

Remuneration Report

The Remuneration Committee was established in 2003. It is currently chaired by Dr John CHAN Cho Chak, who is an Independent Non-executive Director and also the Deputy Chairman of the Company. The other members of the Committee are Dr Eric LI Ka Cheung and Professor LIU Pak-wai, both are Independent Non-executive Directors of the Company.

The Remuneration Committee has been delegated by the Board with the responsibility of ensuring that the Company adopts properly structured and fair remuneration policies, which take into account the interests of Directors, staff and other stakeholders, as well as align with the Company's goals, objectives and performance. It also formulates policies on the remuneration of Directors and employees of the Company and its subsidiaries (the "Group") for approval by the Board. Remuneration levels are determined according to the principles of individual performance, fairness, transparency and market competitiveness. A variety of remuneration elements, including basic salary, performance related bonuses and retirement benefits are incorporated in order to attract and retain people who are fully motivated to contribute to the Group.

The Remuneration Committee's written terms of reference, which are posted on the Company's website, fully comply with the Code Provisions set out in Appendix 14 of the Listing Rules.

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

- No Director or member of senior management is involved in deciding his or her own remuneration;
- Remuneration policy and practice including that relating to the Directors should be as transparent as possible; and
- Remuneration packages should constitute a fair system of reward for all participants, taking qualifications, job responsibilities and performance into consideration, while also taking account of market practices and packages offered for similar posts by comparable companies. Independent professional advice on human resource related matters is sought whenever required.

The main duties of the Committee include:

- Establishing guidelines for determining the remuneration of Directors (including terms and conditions of employment, remuneration and retirement benefits of the Executive Directors), and making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management;
- Reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, as well as Non-executive Directors;
- Reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- Reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- Setting appropriate criteria for awarding performance related bonuses to employees of the Group, having regard to the Group's business objectives and targets, and making recommendations to the Board on the awarding of annual performance related bonuses for employees according to their achievements as benchmarked against the assessment criteria and the market norms;
- Reviewing and considering proposals from the Managing Director regarding human resource or related policies and making appropriate recommendations to the Board; and

- Ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration.

In 2012, the Remuneration Committee:

- Reviewed the remuneration policy for 2012;
- Reviewed the remuneration of Executive and Non-executive Directors by benchmarking against the level of remuneration of major listed companies in respect of workload, scale and complexity of business;
- Reviewed the annual performance related bonuses for Group employees, with reference to the performance of the Group and individual achievement, measured against the assessment criteria and taking into consideration market norms; and
- Examined employees' wage and salary increments by reference to the relevant factors and on a merit basis.

CRITERIA FOR DETERMINATION OF THE REMUNERATION OF DIRECTORS

In line with good corporate governance practices, the remuneration of Directors was assessed based on formalised principles, which take into account both market practices and a tried and tested methodology.

The fee scale for Directors in 2012 as set out below was determined based on the methodology developed in the "Higgs Report" in the United Kingdom on the "Review of the Role and Effectiveness of Non-executive Directors", taking into account the expected workload, the scale and complexity of the business, and the responsibility of Directors. 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.

Remuneration Report

	Fee per annum HK\$
Board Members	
– Chairman	369,600
– Other Director	264,000
Audit Committee Members	
– Chairman	92,400
– Other member	66,000
Remuneration Committee Members	
– Chairman	46,200
– Other member	33,000
Standing Committee Members (except Executive Directors)	
– Chairman	323,400
– Other member	231,000

The above fee structure was approved by the shareholders at the annual general meeting of the Company held in 2012 and will remain effective until the Company in general meeting determines otherwise.

Apart from the fees disclosed above, neither the Independent Non-executive Directors nor the Non-executive Directors received any pension benefits or bonuses from the Group.

The remuneration package of each Director, on a named basis, for the year ended 31 December 2012, together with 2011 comparatives, are set out in note 7 to the consolidated financial statements on pages 173 and 174 of this Annual Report.

CRITERIA FOR DETERMINATION OF THE REMUNERATION OF SENIOR MANAGEMENT AND OTHER EMPLOYEES

In determining the remuneration of senior management members, namely Mr Charles LUI Chung Yuen, Mr Edmond HO Tat Man and Mr Evan AU YANG Chi Chun, who are Executive Directors of the Company and whose biographies are set out in the Directors' Profiles on pages 130 to 135 of this Annual Report, and other employees, the Group makes reference to the remuneration for similar positions in comparable local companies. This aligns with the Group's remuneration policy of matching remuneration packages with market practices. Depending on the 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 taking into account the Group's performance. No senior management members serve on the Remuneration Committee. The main components of remuneration for senior management members and other employees are set out below:

Base Compensation

The Remuneration Committee reviews base compensation, including salaries, allowances and fringe benefits, with reference to the Group's performance, market practices and individual performance.

Discretionary Bonus

Discretionary bonuses are designed to align employee contribution with the Company performance and may be granted to staff members in recognition of their outstanding performance. Individuals are subject to comprehensive performance appraisal by their immediate supervisors and only those who obtain at least a satisfactory performance rating are considered for the award of an incentive bonus.

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 Hong Kong Mandatory Provident Fund Schemes Ordinance ("the Hong Kong MPF Ordinance") in 2000.

i) The Monthly Scheme

Formally established under trust in 1978 and registered under the Occupational Retirement Schemes Ordinance (Cap. 426), 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 who 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 in 1983 and registered under the Occupational Retirement Schemes Ordinance (Cap. 426), 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. A majority of those 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 Hong Kong MPF Ordinance, subject to a cap of monthly relevant income of HK\$20,000, which level has been adjusted to HK\$25,000 with effect from 1 June 2012.