

CORPORATE GOVERNANCE REPORT

Our Values

Good corporate governance sustains 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 is an important tool for the company to provide shareholders and stakeholders with a transparent picture of our business performance as well as our commitment to high standards of corporate governance. We are constantly striving to improve the clarity and transparency of our reporting. This is recognised in the awards we received for our 2018 Annual Report. Details can be found in the "Awards in 2019" section on page 104.

The Board recognises that our people are key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report³ highlights our efforts in these areas in 2019.

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 on implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework⁴ 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 the implementation of our business strategy, GMB is supported by three 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. The Group Risk Committee, Group Corporate Responsibility Committee and Technology Steering Committee report to GMB, who in turn report to the Board for oversight on risk management and environmental and social issues, as well as the Group's technology strategy. In addition to the above three sub-committees, we also have the HSH Retirement Plan ORSO Committee which oversees the group's retirement plan.

³ Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

⁴ Details of responsibilities and memberships of the Board and Board Committees can be found on HSH website: www.hshgroup.com/en/corporate-governance

Corporate Governance Report

THE BOARD

The Board's Role

1. Accountable to the company's shareholders and stakeholders for the long-term success of the group
2. Sets the group's strategy and objectives for delivering the long-term value
3. Leads and oversees the management of the company and provides effective challenge to management concerning the execution of the strategy set by the Board
4. Ensures the group maintains an effective risk management and internal control systems

The Board's Key Reserved Matters

Strategic & Financial

- Long and short-term strategic directions
- Annual budgets and forecasts
- Significant changes in accounting policies
- Company's capital structure
- Dividend policy
- Material borrowings and expenditure
- Annual and interim reports

Leadership & Employees

- Director's appointment and re-election
- Succession planning for Board and senior management

Risk Management

- Risk management and internal control systems
- Principal and emerging risks

Corporate Governance

- Corporate governance functions
- Board evaluation

Sustainability

- Corporate responsibility and sustainability outlook, progress and issues

Biographies  P.114-117

Board focus  P.127

Attendance & training records  P.131

BOARD COMMITTEES

The Board delegates the following matters to

Governance Board Committees

Audit Committee

- Financial reporting
- Risk management and internal controls
- Internal and external audit process

Report  P.152-153

Nomination Committee

- Board composition
- Board nomination
- Diversity Policy
- Nomination Policy

Report  P.154-155

Remuneration Committee

- Remuneration philosophy and policies
- Directors and senior management remuneration

Report  P.156-159

Other Board Committees

Executive Committee

- Strategic opportunities
- Significant investment proposals
- Brand protection
- Implementation of strategic plans and investment proposals

Finance Committee

- Financial performance
- Financial aspects and budgets of significant acquisitions, investments, disposals and new projects
- Financial and annual operational plans, budget and forecast

CHIEF EXECUTIVE OFFICER

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

Audit & Risk Management

- Internal audit assurance
- Reports to Audit Committee and supports GRC on risk management and internal controls

GROUP MANAGEMENT BOARD (GMB)

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

Group Risk Committee (GRC)

Report  P.140-147

HSB Retirement Plan ORSO Committee

Group Corporate Responsibility Committee

Report  P.148-151

Technology Steering Committee

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

Our 2019 Corporate Governance Focus

Our commitment to quality, excellence and the sustainability of the company in the long term continued to drive our corporate governance focus in 2019. As part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy in light of the evolving external environment and regulatory landscape, as well as explore ways to inspire creativity and innovation. Board members shared their vision and strategic ideas on how we can stay globally relevant to safeguard our future. In addition, the 2019 Board evaluation on its effectiveness was conducted with the assistance of an external facilitator. More information on the Board Strategic meeting and Board evaluation can be found on pages 127 and 129 respectively.

The Group continues to implement its business strategy of balancing near-term commercial objectives and the sustainability of the company in the long term. We are also continually reviewing the resilience of the company in relation to our business concentration in Hong Kong, especially in the light of the recent social unrest and the COVID-19 coronavirus, and are exploring diversification and expansion options in other business streams.

Our business strategy has been organised in three pillars: Our Guests, Our People and Our Cities and we have aligned our corporate governance strategy with these pillars in mind.

Guest focus

Providing exceptional quality and services to our guests remains the foundation of the company's business. Apart from a regular review of service standards, the company seeks to improve its governance to safeguard our guests' interests and to enhance the guest journey from end to end. Our company continues to review and improve its controls on data privacy and take preventative measures to mitigate increasing cyber threats and data loss. In addition to complying with new laws and regulations such as the California Consumer Privacy Act (CCPA), which became effective in 2020, we engaged third party consultants to evaluate the adequacy of HSH data protection policies and processes. They conducted a customer data protection assessment of the hotel systems and business processes to determine the control gaps at the group and property level. In addition, we have implemented measures to strengthen our IT security plan, with a focus on four main areas:

- (i) control and compliance;
- (ii) data security;
- (iii) cybersecurity awareness; and
- (iv) cybersecurity incident detection and response.

We continue to provide data privacy and IT security online trainings to all relevant staff and drills have been carried out on responding to cybersecurity incidents.

People focus

Good corporate governance relies on having a sound framework and, most importantly, the right people to take accountability and align themselves to the values and strategic vision of the company. We recognise that inspiring our people to reinforce the company's values and mindset is a crucial aspect of corporate governance, and we have a clearly defined framework within our Code of Conduct and other policies and procedures that clearly sets out our group's ethical boundaries and the tradition of integrity at the heart of our corporate culture. We regularly conduct training workshops on our behavioural guidelines, service standards and practices and have enhanced our onboarding briefings for new colleagues to ensure everyone is aligned with the company's vision.

To preserve our corporate culture and promote our core values, continued employee engagement is high on the Board's agenda and the company seeks feedback regularly from our employees. In the 2019 employee engagement survey, we were encouraged to see a very positive response rate and high employee satisfaction levels overall, which indicates that our employees were happy working in the company. General Managers of operations and Head Office function heads discussed the survey results with their team members and action plans were formulated to seek further improvements.

Corporate Governance Report

At our annual global and regional conferences, the group's general managers, hotel managers, human resources function heads and directors of finance are given the opportunity to exchange their views on the group's strategic direction, align objectives and share best practices.

Meanwhile, we continue to work on the WorkPlace 2025 programme⁵. During the year, selected employees volunteered and designed strategic objectives to modernise and innovate our workplace. This involves the employees in the improvements of the company.

Cities focus

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. Through our Group Corporate Responsibility Committee, we set a global strategic approach to corporate responsibility and sustainability (CRS) and we regularly monitor the effectiveness of these initiatives and policies. International best practices are adopted where feasible. At the minimum, the group ensures compliance with local laws and regulations. Our group is committed to contributing to the cities we operate in and our strategy is to invest in quality assets for the long term. During the year, the Group Corporate Responsibility Committee undertook a review of the company's sustainability strategy, which was set in 2013. Looking beyond 2020, we are developing our next sustainability strategy with a focus on further business integration and we are taking a regenerative and proactive approach. Our new strategy will leverage the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our business, while effectively reducing our impact. In this new strategy update, we are considering different stakeholder expectations such as human rights and modern slavery due diligence, reducing social inequality, increasing diversity and inclusion and outcome-based community investment. For details on the group's CRS activities and compliance with local environmental and social-related laws in 2019, please refer to the CRS Report⁶.

Our Supplier Code of Conduct requires all suppliers to comply with all applicable anti-slavery and human trafficking laws. Modern slavery is a hot topic in the global economy, and we have organised group trainings for operations colleagues to raise awareness on detection and compliance. We continued to review the effectiveness of steps taken so far to ensure that there is no slavery or human trafficking in our supply chain. Our approach to prevent modern slavery and human trafficking can be found on our website⁷.

Ongoing Improvements

We have undertaken additional measures to enhance our governance practices and processes, with an emphasis on improving operational efficiency and communication. For example, we have restructured the Finance group to better align key accounting and planning functions. This included organisational and system transformation which is in progress. We also reviewed and updated the Purchasing and Tendering Policy to improve operational efficiency whilst maintaining internal control and provided support to staff on implementation via the intranet and in-person workshops.

⁵ Details can be found on page 87 as well as page 25 of the CRS Report

⁶ Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

⁷ www.hshgroup.com/en/sustainable-luxury

2019 Board Focus

In this section, we highlight the issues our Board has discussed and assessed with respect to the company's different businesses, financial performance and its strategic direction in light of our external environment:

HIGHLIGHTS

Full Day  Board Strategic meeting

External  Board evaluation

In-depth Discussions

 Board meetings & Board lunches

A Fresh Approach

In 2019, the Board meeting format has been refined to allow more in-depth discussion on agenda topics. Board meetings are generally followed by Board lunches. Senior management and function heads are invited to update Directors on new trends, legislation and group's business. This provides a good opportunity for our directors, senior management and function heads to interact with each other in an informal setting and to discuss a wide range of issues including those concerning the group.

Strategy is always on the Board agenda and as part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy, as well as explore ways to enhance creativity and innovation. The Deputy Chairman was the facilitator of the meeting and, together with the CEO, prepared a structure for discussion which covered key strategic issues that had been raised by Board members. This was an interactive session with different views raised and debated. Senior management also participated in the discussion on related topics. It was a very productive discussion and Board members shared their vision on how we can stay globally relevant to safeguard our future. It was agreed that we would continue to seek opportunities to grow by leveraging our brand and explore potential diversification possibilities, while remaining committed to protecting our heritage and the culture of our group. Management committed to give regular progress updates and agreed future strategy meetings would occur every two years.



STRATEGY AND FINANCIAL

- Monitored the group's performance and evaluated the cost, key risks and progress of London, Istanbul and Yangon projects as well as the Peak Tram upgrade project
- Approved the budget increase for London project
- Conducted post-implementation review of several renovation projects
- Evaluated and approved budget and cost controls on all operations under the challenging business environment in Hong Kong
- In-depth review of two main areas of business, The Peninsula retail arcades and food and beverage outlets
- Monitored partnership dispute and protect the group's investment in Thailand



LEADERSHIP AND EMPLOYEES

- Reviewed employee engagement survey results
- Reviewed updates on employee engagement wisdom on wellness (WOW) programme



CORPORATE GOVERNANCE

- Reviewed and discussed the Board evaluation results
- Affirmed additional discussion time on strategy, risks and budget matters
- Reviewed the steps taken by the group in addressing modern slavery and human trafficking and approved the modern slavery statement
- Approved the continuing connected transactions of renewal of tenancy agreements of the office premises and master agreement of carpet purchases



RISK MANAGEMENT

- Approved the principal risks, key controls and risk mitigation of the group
- Monitored and reviewed the effectiveness of the risk management and internal control systems through Audit Committee



SUSTAINABILITY

- Monitored progress on our Sustainable Luxury Vision 2020 and its three key focuses: Our Guests, Our People and Our Cities via the Group Corporate Responsibility Committee
- Reviewed the Corporate Responsibility and Sustainability initiatives of the group


Corporate Governance Report

Our Board

We have a diverse Board of 17 members with three Executive Directors and 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.

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

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

Role	Responsibilities
Non-Executive Chairman <i>The Hon. Sir Michael Kadoorie</i>	<ul style="list-style-type: none"> Leading the Board and monitoring its effectiveness Fostering candid discussions and constructive relationships among Directors Reviewing management performance with the INEDs Safeguarding that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary
Chief Executive Officer* <i>Clement Kwok</i> <i>*supported by GMB⁸</i>	<ul style="list-style-type: none"> Leading the management in the day-to-day running of the group business Developing strategies for the Board's approval Executing strategies, policies and objectives agreed by the Board Reporting to the Board on the performance of the business
Non-Executive Directors and Independent Non-Executive Directors  P. 114 to 117	<ul style="list-style-type: none"> Evaluating the group's performance in achieving the agreed corporate goals and objectives Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective Providing constructive feedback on management decisions Serving on the Board and Board Committees to give these committees the benefit of their skills, expertise, and varied backgrounds and qualifications The INEDs, being independent, have the additional role of: <ul style="list-style-type: none"> bringing knowhow and business expertise that are supplementary to the management, thereby providing insights and independent judgement on the business helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise
Executive Directors <i>Clement Kwok</i> <i>Peter Borer</i> <i>Matthew Lawson</i>	<ul style="list-style-type: none"> Managing the day-to-day business of the entire group's operations Being accountable for their specific executive functions to the Board Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs
Company Secretary <i>Christobelle Liao</i>	<ul style="list-style-type: none"> Reviewing, implementing and initiating improvements on our corporate governance practices and processes Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters Facilitating induction and professional development of the Directors

8 Details of the GMB members and its function can be found on pages 118 and 119

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.

Board meetings are scheduled one year in advance in order to facilitate attendance by Directors. 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 for review of discussion topics. Where Board meetings cannot be convened at short notice, Board written resolutions are also accompanied by detailed justifications and business case to allow sufficient time for review. In addition, management provides Board members with a monthly update of our business operations. Board minutes and Board Committees minutes, except Finance Committee are also sent to all Directors to allow our Board members have the visibility of the discussions at various committees. Finance Committee discussions on financial aspects matters are included in monthly and Board updates given to Directors. During the Board meetings, we ensure that all Directors are also given sufficient time for discussion on the items in the Board agenda. Taking into account the Directors' comments from the Board evaluation, more time has been devoted to strategy, risk and budget discussion. Whilst matters may be decided at meetings by a majority of votes from voting Directors, the Board typically seeks to get unanimous consensus.

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.

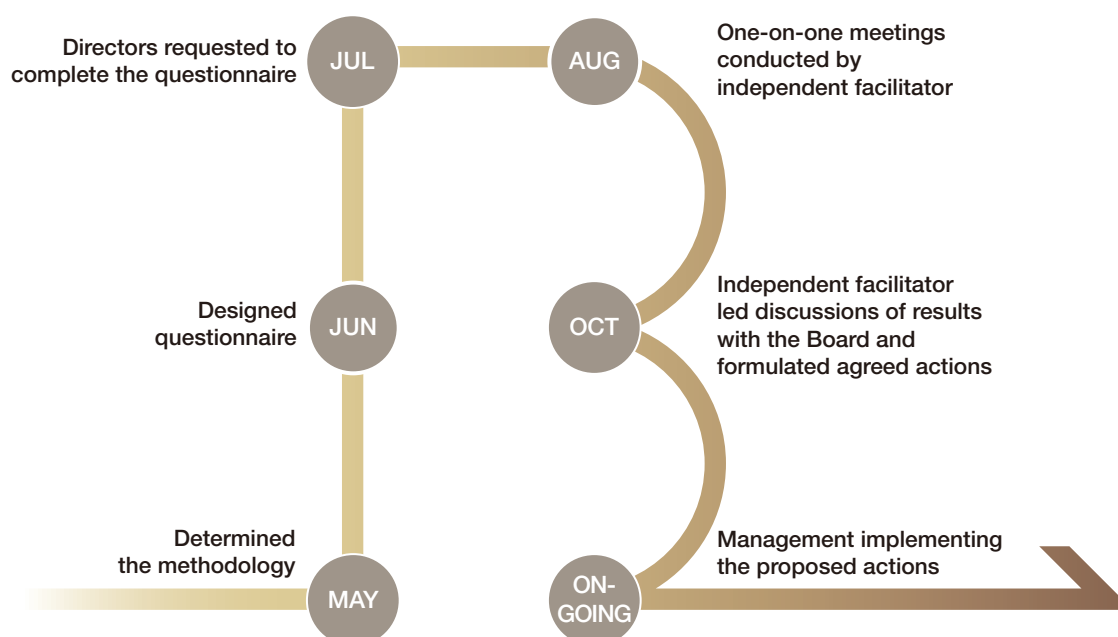
Board Evaluation

Our Board evaluates its own performance every two years. This review identifies areas for enhancement and improving the Board's effectiveness. Having conducted the review internally since 2013, this year our Board decided to engage an independent facilitator to facilitate the review which included a number of one-on-one meetings with individual Directors. The independent facilitator reviewed the company's corporate governance structure and Board documents, sought feedback from the Deputy Chairman, Chief Executive Officer and Company Secretary, and developed a questionnaire which encouraged open feedback. A total of eight interviews were conducted, covering a balance of one Executive Director, four NEDs and three INEDs. The facilitator analysed the detailed reports and led the Board discussion on the findings and recommendations at the October Board meeting.

The 2019 Board evaluation was positively received and the anonymous feedback confirmed that the Board continued to work effectively. Some of the agreed actions have already been implemented in the December Board meeting.

Corporate Governance Report

Stages of the Board evaluation review



Areas of enhancement

Enhancement	Actions
Ongoing and completed projects	Standardise all ongoing and completed projects review
Board discussion	Devote additional discussion time to strategy, risk and budget matters
Succession planning	Arrange mid-term review and continue to review the skill sets required when a Board vacancy arises in future
Refined Board processes and papers	Information packs/reports to directors are reformatted to include risks factors and mitigation

In addition to self-evaluation, the Chairman met with INEDs before the October Board meeting without management to discuss items that INEDs would like to raise at the meeting.

2019 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 2019 are as follows:

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

● Present ○ Apology

Notes:

- (1) Representatives of the external auditor participated in every Audit Committee meeting and the Annual General Meeting
 - (2) Mr Nicolas T.J. Colfer was unable to attend the Board meeting and the Annual General Meeting due to conflicting commitments
 - (3) Mr James L. Lewis and Dr Kim L. Winser were unable to attend the Board meeting due to illness and conflicting commitment respectively
 - (4) During 2019, Ms Christobelle Liao fulfilled the requirement under the Listing Rules by undertaking over 15 hours of professional training
- (A) Reading materials which covered relevant laws and regulations and group's business-related topics
- (B) Seminars/conferences/webcast which are relevant to the business or Directors' duties in the following areas:
- Anti-bribery and corruption
 - Corporate governance matters
 - Corporate responsibility and sustainability
 - Data analytics and digital marketing
 - Political and economic climate in Myanmar
 - Revenue management

Corporate Governance Report

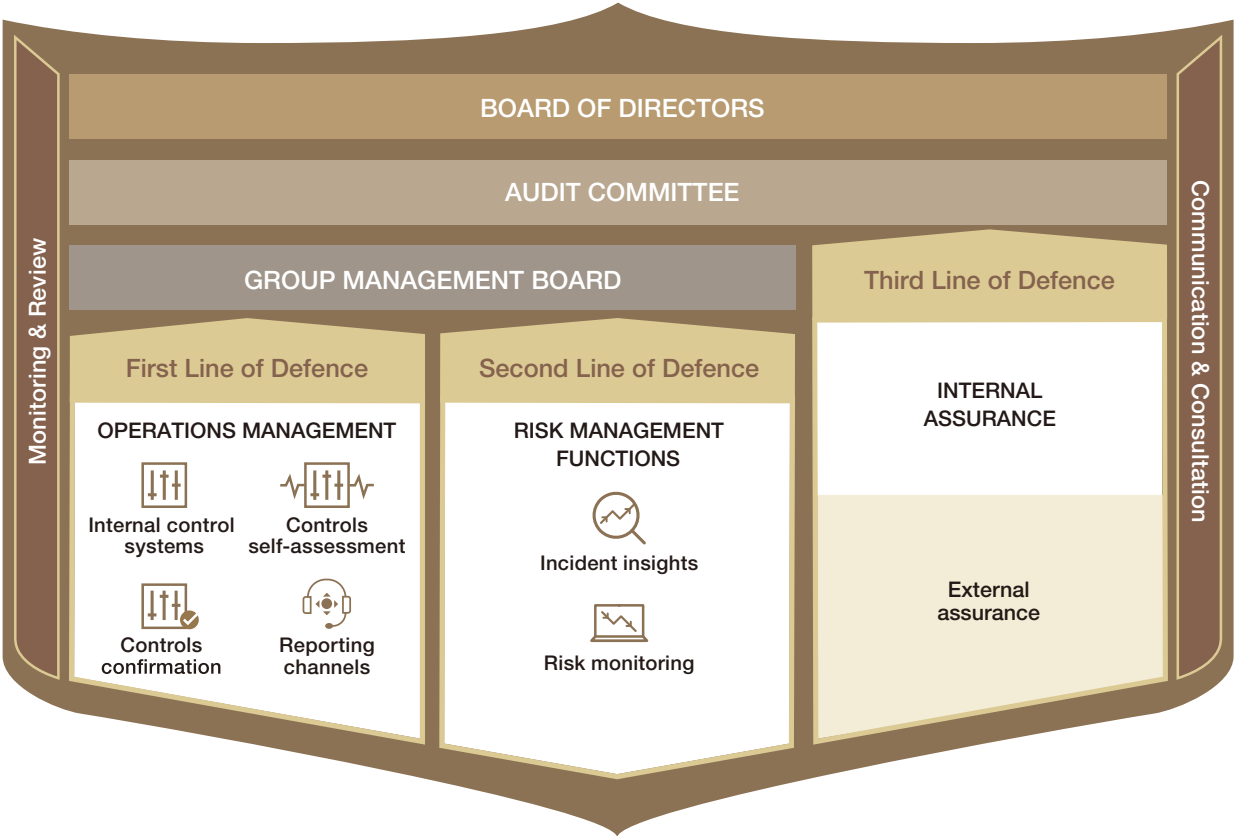
Risk Governance

Effective risk management plays an integral role in the overall achievement of the group’s strategic objectives which are 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 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 risks such as natural catastrophes, fraud and errors of judgement, which are present in all businesses.



First Line of Defence: Operations management

The group has established a system of internal controls which is executed by operations management.



Internal control systems

Controls adopted by the group can be divided into entity level and process level controls. Entity level controls include but are not limited to a code of conduct, a speak up hotline, and Purchasing and Tendering Policy revamped and relaunched in 2019. Process level controls include appropriate operational standards, policies and procedures governing approval authority requirements, due diligence requirements, safeguarding of assets and reconciliation of account balances.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For controls enhancement measures related to our principal risks undertaken in 2019, please refer to the GRC Report on pages 140 and 141.



Controls self-assessment

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



Controls confirmation

General Managers, Hotel Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material internal controls (which include financial, operational and 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.

Collectively, these internal control systems form the basis by which operations management reviews and confirms the effectiveness of the risk management and internal control systems to the Audit Committee.



Reporting channels

The group has multiple channels to handle and communicate crises, including an online incident reporting platform that 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 Policy⁹ 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. Furthermore, 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.

HSH Handling Inside Information Guide

- A user-friendly guide is shared on our intranet to promote staff awareness
- Non-compliance of the Guide is a breach of the Code of Conduct
- A system is in place to monitor what the market says about HSH and there is an inside information escalation process

⁹ Posted on the company's website: www.hshgroup.com/en/corporate-governance/speak-up-policy

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Second Line of Defence: Risk management functions

The second line of defence is overseen by the relevant group functions and 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 effectiveness of controls in response to such risks. A 5-step risk management methodology is applied to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation change. In 2019, we strengthened our second line of defence by focusing on the validation and improvement of key control activities for the more prominent risks. Details can be found on page 140 in the GRC Report.



Incident insights

The GRC analyses common incidents across all operations and identifies any trend of root causes which are summarised in an “Incident Insights” report for further discussion with the Group Management Board as needed. 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, especially on ESG related risks. For the improvements taken in 2019, please refer to the GRC Report on pages 140 and 141.

Third Line of Defence: Internal assurance

The third line of defence is supported by internal assurance activities. ARM provides internal assurance by assessing the effectiveness of the group’s internal control systems.

Key processes are audited using an end-to-end approach thus control improvement opportunities can be readily identified and implemented. Since the company operates in a decentralised control environment, any common control weaknesses across the group are also assessed through an aggregation process and group level control recommendations are initiated as needed.

The internal audit plan in 2019 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. Audits of new development projects such as The Peninsula London were also conducted in 2019.

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. Details can be read in Audit Committee Report on page 152. Throughout 2019 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 1,837 registered shareholders as at 31 December 2019. 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	535	29.123	69,743	0.004
501-1,000	194	10.561	154,764	0.010
1,001-10,000	635	34.567	2,598,367	0.159
10,001-100,000	371	20.196	11,822,144	0.723
100,001-500,000	70	3.811	14,735,762	0.902
Above 500,000	32	1.742	1,605,042,111	98.202
Total	1,837	100.000	1,634,422,891	100.000

Note: as at 31 December 2019, 36.35% 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 59.78% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 162 to 164. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

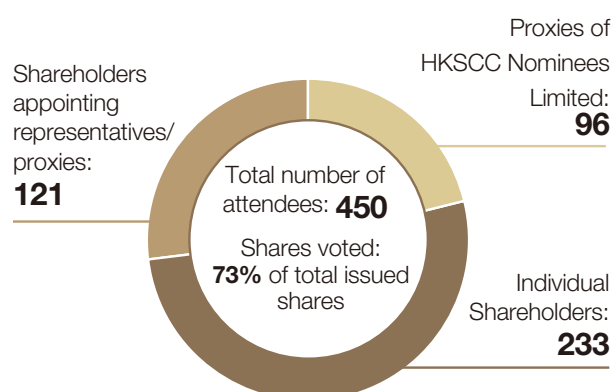
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2019 and up to the date of this report.

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 website¹⁰ 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.

2019 Annual General Meeting



The 2019 AGM was held on 10 May 2019 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. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2019 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’s¹¹ and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

¹⁰ www.hshgroup.com/en/corporate-governance/shareholders-rights

¹¹ 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 2019 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 2018	99.99%
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2018	99.99%
Re-election of six retiring Directors: The Hon. Sir Michael Kadoorie, Mr Peter C Borer, Mr Matthew J. Lawson, Mr Patrick B. Paul, Dr Rosanna Y.M. Wong and Dr. Kim L. Winser as Directors of the company	Ranging from 98.71% to 99.96% in respect of each individual resolution
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	99.95%
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	91.43%
Granting of the general mandate to Directors to buy-back the company's shares	99.96%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	91.46%

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 246.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 83 and 21 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
- Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via one-on-one meetings and conference calls, as well as held regular briefings with research analysts
- We also participated in investor conferences in Hong Kong and China to further engage existing and potential investors
- Our company's website¹² 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

- Our Shareholder Communication Policy¹³ has specified the various communication platforms to which our shareholders and stakeholders can access
- The company's branded social media sites provide investors and other stakeholders 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. On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 102 and 103.

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.

Throughout 2019, 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 instead 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 provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

Environmental, Social and Governance Reporting Guide (ESG Guide)

The Stock Exchange issued an updated ESG Guide which only comes into effect for the financial years commencing on or after 1 July 2020. However, due to our commitment to promoting transparency in our reporting, our Corporate Responsibility and Sustainability Report¹⁴ has been prepared in accordance with this updated ESG Guide.

Other Compliance Matters

Appointments and re-election of Directors

The appointment and re-election of Directors are governed by the Nomination Policy which is set out in the Nomination Committee Report on page 154. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2019. 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 2020 Annual General Meeting are set out in the Directors' Report on page 161.

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 confirmed his or her understanding of such time commitment when the appointment was 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 2019. The Board is 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.

¹³ Posted on the company's website: www.hshgroup.com/en/corporate-governance

¹⁴ Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Corporate Governance Report

Independence of INEDs

The independence of the NEDs 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. The company has received written confirmations of independence from each of its seven INEDs who served in 2019. The Nomination Committee and the Board considered that all seven INEDs who served in 2019 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 right experience and is prepared to challenge the Board in a constructive fashion. The Nomination Committee and the Board continue to believe 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 2019. Details of the shareholding interests held by the Directors of the company as at 31 December 2019 are set out on page 162.

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 118 and 162 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 2019, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to senior management and leaders of 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 2019, no potential conflict of interest was determined by the Board to be material. However the continuing connected transactions as disclosed in the Directors' Report on page 161 were reviewed in the March Board meeting held in 2020.

New Directors' induction

The company provides new Directors with a comprehensive tailored induction programme which includes meetings with Executive Directors, Company Secretary, and senior management and visiting a number of Group's properties. 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.

Directors training and development

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 training records of Directors and the Company Secretary for 2019 are reflected on page 131.

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 Committee¹⁵ 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 Board and Governance Board Committees were reviewed and confirmed remain relevant and no revision was required in 2019.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website¹⁶ and those of the Governance Board Committees¹⁷ are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 152 to 159.

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 2019, 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 161.

Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2019 Annual Report and Corporate Responsibility and Sustainability Report¹⁸. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2019, please refer to the Directors' Report set out on page 165.

High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through years 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
17 March 2020

¹⁵ Audit, Nomination, Remuneration, Executive and Finance Committees

¹⁶ www.hshgroup.com/en/corporate-governance/board-committees

¹⁷ Audit, Nomination and Remuneration Committees

¹⁸ Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports