

Corporate Governance Report

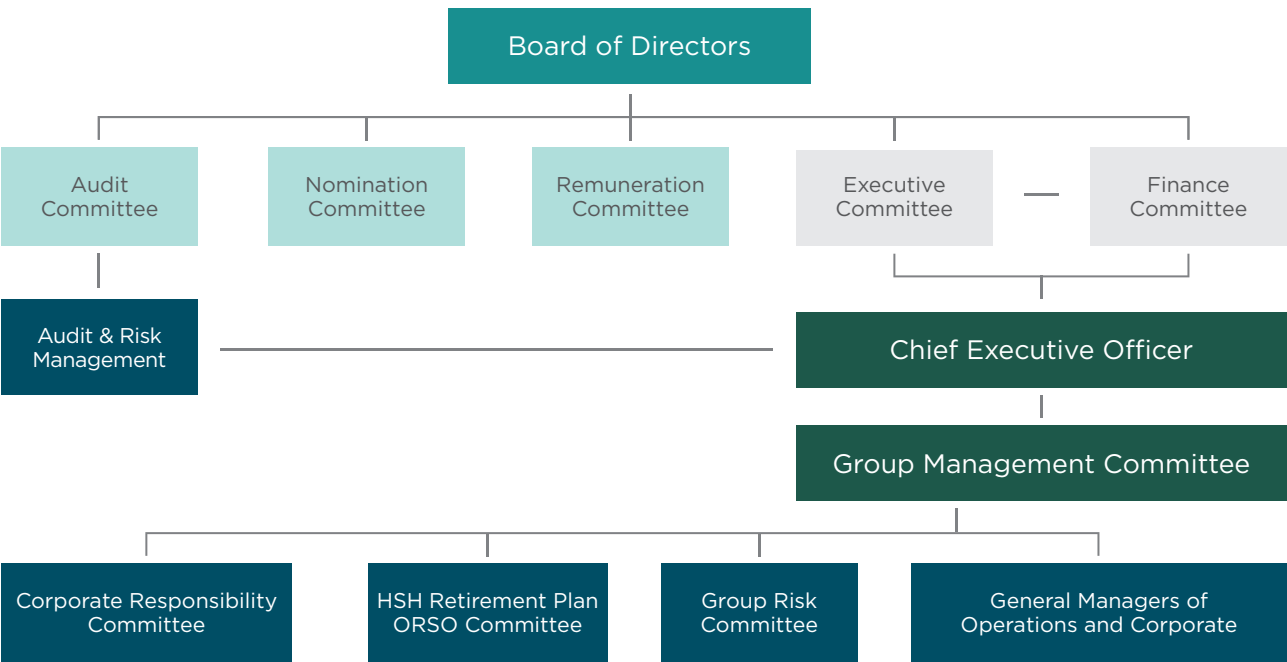
Our corporate governance is a process through which the Company protects the interests of its shareholders and stakeholders by upholding and ensuring integrity, transparency and accountability in all aspects of its business.



Introduction to Corporate Governance Framework

Our corporate governance is a process through which the Company protects the interests of its shareholders and stakeholders by upholding and ensuring integrity, transparency and accountability in all aspects of its business. While the Board takes the lead and ultimate responsibility, our corporate governance practices apply across all businesses of the Group. Our corporate governance framework is shown below:

Corporate Governance Structure



Meeting and Exceeding Compliance Requirements

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code", formerly known as "Code on Corporate Governance Practices"), which came into effect on 1 April 2012, is the standard against which we measure ourselves. Our Board recognises the principles underlying the CG Code, and the HSH Corporate Governance Code ("HSH Code") has applied all such principles.

The CG Code sets out the principles of a good corporate governance structure with two levels of recommendations:

- **Code provisions**, which are "comply or explain" provisions; or
- **Recommended best practices**, which are for guidance only, and issuers are encouraged to comply with or give considered reasons for deviation.

In respect of **code provisions**, throughout 2012, we complied with all provisions in the former CG Code (for the period before 1 April 2012) and the CG Code (for the period since 1 April 2012). We have exceeded the requirements set forth in the CG Code in a number of areas, as described throughout this Report.

In respect of **recommended best practices**, we complied with all of those contained in the CG Code except 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. Notwithstanding this, in order to keep our shareholders updated on the Group's periodic performance, we issue quarterly operating statistics setting out key operating information.
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have adopted the requirements of the code provision and disclosed the remuneration payable to senior management by band in the Remuneration Committee Report.
- **Board evaluation** – The Board has not conducted formal Board evaluation. The Non-Executive Chairman and the Non-Executive Directors, including the Independent Non-Executive Directors ("INED"s), however, have conducted an annual meeting to evaluate management effectiveness, as well as how the Board as a whole could better provide collective advice and guidance to help management and guide the strategic direction of the Company. Recommendations made at this meeting were communicated to the management for feedback and implementation.

2012 Developments in Corporate Governance Practices

Our corporate governance practices do not remain static and we review them regularly. In 2012, we improved our corporate governance practices as follows:

- ✔ We reviewed and updated the HSH Code and terms of reference of all Board committees in line with the changes adopted by the CG Code.
- ✔ We formed a Group Risk Committee to oversee risks across the Group and coordinate with all operations to address risks identified, track risk mitigation and report on examination of specific risks as required.
- ✔ A Group Risk Register was set up by the Group Risk Committee to methodically identify risks facing the Group and formulate action plans to mitigate risks.
- ✔ The Board resolved to adopt a more structured Board evaluation approach in 2013.
- ✔ The Group Data Privacy Manual was developed as an important component of our internal control system and implemented through extensive training at each operation.
- ✔ The Whistleblowing Policy of the Group which was originally limited to employees was expanded to additionally cover other stakeholders. This policy is posted on the Company's website.
- ✔ A Shareholder Communication Policy was adopted to establish a more effective communication mechanism through which our shareholders and stakeholders could communicate with the Company. This policy is posted on the Company's website.
- ✔ We facilitated and carried out in-house training for the Directors through various means and their training records are kept by the Company Secretary.
- ✔ A Nomination Committee was established to review the composition and appropriateness of the Board and the leadership and succession needs of the Company with a view to ensuring the long term success of the Group.
- ✔ Our Nomination Committee discussed diversity of the Board and set its goal to improve the gender diversity of the Board. Our first female INED was appointed to the Board with effect from 1 February 2013.
- ✔ We reviewed and updated our Company Management Authority Manual which forms the backbone of our control and approval process.

The Role of the Board

The names and biographical details of all the members (including details of their relevant experience, and financial, business, family or other material or relevant relationships among them) are set out on pages 100 and 101. This information is also posted on the Company's website.

The Board's role is to provide leadership of the Company and direction for management. It is collectively responsible and accountable to the Company's shareholders and stakeholders for the long term success

of the Group. While the management is delegated to run the Group's day-to-day business (as more specifically described on page 119), the Board focuses on and reserves powers in the most significant matters of the Group, including:

- formulating long and short term strategic directions of the Group, including development strategy, major investments, acquisitions and disposal of major assets;
- preparing and approving financial statements, annual and interim reports, and making judgements that are fair and reasonable in the preparation of the Company's disclosure statements;

- approving the Group's annual budgets and forecasts;
- approving changes in accounting policies;
- approving changes to the Company's capital structure;
- setting dividend policy;
- authorising material borrowings and expenditures;
- approving the appointment of Directors for election and/or re-election in general meetings;
- performing corporate governance functions in accordance with the CG Code, including determining the Group's corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group; and
- overseeing and reviewing the effectiveness of the risk management and internal control systems of the Group through review of reports from Audit Committee and the Group Management Committee.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2012, please refer the Directors' Report set out on page 142.

In 2012, the Board adopted its own terms of reference, formalising the corporate governance functions which were previously in practice.

The Roles of our Non-Executive Chairman and Chief Executive Officer and Division of Responsibilities

The Hon. Sir Michael Kadoorie and Mr. Clement K.M. Kwok hold the positions of our Non-Executive Chairman and Chief Executive Officer respectively. There is a clear division of the responsibilities between the running of the Board, and the executives responsible for the running of the Company's business. The roles of the Chairman and the Chief Executive Officer and their division of responsibilities are established in our HSH Code.

Non-Executive Chairman – The Chairman leads the Board and is responsible for ensuring that both the Board and individual Directors perform their duties effectively and make active contributions to the Board's affairs. He fulfils this by facilitating and encouraging all Directors in particular INEDs and other Non-Executive Directors to voice their views and concerns openly. He also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. The Chairman is also in frequent contact with the Chief Executive Officer through various means including face-to-face meeting and telephone conversations on average once each week. During the year, the Chairman met with Non-Executive Directors without the presence of Executive Directors in order to review management performance.

Chief Executive Officer – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for effective implementation of the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has given the Chief Executive Officer broad authority to operate the business and he is accountable to and reports to the Board on the performances of the business. The Chief Executive Officer is supported by the Group Management Committee, which provides the Board with high quality information and recommendations to enable informed decisions on all areas of Company strategy.

Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

The Roles of the Non-Executive Directors and Independent Non-Executive Directors

Our Non-Executive Directors scrutinise the management's performance in achieving agreed corporate goals and objectives and monitor the Group's performance reporting. The role also serves to assure clarity and accuracy on the reporting of financial information and that controls and systems of risk management are effectively in place. They constructively challenge management in all areas, which is vital to the objectivity of the Board's deliberation and decision-making. Mr. Patrick B. Paul, an INED, leads the Audit Committee and Remuneration Committee with active involvement of other Non-Executive Directors. These Committees, together with the Non-Executive Directors in the Executive Committee and Finance Committee, give the Board and Board Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles of Non-Executive Directors, our INEDs bring to the Board independent judgement on all types of issues and take a stance where potential conflicts of interest arise.

The Role of Executive Directors

Our Executive Directors are the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of the Company. They are involved in the day-to-day business and each has specific executive duties. Their roles however are not confined to the areas of business covered by their specific executive functions, but are extended to entire Group's operations. They proactively communicate with the Non-Executive Directors and are open and responsive to any executive proposals and challenges made by the Non-Executive Directors.

The Role of Company Secretary

Our Company Secretary is the Secretary of the Board and our Governance Board Committees' meetings including Audit Committee, Nomination Committee and Remuneration Committee. The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. She keeps the efficacy of the Company's and the Board's governance processes under review and also promotes improvements. She is responsible to the Board in respect of compliance with Board procedures. All our Directors have direct access to the advice and support of the Company Secretary on such matters.

Our Company Secretary is also responsible for advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters. In addition, she facilitates induction and professional development of the Directors.

Clear and Consistent Board Processes

The Board meets regularly to discharge its responsibilities. In 2012, it met five times and the dates of the meetings were determined and provided to the Directors in the fourth quarter of 2011. The Directors were notified of any changes to schedules at least 14 days prior to the pertinent meeting.

Prior to each Board meeting, as delegated by the Chairman, the Company Secretary draws up the agenda in consultation with the Directors and all Directors are invited to include items for such. Comprehensive Board papers are sent to all Directors seven days in advance of each Board meeting in order that they have sufficient time to review the affairs to be discussed.

During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable, in order for them to maintain effective control over the strategic, financial, operational, compliance and corporate governance issues of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are voted on at Board meetings. The Company Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by each Director. Draft and final versions of minutes are sent to all Directors in a timely manner for their comment and record.

In case of a potential conflict of interest involving any Director in connection with a transaction or proposal including potential connected transactions, the Board proceeds in accordance with the HSH Code and the CG Code. In 2012, no potential conflict of interest was determined by the Board to be material.

Similar processes apply to our Board Committee meetings.

Board Committees

The Board has established five committees:

- Audit Committee – a committee report is set out on pages 131 and 132
- Nomination Committee – a committee report is set out on page 133
- Remuneration Committee – a committee report is set out on pages 134 to 137
- Executive Committee
- Finance Committee

The Audit, Nomination, and Remuneration Committees are governance committees, whereas the Executive and Finance Committees are strategic and finance committees. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

Board Committee Terms of Reference

Each Committee has its own terms of reference, which have been approved by the Board and are reviewed periodically to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. The Nomination Committee was set up in March 2012 and the terms of reference were reviewed in detail during the year.

The terms of reference of each Board Committee can be found on the Company's website. The following is a summary of the terms of reference of each Board Committee:

Audit Committee	
Main Responsibilities	<ul style="list-style-type: none"> To oversee the Group's financial reporting and audit processes with management and the internal and external auditors. To review the Group's internal controls and how risk is managed on an on-going basis, as further set out in the "Internal Control" section and the "Risk Management Report". To review arrangements by which employees and stakeholders may, in confidence, raise concerns about possible improprieties in financial reporting and other matters. To monitor and review the effectiveness of the Group's audit and risk management functions and review annual audit plan and reports. To oversee the scope of work of external auditor including approving fees paid to such in respect of non-audit work.
Members and Chairman	<ul style="list-style-type: none"> At least three members with the majority being INEDs. At least one member must have the appropriate qualifications or experience in financial reporting. The Chairman of the Committee must be an INED.
Regular Attendees by Invitation	<ul style="list-style-type: none"> Chief Executive Officer Chief Financial Officer Company Secretary (as meeting secretary) General Manager, Audit & Risk Management External auditor of the Company
Quorum	<ul style="list-style-type: none"> Two members of the Committee.
Number of Meetings Per Year	<ul style="list-style-type: none"> Four meetings a year and additionally as required.
Committee Report	<ul style="list-style-type: none"> Set out on pages 131 and 132

Nomination Committee

Main Responsibilities	<ul style="list-style-type: none"> To review the structure, size and composition of the Board. To evaluate the balance and blend of skills, knowledge, experience and diversity of the Board. To maintain under review the leadership and succession needs of the Group. To review and make recommendations to the Board on the appointment and re-appointment of all Directors. To assess the independence of INEDs.
Members and Chairman	<ul style="list-style-type: none"> At least three members with the majority being INEDs. The Chairman of the Committee must be the Chairman of the Board.
Attending by Invitation	<ul style="list-style-type: none"> Company Secretary (as meeting secretary)
Quorum	<ul style="list-style-type: none"> Two members of the Committee, one of whom must be the Chairman of the Board.
Number of Meetings Per Year	<ul style="list-style-type: none"> At least once a year and additionally as required.
Committee Report	<ul style="list-style-type: none"> Set out on page 133

Remuneration Committee

Main Responsibilities	<ul style="list-style-type: none"> To approve the remuneration philosophy and policies of the Group and bonus schemes for senior staff. To review and approve all remuneration packages for Executive Directors and senior management. To review and recommend the fees of Non-Executive Directors to the Board and the fees for serving on Board Committee. To ensure that no Director approves his or her own remuneration. To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.
Members and Chairman	<ul style="list-style-type: none"> At least three members with the majority being INEDs. The Chairman of the Committee must be an INED.
Regular Attendees by Invitation	<ul style="list-style-type: none"> Chief Executive Officer Company Secretary (as meeting secretary) General Manager, Human Resources
Quorum	<ul style="list-style-type: none"> Two members of the Committee.
Number of Meetings Per Year	<ul style="list-style-type: none"> At least twice a year and additionally as required.
Committee Report	<ul style="list-style-type: none"> Set out on pages 134 to 137

Executive Committee

Main Responsibilities

- To develop and review strategic opportunities and significant investment proposals.
- To evaluate the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group.
- To oversee the implementation of strategic plans and investment proposals.
- To monitor the Group's financial and operational plans and forecasts, and deliver these plans and monitor performance.
- To interact with Finance Committee and other relevant Board Committees on their submissions.
- To perform the functions of a nomination committee before the Group's Nomination Committee was set up in March 2012.

Members and Chairman

- At least three members and consisting of Non-Executive Directors with the Chief Executive Officer.
- Currently the Committee has four members:
 - The Hon. Sir Michael Kadoorie (Chairman, Non-Executive Chairman)
 - Mr. Ian D. Boyce (Member, Non-Executive Deputy Chairman)
 - Mr. John A.H. Leigh (Member, Non-Executive Director)
 - Mr. Clement K.M. Kwok (Member, Chief Executive Officer)

Regular Attendees by Invitation

- Relevant Non-Executive Directors
- Chief Financial Officer
- Chief Operating Officer
- General Manager of operations or functional departments per relevance of the matters discussed and appropriateness

Quorum

- Two members of the Committee.

Number of Meetings Per Year

- Bi-monthly and additionally as required.

Finance Committee

Main Responsibilities

- To review all financial aspects and budgets of significant acquisitions, investments, assets disposals and new projects commitments of the Group.
- To review and approve establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group.
- To review the Group's financial performances.
- To review the establishment of corporate capital and operating contingencies and approve requests for drawing on contingencies within the approved budgets.
- To endorse issuance and allotment of shares and share repurchases.
- To review and approve treasury policies.
- To review and approve granting of guarantees and indemnities.

Members and Chairman

- At least three members and consisting of Non-Executive Directors, the Chief Executive Officer and Chief Financial Officer
- Currently the Committee has four members:
 - Mr. Ian D. Boyce (Chairman, Non-Executive Deputy Chairman)
 - Mr. John A.H. Leigh (Member, Non-Executive Director)
 - Mr. Clement K.M. Kwok (Member, Chief Executive Officer)
 - Mr. Neil J. Galloway (Member, Chief Financial Officer)

Regular Attendees by Invitation

- Relevant Non-Executive Director(s)
- Company Secretary
- Assistant General Manager, Finance
- Treasurer
- General Manager of Operations or functional departments per relevance of the matters discussed.

Quorum

- Two members of the Committee, one of whom must be a Non-Executive Director.

Number of Meetings Per Year

- At least on a monthly basis and additionally as required.

2012 Board and Committee Attendance

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2012 was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors					
The Hon. Sir Michael Kadoorie, Non-Executive Chairman	<input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Ronald J. McAulay	<input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Mr. William E. Mocatta	<input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Mr. John A.H. Leigh	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Mr. Nicholas T.J. Colfer	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Independent Non-Executive Directors					
Dr. the Hon. Sir David K.P. Li	<input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Mr. Robert C.S. Ng	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *				<input type="checkbox"/>
Mr. Robert W. Miller	<input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>			<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Patrick B. Paul	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Pierre R. Boppe	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Dr. William K.L. Fung	<input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>
Executive Directors					
Mr. Clement K.M. Kwok, Chief Executive Officer	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Mr. Neil J. Galloway, Chief Financial Officer	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Mr. Peter C. Borer, Chief Operating Officer	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>

* Mr. Robert Ng resigned as Director with effect from 19 June 2012.

The Composition of the Board

As of the date of this Report, our Board comprises 15 members. Twelve out of our 15 Directors are Non-Executives, among which six are INEDs, independent of management. As for the other six Non-Executive Directors, while they are not involved in the day-to-day business of the Company, they are not considered independent due to their association with the substantial shareholders. As announced on 19 June 2012, Mr. Robert C.S. Ng stepped down from the Board with immediate effect. On 1 February 2013, we appointed our first female INED and the current number of our INEDs remains at six, being 40% of the entire Board.

The Nomination Committee reviewed and the Board confirmed that the current structure, size and composition of the Board remained appropriate for it to perform its responsibilities.

Boardroom Diversity

The Board believes that diversity is important for effectiveness and has been following the debate around the Stock Exchange's Consultation Paper on Board Diversity regarding gender, age, culture, educational

background and professional experience. While the Board does not think specific quotas on such criteria as gender are appropriate and believes that the opportunities should be made on merit, it does believe that a diverse mix of skills, experience, and knowledge background is important of which gender is a significant element.

Since 1 February 2013, the Board has one female member on the Board out of 15 members. In making future appointments to the Board, consideration shall be given to diversity.

Looking beyond the Board, the Company also recognises the importance of diversity including gender diversity and the benefits this could bring to our Group. The Company has policies against discrimination and with regard to gender diversity specifically, women have an equal opportunity as men in developing their careers within our business.

Gender Diversity of management is set out below (categories of management defined on pages 100 to 103):

Gender Diversity

Board



1 female out of 15 as at the date of this Report

7%
of Board

Senior Management

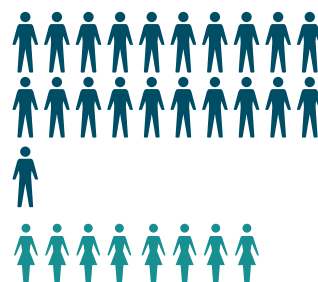


4 female out of 8 as at the date of this Report

50%
of Senior Management

* inclusive of 3 Executive Directors

Key Functions



8 female out of 29 as at the date of this Report

28%
of Key Functions

Director Induction, Familiarisation and Training

Induction

The Company provides a tailored induction programme for all Directors upon joining the Board. The programme provides a broad introduction to the Group's businesses. New Directors shall meet with the Executive Directors and some members of senior management, and visit the Group's major businesses in Hong Kong initially and overseas businesses at Board meetings held at overseas properties. Dr. Rosanna Wong has commenced a tailored induction programme facilitated by the Company Secretary since her appointment.

Familiarisation and Training

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

The Board also aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The Board visited The Peninsula Beijing in October 2012. Board members toured the facilities and back-of-house of the hotel and held discussions with local management. Such overseas site visits assist Non-Executive Directors in familiarising themselves with, and gaining a greater insight into, the Group's businesses.

Our Directors participate in continuous training and development activities that keep them abreast of developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Company regularly organises training programmes and professional development activities at the end of Board meetings which cover topics such as new laws and regulations, corporate governance practices developments and Group business related topics.

During 2012, the Directors received a total of approximately 240 hours of training, which included attendance of training from external service providers, talks arranged by the Company, attending conferences or workshops and reading materials covering a wide range of topics, such as:

- New developments in laws
- Regulations on directors' duties and obligations
- Corporate responsibility and sustainability
- Directors' and officers' liability
- Latest technology trends in the hospitality industry
- Benefits and methodology of board evaluation

Records of training attended by the Directors are maintained by the Company Secretary. Training records of Directors and the Company Secretary for 2012 are as follows:

Directors	Type of Training		
	Internal/external seminars, conferences, workshops and/or forums	Visiting and meeting with operations	Reading materials provided by external parties or by the Company
Non-Executive Directors			
The Hon. Sir Michael Kadoorie, Non-Executive Chairman	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Ronald J. McAulay	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. William E. Mocatta	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. John A.H. Leigh	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Nicholas T.J. Colfer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Independent Non-Executive Directors			
Dr. the Hon. Sir David K.P. Li	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Robert W. Miller	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Patrick B. Paul	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Pierre R. Boppe	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Dr. William K.L. Fung	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Executive Directors			
Mr. Clement K.M. Kwok, Chief Executive Officer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Neil J. Galloway, Chief Financial Officer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mr. Peter C. Borer, Chief Operating Officer	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Company Secretary			
Ms. Christobelle Liao	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Appointment and Re-election of Directors

All Directors including Non-Executive Directors are subject to a term of re-election every three years. In May 2012, Mr. Neil J. Galloway, Mr. Ronald J. McAulay, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Dr. the Hon. Sir David K.P. Li retired and all were re-elected at the 2012 Annual General Meeting. In 2012, there was no new appointment of Directors. On 1 February 2013, Dr. Rosanna Y.M. Wong was appointed to the Board.

Details of the Directors who will retire and offer themselves for re-election in the 2013 Annual General Meeting are set out in the Directors' Report. All of these Directors, being eligible, have been confirmed by the Nomination Committee and recommended by the Board to stand for re-election at the 2013 Annual General Meeting. The election of each Director shall be subject to vote of shareholders by separate resolution.

Time Commitment of Directors

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2012.

Our letters of appointment for Non-Executive Directors and INEDs, as well as employment contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board regularly reviews the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

Independence of INEDs

The Company has received written confirmations of independence from each of its six INEDs. The Nomination Committee and the Board considered that all INEDs continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Three INEDs, being Dr. the Hon. Sir David K.P. Li, Mr. Robert W. Miller and Mr. Patrick B. Paul have served in this capacity for more than nine years. Notwithstanding their long service, given their extensive and diverse business and financial experience, the Nomination Committee and the Board are of the opinion that these three Directors continue to bring independent and objective perspectives to the Company's affairs and provide valuable insights and challenges to the management.

Directors' Dealings with Company Securities

All Directors conduct their dealings in the securities of the Company in accordance with 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 2012. Details of the shareholding interests held by the Directors of the Company as at 31 December 2012 are set out on page 140.

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 Individuals. Brief particulars and shareholding interests of the senior management are set out on pages 103 and 140.

Directors' Disclosure on Conflict of Interest

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; and
- whether he or she (other than an INED) or any of his or her associates has an interest in any business which competes with the Company.

In 2012, all Directors have fulfilled these disclosure requirements.

Group Management

The day-to-day management of the Group's business is the responsibility of the Chief Executive Officer. In discharging his responsibilities, the Chief Executive Officer is assisted by the Group Management Committee ("GMC") comprising senior management covering major

operations and functions. The GMC is in turn supported by three sub-committees, and the General Managers and heads of the operations and functional departments. For the GMC and its sub-committees, each has its own terms of reference or charter that set out their respective authorities and responsibilities.

Group Management Committee

Chairman and Members

- Chairman: Chief Executive Officer – Mr. Clement K.M. Kwok
- Members: Chief Financial Officer – Mr. Neil J. Galloway, Chief Operating Officer – Mr. Peter C. Borer, Area Vice-President – Hong Kong and Thailand – Ms. Rainy Chan, Company Secretary and Corporate Counsel – Ms. Christobelle Liao, Regional Vice-President – USA East Coast – Mrs. Maria Razumich-Zec, Group General Manager, Properties and Clubs – Mr. Martyn P. A. Sawyer and General Manager, Human Resources – Ms. Cindy Tsui.

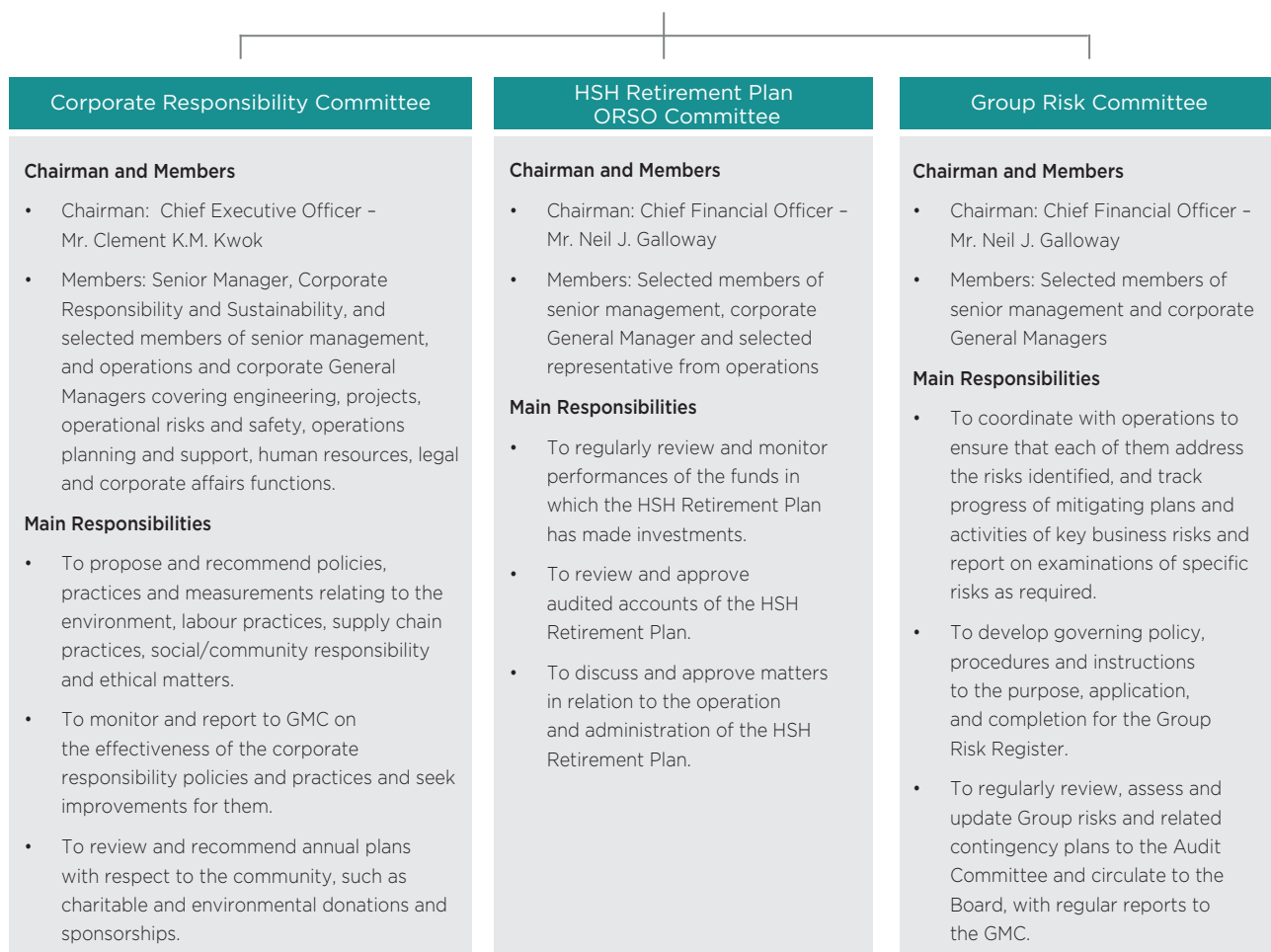
Main Responsibilities

The GMC is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board. It is responsible for making recommendations to the Board and

Board Committees on strategic and operating matters and making recommendations on matters reserved for the Board. Its main responsibilities are as follows:

- to review and monitor day-to-day operations and business affairs of the Group;
- to conduct business development; and
- to formulate strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources and risk mitigation.

The GMC has three sub-committees consisting of the Company's Corporate Responsibility Committee, the HSH Retirement Plan ORSO (Occupational Retirement Schemes Ordinance) Committee and the Group Risk Committee which oversee areas related to sustainability, the operation of the HSH Retirement Plan and the Group's risk respectively.



Internal Control System and Effectiveness

Internal Control

The Board acknowledges that it is ultimately responsible for maintaining sound internal control systems and to assess their effectiveness on a regular basis.

Our risk management and internal control systems are designed to meet the Group's needs and manage the risks to which it is exposed, including the risk of failure to achieve business objectives. It should however be noted that such risks cannot be completely eliminated and that systems can only provide reasonable, but not absolute outcomes. The systems can never completely protect against such factors as unforeseeable events, fraud, and errors in judgement even after due consideration.

The Board confirms that there is a framework of ongoing processes in place for identifying, evaluating and managing significant risks faced by the Group. These processes are regularly reviewed by the Board and the Audit Committee as appropriate and have been in place during the year ended 31 December 2012 and up to the date of approval of this Annual Report.

The Board's view of the Group's key strategic and operating risks and how the company seeks to manage those risks are set out the Risk Management Report on pages 125 to 130.

Internal Control System

The Group's internal control systems comprise Group policies, procedures and practices covering a range of areas including the authorisation and approval of transactions, the application of financial reporting standards and the review of financial performance and significant judgements.

The Company Management Authority Manual ("CMAM"), which is applied by all Group operations, clearly sets out the responsibility and authority limits of the Board, Board Committees, management and operations and is supplemented by the HSH Corporate Governance Code. The two documents form the backbone of our internal control system and are regularly reviewed and supplemented by other policies and procedures manuals. In 2012, the CMAM was thoroughly reviewed and updated.

In addition, we rolled out the Group's Data Privacy Manual following the introduction of the Data Privacy Policy in 2011. The Manual sets the framework to standardise our practice in handling of personal data collected in the normal course of business. It also sets out the practical procedures which assist our employees in handling such data in accordance with the laws and regulations in jurisdictions that we operate under, as well as behavioural standards in handling data. On-site classroom training was given to all business operations except one small commercial property. More than 380 selected managers across these business operations attended training sessions. An interactive e-learning programme was also launched for all customer-facing staff at the end of 2012.

We commenced a revamp of the Group's Purchasing and Tendering Procedures in the fourth quarter of 2012 to further tighten internal controls. The review has been completed in the first quarter of 2013 for introduction across all operations of the Group.

In respect of handling of inside information, which is a critical part of the internal control system of a listed company in Hong Kong, we have applied relevant controls on employees who are subject in handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares. We regularly review such policies so as to ensure that the Company fulfils its continuous obligations in this area including making consistent and timely disclosure.

Operational Financial Control

The Operational Financial Control (“OFC”) Department, together with the operating teams represents an important control. All aspects of operational financial activities are subject to its review. The Head of the OFC Department reports to the Chief Financial Officer and the Chief Operating Officer.

The OFC Department co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and completeness of all information. The Department reviews and, where necessary, challenges the financial operating results with a view to improving efficiency and profitability. It also initiates or approves changes to operational accounting practices or the monitoring and reporting systems. Guidance and support is provided when needed for Directors of Finance and Financial Controllers.

During 2012, the OFC Department undertook the following:

- Provided GMC with monthly reports on the financial performance and forecasts of each operation as well as their budgets, highlighting any areas of concern together with the actions being taken to address these.
- Continued mentoring of the operational finance teams in all aspects of financial management and control, with on-site visits as required.
- Organised quarterly conference calls for all operational Directors of Finance and Financial Controllers with appropriate members of the head office team to discuss issues of concern and relevance across the Group, including updates and revisions to the Company's policies and procedures and various compliance issues.
- Shared best practices, innovations and performance data throughout the Group, as well as control issues of concern.
- Developed Group standard operating procedures related to finance and accounting as required.
- Assisted with the selection and recruitment of operational Directors of Finance and Financial Controllers, as well as the initiation process for the recruited person, as required.
- Participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets.

Review of Effectiveness of Internal Controls

A key responsibility of the Board is to review, assess and confirm the adequacy and effectiveness of the Group's internal control systems. The Board has delegated part of this responsibility to the Audit Committee.

The Audit Committee receives and considers regular reports and presentations from management, finance functions in respect of reporting standards, and internal and external auditors. Any significant issues are highlighted and discussed. In assessing the effectiveness of the control systems, the Audit Committee considers the impact of any weaknesses, whether necessary actions are being taken promptly, and whether more extensive monitoring is needed. Amongst other matters, the Audit Committee reviews the performance of both internal and external auditors. The Audit Committee also considers observations by the external auditor in relation to internal financial functions.

The Group's internal audit function is performed by Audit & Risk Management (“ARM”), which plays an important part in the assessment of effectiveness of our system of internal control and the risks facing the Group. The internal audit is a group-wide function under the leadership of the General Manager, ARM who leads a team of five qualified professionals. The General Manager, ARM has a dual reporting line to the Chief Executive Officer and the Chairman of the Audit Committee. Internal audit reports on control effectiveness are submitted to the Audit Committee in line with the agreed audit plan. The Committee approves the annual audit plans and receives reports produced by them four times a year.

Governance Corporate Governance Report

ARM conducts internal audit reviews of material controls and of compliance with policies and procedures at both operational and corporate levels. In particular, attention is paid to adherence to the principle of applying adequate checks and balances in the approval processes. Plans for corrective action and control improvement are identified with operations management to address any issues, non-compliance or deficiencies identified. ARM follows up the implementation of its recommendations and reports the statistics and outcome to the Audit Committee. During the year, ARM conducted 15 internal audit exercises throughout the entire Group representing a 15% increase from 2011.

Apart from internal audit, each month General Managers and Directors of Finance or Financial Controllers of the operations review their internal control practices and certify to the OFC Department their compliance with specified key controls. Every six months they submit general representative letters to the Chief Executive Officer and the Chief Financial Officer to confirm the compliance of their internal control systems and procedures and to reinforce personal responsibility for good corporate governance and controls at operational

levels. Representation letters and qualifications are summarised and submitted to the Audit Committee for review.

The Audit Committee conducts bi-annual assessment on the operation and effectiveness of risk management and internal controls on behalf of the Board. The Committee reports to the Board which subsequently forms its view on such effectiveness. A report from the Audit Committee on its activities is set out on pages 131 and 132.

Based on the review of the Audit Committee report, the Board confirmed that throughout 2012, no material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified. The Board confirmed that the existing internal control system remains effective and adequate.

Our Shareholders

HSH had 1,862 registered shareholders as at 31 December 2012. 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 issued share capital
500 or below	333	17.884	67,461	0.004
501 - 1,000	188	10.097	150,970	0.010
1,001 - 10,000	751	40.333	3,242,031	0.216
10,001 - 100,000	453	24.328	14,385,610	0.958
100,001 - 500,000	100	5.371	21,220,476	1.413
Above 500,000	37	1.987	1,463,127,843	97.399
Total	1,862	100.000	1,502,194,391	100.000

Note: as at 31 December 2012, 36.62% of all HSH issued shares 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 57.88%. 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 sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2012 and has continued to maintain such a float as at 13 March 2013.

Engaging our Shareholders

The Company attaches great importance to promoting effective two-way communication with both individuals and institutional shareholders. We believe that continued engagement is key to building increased understanding between the Company and the shareholders of the views, opinions and concerns of each other.

We encourage our shareholders to participate in our Annual General Meeting ("AGM") and directly communicate with our Directors and senior management. Throughout the year, our Executive Directors also held meetings and attended investor conferences with institutional shareholders and financial analysts.

In order to engage shareholders more effectively, we also post webcasts of the meetings announcing the latest financial results on the Company's website, along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. In March 2012, the Board further adopted a Shareholder Communication Policy (posted on the Company's website) to specify the various communication channels which our shareholders and stakeholders have access to. For additional information, shareholders and investors can email enquiries to ir@hshgroup.com.

Shareholders' Rights to General Meetings

Shareholders holding not less than 1/20 of paid-up capital of the Company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and depositing the signed requisition at the registered office of the Company.

Our Company website 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.

2012 Annual General Meeting

The 2012 AGM was held on 21 May 2012 at The Peninsula Hong Kong. There were 232 attendees in total, of which 120 were registered shareholders and 112 were proxies or corporate representatives.

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. All Directors (except Mr. Robert C.S. Ng and Dr. William K.L. Fung due to other commitments), including the Chairmen of the Audit and Remuneration Committees, were present at the 2012 AGM. KPMG, the Company's external auditor, was also present to answer questions from any shareholder relating to its audit of the Company's Financial Statements.

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

Governance Corporate Governance Report

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2012 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 2011	100%
Payment of final dividend of 10 HK cents per share for the year ended 31 December 2011	100%
Re-election of five retiring Directors: Mr. Neil J. Galloway, Mr. Ronald J. McAulay, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Dr. the Hon. Sir David K.P. Li as Directors of the Company	Ranging from 91.23% to 99.98% 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	99.98%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	84.56%
Granting of the general mandate to Directors to repurchase the Company's shares	99.99%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	84.66%

Other Information to Shareholders

The key dates in the corporate results and meetings calendar are posted on the Company's website in advance. Important dates for 2013 are as follows:

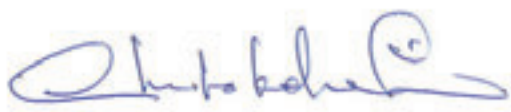
- AGM: Friday, 3 May 2013
- Interim Results Announcement: August 2013

Engaging our Stakeholders

We acknowledge that our businesses have environmental and social impact. We believe that good governance also involves listening to our stakeholders, from employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual

Report, including our Sustainability Report, explains our approach to discharging our responsibilities on such impact. We encourage our stakeholders to give us feedback on our approach. Stakeholders can email comments and enquiries to cr@hshgroup.com.

By order of the Board



Christobelle Liao
Company Secretary