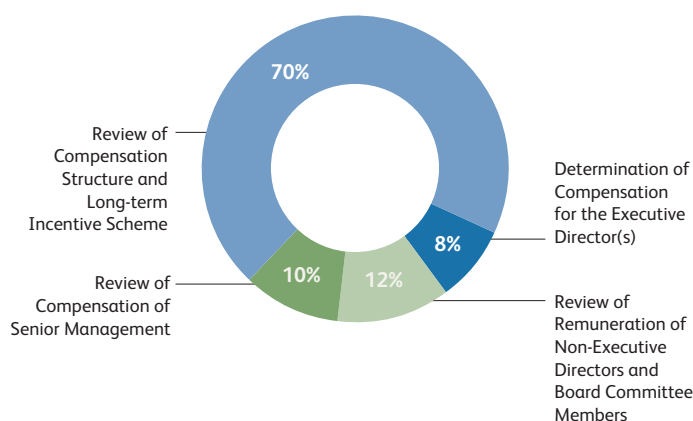


# Remuneration Committee Report

## Dear Shareholders,

We are pleased to present our 2019's Remuneration Committee Report. The primary roles of the Remuneration Committee are advising the Board on formulating the remuneration policy for Directors and senior management, determining remuneration and incentives packages for Directors and senior management, and ensuring that the Directors and senior management have remuneration commensurate with their qualifications and competencies.

## Remuneration Committee activities and agenda time during the year



## Composition

Majority are Independent Non-Executive Directors

## Committee members

Fan Yan Hok Philip\* (Chairman)

Lee Tze Hau Michael

Poon Chung Yin Joseph\*

\* Independent Non-Executive Director

## Highlights in 2019

- Considered remuneration for Directors and senior management
- Considered the compensation structure and long-term incentive scheme
- Reviewed the Terms of Reference

## Key responsibilities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and senior management
- Review the remuneration packages of Executive Director(s), Non-Executive Director(s) and senior management
- Review share incentive plans

## Meetings Schedule

The Remuneration Committee generally meets at least once every year. 2019 was an active year for the Remuneration Committee, which held 3 meetings during the year. The Executive Director(s) and management may be invited to Remuneration Committee meetings to present and/or answer relevant questions in order to facilitate the decision-making process. No Director is involved in deciding his/her own remuneration.

## Roles and Authorities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and members of senior management, as recommended by management, and make recommendations to the Board.
- Review and determine the remuneration of Executive Director(s) and senior management.
- Review the fees payable to Non-Executive Directors and Board Committee members prior to shareholders' approval at the AGM.
- Review new share incentive plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans that have material financial, reputational, and strategic impact.

## Activities

During the year of 2019, the Remuneration Committee held 3 meetings to:

- Approve the 2019 Executive Director's compensation package and the 2018 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members based on the recommendations of an independent global consultancy company specializing in human resources and compensation.
- Review and determine compensation of senior management.
- Review and consider the long-term incentive scheme and proposals based on the recommendations of an independent global consultancy company specializing in human resources and compensation.
- Review the terms of reference of the Remuneration Committee.

In January 2020, the Remuneration Committee also held a meeting to:

- Approve the 2020 Executive Director's compensation package and the 2019 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review and determine compensation of senior management.
- Review and consider the long-term incentive scheme.

Members' attendance records are disclosed in the table on page 57.

## Executive Director(s)' and Senior Management's Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality Executive Director(s), senior management and employees. At the same time, awards must be aligned with shareholders' interests. From December 2018 and continue in 2019, the Group engaged an independent global consultancy company specializing in human resources and compensation to conduct an overall review of the Group's compensation structure for Executive Director(s), Non-Executive Directors and Board Committee members, with the objective of introducing refinements to better support the Group's strategic objectives ("Independent

Compensation Review"). The Remuneration Committee considered the Independent Compensation Review in depth at the meeting held in January 2019.

In May 2019, the Remuneration Committee instructed the said independent global consultancy company specializing in human resources and compensation to conduct an overall review of the Group's long-term incentive scheme and review comparable market schemes. In September 2019, the Remuneration Committee invited the said independent consultant to present and answer questions from the members of Remuneration Committee.

The following principles have been established:

- Remuneration packages and structure to reflect a fair system of rewards for all participants, with the emphasis on performance, comprising the following components:

	Components	Determining Factors	Fixed and variable compensation
<b>Fixed compensation</b>	Base salary and allowances	<ul style="list-style-type: none"> <li>• Market trend – pay increments in general and in real estate industry</li> <li>• Market benchmark – relevant role and job scope</li> <li>• Company's performance</li> <li>• Individual performance and contribution – achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.)</li> </ul>	<b>Base salary and benefits</b>
<b>Variable compensation</b>	Performance bonus	<ul style="list-style-type: none"> <li>• Company's performance</li> <li>• Individual performance and contribution – achieved against annual financial and operational targets (Turnover, Expense Ratio, EPS, Portfolio Year End Occupancy, key strategic initiatives achievement, etc.)</li> <li>• Actual pay out ranges from 0–200 % of the target bonus (which is set as a % of annual base salary)</li> </ul>	Short-term <b>Performance-based component (bonus)</b>
	Share options	<ul style="list-style-type: none"> <li>• Company's performance</li> <li>• Individual performance and potential, and the long-term contribution to Company</li> <li>• Grant level is based on a prescribed grant multiple of annual base salary</li> </ul>	Long-term <b>Long-term incentives (share options)</b>

- Remuneration packages to be set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing for a similar talent pool, with special emphasis on the real estate industry. Independent professional advice is to be sought where appropriate.
- The Remuneration Committee to determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance and achievement of financial and operational key performance targets that align with the Group's long-term strategy.
- Remuneration policy and practice to be as transparent as possible.
- Share option grantees to develop significant personal shareholdings pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group to be taken into account.
- The remuneration policy for Executive Director(s) and senior management to be reviewed regularly, independent of executive management.
- In January 2020, the Remuneration Committee also held a meeting to consider the annual base salary of Lee Irene Yun-Lien and concluded that her 2020 annual fixed base salary is HK\$8,000,000.

Details of Directors' (including individual Executive Director(s)) and Senior Management's emoluments for the year of 2019 and option movements for Executive Director(s) during the year are set out in notes 11, 12 and 37, respectively, to the consolidated financial statements.

## Non-Executive Directors' Remuneration Policy

The Independent Compensation Review also included consideration and review of the Group's compensation structure for Non-Executive Directors and Board Committee members.

Key elements of our Non-Executive Directors' remuneration policy include the following:

- Remuneration to be set at an appropriate level to attract and retain first class non-executive talents.
- Remuneration of Non-Executive Directors (subject to shareholders' approval) to be set by the Board and should be proportional to their commitment and contribution to the Company.
- Remuneration practice to be consistent with recognized best practice standards for Non-Executive Directors' remuneration.
- Remuneration to be in the form of cash fees, payable semi-annually.
- Non-Executive Directors not to receive share options from the Company.

For the year of 2019, Non-Executive Directors had received no other compensation from the Group except for the fees disclosed below. None of the Non-Executive Directors had received any pension benefits from the Company, nor did they participate in any bonus or incentive schemes.

Non-Executive Directors (including Independent Non-Executive Directors) received fees totalling HK\$3,106,000 for the year of 2019.

## Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. The Remuneration Committee in 2019 considered the recommendations of the Independent Compensation Review, and the level of responsibility, experience and abilities required of the Directors, level of care and amount of time required, as well as the fees offered for similar positions in companies requiring the same talents. Revision to fees of Non-Executive Directors and Chairman and member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee were proposed, and approved, at the AGM held on 16 May 2019.

## REMUNERATION COMMITTEE REPORT

In January 2020, the Remuneration Committee decided that the fees of the Directors shall remain unchanged. It also considered that the newly established Sustainability Committee has an important role to support the Board in overseeing the Group's corporate social responsibility and sustainability strategy. It was proposed to the Board for consideration and the Board approved that the Sustainability Committee Chairman and members be remunerated with appropriate chairmanship and membership fees.

The current fees for Non-Executive Directors and Board Committee members and the fees for 2020 are set out below. Executive Director(s) will not receive any director fee(s).

	2019 Fee Per annum HK\$	2020 Fee Per annum HK\$
<b>Board of Directors</b>		
Non-Executive Director	280,000 (Note 2)	Unchanged
<b>Audit and Risk Management Committee</b>		
Chairman	180,000 (Note 2)	Unchanged
Member	108,000 (Note 2)	Unchanged
<b>Remuneration Committee</b>		
Chairman	75,000 (Note 2)	Unchanged
Member	45,000 (Note 2)	Unchanged
<b>Nomination Committee</b>		
Chairman	50,000 (Note 2)	Unchanged
Member	30,000 (Note 2)	Unchanged
<b>Sustainability Committee (Note 1)</b>		
Chairman	N/A	50,000
Member	N/A	30,000

Notes:

1. Sustainability Committee has been established with effect from 1 January 2020.
2. Approved by shareholders in the 2019 AGM and took effect on 1 June 2019.

## Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2019 was 514. The Group's human resources practices are aligned with our corporate objectives in order to maximize shareholder value and achieve growth. Details of our human resources programmes, training and development are set out in the "Sustainability Report 2019".

## Long-term incentives: Share Option Schemes

The Company may grant options under executive share option schemes as adopted from time to time. The purpose of the schemes is to strengthen the connection between individual staff and shareholders' interests. The power to grant options to Executive Director(s) is vested in the Remuneration Committee and endorsement by all Independent Non-Executive Directors is required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below the Executive Director level.

### The 2005 Share Option Scheme (the "2005 Scheme")

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005 (the "2005 AGM"), which had a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme. No further option will be granted under the 2005 Scheme.

Under the 2005 Scheme, options to subscribe to ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed the maximum number of shares permissible under the Listing Rules, being 10% of the total number of shares in issue as at the date of the 2005 AGM (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2005 AGM, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration for each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

## The 2015 Share Option Scheme (the “New Scheme”)

The Company adopted the New Scheme (together with the 2005 Scheme, both are referred to as the “Schemes”) at its AGM held on 15 May 2015 (the “2015 AGM”), which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Under the New Scheme, options to subscribe to ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed the maximum number of shares permissible under the Listing Rules, currently being 10 % of the total number of shares in issue as at the date of the 2015 AGM (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in a general meeting for “refreshing” the 10 % limit under the New Scheme. The limit on the total number of shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30 % of the shares in issue from time to time (or the maximum number of shares permissible under the Listing Rules). No options may be granted if such a grant would result in such 30 % limit or maximum permissible limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1 % of the total number of shares in issue as at the date of the 2015 AGM, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration for each grant of option is HK\$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

## Grant and vesting structures

Under the Company’s current policy, grants are to be made on a periodic basis. The exercise period is 10 years. The vesting period is 3 years in equal proportions starting from the 1st anniversary and shares will become fully vested on the 3rd anniversary of the grant. The size of the grant will be determined with reference to a base salary multiple and job performance grades. The Board reviews the grant and vesting structures from time to time.

## Movement of share options

During the year, a total of 1,286,200 shares options were granted under the New Scheme. The 2005 Scheme had expired on 9 May 2015 and no further option has been granted under the 2005 Scheme.

As at the date of this Annual Report:

- share options exercisable into a total of 1,322,667 ordinary shares of the Company granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.13 % of the total number of issued shares of the Company;
- share options exercisable into a total of 3,170,067 ordinary shares of the Company granted (including fully-vested share options exercisable into 1,134,392 ordinary shares of the Company) under the New Scheme remained outstanding, representing approximately 0.30 % of the total number of issued shares of the Company; and
- 102,853,005 shares are issuable under the New Scheme, representing approximately 9.86 % of the total number of issued shares of the Company.

## REMUNERATION COMMITTEE REPORT

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees (Note c)	31.3.2010	22.45	31.3.2011 – 30.3.2020	50,000	–	–	–	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	32,000	–	–	–	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	70,000	–	–	–	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	85,000	–	–	–	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	46,000	–	–	–	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	62,667	–	–	–	62,667
				1,322,667	–	–	–	1,322,667

Name	Date of grant	Exercise price HK\$	Exercise period (Note a)	Balance as at 1.1.2019	Changes during the year			Balance as at 31.12.2019
					Granted	Exercised	Cancelled/ lapsed (Note b)	
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	–	–	–	300,000
	1.3.2018	44.60	1.3.2019 – 29.2.2028	373,200	–	–	–	373,200
	22.2.2019	42.40 (Note d)	22.2.2020 – 21.2.2029	–	494,200	–	–	494,200
Eligible employees (Note c)	31.3.2016	33.05	31.3.2017 – 30.3.2026	174,000	–	(49,000) (Note e)	–	125,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	248,667	–	–	(4,000)	244,667
	29.3.2018	41.50	29.3.2019 – 28.3.2028	513,000	–	–	(17,000)	496,000
	29.3.2019	42.05 (Note f)	29.3.2020 – 28.3.2029	–	792,000	–	(30,000)	762,000
				1,983,867	1,286,200	(49,000)	(51,000)	3,170,067

Notes:

- (a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.  
(b) The options lapsed during the year upon the resignations of certain eligible employees.  
(c) Eligible employees are those working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.  
(d) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 21 February 2019) was HK\$41.75.  
(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$41.31.  
(f) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2019) was HK\$41.90.

Apart from the above, the Company has not granted any share option under the Schemes to any other persons during the year that is required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 37 to the consolidated financial statements.

## Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is to be expensed through the Group's statement of profit or loss over the 3-year vesting period of the options.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "**Model**"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	29.3.2019	22.2.2019
Closing share price at the date of grant	HK\$42.050	HK\$42.400
Exercise price	HK\$42.050	HK\$42.400
Risk free rate (Note a)	1.406 %	1.552 %
Expected life of option (Note b)	5 years	5 years
Expected volatility (Note c)	17.689 %	17.710 %
Expected dividend per annum (Note d)	HK\$1.342	HK\$1.342
Estimated fair values per share option	HK\$4.460	HK\$4.750

Notes:

- (a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.
- (c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.
- (d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Members of the Remuneration Committee

**Fan Yan Hok Philip** (Chairman)

**Lee Tze Hau Michael**

**Poon Chung Yin Joseph**

Hong Kong, 20 February 2020