

# CORPORATE GOVERNANCE REPORT

## Our Values

Good corporate governance is crucial to sustaining the group through the changing regulatory and market environment over the long term. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board has set a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

The annual report has been an important tool for us to provide our shareholders and stakeholders with a transparent picture of our business performance. Our commitment to continuously improve the clarity and transparency of our reporting is recognised in the list of awards we received for the annual report. The list can be found in the "Awards in 2018" section on page 118.

The Board recognises that our people are the key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report<sup>2</sup> highlights our efforts in these areas in 2018.



## Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management in implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework<sup>3</sup> supports the development of good governance practices throughout the group.

### Board and Board Committees

The Board has established five Board Committees in order to manage the company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the Corporate Governance Code in Appendix 14 of the Listing Rules. Attendance and reports on main activities from the Governance Board Committees are included in this section. The Executive and Finance Committees are strategic and finance committees which are integral parts of the management process. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

### Chief Executive Officer and Group Management Board and sub-Committees

The Chief Executive Officer (CEO) leads the management of the group's business with the assistance of the Group Management Board (GMB) under the clear guidelines and delegated authorities of the Board. This management structure fosters accountability and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the company's business and strategy.

For implementation of our business strategy, GMB is supported by four sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter.

<sup>2</sup> Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

<sup>3</sup> Details of responsibilities and memberships of the committees can be found on HSH website: [www.hshgroup.com/en/corporate-governance](http://www.hshgroup.com/en/corporate-governance)



**BOARD**

responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the group

**Governance Board Committees**

**Other Board Committees**

Audit Committee	Nomination Committee	Remuneration Committee	Executive Committee	Finance Committee
oversees the integrity of the group's financial reporting and the external and internal audit process ..... monitors and reviews the effectiveness of group's risk management and internal control systems	reviews the structure, size and composition of the Board ..... makes recommendations to the Board for appointments with reference to the Board Diversity Policy and Nomination Policy	makes recommendations to the Board on the remuneration philosophy and policies of the group ..... reviews and approves the remuneration packages of the Executive Directors and senior management ..... reviews and recommends to the Board the Non-Executive Directors' fees and the fees for serving on Board Committees	develops and reviews strategic opportunities and significant investment proposals ..... evaluates the group's competitive position and determines strategies to protect the brand, values and business principles of the group ..... oversees the implementation of strategic plans and investment proposals	reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the group ..... reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the group ..... reviews the group's financial performance



**CHIEF EXECUTIVE OFFICER**

leads the management to fulfil objectives set by the Board and assisted by the Group Management Board



**GROUP MANAGEMENT BOARD (GMB)**

makes key decisions on management and day-to-day business of the group and is supported by various sub-committees

Group Risk Committee	Group Corporate Responsibility Committee	Technology Steering Committee	HSH Retirement Plan ORSO Committee	Audit & Risk Management
oversees top tier risks and mitigation plans of the group as well as monitors the actions required for critical and major incidents	monitors and oversees the implementation of the group's responsibility and sustainability policies and initiatives	oversees the strategic direction of the group's technology development	monitors and advises on strategic, administrative and operational aspect of the HSH Retirement Plan	provides Internal audit assurance ..... reports to Audit Committee and supports Group Risk Committee on risk management and internal controls



**GENERAL MANAGERS OF OPERATIONS AND HEADS OF CORPORATE DEPARTMENTS AS WELL AS BUSINESS OPERATIONS**

implements the group's strategy through its day-to-day operations

Delegation

Accountability

# Corporate Governance Report

## Our 2018 Corporate Governance Focus

Our 2018 corporate governance focus was driven by our commitment to quality and excellence and the sustainability of the company in the long term, as well as changes in the evolving external environment and regulatory landscape.

The company continues to adapt and refine its governance practices within the framework of evolving laws and the Listing Rules. We have reviewed our policies and practices and modified the HSH Corporate Governance Code, and terms of reference of the Nomination Committee. We adopted a nomination policy to formalise our criteria, process and procedures for nominating a Director in light of the changes to the corporate governance regime which have come into effect in 2019. We have also refined our terms of reference of the Audit Committee to reflect our current practice. In addition, the annual confirmation of independence by Independent Non-Executive Directors (INEDs) have been enhanced to cover the strengthened INED's independence criteria.

In addition, the Board recognises that in practice, governance requires the company to strike a balance between its commercial objectives in the near term with its overall business strategy and risk exposure. Our group seeks to achieve this by keeping Our Guests, Our People, and Our Cities in mind.

### Guest focus

While data privacy compliance is often seen as a regulatory driven requirement, the company has always valued the importance of our guests' privacy and has adopted a formal global privacy management programme since 2012. The programme has been and will continue to be refined over time as technology and business needs evolve and new legislation comes into force. In 2018, a thorough review of the framework was undertaken in light of the General Data Protection Regulations (GDPR). We undertook risk assessments of the data handling cycle and designed controls from early stages of vendor selection through to final implementation, as well as exploring how to prevent breaches. The measures taken were tailored in terms of what would have the least impact on services and the guest experience, and we received input from different functions and operations in the company. Training and good communication are key to the effective implementation of any new programme. The Data Privacy Champion at each operation and the global database management team took responsibility for communicating the changes. An information hub was set up on the company's intranet to share useful information. GMB and the Board were kept updated on the regulation changes and development of the group's privacy management programme.

### People focus

The sustainability of the company relies on its corporate governance framework and the implementation and evolution of governance relies on its people. Hence, our employees continue to be a key focus for our group and their input is valued in both the shaping and implementation of the company's business strategy. Aside from regular communication, at our global and regional conferences, the group sets aside time for the general managers and different functions to exchange their views on the group's strategic direction, objectives alignment and sharing of best practices. A discussion at the 2018 General Managers' Conference led to the launch of a groupwide programme called "WorkPlace 2025". The aim of this programme is to encourage our employees to come up with new ideas, formulate proposals to modernise our workplace, and to inspire innovation.

### Cities focus

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. The Group Corporate Responsibility Committee is responsible for setting the global approach on corporate responsibility and sustainability and monitoring the effectiveness of the initiatives and policies. International best practices are adopted where feasible. At a minimum, the group ensures compliance with local laws and regulations. Given that the group's strategy is to invest in quality assets in the long term, the group is also committed to contributing to the cities we operate in. For details on the group's corporate responsibility and sustainability activities and compliance with local environmental and social related laws in 2018, please refer to the Corporate Responsibility and Sustainability Report<sup>4</sup>.

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<sup>4</sup> Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

In terms of risk management, the Group Risk Committee is responsible for the group risk management system. Recognising that we operate in cities with different geopolitical risk exposure, we seek to achieve uniformity in the end goals rather than in mitigation measures. For example, for security risks, we adopted a group security policy statement and security standards in 2018. We have begun assessment of each operation’s security and operational plan and procedures, in order to adapt and develop tailored security measures to meet the objectives set out in the group’s standards. Proposed enhancement, including security intelligence information gathering, crisis management workshops and improved security operating systems, will be rolled out to ensure each operation is aligned on security standards and regularly conducts drills.

## How the Board operates

### The role of the Board

The Board leads and oversees the management of the company and our Directors are collectively responsible and accountable to the company’s shareholders and stakeholders for the long-term success of the group.

The Board has reserved its powers in strategic and significant matters of the group<sup>5</sup>, including oversight of:

 <b>Strategy and Financial</b>	<ul style="list-style-type: none"> <li>◆ Long and short-term strategic directions of the group</li> <li>◆ Annual budgets and forecasts</li> <li>◆ Significant changes in accounting policies</li> <li>◆ Company’s capital structure</li> <li>◆ Dividend policy</li> <li>◆ Material borrowings and expenditure</li> <li>◆ Annual and Interim reports</li> </ul>
 <b>Leadership and Employees</b>	<ul style="list-style-type: none"> <li>◆ Director’s appointment and re-election</li> <li>◆ Succession planning for the Board and senior management</li> </ul>
 <b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>◆ Corporate governance functions</li> <li>◆ Board evaluation</li> </ul>
 <b>Risk Management</b>	<ul style="list-style-type: none"> <li>◆ Risk management and internal control systems</li> <li>◆ Principal and emerging risks</li> </ul>
 <b>Sustainability</b>	<ul style="list-style-type: none"> <li>◆ Corporate responsibility and sustainability outlook and progress</li> </ul>

Through the Board’s leadership and direction, GMB runs the group’s day-to-day business (as more specifically described on page 132).

<sup>5</sup> Details can be found on the terms of reference of the Board: [www.hshgroup.com/en/about/leadership](http://www.hshgroup.com/en/about/leadership)

## Corporate Governance Report

### The role of the Board members and Company Secretary

There is a clear division of the responsibilities in the company between the Chairman and the Chief Executive Officer and their division of responsibilities which was established in the HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

Among our 14 Non-Executive Directors (NEDs), seven are Independent Non-Executive Directors (INEDs), independent of management. The other seven NEDs do not participate in the day-to-day business of the company, but are not considered independent due to their association with the substantial shareholders.

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the company serve as our Executive Directors. The Company Secretary reports to the Chairman and the Chief Executive Officer. Their respective roles are set out in the table below.

Role	Responsibilities
<b>Non-Executive Chairman</b> <i>The Hon. Sir Michael Kadoorie</i>	<ul style="list-style-type: none"> <li>◆ Leading the Board and monitoring its effectiveness</li> <li>◆ Fostering candid discussions and constructive relationships among Directors</li> <li>◆ Reviewing management performance with the NEDs<sup>6</sup></li> <li>◆ Safeguarding that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary</li> </ul>
<b>Chief Executive Officer*</b> <i>Clement Kwok</i>  <i>*supported by GMB<sup>7</sup></i>	<ul style="list-style-type: none"> <li>◆ Leading the management in the day-to-day running of the group's business</li> <li>◆ Developing strategies for the Board's approval</li> <li>◆ Executing strategies, policies and objectives agreed by the Board</li> <li>◆ Reporting to the Board on the performance of the business</li> </ul>
<b>Non-Executive Directors and Independent Non-Executive Directors</b>  <i>see pages 129 to 131</i>	<ul style="list-style-type: none"> <li>◆ Evaluating the group's performance in achieving the agreed corporate goals and objectives</li> <li>◆ Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective</li> <li>◆ Providing constructive feedback on management decisions</li> <li>◆ Serving on the Board and Board Committees to give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications</li> <li>◆ The INEDs, being independent, have the additional role of:               <ul style="list-style-type: none"> <li>– Bringing knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the business</li> <li>– Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise</li> </ul> </li> </ul>
<b>Executive Directors</b> <i>Clement Kwok</i> <i>Peter Borer</i> <i>Matthew Lawson</i>	<ul style="list-style-type: none"> <li>◆ Managing the day-to-day business of the entire group's operations</li> <li>◆ Being accountable for their specific executive functions to the Board</li> <li>◆ Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs</li> </ul>
<b>Company Secretary</b> <i>Christobelle Liao</i>	<ul style="list-style-type: none"> <li>◆ Reviewing, implementing and initiating improvements on our corporate governance practices and processes</li> <li>◆ Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters</li> <li>◆ Facilitating induction and professional development of the Directors</li> </ul>

<sup>6</sup> In 2019, Chairman will meet only with INEDs without other Directors present

<sup>7</sup> Details of the GMB members and its function can be found on pages 132 and 133

## Board processes

Our Board maintains effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the company through the adoption of clear and consistent board processes.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. Directors are invited to include discussion items in the Board agenda and comprehensive Board papers are sent to all Directors in advance of each Board meeting or Board written resolutions to allow sufficient time for review of discussion topics. In addition, management provides Board members with a monthly update of our business operations. During the Board meetings, we ensure that all Directors are also given sufficient time for discussion on the items in the Board agenda. All Directors are entitled to unrestricted access to independent professional advice, as well as direct access to senior management. They are also given access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are made at Board meetings or by written resolutions. Board meetings are structured in a way to encourage open dialogue, frank debate and active participation by Directors. Whilst matters may be decided at meetings and are decided by a majority of votes from voting Directors, the Board typically strives to get unanimous consensus.

## 2018 Board Activities

In line with the agreed meeting schedule, the Board held five meetings and two Board resolutions were circulated for Board approval in 2018. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 144.

In addition to the usual decision matters that are within the Board's terms of reference, the Board discussed and assessed the company's different businesses, financial performance and its strategic direction in light of our external environment. The table on next page highlights what the Board did during the year to address them and the challenges identified.

# Corporate Governance Report

Key areas of focus	Key Board activities in 2018
 <p><b>Strategy and Financial</b></p>	<ul style="list-style-type: none"> <li>◆ Monitored the group’s performance and the progress of London, Istanbul, and Yangon projects as well as the upgrade of The Peak Tram</li> <li>◆ Operational visit at The Peninsula Shanghai and discussed competition, challenges and opportunities with local management</li> <li>◆ Evaluated and approved budget and cost controls on all operations and new developments</li> <li>◆ Approved the changes to dividend policy in respect of the dividend payout ratio</li> <li>◆ Evaluated the group’s strategy of the retail, food and beverage businesses</li> <li>◆ Endorsed the Kaleidoscope Lab programme<sup>8</sup></li> </ul>
 <p><b>Leadership and Employees</b></p>	<ul style="list-style-type: none"> <li>◆ Discussed selection, training and succession planning for management</li> <li>◆ Discussed and evaluated on employee engagement, long-term talent plans and enlivening the workplace, including WorkPlace 2025<sup>9</sup></li> </ul>
 <p><b>Corporate Governance</b></p>	<ul style="list-style-type: none"> <li>◆ Monitored the follow-up actions for Board Evaluation</li> <li>◆ Discussed the next Board evaluation’s methodology</li> <li>◆ Approved changes to the HSH Corporate Governance Code, terms of references of the Audit and Nomination Committees</li> <li>◆ Adopted the New Nomination Policy</li> <li>◆ Endorsed the increase for the NEDs and INEDs fees and approved the fee increase for the Chairman of the Remuneration Committee</li> <li>◆ Reviewed the impact on the European data protection regulation and the relevant actions taken</li> </ul>
 <p><b>Risk Management</b></p>	<ul style="list-style-type: none"> <li>◆ Approved the principal risks, key controls and risk mitigation of the group</li> <li>◆ Monitored and reviewed the effectiveness of the risk management and internal control systems through Audit Committee</li> <li>◆ Assessed the risks of cyberattacks and the effectiveness of controls</li> </ul>
 <p><b>Sustainability</b></p>	<ul style="list-style-type: none"> <li>◆ Monitored the progress on our Sustainable Luxury Vision 2020 and the three key focuses: Our Guests, Our People and Our Cities through the Group Corporate Responsibility Committee</li> <li>◆ Participated in Sir Horace Kadoorie Youth Development Foundation which is aimed at developing underprivileged and at-risk youth in China<sup>10</sup></li> </ul>

8 Details can be found on page 115

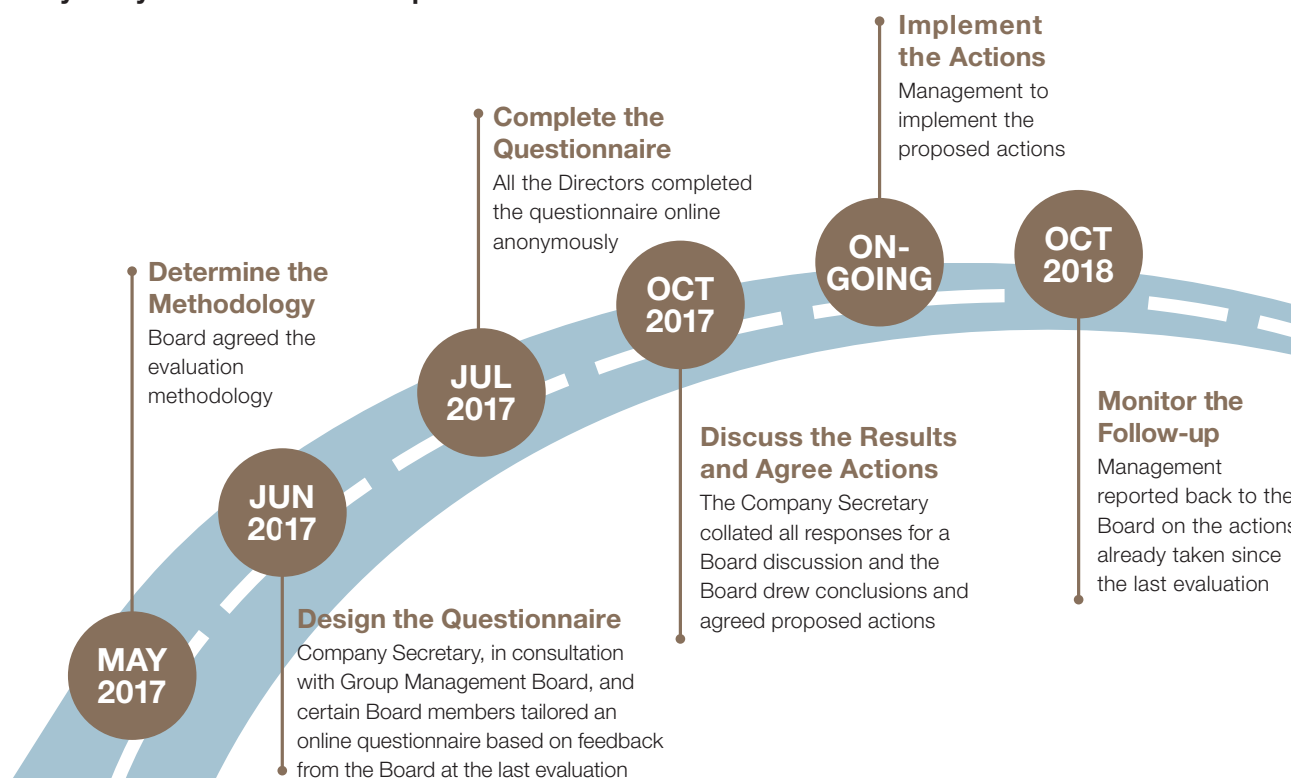
9 Details can be found on page 99

10 Details can be found on Corporate Responsibility and Sustainability Report posted on the company’s website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)

## Board Evaluation

Since 2013 our Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness. This review identifies area for improvement and focus.

### Two-year cycle Board evaluation process



The 2017 Board evaluation was positively received and provided the Board and management with constructive feedback. The Board has identified a number of focus areas for management to act upon, including succession planning, digital development, the group’s principal risks and mitigation factors as well as post-implementation reviews on key projects. During the year, management implemented and kept the Board informed of the actions already taken. The next Board evaluation is planned for 2019 and the Board is considering different evaluation means to supplement the current method.

In addition to self-evaluation, the Chairman met with NEDs before the October Board Meeting to evaluate management performance and discussed how we might enhance our governance practices. These discussions were communicated to management for response or implementation at the October Board Meeting. In view of the change of the Stock Exchange’s Corporate Governance Code, from 2019 onwards the Chairman will meet only with INEDs.



# Corporate Governance Report

## 2018 Board and Committee Attendance and Training Records

The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2018 are as follows:

	Board	Audit Committee <sup>(1)</sup>	Nomination Committee	Remuneration Committee	Annual General Meeting <sup>(1)</sup>	Types of Training
<b>Non-Executive Directors</b>						
The Hon. Sir Michael Kadoorie <i>Non-Executive Chairman</i>	●●●●●		●●		●	A,B,C
Mr Andrew C.W. Brandler <i>Non-Executive Deputy Chairman</i>	●●●●●	●●●●		●	●	A,B,C
Mr William E. Mocatta <sup>(2)</sup>	○●●●●				●	A,B,C
Mr John A.H. Leigh <sup>(3)</sup>	●●○●●				●	A,B,C
Mr Nicholas T.J. Colfer	●●●●●				●	A,B,C
Mr James L. Lewis	●●●●●				●	A,B,C
Mr Philip L. Kadoorie	●●●●●				●	A,B,C
<b>Independent Non-Executive Directors</b>						
Dr the Hon. Sir David K.P. Li	●●●●●		●●		●	A,C
Mr Patrick B. Paul <sup>(3)</sup>	○●●●●	●●●●		●	●	A,B,C
Mr Pierre R. Boppe	●●●●●				●	A,B,C
Dr William K.L. Fung <sup>(2)</sup>	●●●○●		●●		●	A,C
Dr Rosanna Y.M. Wong	●●●●●			●	●	A,B,C
Dr Kim L. Winser	●●●●●				●	A,B,C
Ms Ada K.H. Tse <sup>(2)</sup>	●●○●●	●●○●			●	A,B,C
<b>Executive Directors</b>						
Mr Clement K.M. Kwok <i>Chief Executive Officer</i>	●●●●●				●	A,B,C
Mr Peter C. Borer <i>Chief Operating Officer</i>	●●●●●				●	A,B,C
Mr Matthew J. Lawson <i>Chief Financial Officer</i>	●●●●●				●	A,B,C
<b>Company Secretary</b>						
Ms Christobelle Liao <sup>(4)</sup>	●●●●●	●●●●	●●	●	●	A,B,C

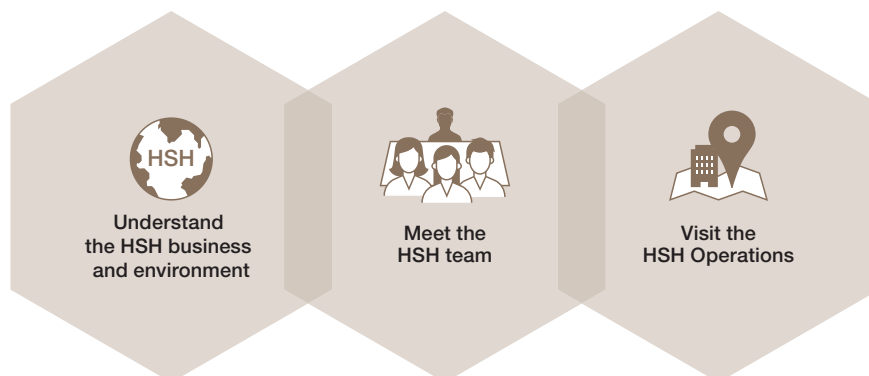
● Present      ○ Apology

Notes:

- (1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting
  - (2) Mr William E. Mocatta, Mr William K.L. Fung and Ms Ada K.H. Tse were unable to attend meetings of the Board and Audit Committee (for Ms Tse only) due to conflicting commitments
  - (3) Mr John A.H. Leigh and Mr Patrick B. Paul were unable to attend meetings of the Board due to illness
  - (4) During 2018, Ms Christobelle Liao undertook over 15 hours of professional training as required by the Listing Rules
- (A) Reading materials which covered relevant laws and regulations and group's business-related topics
- (B) Visiting operations such as The Peninsula Shanghai in October 2018
- (C) Seminars/conferences/webcast which are relevant to the business or Directors' duties in the following areas:
- ◆ Corporate governance matters
  - ◆ Social media
  - ◆ Data privacy
  - ◆ Sustainability
  - ◆ Digital marketing
  - ◆ Terrorist attack risk
  - ◆ Inside information

## Board Induction, Training and Development

### New Directors' induction



The company provides a comprehensive tailored induction programme for all newly-appointed Directors. The programme comprises a combination of briefings and meetings with Executive Directors, Company Secretary, and senior management, as well as visits to the group's major businesses in Hong Kong and overseas. Topics covered included Directors' duties, an overview of the group's business, its operations, risks and regulatory matters, governance, finance and investor relations. All corporate policies are explained and provided to new Directors by the Company Secretary. Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who joined the Board in December 2017 have completed their tailored induction programmes in 2018 which allowed them to gain further insight into our business, our colleagues and stakeholders.

### Directors training and development

To ensure the effective fulfilment of the roles of the Directors, various steps are taken to ensure that all Directors continually update and refresh their knowledge and skills, as well as familiarise themselves with the company by gaining access to its operations and employees.

Our Board aims to hold one Board meeting per year at one of the group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The October 2018 Board meeting was held at The Peninsula Shanghai. Board members toured the facilities and met with local management to understand their business challenges and the local market environment. Such overseas site visits provide NEDs with deeper insight into the group's different businesses, thus enabling them to make sound decisions that are in line with the group's business strategy. In addition, presentations by General Managers of Operations and Heads of Corporate Departments were arranged after the Board Meeting to update our Directors on new trends, legislation and the group's business<sup>11</sup>.

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the company and their performance of duties as Directors. The development programme records of Directors and the Company Secretary for 2018 are reflected on page 144.

<sup>11</sup> 2018 presentations to the Board included data privacy, digital marketing, inside information, social media and sustainability

# Corporate Governance Report

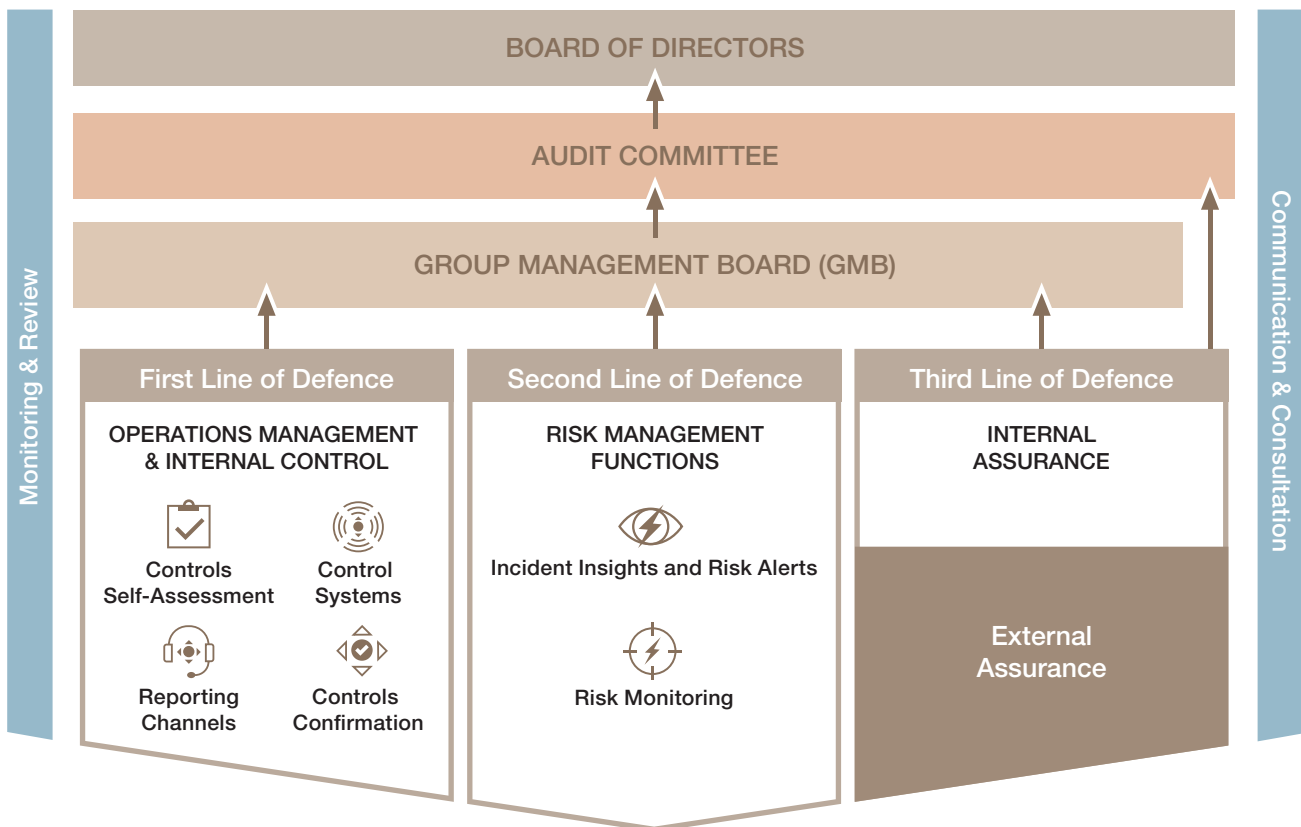
## Risk Governance

Effective risk management plays an integral role in the overall achievement of the group’s strategic objectives. Therefore, our risk management approach is shaped by our business strategy which is to optimise the quality of our asset portfolio in the long term, ensure the sustainability of our business, deliver a high standard of luxury, and to preserve the tradition of integrity and respect for our heritage.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for the group. It has given the Audit Committee the responsibility to oversee these systems on an ongoing basis and to assess their adequacy and effectiveness semi-annually. This is done with the support of the Group Risk Committee (GRC) and Audit & Risk Management (ARM).

### Approach to risk governance

Our risk management framework is guided by the model of “Three Lines of Defence”. This framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, fraud, and errors of judgement.



## First line of defence: Operations management & internal control

The group's operations management and internal control systems includes group policies, procedures and practices, as well as internal control procedures.



### Controls self-assessment

Our business and functional units are at the forefront of risk management and they participate in assessing the group's risk management and control processes by undertaking a "control self-assessment" (CSA). Formally conducted twice a year, the CSA process allows the group and each operation to identify emerging risks affecting their businesses, assess the effectiveness of existing controls in managing the identified risks and if necessary, implement controls enhancement plans with designated persons-in-charge and timelines.



### Control systems

The controls adopted by the group include but are not limited to segregation of duties, financial analytical review of performance reports, approval and verifications of these reports, and periodical checks of physical assets.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For the controls enhancement measures related to our principal risks undertaken in 2018, please refer to the GRC Report on pages 154 and 155.



### Reporting channels

The group's online incident reporting platform enables each operation to report timely and efficiently incidents that have a major or critical impact, so that prompt action can be taken by senior management as appropriate. This technology tool also facilitates analytics to support identification of trends and patterns which may be indicators of emerging risks.

In addition, the Speak Up Policy<sup>12</sup> provides employees and other stakeholders a confidential reporting channel on suspected misconduct or malpractice within the group without fear for reprisal or victimisation. Reported allegations are taken seriously and are independently validated and investigated. The HSH Inside Information Policy regulates the handling of inside information within the group, to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made. The Policy was revamped in 2018 with a more user-friendly guide.

#### HSH Handling Inside Information Guide

- ◆ Shared in our intranet to promote staff awareness
- ◆ Non-compliance of the Guide is a breach of the Code of Conduct
- ◆ A system to monitor what the market says about HSH and inside information escalation process
- ◆ Refresher training to our senior management
- ◆ Interactive discussion with key members of financial and operational management of all operations
- ◆ Training to our Board members in 2018



### Controls confirmation

General Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material controls (which include financial and operational as well as compliance controls) via General Representation Letters. In addition, operations are required to perform Annual Compliance Checks and provide confirmations to Group Legal on statutory or best practices compliance.

The above operations management and internal control systems form the basis by which management reviews and confirms the effectiveness of the group's risk management and internal control systems to the Audit Committee.

12 Posted on the company's website: [www.hshgroup.com/en/corporate-governance/speak-up-policy](http://www.hshgroup.com/en/corporate-governance/speak-up-policy)

# Corporate Governance Report

## Second line of defence: Risk management functions

The second line of defence is overseen by the GRC which (i) reviews the risk registers of the operations and new development projects which, combined, form the Group Risk Management Report, (ii) monitors the principal risks and emerging risks, and (iii) regularly evaluates the risk management and controls in response to such risks. We use our 5-step risk management methodology to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation changes. In 2018, we enhanced our methodology by finetuning our risk concepts, and further considering the effectiveness of the mitigating controls.

### Incident insights and risk alerts

The GRC analyses common incidents across the operation and the group for similar root causes which are summarised in an “Incident Insights” report for further discussion with the Group Management Board on a semi-annual basis. Opportunities to improve key controls and share best practices are discussed and communicated across the group.

### Risk monitoring

The GRC continued to strengthen its monitoring of risks to respond to changes and developments in both the external and internal environment. For the improvements taken in 2018, please refer to the GRC Report on pages 154 and 155.

## Third line of defence: Internal assurance

The third line of defence is supported by internal assurance activities. ARM performs the group’s internal assurance by assessing the effectiveness of our risk management and internal control systems.

ARM applies a risk-based approach to identify key risks of the group and assess whether the material controls in mitigating those risks are effective. Key processes are audited using an end-to-end approach so that improvement opportunities contributing to internal control weaknesses or overall process inefficiencies can be readily identified and remediated.

The internal audit plan in 2018 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. A holistic view of internal controls across operations has been developed, enabling the identification of common control issues and facilitation of key recommendations.

## External assurance

The external auditor of the group further complements the third line of defence process by independently auditing material internal controls over financial reporting of the group. The external auditor would report on any material financial reporting control weakness to the Audit Committee.

## Board confirmation

The Board has considered and endorsed the Audit Committee’s assessment of the effectiveness of risk management and control systems in the group. Throughout 2018 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the group, and the existing risk management and internal control systems remained effective and adequate.

## Our Shareholders

HSH had 1,834 registered shareholders as at 31 December 2018. The actual number of investors interested in HSH shares is likely to be much greater, as shares are being held through nominees, investment funds and the Central Clearing and settlement System (CCASS) of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of total number of shares in issue
500 or below	513	27.972	65,457	0.004
501-1,000	194	10.578	155,960	0.010
1,001-10,000	646	35.223	2,664,833	0.165
10,001-100,000	378	20.611	12,081,007	0.749
100,001-500,000	70	3.817	14,670,821	0.909
Above 500,000	33	1.799	1,583,603,928	98.163
<b>Total</b>	<b>1,834</b>	<b>100.000</b>	<b>1,613,242,006</b>	<b>100.000</b>

Note: As at 31 December 2018, 36.64% of all HSH total number of shares in issue were held through CCASS.

The Kadoorie family (including interests associated with the family but excluding interests held by charities associated with the family) has a combined shareholding of 59.44% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 174 to 176. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

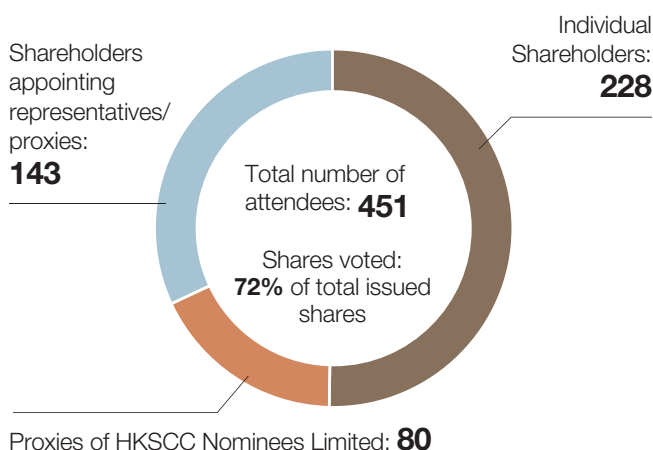
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2018 and up to the date of this report.

### Shareholders’ rights to general meetings

Shareholders holding not less than 5% of total voting rights of the company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and sending the signed requisition to the company.

Our company’s website<sup>13</sup> sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

### 2018 Annual General Meeting



The 2018 AGM was held on 9 May 2018 at The Peninsula Hong Kong. Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The company regards the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. All Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2018 AGM. KPMG, the company’s external auditor, was also present to answer questions from any shareholder relating to its audit of the company’s financial statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the company’s Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the company’s<sup>14</sup> and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

<sup>13</sup> [www.hshgroup.com/en/corporate-governance/shareholders-rights](http://www.hshgroup.com/en/corporate-governance/shareholders-rights)

<sup>14</sup> [www.hshgroup.com/en/investors/corporate-announcements](http://www.hshgroup.com/en/investors/corporate-announcements)

## Corporate Governance Report

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2018 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited financial statements and the Reports of the Directors and independent auditor for the year ended 31 December 2017	99.99%
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2017	99.99%
Re-election of six retiring Directors: Dr The Hon. Sir David K.P. Li, Mr John A.H. Leigh, Mr Nicholas T.J. Colfer, Ms Ada K.H. Tse, Mr James L. Lewis and Mr Philip L. Kadoorie as Directors of the company	<b>Ranging from 93.99% to 99.99% in respect of each individual resolution</b>
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	99.97%
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	91.15%
Granting of the general mandate to Directors to buy-back the company's shares	99.65%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	91.50%
Determining the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	99.99%

### Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 258.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 87 and 23 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

### Engaging our Shareholders

The Company attaches great importance in engaging with the investor community, including individuals and institutional shareholders and research analysts. We believe that continued engagement is key to building increased understanding between the company and the shareholders and sharing views, opinions and concerns with each other.

The company utilises multiple platforms to engage investors:

- ◆ We encourage our shareholders to participate in our Annual General Meeting and directly communicate with our Directors
- ◆ We participated in investor conferences in Hong Kong and China to engage existing and potential investors
- ◆ We arranged an "Analysts' Day" to engage existing and potential analysts by taking them to tour our Hong Kong properties and meeting the senior management in Hong Kong
- ◆ Throughout the year, our Executive Directors and Investor Relations team also held roadshows, regular meetings and conference calls with institutional shareholders, analysts and potential investors in and outside of Hong Kong
- ◆ Our company's website<sup>15</sup> gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices

15 [www.hshgroup.com/en/investors](http://www.hshgroup.com/en/investors)

- ◆ Our Shareholder Communication Policy<sup>16</sup> has specified the various communication platforms to which our shareholders and stakeholders can access
- ◆ The company's branded social media sites provide investors with regular updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at [ir@hshgroup.com](mailto:ir@hshgroup.com). On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 116 and 117.

## Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2018, reflecting the new CG Code requirements which took effect from 1 January 2019.

Throughout 2018, we have complied with all of the code provisions and recommended best practices in the CG Code with the exception of the following:

- ◆ **Publication of quarterly financial results** – The Board believes that the businesses of the group are characterised by their long-term and cyclical nature, while quarterly financial results reporting encourages a short-term view on performance. To keep our shareholders informed, we issue quarterly operating statistics setting out key operating information; and
- ◆ **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

## Other Compliance Matters

### Appointments and re-election of Directors

Our appointment is governed by the Nomination Policy which is set out in the Nomination Committee Report on pages 166 and 167. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2018. NEDs are appointed for a term of three years. All Directors are subject to a term of re-election every three years. Details of the Directors who will retire and offer themselves for re-election in the 2019 Annual General Meeting are set out in the Directors' Report on page 173.

### Time commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the company to discharge their responsibilities. The letters of appointment for NEDs and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the company. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

All Directors have confirmed to the company that they have given sufficient time and attention to the company's affairs throughout 2018. The Board was satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

16 Posted on the company's website: [www.hshgroup.com/en/corporate-governance](http://www.hshgroup.com/en/corporate-governance)



# Corporate Governance Report

## Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance and considered on a regular basis to ensure they remain capable of providing unbiased and objective contribution to the Board discussion. In view of the changes to the Listing Rules we have revised our annual confirmation of independence to cover cross-directorships or significant links with other directors through involvements in other companies or bodies. The company has received written confirmations of independence from each of its seven INEDs who served in 2018. The Nomination Committee and the Board considered that all seven INEDs who served in 2018 were, and continued to be independent in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

Beyond the formal confirmation of independence referred to above, of overriding importance is that each INED has an independent mindset and brings great experience and is prepared to challenge the Board in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

## Directors' dealings with company securities

All Directors conduct their dealings in the company's Code for Dealing in the Company's Securities by Directors (Securities Code) which contains terms no less exacting than the standards set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code). Directors must seek approval before engaging in any dealing.

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2018. Details of the shareholding interests held by the Directors of the company as at 31 December 2018 are set out on page 174.

Our Code for Dealing in the Company's Securities is extended to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the standards set out in the Code for Dealing in the Company's Securities by Specified Employees. Brief particulars and shareholding interests of the senior management are set out on pages 132 and 133, and 175 respectively.

## Directors' disclosure on conflict of interest

We have established procedures to ensure we comply with disclosure requirements on potential conflicts of interests. All Directors are required to disclose to the Board the following sets of information in relation to their interests upon appointment and on an annual basis:

- ◆ The number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements
- ◆ Their interests as a Director or shareholder in other companies or organisations significant to the businesses of the company
- ◆ Whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the group, and none of them has any competing interests which need to be disclosed pursuant to rule 8.10 of the Listing Rules

In 2018, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to GMB members and key functions, which have also been fulfilled.

In addition, all Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2018, no potential conflict of interest was determined by the Board to be material except the continuing connected transactions as disclosed in the Directors' Report on page 173, which were reviewed in the March Board meeting.

### Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committee<sup>17</sup> to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the company. The HSH Code together with the terms of reference of the Audit and Nomination Committees were revised in 2018 accordingly.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website<sup>18</sup> and those of the Governance Board Committees<sup>19</sup> are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 164 to 171.

### Internal control procedures on connected transactions

We have implemented a series of measures to ensure our connected transactions are conducted in compliance with the connected transaction rules. These measures include: (i) tracking all current and potential connected transactions semi-annually; (ii) Group Legal review is required before any potential connected transactions are entered into; (iii) monthly connected transactions reports are prepared for monitoring purposes; and (iv) annual review of the continuing connected transactions of our office leases by Audit Committee, INEDs, external auditor and Board.

With respect to the connected transactions for the financial year of 2018, Audit & Risk Management has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transactions of our office leases. Their findings are submitted to Audit Committee, please refer to the Directors' Report set out on page 173.

## Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2018 Annual Report and Corporate Responsibility and Sustainability Report<sup>20</sup>. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2018, please refer to the Directors' Report set out on page 177.

## High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through our year of operations and we continue to maintain and develop our corporate governance standards for the continued future success of the group.

By order of the Board



Christobelle Liao  
Company Secretary  
14 March 2019

17 Audit, Nomination, Remuneration, Executive and Finance Committees

18 [www.hshgroup.com/en/corporate-governance/board-committees](http://www.hshgroup.com/en/corporate-governance/board-committees)

19 Audit, Nomination and Remuneration Committees

20 Posted on the company's website: [www.hshgroup.com/en/sustainable-luxury](http://www.hshgroup.com/en/sustainable-luxury)