this Annual Report.

### **Criteria for Determination of the Remuneration of Corporate Executives and other Employees**

The remuneration of the corporate executives of the Company as well as those of other employees are benchmarked against the remuneration for similar positions in comparable local companies. This is consistent with the Group's remuneration policy of aligning remuneration packages with market practices. Depending on the financial performance of the Group, discretionary bonuses may also be granted to individuals on a merit basis. The level of any such discretionary bonus is subject to review and approval by the Remuneration Committee and the Board after consideration of the financial results of the Group.

The main components of remuneration for corporate executives and other employees are as follows:

#### **Base Compensation**

The Remuneration Committee reviews base compensation, including salaries, allowances and fringe benefits, with reference to the Group's financial performance, the scope and complexity of the individual's responsibilities, market pay levels and individual performance.

#### **Discretionary Bonus**

A discretionary bonus may be granted to individuals in recognition of their outstanding performance. Individuals are subject to a comprehensive annual performance appraisal by their immediate supervisors. Only those who obtain at least a satisfactory performance rating are considered for the award of an incentive bonus.

#### **Share Option Scheme**

Under the Share Option Scheme, which was approved and adopted by shareholders at the 2016 AGM on 26 May 2016, the Board may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Share Option Scheme is intended to provide employees of the Company and its subsidiaries with the opportunity to participate in the growth and success of the Company. The Board may exercise its discretion to grant options to eligible employees proposed by the Remuneration Committee.

Details of the Share Option Scheme and options granted to eligible employees of the Company under the Share Option Scheme are set out on pages 108 and 109 of this Annual Report.

### **Staff Retirement Schemes**

The KMB Monthly Rated Employees Provident Fund Scheme (the "Monthly Scheme") and the KMB Daily Rated Employees Retirement Fund Scheme (the "Daily Scheme") are two non-contributory defined benefit retirement schemes operated by the Group. The Group also participates in a defined contribution retirement scheme, the SHKP MPF Employer Sponsored Scheme, which was established and registered under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) (the "MPF Ordinance") in 2000.

#### **i) The Monthly Scheme**

Formally established under trust and registered under the Occupational Retirement Schemes Ordinance (Cap. 426 of the Laws of Hong Kong) (the "ORSO"), the Monthly Scheme is administered by an independent trustee and the assets are held separately from those of the Group. Under the current scheme rules, an eligible member's benefit is equivalent to the final monthly salary multiplied by the service period and the benefit factor applicable to the member's completed years of service. Contributions to the Monthly Scheme are made in accordance with the recommendations of an independent actuary firm which values the retirement scheme at regular intervals. The scheme is closed to employees first employed or re-employed by KMB (including any subsidiary or associated company which participates in the Monthly Scheme) on or after 1 December 2000.

**ii) The Daily Scheme**

Formally established under trust and registered under the ORSO, the Daily Scheme is administered by an independent trustee and the assets are held separately from those of the Group. Under the current scheme rules, an eligible member's benefit is equivalent to the final daily basic emolument multiplied by the number of completed years of service as a daily rated employee and further multiplied by a benefit factor applicable to the member's completed years of service. Contributions to the Daily Scheme are made in accordance with the actuary's recommendations. The Scheme is closed to employees first employed or re-employed by KMB (including any subsidiary or associated company which participates in the Daily Scheme) on or after 1 December 2000.

**iii) SHKP MPF Employer Sponsored Scheme**

The Group is a participating member of the SHKP MPF Employer Sponsored Scheme ("SHKP Scheme"), which is a defined contribution retirement scheme. Employees who do not participate in the defined benefit retirement schemes are covered by the SHKP Scheme, which is administered by an independent trustee. The assets of the SHKP Scheme are held separately from those of the Group in independently administered funds. The Group is required to make contributions to the SHKP Scheme at rates ranging from 5% to 12% of relevant employees' salaries, depending on their employment terms and length of service with the Group. Employees are required to make contributions to the SHKP Scheme at 5% of the employees' relevant income as defined by the MPF Ordinance, subject to a cap of monthly relevant income of HK\$30,000.