

CORPORATE GOVERNANCE

Corporate governance infrastructure

The Company is committed to fulfilling its responsibilities to shareholders and other stakeholders by ensuring that the proper control processes for oversight and management of its businesses are in place, in operation and are regularly reviewed. The Board acknowledges its responsibility to ensure that good corporate governance practices and procedures are established and practiced throughout the Group.

The Company continues to welcome the principles-based approach of the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 of the Listing Rules and the flexibility this provides concerning the adoption and implementation of corporate policies and procedures.

Code on corporate governance

The Company has adopted its own code on corporate governance which encompassed all code provisions and most of the recommended best practices in the CG Code.

Throughout the year, the Company has complied with all the code provisions and the majority of the recommended best practices as set out in the CG Code. One of the recommended best practices that the Company has deviated from is contained in Section C.1.4 of the CG Code in relation to the production of quarterly statements. The Company has chosen not to comply with this recommended reporting practice as the Board believes that the businesses of the Group are long term and cyclical in nature. The Company is of the view that the existing half-year and annual reporting requirements, together with the rules on price-sensitive information and notifiable transactions, are sufficient for the timely dissemination of material information to shareholders. However, the Company would review its position if and when there is a clear demand from shareholders for quarterly reporting.

The Board

The Board is responsible for the Group’s overall strategy, its systems of internal controls and risk management. In order to discharge its responsibilities, the Board has established and adhered to clear operating policies and procedures, reporting lines and delegated authorities.

Control environment The overall business of the Company is managed by the Board, by overseeing the functions performed by the Executive Committee, the Finance Committee and the Group Management Committee. In particular, the Board has established detailed internal control processes to monitor the following areas:

- management and control of the Group’s assets, liabilities, revenues and expenditure and initiating changes in areas critical to the Group’s performance;
- strategic capital investments and new projects, through stringent project approval processes, purchasing and tendering procedures and, upon completion, detailed post-implementation evaluations;
- financial and operational performance, through overall strategic planning and the implementation and maintenance of operational monitoring systems for financial and qualitative performance management;
- the management of the Company’s relationship with stakeholders, through ongoing communication with partners, governments, customers and other stakeholders who have a legitimate interest in the conduct of the Group’s business; and

- risk management, as an ongoing process and through review reports from the Head of Audit and Risk Management where risks faced by the Company are identified, evaluated and appropriately managed.

Board composition The Board has 14 Directors:

- three Executive Directors – Mr. Clement K.M. Kwok, Mr. C. Mark Broadley (who will resign with effect from 31 March 2008) and Mr. Peter C. Borer;
- seven Non-Executive Directors comprising the Chairman The Hon. Sir Michael Kadoorie, the Deputy Chairman Mr. Ian D. Boyce, Mr. Ronald J. McAulay, Mr. William E. Mocatta, Mr. Pierre R. Boppe, Mr. John A.H. Leigh and Mr. Nicholas T.J. Colfer; and
- four Independent Non-Executive Directors comprising Dr. The Hon. Sir David K.P. Li, Mr. Robert C.S. Ng, Mr. Robert W. Miller and Mr. Patrick B. Paul.

11 of our Directors are non-executive and independent of management, which promotes a critical and independent review of the Group's business decisions and management processes. The Board includes four well qualified Independent Non-Executive Directors who bring a wealth of experience, knowledge and independent judgement to the Board. The non-executive members of the Board also bring a wide range of business and financial experience to the Board and together with the Independent Non-Executive Directors, contribute to the control environment and quality of business decisions taken by the Board.

The Board believes that the balance between Executive and Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders, other stakeholders and the Group.

Included in the composition of the Board are two family members of the majority shareholder: the Chairman, The Hon. Sir Michael Kadoorie and his brother-in-law, Mr. Ronald J. McAulay. Several Board members are also Directors of other businesses with which the majority shareholder is connected. They are Mr. Ian D. Boyce, Mr. William E. Mocatta, Mr. John A.H. Leigh and Mr. Nicholas T.J. Colfer.

The Directors' biographical details are set out on pages 54 and 55 and are also posted on the Company's website at www.hshgroup.com.

Board meetings The Board meets regularly to review business performance, business development and overall strategic policies, ensuring a sound system of internal control and risk management. Within the Board's purview are matters such as financial statements, dividend policy, major financings, material investments in new projects and existing assets, risk management strategy, acquisitions and changes in accounting policy. The Board also delegates matters to its Board Committees, the Group Management Committee, the Executive Directors and other senior management.

The dates of the 2007 Board meetings were determined in the last quarter of 2006 and any amendments to this schedule were notified to Directors at least 14 days before a regular Board meeting. Suitable arrangements are in place to allow all Directors the opportunity to include matters for discussion in the agenda of each Board meeting. An agenda and comprehensive Board papers are sent to all Directors at least three days in advance of every Board meeting.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

The Board held four meetings during 2007. The attendance record of each Director is set out below:

Attendance at Board meetings	No. of meetings attended	
	2007 (4 meetings in total)	2006 (4 meetings in total)
Non-Executive Directors		
The Hon. Sir Michael Kadoorie (Chairman)	4	4
Mr. Ian D. Boyce (Deputy Chairman)	4	4
Mr. Ronald J. McAulay	2	2
Mr. William E. Mocatta	4	4
Mr. Pierre R. Boppe	4	3
Mr. John A.H. Leigh (appointed 05/06)	3	2 (of 2)
Mr. Nicholas T.J. Colfer (appointed 05/06)	4	2 (of 2)
Sir Sidney Gordon (retired 05/06)	–	0 (of 2)
Mr. James S. Dickson Leach (retired 05/06)	–	0 (of 2)
Independent Non-Executive Directors		
Dr. The Hon. Sir David K.P. Li	4	4
Mr. Robert C.S. Ng	2	1
Mr. Robert W. Miller	3	3
Mr. Patrick B. Paul	4	4
Executive Directors		
Mr. Clement K.M. Kwok (Chief Executive Officer)	4	4
Mr. C. Mark Broadley (Chief Financial Officer)	4	4
Mr. Peter C. Borer (Chief Operating Officer)	4	4

The Directors are given timely and clear information both at the meetings and at regular intervals so that they can maintain effective control over strategic, financial, operational, compliance and corporate governance issues. They also have unrestricted access to independent professional advice and the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed.

The Company Secretary also keeps detailed minutes of each meeting, recording all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by Directors. Draft minutes are sent to all Directors in a timely manner for their comment and final versions of the minutes are available for inspection by all Directors at any time.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent Non-Executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Appointment, re-election and removal A new Director appointed by the Board is subject to election by shareholders at the next annual general meeting. All Non-Executive Directors have letters of appointment valid for a period of three years, subject to re-election on retirement by rotation. All Directors are subject to retirement by rotation and may offer themselves for re-election. During 2007, one third of the Directors, comprising The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng and Mr. Patrick B. Paul retired by rotation and were all re-elected. In addition, Executive Director Mr. Peter C. Borer offered himself for re-election and was re-elected. Details of the Directors who will offer themselves for re-election in 2008 are set out in the Directors' Report.

Confirmation of independence The Company has received from Dr. The Hon. Sir David K.P. Li, Mr. Robert C.S. Ng, Mr. Robert W. Miller and Mr. Patrick B. Paul, Independent Non-Executive Directors, an annual written confirmation of independence and the Company considers such Directors to be independent in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. Although two of the Independent Non-Executive Directors, Dr. The Hon. Sir David K.P. Li and Mr. Robert C.S. Ng have served in this capacity for more than nine years, the Directors are of the opinion that the two Directors continue to bring relevant experience and knowledge to the Board and that, notwithstanding their long service, maintain an independent view of the Company's affairs.

Chairman and Chief Executive Officer The positions of Chairman and Chief Executive Officer are segregated.

The Hon. Sir Michael Kadoorie was Non-Executive Chairman throughout the year. He is also the Non-Executive Chairman of CLP Holdings Limited and a Non-Executive Director of Hutchison Whampoa Limited. It is the responsibility of the Chairman to provide leadership for the Board and to ensure that it works effectively and discharges its responsibilities, to ensure that corporate governance matters are addressed, to represent the Group externally and communicate in particular with all stakeholders. He also ensures that the Chief Executive Officer properly and fully brief all Directors of relevant matters in a timely manner.

Mr. Clement K.M. Kwok was the Chief Executive Officer throughout the year. He has the responsibility to recommend to the Board and to implement the Group's strategic objectives. He is also responsible for the executive day-to-day management of the Group. Mr. Clement K.M. Kwok is an Independent Non-Executive Director of Swire Pacific Limited.

Responsibilities of Directors

The Directors combined have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions and decisions. On appointment, each Director receives a full introduction covering all the Group's business and operations and also the legal, regulatory and corporate governance obligations of a director of a listed company in Hong Kong. Directors are encouraged to update their skills, knowledge and familiarity with the Group through ongoing participation at Board and Board Committee meetings and through meeting key people at Head Office and in various properties and operations. The Company has at least one Board meeting a year held at one of the Group's operations abroad.

All Directors disclose to the Board their interests as a Director or otherwise in other companies or organisations and such declarations are updated annually.

Directors' interests in competing business None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to rule 8.10 of the Listing Rules.

Directors' responsibilities for the Financial Statements The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these Financial Statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis. The Directors are responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Dealing in Company's securities by Directors The Company has adopted its Code for Dealing in the Company's Securities by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). The Company has also extended this code to specified employees.

A copy of the Securities Code is sent to each Director of the Company upon his appointment. Thereafter, one month before the date of the Board meetings to approve the Company's half-year result and annual result, each Director is reminded of his duties not to deal in the securities of the Company until after such results have been published and that all his dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and specified employees of the Company are required to notify the Chief Executive Officer or in his absence, the Chief Financial Officer and receive a dated written acknowledgement before dealing in the securities of the Company and in the case of the Chief Executive Officer himself, he must notify the Chairman and receive a dated written acknowledgement before any dealing.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Securities Code during the year and they have confirmed that they have fully complied with the required standard set out in both codes.

The Board Committees

As part of good corporate governance practice, a number of Board Committees have been established. These Committees include representation from Non-Executive and Independent Non-Executive Directors whose independent judgements are important to the execution of the controls and corporate governance standards expected of a publicly listed company. Each Committee has its own specific delegated authorities and operates within defined terms of reference; these terms of reference are posted on the Company's website at www.hshgroup.com and are updated from time to time. All Committees report to the Board in relation to their decisions, findings or recommendations and in certain specific situations, to seek the Board's approval before taking any action. Draft minutes of all Board Committee meetings are sent to their respective members in a timely manner for their comments and final versions of the minutes are available for inspection by the respective members or other Board members at any time.

The Board delegated certain authorities to the Executive, Audit, Finance and Remuneration Committees. The day-to-day management of the Company's business has been delegated to the Chief Executive Officer who exercises his authority in consultation with the Group Management Committee.

Executive Committee The Executive Committee meets at least twice per month. The Committee is responsible for reviewing and recommending strategic policy and the most significant investment proposals and business decisions to the Board and as such, it interacts with the Audit, Finance and Remuneration Committees in respect of their policy submissions. It is authorised to approve capital and revenue investment within levels approved by the Board. The members of the Executive Committee comprise The Hon. Sir Michael Kadoorie, Committee Chairman, Mr. Ian D. Boyce, Mr. Clement K.M. Kwok and Mr. John A.H. Leigh.

The Company does not have a separate nomination committee; the nomination and appointment of new Directors are functions of the Executive Committee. The Executive Committee reviews on a regular basis the need to appoint Directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in the hospitality industry or a developing business sector.

Nominations of suitable candidates are invited from all Directors and nominees are considered by the Executive Committee and then by the Board.

Audit Committee The Audit Committee oversees the Company's financial reporting and audit processes through liaison and reviews with management and the internal and external auditors. The composition of the Audit Committee includes only Non-Executive Directors of which the majority are independent. The Audit Committee members are Mr. Patrick B. Paul, Committee Chairman, Mr. Ian D. Boyce and Mr. Robert C.S. Ng.

All members of the Committee have financial and/or legal backgrounds that enable them to assess the fiscal well-being of the Company, compliance and risk assessment as well as to act impartially in discharging their duties and responsibilities. No former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year from ceasing to be a partner or having any financial interest in the auditing firm.

During 2007, financial reporting and control reviews undertaken by the Audit Committee included the following:

- reviewed the completeness and accuracy of the 2006 Annual Report, the 2007 Interim Report and formal announcements relating to the Group's financial performance;
- reviewed the financial reporting and audit processes and policies;
- conducted discussions with the external auditors on financial reporting, compliance, accounting treatment and impact on the Company of accounting standards; and
- reviewed connected transactions of the Company.

In relation to the Company's internal audit function, the Audit Committee undertook the following responsibilities:

- reviewed the Group's financial controls, internal control and risk management systems;
- agreed the scope of internal audit for 2007, discussed the internal audit reports and matters arising from the reports and reviewed progress against recommendations made in the internal audit reports; and
- monitored and assessed the role and effectiveness of the Company's internal audit function.

In relation to the Company's external auditors, the Audit Committee undertook the following responsibilities:

- assessed the independence of the external auditors and reviewed their policies for maintaining independence;
- approved the external auditors' remuneration and considered their re-appointment; and
- approved the audit plan for 2008.

The Audit Committee reviews and reports to the Board on the financial reporting reviews as well as the Company's compliance with internal control, risk management and all other relevant regulatory compliance matters. Details of the Company's internal controls and how risk is managed is set out below under the heading "Internal controls, audit and risk management".

The Audit Committee invited the Company's external auditors to attend all its meetings and also met with the valuers of the principal assets of the Group. In addition, the Chairman of the Audit Committee met with the external auditors and Head of Audit and Risk Management Department with no Executive Directors present. He also met with the Chief Executive Officer, the Chief Financial Officer and divisional heads within the Company.

The Audit Committee held four meetings during 2007. The attendance record of each member appears below:

Attendance at Audit Committee	No. of meetings attended	
	2007 (4 meetings in total)	2006 (5 meetings in total)
Mr. Patrick B. Paul (Committee Chairman)	4	5
Mr. Ian D. Boyce	4	5
Mr. Robert C.S. Ng	1	2

Finance Committee The Finance Committee meets at least twice per month to review all aspects of the Company's finances, including such items as new investments or project commitments, establishment of budget parameters, major treasury policies (including debt levels, gearing and foreign exchange risk), granting of guarantees and indemnities and reviewing the annual insurance programme of the Group. It exercises the delegated authority granted to it by the Board and reports to the Executive Committee and to the Board as necessary. Members of the Finance Committee are: Mr. Ian D. Boyce, Committee Chairman, Mr. Clement K.M. Kwok, Mr. C. Mark Broadley and Mr. John A.H. Leigh.

Remuneration Committee The Remuneration Committee is composed solely of Non-Executive Directors of which the majority is independent. Committee members are Mr. Ian D. Boyce, Committee Chairman, Mr. Robert W. Miller and Mr. Patrick B. Paul.

The Remuneration Committee meets at appropriate intervals to formulate and recommend remuneration policy to the Board, including Group-wide remuneration policies. In relation to Executive Directors, the Remuneration Committee reviews and recommends employment terms for the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. Furthermore, the Remuneration Committee also discussed with the Chief Executive Officer in relation to the remuneration package of Executive Directors other than the Chief Executive Officer. The Committee also reviews and recommends Directors' fees for Non-Executive Directors serving on Board Committees. No Director plays a part in any discussions about his own remuneration.

The Committee is provided with benchmark reports from internal and external sources for evaluation of market trends and the competitive levels of remuneration being offered to Executive Directors and staff. The Committee assesses compensation, performance-related bonuses and retirement provisions against market norms which are relevant to its scope of business and geographical locations. Fees and benefits for Non-Executive Directors are also evaluated based on market trends and market practices.

The Remuneration Committee met twice during 2007. The attendance record of each member appears below:

Attendance at Remuneration Committee	No. of meetings attended	
	2007 (2 meetings in total)	2006 (2 meetings in total)
Mr. Ian D. Boyce (Committee Chairman)	2	2
Mr. Robert W. Miller	1	1
Mr. Patrick B. Paul	1	2

During 2007, the Remuneration Committee reviewed matters relating to remuneration for Directors and senior management, as well as discussed the Group's remuneration policy.

The Group does not have any long-term incentive schemes other than the retirement scheme described in note 29 to the Financial Statements. Additional information on the basis of determining the emoluments payable to the Directors and senior management is set out in note 8 to the Financial Statements.

The Company has not adopted any share option scheme during the year.

Internal controls, audit and risk management

The Board has reviewed the effectiveness of the Group's internal control system to ensure that appropriate levels of protection are in place and confirms that it is effective and adequate.

Internal controls The division of responsibilities between the Board, the various Board Committees, the Chief Executive Officer and the management is clearly laid out in the Company's own code of corporate governance and the Company Management Authority Manual ("CMAM"). Both documents deal with the Company's approval processes and the limits of authority for Board Committees and managers. The Company's CMAM is reviewed and updated from time to time to ensure its continued relevance and effectiveness in controlling expenditure and approving the strategic direction of the Company. Any revisions to the CMAM which amend the approval authority delegated by the Board require the Board's approval.

The Company has adopted the definition of internal control provided by The Committee of Sponsoring Organisations of the National Commission on Fraudulent Reporting ("COSO"), which states that:

"Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations."

The effectiveness of the systems of internal control is reviewed by the Chief Executive Officer annually and includes the following:

- the changes since the last annual review in the nature and extent of significant risks and the Group's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the systems of internal control and where applicable, the work of its internal audit function and other providers of assurance;
- the extent and frequency of the communication of the results of monitoring to the Audit Committee or the Board which enables it to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of significant control failings or weakness that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's public reporting processes.

Internal audit and risk management The Company's Internal Audit and Risk Management Department assists the Board in conducting annual internal reviews of the Company and its subsidiaries in respect of material controls, including operational and compliance controls, financial controls and risk management functions. In addition, it also reviews compliance with the Company's own code on corporate governance, particularly ensuring adherence to the principle of applying adequate checks and balances in approval processes.

Prior to the compilation of the rolling three-year audit plan, a re-assessment of the potential risks facing the Company's activities is carried out. However, a revised ranking of the Company's risk register was completed in late 2007 and was provided to the Audit Committee in planning and approving the subsequent year's audit activities.

Part of the assessment of the effectiveness of the internal control system is accomplished by the Group's operational general managers and financial controllers certifying compliance with certain specified key controls on a monthly basis. This is in addition to the requirement to submit a general representation letter to the Chief Executive Officer and the Chief Financial Officer confirming compliance by themselves and their subordinates of successful implementation of all internal systems of control and procedures in their respective units and to provide supplementary information should there be any departure from the internal control systems. These general representation letters reinforce personal responsibility for good governance and controls at all levels within the Group. The Chief Executive Officer and the Chief Financial Officer have reviewed the representation letters submitted for 2007 and confirmed that no matters needed to be brought to the attention of the Board.

During 2007, the Internal Audit and Risk Management Department conducted audits and reviews of 15 business operations, three development projects, two Head Office functions, a new IT system and an overseas corporate-owned entity. Each review gives rise to a report highlighting recommendations for the more effective management of risks and each operation is awarded a control rating based on the COSO principles of control or an assessment of the significance of residual risks, after taking the internal control systems into consideration. Such reports are discussed with management and proposals for implementing recommended improvements are agreed upon, the status of which is reported to the Audit Committee half-yearly and followed-up in subsequent audit visits.

Due to the materiality of the development projects for the future of the Company, particular emphasis is placed on compliance with the Company's purchasing and tendering procedures during the course of the development process. The Internal Audit and Risk Management Department monitors these projects from inception through the design and construction phases, through to pre- and post-opening operations.

The Head of the Department reports to the Chief Executive Officer and has access to the Chairman of the Audit Committee. He is supported by four qualified professionals, a majority of whom are members of the Institute of Internal Auditors.

The Head of Department also attended three of the four Audit Committee meetings held during 2007 and attended regular meetings with the Chairman of the Audit Committee and the external auditors without the presence of management. In the opinion of the Audit Committee, nothing of a material nature arose in the Department's reports requiring that it be brought to the attention of shareholders.

Operational financial control The Company's Operational Financial Control ("OFC") Department works closely with the operational financial control teams in various operations. The Head of the OFC Department reports directly to the Chief Financial Officer.

The OFC Department provides guidance and support for the general managers and financial controllers of the various operations in managing and controlling the Company's assets, ensuring the proper running of monitoring and reporting systems and initiating and supporting any changes required to improve business performance. The OFC Department co-ordinates the financial reporting information received from various operations on a regular basis, to ensure it is received on time, is consistent, complete and accurate and in the agreed format. The information is then adjusted and summarised for relevant Directors and Board Committees so that they can maintain full and effective control over financial and operational compliance and corporate governance issues.

In 2007, the OFC Department undertook the following key responsibilities:

- evaluated financial and operational performance, including special projects, with operational general managers and advised the Chief Financial Officer accordingly;
- evaluated marketing plans and financial plans and gave direction to the operational units towards improved performance as agreed between the operational units and management;
- appraised operational management processes and activated changes to enhance business process efficiency;
- created opportunities for the exchange of best practices, innovations and sharing of performance data throughout the Group;
- developed strategies to continuously improve the quality of information flows, by designing and implementing high quality, user-focused operating reports used to facilitate the assessment of operational financial performance against established criteria; and
- participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets.

External auditors

It is important to the Group that the independence of its external auditors is not compromised. The Audit Committee reviews substantial non-audit work awarded to the external auditors to ensure that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself. During the year, the Company's auditors, KPMG, provided audit services to the value of HK\$8.1 million. KPMG also provided taxation services to the value of HK\$0.9 million.

Ethics and business conduct

Integrity, duty, tradition of service and the pursuit of excellence are cornerstones of the Company's core values. This is consistent with the Company having been in the service business for many years and having a loyal following of customers world-wide who expect high standards of quality in all aspects of the Company, including its employees. In order to achieve these standards, the Company's management and employees must apply business principles, ethics and conduct consistent with those expected of the Board, its shareholders and other stakeholders. Managers and employees of the Company are encouraged to initiate improvements and play a responsible part in the Company's success and maintain effective communications at all levels in order to develop better understanding and to assist in decision making.

The Company believes that honesty, integrity and fair play are important assets in its business. All employees of the Company must ensure that the Company's reputation is not tarnished by dishonesty, disloyalty or corruption. The Company has a detailed code of conduct, which communicates the ethical values of the Company, sets out standards of behaviour expected from employees and provides guidelines on how to handle different situations in business dealings with colleagues, customers, suppliers, contractors, consultants and professional firms.

A broad summary of the code of conduct is published on the Group's website at www.hshgroup.com, covering the Group's policies on the following areas: bribery, illegal gifts and commissions, accepting/offering advantages, entertainment and hospitality industry practice, use of proprietary information, handling conflict of interest situations, insider trading, misuse of the Company's assets and resources, loans, personal conduct outside hours of work including outside employment, monitoring of compliance and the means of enforcement, understanding and compliance of the code of conduct, violation of the code of conduct and complaints.

In addition to the values to which the Company expects its staff to adhere in their daily business practices, the code sets out the process for resolution of internal ethical problems that may arise within the workplace. Arrangements are in place in which the Company's employees may, in confidence, raise concerns about possible improprieties in business, workplace ethics and other areas. These arrangements are covered in the Company's code of conduct and policy on equal opportunities. The Company has a set of complaint procedures in place to ensure that any matters of concern are investigated and dealt with appropriately.

The code of conduct and policy on equal opportunities are reviewed regularly and benchmarked against emerging standards as the work environment becomes more sophisticated and as technological advances create new behavioural dynamics.

Shareholder relations

The Company is keen to promote two-way communications both with its institutional and its private shareholders. The Annual General Meeting (“AGM”) is the principal occasion at which the Chairman and Directors may interface directly with the shareholders. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. All Directors, including the Chairmen of the Audit and Remuneration Committees, are usually present at the AGM to answer any questions raised by shareholders.

During the year, continuous dialogue between shareholders and the Company on the Company’s business is encouraged. As part of a regular programme of shareholder relations, Executive Directors and our General Manager of Corporate Finance hold briefings and attend road-shows with institutional shareholders and financial analysts to engage in two-way communications on the Company’s performance, plans and objectives. Webcast of the meeting announcing the latest financial results of the Company and copies of presentation materials from the meeting are made available to shareholders and public through the corporate website.

Communication with shareholders is a high priority. The Annual Report and accounts and the Interim Report are distributed to individual and institutional shareholders and are also available for download from the Company’s website at www.hshgroup.com. Shareholders and investors may email their enquiries to the Company’s email address, ir@hshgroup.com, which will be handled by the designated persons within the Company.

At the AGM held at noon on Friday, 11 May 2007 at The Peninsula Hong Kong, separate resolutions were proposed on the following issues:

- to receive the audited Financial Statements and the reports of the Directors and auditors for the year ended 31 December 2006;
- to declare a final dividend;
- to re-elect five retiring Directors;
- to re-appoint KPMG as auditors of the Company at a fee to be agreed by the Directors;
- to grant a general mandate to issue new shares;
- to grant a general mandate for share repurchase; and
- to add shares repurchased to the general mandate given to issue new shares.

Each resolution was voted on by poll and passed and the results of the poll voting were posted on the Company’s website as well as published in the media the following day.

In addition to the shareholders, media are also invited to attend and report on the AGM.

The key dates in the corporate results and meetings calendar are also posted on the Company's website in advance. The important dates for 2008 are:

- Annual General Meeting: Wednesday, 7 May 2008
- 2008 Interim Results Announcement: Wednesday, 10 September 2008.

Details of the public float are set out in the Directors' Report on page 105.

Other stakeholders

The Company believes that good corporate governance requires an assessment of its business decisions by other key stakeholders, in the area of corporate social responsibility ("CSR"). In December 2007, the Company formally established the CSR Committee to form appropriate group level policies and practices in all areas related to CSR, as well as to oversee and monitor the implementation of such practices on a regular basis. The scope of the responsibilities that come within the ambit of the CSR Committee include, but is not limited to, environment protection, energy efficiency and conservation, environmental quality within the Group's properties, green environment policies for guests, waste recycling, health and safety and employee workplace.

Details of the Group's ongoing CSR initiatives and other employment development practices and benefits, community relations and health and safety practices are provided in the Corporate Social Responsibility section from pages 58 to 61.