

CORPORATE GOVERNANCE REPORT

Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group.



Introduction to Corporate Governance Framework

Our Board of Directors bears the responsibility towards our shareholders and stakeholders to ensure the sound management of the Company. This can only be achieved with the right structure and support by appropriate and well managed processes. Our Board sets the governance culture based on integrity,

transparency and accountability and ensures the same culture is reinforced throughout the Group. Good corporate governance throughout the organisation ensures that we can stand up to scrutiny and the changing regulatory environment, in turn to foster and maintain shareholders' and stakeholders' confidence in our Company.

Our corporate governance structure is shown below:



* In September 2013, the Group Management Committee was retitled as the Group Management Board.

Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code") 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 the principles of the CG Code.

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

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

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2013.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2013, 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. Notwithstanding this, in order to keep our shareholders informed on the Group's periodic performance, we issue quarterly operating statistics setting out key operating information; and
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

2013 Developments in Corporate Governance Practices

We review and seek improvements in our corporate governance practices on a regular basis. We highlight below our achievements during the year:

- ✓ We have conducted our first in-house Board evaluation aimed at improving effectiveness of the Board.
- ✓ We formalised our diversity practices and adopted a Board Diversity Policy in March 2013, prior to the effective date of the new CG Code code provision on Board diversity in September 2013. Our first female Director was appointed to the Board in February 2013.
- ✓ We adopted an Inside Information Escalation Policy formalising inside information control which were already undertaken by the Company, to ensure proper safeguards exist to prevent a breach of disclosure requirements. Training was conducted to the Group Management Board in March 2013. The policy was also presented to and discussed with relevant financial and operational management staff in the Finance Conference of May 2013.
- ✓ We have conducted a major update of our Purchase and Tendering Procedures to enhance operational control and efficiency while maintaining internal control over the process. This set of procedures was released to all staff on our intranet. Interactive discussions were also conducted with the procurement teams of our Asian operations, and to relevant financial and operational management staff at the Finance Conference in May 2013 by Audit & Risk Management to promote awareness and compliance. A comprehensive set of Frequently Asked Questions was released to all staff in June 2013 and further updated in August 2013.

2013 Developments in Corporate Governance Practices (continued)

- ✓ Interactive e-learning data privacy programme for all relevant customer-facing staff was 98% completed by the end of 2013.
- ✓ The Group Risk Committee has selected a single-enterprise risk management system platform for comprehensive risk reporting, analysis, and monitoring needs across the Group.
- ✓ The Group Risk Committee released a Crisis Response Checklist tailored for corporate office and all operations in May 2013, which summarises the key concerns and contact details for management team in an emergency situation. Each Checklist was updated regularly at not less than semi-annual intervals, including the latest update in November 2013.
- ✓ We have measured our performance against the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange, and duly reported in this Report on pages 256 to 262.
- ✓ We have mobilised a company secretarial task force to review the new Companies Ordinance and considered how the constitution and other governance documents of the Company may be impacted. Shareholders' approval will be sought at the Annual General Meeting of 2014 on changes to the Articles of Association of the Company to reflect the requirements of the new law.

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance and our Annual Report is an important part of our communications. In 2013, HSH won the Silver Award for Best Annual Reports Awards under General Category organised by the Hong Kong Management Association. In addition, we received the Platinum award of HKICPA's 2013 Best Corporate Governance Disclosure Awards. While reporting is not about winning awards, the external recognition reaffirms that our practices are meeting the expectations of our shareholders and stakeholders.

Silver

Best Annual Reports Awards

Platinum

Best Corporate Governance Disclosure Award



The Role of the Board

The names and biographical details of all Board members (including details of their relevant experience, and financial, business, family or other material or relevant relationships among them) are set out on pages 134 to 137. This information is also posted on the Company's website: www.hshgroup.com/en/Corporate-Governance.

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 157), 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;
- approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements;

- approving the Group's annual budgets and forecasts;
- approving significant changes in accounting policies;
- approving changes to the Company's capital structure;
- setting the dividend policy;
- authorising material borrowings and expenditures;
- approving the appointment of Directors for election and/or re-election in general meetings;
- reviewing and ensuring corporate governance functions are carried out 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 Board.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2013, please refer to the Directors' Report set out on page 186.

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

The Hon. Sir Michael Kadoorie has been our Non-Executive Chairman since May 1985 and Clement King Man Kwok has been the Chief Executive Officer since February 2002.

There is a clear division of the responsibilities in the Company between the running of the Board, and the executives responsible for the running of the Company's business. The respective 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 Independent Non-Executive Directors (each an "INED") 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 in frequent contact with the Chief Executive Officer through various means including face-to-face meetings and telephone conversations on average at least 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. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group, including facilitating the first in-house Board evaluation in 2013.

- **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 Board, 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 Group's performance in achieving agreed corporate goals and objectives and monitor 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, as well as determine appropriate levels of remuneration for Executive Directors and senior management. 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 are not confined to the areas of business covered by their specific executive functions, but are extended to the 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. The dates of the 2013 Board meetings were determined and provided to the Directors in the fourth quarter of 2012. 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 to allow sufficient time to review discussion topics.

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 2013, 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
- Nomination Committee
- Remuneration Committee
- 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 References

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 terms of reference of the Nomination Committee was updated in March 2013 in line with CG Code provisions on Board diversity.

The terms of reference of each Board Committee can be found on the Company's website: www.hshgroup.com/en/Corporate-Governance/Board-Committees. 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 Controls and Risk Management" section and the "Group Risk Committee and Risk Management Report" section • 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) • Group 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 172 and 173

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 review the Board's Diversity Policy • 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 pages 174 and 175

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 Committees • 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) • Group Director, 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 176 to 180

Executive Committee

Main Responsibilities	<ul style="list-style-type: none"> • 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
Members and Chairman	<ul style="list-style-type: none"> • At least three members and consisting of Non-Executive Directors with the Chief Executive Officer • Currently the Committee has four members: <ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> • Relevant Non-Executive Directors • Chief Financial Officer • Chief Operating Officer • General Manager of operations or Heads of corporate departments per relevance of the matters discussed and appropriateness
Quorum	<ul style="list-style-type: none"> • Two members of the Committee
Number of Meetings Per Year	<ul style="list-style-type: none"> • Bi-monthly and additionally as required

Finance Committee

Main Responsibilities	<ul style="list-style-type: none"> • To review all financial aspects and budgets of significant acquisitions, investments, assets disposals and new projects commitments of the Group • To review and approve the 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	<ul style="list-style-type: none"> • At least three members and consisting of Non-Executive Directors, the Chief Executive Officer and Chief Financial Officer • Currently the Committee has four members: <ul style="list-style-type: none"> – 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, 1 January 2013 to 12 September 2013)
Regular Attendees by Invitation	<ul style="list-style-type: none"> • Relevant Non-Executive Director(s) • Company Secretary • General Manager, Group Finance • Group Treasurer • General Manager of Operations or Heads of corporate departments per relevance of the matters discussed
Quorum	<ul style="list-style-type: none"> • Two members of the Committee, one of whom must be a Non-Executive Director
Number of Meetings Per Year	<ul style="list-style-type: none"> • At least on a monthly basis and additionally as required

2013 Board and Committee Attendance

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2013 was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors					
The Hon. Sir Michael Kadoorie, Non-Executive Chairman	● ● ● ● ○		● ●		●
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	● ● ● ● ●	● ● ● ●		● ●	●
Mr. Ronald J. McAulay	● ● ● ○ ○				●
Mr. William E. Mocatta	● ● ● ● ●				●
Mr. John A.H. Leigh	● ● ● ● ●				●
Mr. Nicholas T.J. Colfer	● ● ● ● ○				○
Independent Non-Executive Directors					
Dr. the Hon. Sir David K.P. Li	● ● ● ● ○		● ●		●
Mr. Robert W. Miller ⁽¹⁾	● ● ● ○ ○			● ●	●
Mr. Patrick B. Paul	● ● ● ● ●	● ● ● ●		● ●	●
Mr. Pierre R. Boppe	● ● ● ● ○				●
Dr. William K.L. Fung	● ● ● ● ●	● ● ○ ○	● ○		○
Dr. Rosanna Yick Ming Wong	● ● ● ● ●				●
Executive Directors					
Mr. Clement K.M. Kwok, Chief Executive Officer	● ● ● ● ●				●
Mr. Neil J. Galloway ⁽²⁾ , Chief Financial Officer	● ● ●				●
Mr. Peter C. Borer, Chief Operating Officer	● ● ● ● ●				●

Notes:

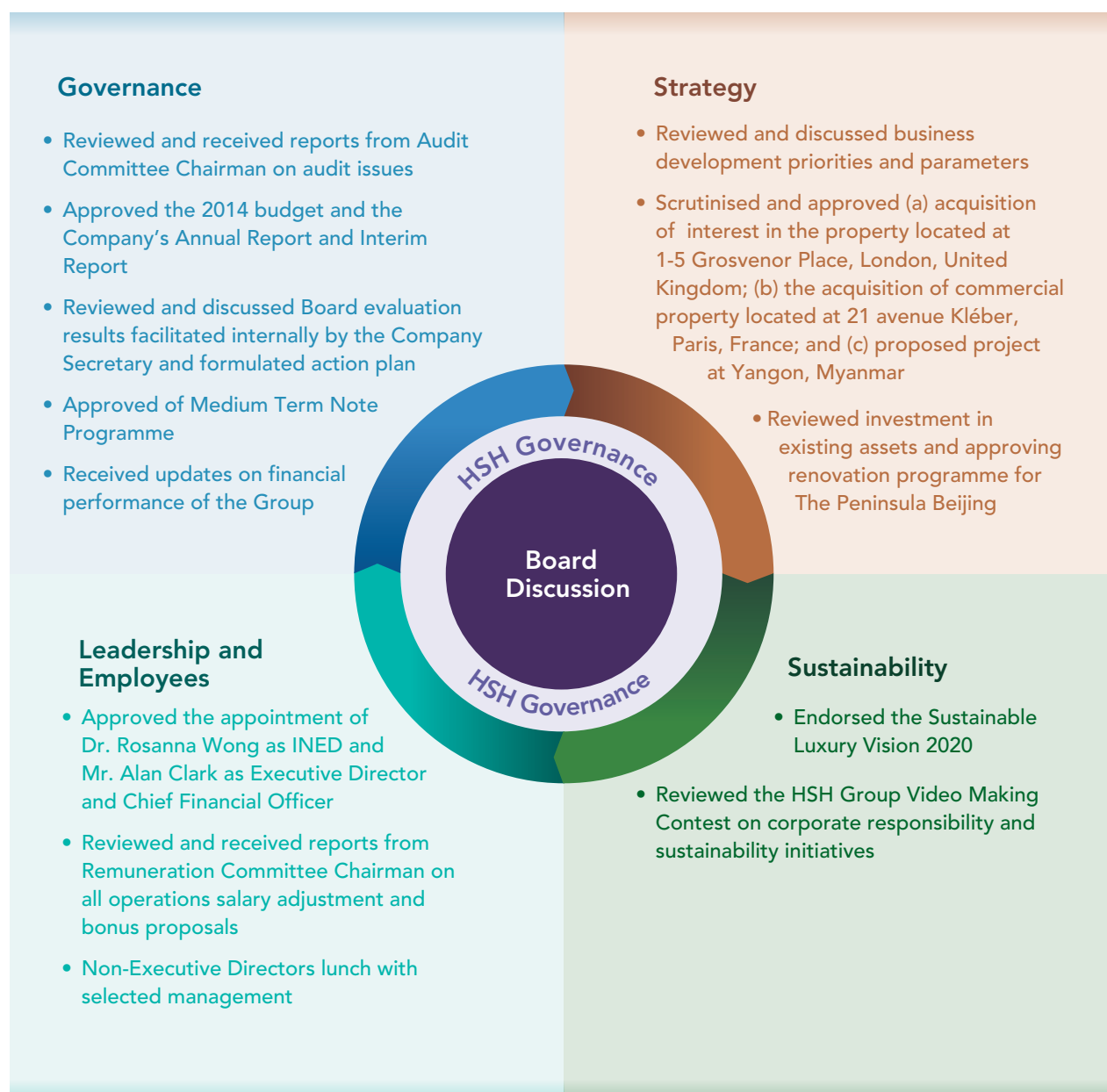
(1) Mr. Robert Miller resigned as Director with effect from 1 January 2014.

(2) Mr. Neil Galloway resigned as Director with effect from 13 September 2013.

2013 Board Meetings

Five regular Board meetings took place in 2013. Two of which were conducted at The Peninsula Hong Kong. The Board also visited Quail Lodge & Golf Club in Carmel Valley, California for its October Board meeting.

The Board's key activities during the year included:



The Composition of the Board

As of the date of this Report, our Board comprises 13 members. Eleven out of our 13 Directors are Non-Executives, among which five are INEDs, independent of management and representing 38% of the entire Board. 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.

During the year, we announced the departure of Mr. Neil J. Galloway as Executive Director and Chief Financial Officer with effect from 13 September 2013 and the departure of Mr Robert W. Miller as an INED on 1 January 2014. Mr. Alan P. Clark will join as Executive Director and Chief Financial Officer on 30 March 2014. Mr. Ian Boyce will resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. Mr. Andrew Brandler will be proposed to be elected as a Non-Executive Director of the Company at the Annual General Meeting. If elected, he will be

a Non-Executive Director and appointed as Deputy Chairman of the Company.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2013 remained appropriate for it to perform its responsibilities. The Nomination Committee is in the process of identifying a replacement for Mr. Robert W. Miller.

Boardroom Diversity

The Board believes that diversity is important for Board effectiveness. The Board has formalised its approach on Board diversity and adopted its diversity policy in March 2013. This policy can be found on the Company's website: www.hshgroup.com/en/Corporate-Governance. This philosophy does not end at the Board level but is carried out throughout the Group.

Gender Diversity of management as at the date of this Report is set out below:

	Number	Proportion
The Board	1 female 12 males	8% female 92% male
Senior Management*	4 females 3 males	57% female 43% male
General Managers of operations and Heads of corporate departments**	9 females 23 males	28% female 72% male

* Inclusive of 2 Executive Directors

** General Managers of operations and Heads of corporate departments category does not include members of senior management who also holds a functional role at operations or corporate office

The Company has taken, and continues to take steps to promote diversity, including gender diversity at management levels as well as in the Boardroom. The Company has policies on equal opportunities and policies against discrimination with regard to gender in relation to recruitment and promotion as well as family friendly employment practices. Active steps were taken in promoting diversity in recruitment.

The Board recognised the lack of gender diversity at the Board level, and Dr. Rosanna Wong was appointed as an Independent Non-Executive Director on 1 February 2013 as the first female Director of our Company. In addition, with the departure of Mr. Neil J. Galloway as our Chief Financial Officer, external search consultants engaged by the Company in the selection process were requested to observe our diversity policy in terms of

skill set, experience, knowledge, expertise, culture, level of independence from the Company, age, race and gender. While the diversity policy was observed, the consideration over appointments continued to be based on merit, measured against objective criteria and skills and experience of the individual.

The Board has considered but decided not to set express diversity quotas or measurable objectives for implementing the diversity policy. However, the Board will continue to ensure that diversity is always taken into account as one of the key appointment consideration factors. The Company's recruitment philosophy remains that decisions should be made based on the best person for the role.

Board Evaluation

In addition to an annual meeting held between the Non-Executive Chairman and the Non-Executive Directors, including INEDs, without the presence of the Executive Directors to evaluate management effectiveness, the Board adopted a more structured Board evaluation approach in 2013. During 2013, the Board carried out its first self-assessment to evaluate its own performance. The process involved the development of a bespoke online qualitative questionnaire by the Company Secretary in consultation with the Group Management Board. The questionnaire was disseminated for completion by all Directors in August 2013. Responses were received anonymously to ensure that these responses were as open, frank and informative as possible. In October 2013, the Board discussed the report from the evaluation and agreed its action plan, as outlined in the diagram on the right. The Board affirmed the value of such evaluation and agreed that similar evaluation should be conducted every two years.

July 2013: Company Secretary, in consultation with the Group Management Board, prepared a bespoke qualitative questionnaire with more than 30 questions. Directors were asked to rate the Board and themselves on the following areas:

- our Group's objectives, strategy and performance assessment
- internal control and risk management effectiveness
- succession planning
- management performance
- composition and effectiveness of the Board
- process supporting the Board
- individual member's performance.

August 2013: All Directors completed the questionnaire online anonymously.

October 2013: Company Secretary collated and prepared a summary of the survey scores and responses. The summary was discussed at Board Meeting. Strengths were acknowledged and weaknesses identified.

At the **October Board Meeting**, a number of actions were agreed by the Board:

- Chief Executive Officer and management will meet with Non-Executive Directors more regularly to discuss business strategy of the Company on new projects earlier
- Management will prepare a medium-term strategy of the Company, updated annually at Board Meetings
- Management will prepare a 5- to 10-year succession plan
- General Managers of Operations and Heads of Corporate Departments will conduct presentations at Board Meetings to keep Board members apprised of the presenters' roles and 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. All corporate policies are also explained and provided to new Directors by the Company Secretary. Dr. Rosanna Y.M. Wong, who was appointed to the Board in February 2013, has completed a tailored induction programme facilitated by the Company Secretary. The induction programme included one-to-one meetings with Executive Directors and senior management and General Managers of properties and operations as well as site visits to all Hong Kong operations.

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 October 2013 Board Meeting was held at Quail Lodge & Golf Club. Board members toured the facilities and met 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 Directors provide the Company with details of their training attended by them annually and such records are maintained by the Company Secretary. During 2013, the Directors received a total of approximately 259 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 range of topics, including: new laws and regulations, corporate governance practices and sustainability developments and Group business related topics.

Training records of Directors and the Company Secretary for 2013 are as follows:

Directors	Type of Training		
	Attending 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	✓	✓	✓
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	✓	✓	✓
Mr. Ronald J. McAulay	✓	✓	✓
Mr. William E. Mocatta	✓	✓	✓
Mr. John A.H. Leigh	✓	✓	✓
Mr. Nicholas T.J. Colfer	✓	✓	✓
Independent Non-Executive Directors			
Dr. the Hon. Sir David K.P. Li	✓	✓	✓
Mr. Robert W. Miller ⁽¹⁾	✓	✓	✓
Mr. Patrick B. Paul	✓	✓	✓
Mr. Pierre R. Boppe	✓	✓	✓
Dr. William K.L. Fung	✓		✓
Dr. Rosanna Y.M. Wong	✓	✓	✓
Executive Directors			
Mr. Clement K.M. Kwok, Chief Executive Officer	✓	✓	✓
Mr. Neil J. Galloway ⁽²⁾ , Chief Financial Officer	✓	✓	✓
Mr. Peter C. Borer, Chief Operating Officer	✓	✓	✓
Company Secretary			
Ms. Christobelle Liao	✓	✓	✓

Notes:

(1) Mr. Robert Miller resigned as Director with effect from 1 January 2014.

(2) Mr. Neil Galloway resigned as Director with effect from 13 September 2013.

Appointments and Re-election of Directors

The Company confirms that all Directors' appointments and re-elections were conducted in compliance with the CG Code in 2013. Details of the appointments to and resignations from the Board in 2013, and Directors who will retire and offer themselves for re-election in the 2014 Annual General Meeting are set out in the Directors' Report in page 183.

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. 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 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 2013.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received annual written confirmations of independence from each of its six INEDs who served in 2013. The Nomination Committee and the Board considered that all INEDs who served in 2013 were, and the current five INEDs continue 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 possesses a mind-set that is independent and is prepared to challenge conventional wisdom in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence.

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 2013. Details of the shareholding interests held by the Directors of the Company as at 31 December 2013 are set out on page 184.

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 139 and 184.

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; 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 2013, 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 Board ("GMB") comprising senior management covering major operations and functions. The GMB is in turn supported by three sub-committees, and the General Managers and heads of the operations and functional departments. For the GMB and its sub-committees, each has its own terms of reference or charter that set out their respective authorities and responsibilities.

Group Management Board

Chairman and Members

- Chairman: Mr. Clement K.M. Kwok, Chief Executive Officer
- Members:
 - Executive Directors: Mr. Peter C. Borer, Chief Operating Officer, Chief Financial Officer
 - Group Executives: Ms. Christobelle Liao, Group Director, Corporate and Legal
Mr. Martyn P.A. Sawyer, Group Director, Properties
 - Other Members: Ms. Rainy Chan, Regional Vice-President and General Manager of The Peninsula Hong Kong
Mrs. Maria Razumich-Zec, Regional Vice-President and General Manager of The Peninsula Chicago
Ms. Cindy Tsui, Group Director, Human Resources

Main Responsibilities

The GMB 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
- 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 GMB has three sub-committees consisting of the 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.

Corporate Responsibility Committee

Chairman and Members

- Chairman: Mr. Clement K.M. Kwok, Chief Executive Officer
- Members: Director, Corporate Responsibility and Sustainability, and selected members of senior management, General Managers of operations and Heads of corporate departments covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions

Main Responsibilities

- To propose and recommend policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters
- To monitor and report to GMB on the effectiveness of the corporate responsibility policies and practices and seek improvements for them
- To review and recommend annual plans with respect to the community, such as charitable and environmental donations and sponsorships

HSH Retirement Plan ORSO Committee

Chairman and Members

- Chairman: Mr. Ernest Tang, General Manager, Group Finance (Acting Chairman from 13 September 2013)
- Members: Selected members of senior management, Heads of corporate departments and selected representatives from operations

Main Responsibilities

- To regularly review and monitor performances of the funds in which the HSH Retirement Plan has made investments
- To review and approve audited accounts of the HSH Retirement Plan
- To discuss and approve matters in relation to the operation and administration of the HSH Retirement Plan

Group Risk Committee

Chairman and Members

- Chairman: Ms. Christobelle Liao, Group Director, Corporate and Legal (Acting Chairman from 13 September 2013)
- Members: Selected members of senior management and corporate Group General Managers

Main Responsibilities

- To coordinate with operations to ensure that each of them address the risks identified, and track progress of mitigating plans and activities of key business risks and report on examinations of specific risks as required
- To develop governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register
- To regularly review, assess and update Group risks and related contingency plans to the Audit Committee and circulate to the Board, with regular reports to the GMB

Internal Controls and Risk Management

The Board considers the internal controls and risk management system is fundamental to the achievement of the Company's objectives. It acknowledges that it is ultimately responsible for maintaining sound internal control systems and to assess their effectiveness on a regular basis.

Furthermore, 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.

The Board confirms that there is a framework of ongoing processes in place for identifying, evaluating and managing significant risks faced by the Group. The framework and its processes are regularly reviewed by the Board and the Audit Committee as appropriate and have been in place during the year ended 31 December 2013 and up to the date of approval of this Annual Report.

Control Landscape

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.

Codes and Policies

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** that is founded upon the Corporate Governance Code of the Listing Rules, and **HSH Code of Conduct and Equal Opportunities** which governs behaviour of our employees. These documents form the backbone of our internal control system and are regularly reviewed and supplemented by other policies and procedures manuals.

A **Whistleblowing Policy** is in place to facilitate employees and other stakeholders reporting on any suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation. The policy is posted on the Company's website: www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy. In 2013, five incidents were reported through the dedicated and secure whistleblowing email account. All incidents were promptly followed up by Audit & Risk Management in accordance with the policy. Investigation results were communicated to the Executive Directors with approved recommendations implemented by the responsible parties.

The Group's **Data Privacy 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. Data privacy is also an area of key importance to our stakeholders as confirmed in our sustainability materiality study.

Following a data breach incident of Peninsula Merchandising Limited in September 2013 which was reported to the Privacy Commissioner for Personal Data of Hong Kong, the Company has further tightened its internal data controls by providing access only to selected authorised staff of the operations concerned, improving software restrictions, and required all staff of the operation to undergo the Company's authorised data privacy online trainings, which were completed in September 2013.

In 2013, to reinforce our internal controls:

- following the update of the CMAM in 2012, training was provided to key members of financial and operational management of all operations at the Finance Conference of May 2013;
- we have formalised our **Inside Information Escalation Policy** to ensure potential inside information is being captured and confidentiality of such information is being maintained until consistent and timely disclosure are made; and
- we have completed a major update of our **Purchase and Tendering Procedures** in 2013 to enhance operational control and efficiency while maintaining internal control over the process. The full revised set of procedures was released to all staff on our intranet. Specific training and Q&A sessions were also conducted at the Finance Conference in May 2013. A comprehensive set of Frequently Asked Questions was released to all staff in June 2013 and further updated in August 2013.

Inside Information Escalation Policy

Our Inside Information Escalation Policy regulates the handling and dissemination of inside information of the Company, which is a critical internal control component of a listed company in Hong Kong. The policy includes:

- Designated reporting channels from different operations informing any potential inside information to Group Management Board ("GMB")
- GMB to determine further escalation and disclosure as required
- Designated persons authorised to act as spokespersons and respond to external enquiries

Training was provided to GMB, and interactive discussion was conducted with key members of financial and operational management of all operations at the Finance Conference of May 2013.

Financial Management and Reporting

The Operations Finance Department, together with the operating teams represents an important control. All aspects of operational financial activities are subject to its review. The General Manager of this Department reports to the Chief Financial Officer and the Chief Operating Officer.

Operations Finance Department co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and completeness of all information. This Department reviews and, where necessary, challenges the financial operating results with a view to find ways to improve 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 operational Directors of Finance and Financial

Operations Finance Department

During 2013, the Operations Finance Department undertook the following:

- Organised the biennial Finance conference, which was attended by all operational Directors of Finance and Financial Controllers and members of the head office team
- Developed and updated Group standard operating procedures related to finance and accounting as required
- Assisted with the recruitment and selection of operational financial personnel
- Participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets
- Regular matters including full participation in and management of the budgeting process, regular dialogue and reporting on financial performance, sharing of best practices, innovations and performance data throughout the Group, and provision of internal and external training to operational finance staff

Controllers. This Department also ensures that financial reporting submitted by operations highlight all key information and matters affecting the operations and that the reports fairly reflected the operations performance, market conditions and management efforts.

Assurance

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 Group General Manager, ARM who leads a team of five qualified professionals. The Group General Manager, ARM has a reporting line to the Chief Executive Officer and has direct access to 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 plan and receives reports produced by ARM throughout the year.

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 and tools 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 2013, ARM conducted 12 internal audit exercises throughout the entire Group.

Apart from internal audit, General Managers and Directors of Finance or Financial Controllers of the operations submit general representative letters every six months 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. All representation letters and qualifications are summarised and submitted to the Audit Committee and Finance Committee for review.

The Audit Committee conducts semi-annual assessment on the operation and effectiveness of internal controls and risk management 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 172 to 173.

Based on the review of the Audit Committee report, the Board confirmed that throughout 2013, 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 1,808 registered shareholders as at 31 December 2013. 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	344	19.027	68,418	0.005
501-1,000	193	10.675	155,322	0.010
1,001-10,000	709	39.215	3,044,095	0.203
10,001-100,000	431	23.838	13,527,410	0.901
100,001-500,000	96	5.310	20,105,953	1.338
Above 500,000	35	1.935	1,465,293,193	97.543
Total	1,808	100.000	1,502,194,391	100.000

Note: as at 31 December 2013, 37.05% 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 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 2013 and has continued to maintain such a float as at 17 March 2014.

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 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: www.hshgroup.com/en/Investor-Relations, along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. Our Shareholder Communication Policy (posted on the Company's website: www.hshgroup.com/en/Corporate-Governance) has specified the various communication channels which our shareholders and stakeholders have access to. For additional information, shareholders and investors can email enquiries to us at ir@hshgroup.com.

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 website: www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights 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.

2013 Annual General Meeting

The 2013 AGM was held on 3 May 2013 at The Peninsula Hong Kong. There were 256 attendees in total, of which 138 were registered shareholders and 118 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the 2013 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. Nicolas T.J. Colfer and Dr. William K.L. Fung due to other commitments), including the Chairmen of the Audit and Remuneration Committees, were present at the 2013 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 Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

* GRI G4 Material Disclosure: G4-26

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2013 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

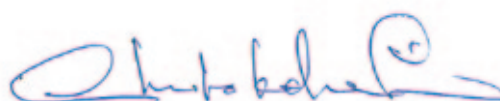
Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited Financial Statements and the reports of the Directors and independent auditor for the year ended 31 December 2012	100%
Payment of final dividend of 10 HK Cents per share for the year ended 31 December 2012	100%
Re-election of five retiring Directors: The Hon. Sir Michael Kadoorie, Mr Ian D. Boyce, Mr. Peter C. Borer, Mr Patrick B. Paul and Dr. Rosanna Y.M. Wong as Directors of the Company	Ranging from 98.01% to 100% 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	100%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	83.08%
Granting of the general mandate to Directors to repurchase the Company's shares	100%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	83.15%

Other Information

Other information for our investors including our shareholders' calendar are set out in page 267.

The Company's share price information is disclosed on page 55.

We encourage our stakeholders to give us feedback on our approach. Comments and enquiries can be sent to our email address at cr@hshgroup.com.



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 Review, explains our approach to discharging our responsibilities on such impact.

By order of the Board
Christobelle Liao
 Company Secretary

* GRI G4 Material Disclosure: G4-26