

Corporate Governance Report



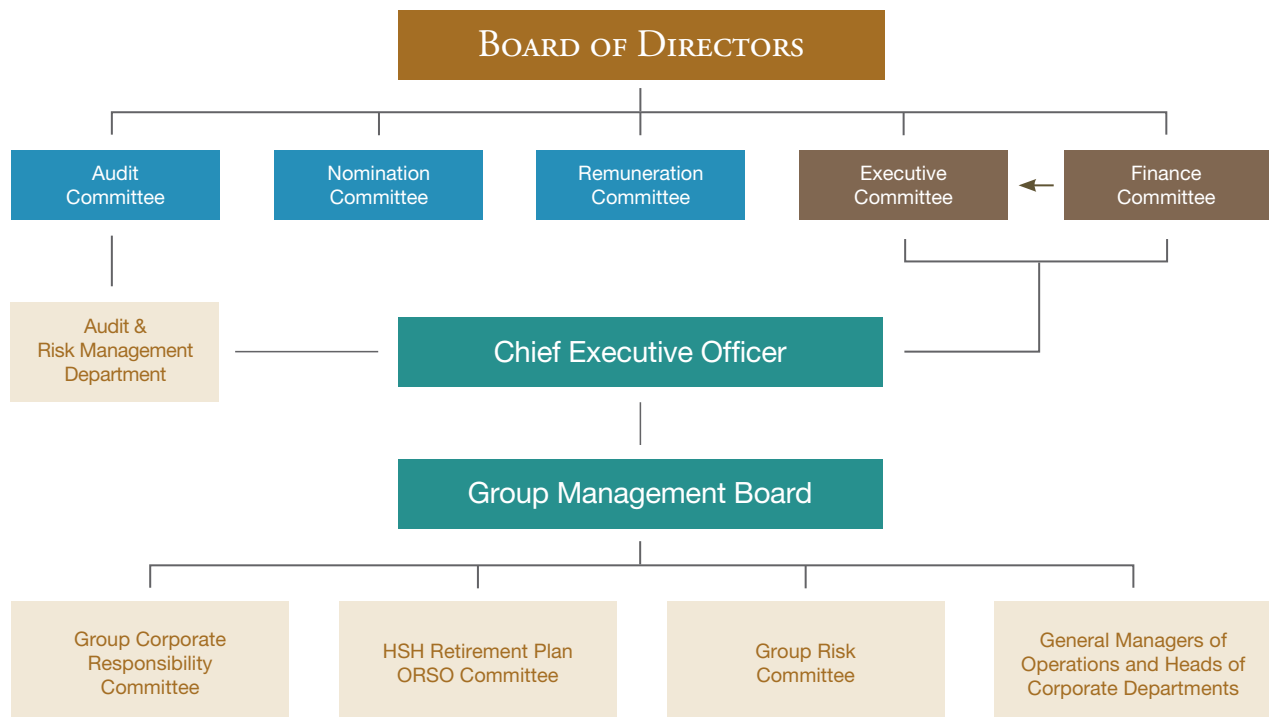
Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group.

INTRODUCTION TO CORPORATE GOVERNANCE FRAMEWORK

Our Board of Directors is responsible to our shareholders and stakeholders for ensuring the success of the Company under a rigorous governance framework. This can only be achieved by having the right structure, supported 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, and in turn foster and maintain shareholders' and stakeholders' confidence in our Company.

Our corporate governance structure is shown below:



■ Governance Board Committees

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 2014.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2014, with the exception of the following:

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

2014 Developments in Corporate Governance Practices

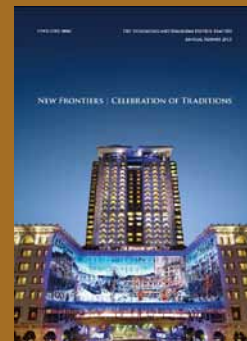
We review and seek improvements in our corporate governance practices on a regular basis. Highlights of our achievements during the year include:

- ✓ We implemented the action plan agreed by the Board from our first in-house Board evaluation in 2013, aimed at improving effectiveness
- ✓ We reviewed and updated our Company Management Authority Manual which is the backbone of our internal control system
- ✓ We reviewed the new Companies Ordinance and updated the constitution and other governance documents of the Company. Shareholders approved the changes to the Articles of Association of the Company to reflect the requirements of the new law at the Annual General Meeting in 2014
- ✓ Our Sustainability Report contained in the last Annual Report met Global Reporting Initiative G4 standard. We continue to review and measure our performance against the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange, and duly reported in this Report on pages 258 to 265
- ✓ We continued with our two-year engagement plan to assist operations in understanding the Sustainable Luxury Vision 2020 and developing their local plans to deliver on the Vision
- ✓ Since February 2014, we have adopted a policy where impact on our Sustainable Luxury Vision 2020 and other environmental and social implications be taken into consideration in investment proposals
- ✓ We carried out a comprehensive review of our risk management structure and processes. Developments in the risk management system of the Group are set out in the Group Risk Committee Report on pages 170 to 175
- ✓ Data privacy training was conducted for the executive committee and selected customer-facing senior staff of our new operation, The Peninsula Paris, in December 2014 and data privacy practices reinforced at all Group's operations
- ✓ Further training on Inside Information Escalation Policy was conducted for selected managers at a Finance for Business Managers course

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 to fulfil this commitment.

In 2014, 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 Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards under Non-Hang Seng Index (Large Market Capitalisation) Category. The sustained external recognition reaffirms that our practices are meeting the expectations of our shareholders and stakeholders.



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 142 to 145. This information is also posted on the Company's website¹.

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 163), 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;
- evaluating the Board's performance;
- 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 expenditure;

- approving the appointments 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 assessing the effectiveness of the risk management and internal control systems of the Group on an on-going basis through review of reports of Audit Committee and the Group Management Board.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2014, please refer to the Directors' Report set out on page 190.

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.

¹ www.hshgroup.com/en/Corporate-Governance

- **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 as “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.

- **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 risk management and internal

control systems 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, chairs 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 outside knowledge of the businesses and markets in which the Company operates, providing informed insight and independent judgement on all types of issues and take a stance where potential conflicts of interest arise.

Independence weighting of HSH Board and Governance Board Committees

Board	5/14 members
Audit Committee	2/3 members (including chairman)
Nomination Committee	2/3 members
Remuneration Committee	2/3 members (including chairman)

THE ROLE OF EXECUTIVE DIRECTORS

Our Executive Directors are the Chief Executive Officer, Chief Operating Officer and Chief Financial 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 in person regularly to discharge its responsibilities. The dates of the 2014 Board meetings were determined and provided to the Directors in the fourth quarter of 2013. 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 for review of 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, sustainability 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. Matters to be decided at meetings are decided by a majority of votes from voting Directors, although the usual practice is that decisions reflect the unanimous consensus of the Board. 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.

All Directors are required to comply with their common law duty to act in the best interests of the Company and the interests of our shareholders and stakeholders. All Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2014, 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 Board Committees under the CG Code. The Executive and Finance Committees are strategic and finance committees which are integral part of the management process. Only the attendance and reports on main activities from the Governance Board Committees are included in this section. However, 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 full terms of reference of each Board Committee can be found on the Company's website² and also the Stock Exchange's website for the Governance Board Committees. A summary of the terms of reference of each Board Committee is set out on the next page.

² www.hshgroup.com/en/Corporate-Governance/Board-Committees

AUDIT COMMITTEE

Main Responsibilities

- 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 Risk Management section and the Group Risk Committee 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

- 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

- Chief Executive Officer
- Chief Financial Officer
- Company Secretary (as meeting secretary)
- Group General Manager, Audit & Risk Management
- External auditor of the Company

Quorum

Two members of the Committee

Number of Meetings Per Year

Four meetings a year and additionally as required

Committee Report

Set out on pages 176 and 177

NOMINATION COMMITTEE

Main Responsibilities

- 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

- At least three members with the majority being INEDs
- The Chairman of the Committee must be the Chairman of the Board

Attending by Invitation

Company Secretary (as meeting secretary)

Quorum

Two members of the Committee, one of whom must be the Chairman of the Board

Number of Meetings Per Year

At least once a year and additionally as required

Committee Report

Set out on pages 178 and 179

REMUNERATION COMMITTEE

Main Responsibilities

- 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

- At least three members with the majority being INEDs
- The Chairman of the Committee must be an INED

Regular Attendees by Invitation

- Chief Executive Officer
- Company Secretary (as meeting secretary)
- Group Director, Human Resources

Quorum

Two members of the Committee

Number of Meetings Per Year

At least twice a year and additionally as required

Committee Report

Set out on pages 180 to 183

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

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 Andrew Brandler (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 Operating Officer
- Chief Financial Officer
- General Manager of operations or Heads of corporate departments per relevance of the matters discussed

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 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

- 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 Andrew Brandler (Chairman, Non-Executive Deputy Chairman)
 - Mr John A.H. Leigh (Member, Non-Executive Director)
 - Mr Clement K.M. Kwok (Member, Chief Executive Officer)
 - Mr Alan Clark (Member, Chief Financial Officer)

Regular Attendees by Invitation

- Relevant Non-Executive Directors
- Company Secretary
- General Manager, Group Finance
- Group Treasurer
- General Manager of operations or Heads of corporate 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

2014 BOARD AND COMMITTEE ATTENDANCE

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2014 was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors					
<i>The Hon Sir Michael Kadoorie</i> Non-Executive Chairman	○ ● ● ● ●		● ●		●
<i>Mr Andrew Brandler</i> ⁽¹⁾ Non-Executive Deputy Chairman	● ● ● ● ●	● ● ●		● ●	●
<i>Mr Ian D. Boyce</i> ⁽²⁾ Non-Executive Deputy Chairman	● ●	●		●	●
<i>Mr Ronald J. McAulay</i>	○ ● ● ● ●				●
<i>Mr William E. Mocatta</i>	● ● ● ● ●				●
<i>Mr John A.H. Leigh</i>	● ● ● ● ●				●
<i>Mr Nicholas T.J. Colfer</i>	● ● ● ● ●				●
Independent Non-Executive Directors					
<i>Dr the Hon. Sir David K.P. Li</i>	● ● ● ● ●		● ●		●
<i>Mr Patrick B. Paul</i>	● ● ● ● ●	● ● ● ● ●		● ● ●	●
<i>Mr Pierre R. Boppe</i>	● ● ● ● ●				●
<i>Dr William K.L. Fung</i>	○ ○ ● ● ●	○ ○ ● ● ●	○ ○		●
<i>Dr Rosanna Y.M. Wong</i>	● ● ● ● ●			○ ● ●	●
Executive Directors					
<i>Mr Clement K.M. Kwok</i> Chief Executive Officer	● ● ● ● ●				●
<i>Mr Peter C. Borer</i> Chief Operating Officer	● ● ● ● ●				●
<i>Mr Alan Clark</i> ⁽³⁾ Chief Financial Officer	● ● ● ● ●				●

Notes:

- (1) Mr Andrew Brandler was elected as Director with effect from 12 May 2014.
(2) Mr Ian D. Boyce resigned as Director with effect from 12 May 2014.
(3) Mr Alan Clark was appointed as Director with effect from 30 March 2014.

2014 BOARD MEETINGS

Five regular Board meetings took place in 2014. Two of these meetings took place at our operations: The Peninsula Hong Kong and The Peninsula Manila respectively. In addition to the scheduled meetings, the Board has also dealt with certain matters by written resolutions.

The Board's reviewed and discussed reports on the Company's different businesses and financial performance. In addition, key activities of the Board during the year included:



COMPOSITION OF THE BOARD

As of the date of this Report, our Board comprises 14 members. Eleven of our 14 Directors are Non-Executives, among which five are INEDs, independent of management and representing 36% of the entire Board. The other six Non-Executive Directors are not involved in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholders. During 2014, Mr Ian D. Boyce resigned with effect from the close of the annual general meeting held on 12 May 2014 and Mr Andrew Brandler was elected to the Board as Non-Executive Director at the same annual general meeting. In addition, Mr Alan Clark was appointed to the Board as Executive Director and Chief Financial Officer of the Company on 30 March 2014.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2014 remained appropriate for it to perform its responsibilities.

BOARDROOM DIVERSITY

The Board believes that diversity is important for Board effectiveness. The Board adopted its diversity policy in March 2013, which can be found on the Company's website³. 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 13 males	7% female 93% male
Senior Management**	4 females 4 males	50% female 50% male
Key Functions**	10 females 19 males	34% female 66% male

* Inclusive of 3 Executive Directors

** Key Functions include General Managers of operations and Heads of corporate departments but do not include members of senior management who also hold a functional role at operations or corporate office.

Our Board Diversity Policy

The Company recognises and embraces the benefits of diversity in Board members. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will nevertheless be based on merit while taking into account diversity including gender diversity.

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 has considered but decided not to set express diversity quotas or measurable objectives for implementing diversity. However, the Board will continue to consider appointments based on merits with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the Company, age, race and gender. Nomination Committee continues to look for a suitable person to fill the vacancy of the Company's INED following the resignation of Mr Robert Miller with effect from 1 January 2014.

Further information please refer to the Nomination Committee Report on pages 178 and 179.

BOARD EVALUATION

In 2013, the Board carried out its first self-assessment to evaluate its own performance through the completion of a bespoke online qualitative questionnaire. Responses received anonymously were collated and discussed at the October 2013 meeting, during which an action plan was agreed and reported at the last Annual Report. The action points agreed by the Board included more regular meetings between Non-Executive Directors and management to discuss business strategy; a regular review of medium term strategy of the Company; regular reviews of medium term succession plan as well as facilitating more presentations by General Managers of operations and Heads of corporate departments at Board meetings to keep Board members apprised of presenter's roles and functions.

During 2014, the Board confirmed the Group's core strategy and reviewed the overall strategy in relation to potential investments and financial impact on the Group which would be done at regular intervals. Various changes were made to monthly reporting to Board members and on format of Board papers. The Board also discussed succession plans at the Board and operational level and this will continue to be regularly reviewed. Additional site visits, key management personnel luncheons with Directors and presentations at Board meetings also gave the Board better insight on roles and functions of General Managers of operations and Heads of corporate departments.

As directed by the Board, a self evaluation is conducted every two years and the next one will be done in 2015. Nevertheless, the Chairman met with Non-Executive Directors in October 2014 to review management performance and recommendations were communicated to management for implementation.

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 to ensure new Directors develop a quick insight and understanding of the business. New Directors would meet with the Executive Directors and members of senior management on a one-on-one basis to discuss the Group's businesses, strategy and core function, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Both Mr Andrew Brandler and Mr Alan Clark who joined the Board in 2014 have completed a tailored induction.

Familiarisation and Training

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

The Board aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The December 2014 Board Meeting was held at The Peninsula Manila. Board members met with local management to understand their business challenges and strategy for dealing with them. Such overseas site visits assist Non-Executive Directors in familiarising themselves with, and gaining a greater insight into, the Group's different businesses.

Our Directors participate in continuous training and development activities that keep themselves 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.

The training records of Directors and the Company Secretary for 2014 are as follows:

Directors	Type of Training		
	Reading materials ^(a)	Visiting and meeting with Operations ^(b)	Attending internal and external seminars or conferences ^(c)
Non-Executive Directors			
<i>The Hon. Sir Michael Kadoorie</i> Non-Executive Chairman	✓	✓	✓
<i>Mr Andrew Brandler</i> ⁽¹⁾ Non-Executive Deputy Chairman	✓	✓	✓
<i>Mr Ian D. Boyce</i> ⁽²⁾ Non-Executive Deputy Chairman	✓	✓	✓
<i>Mr Ronald J. McAulay</i>	✓	✓	✓
<i>Mr William E. Mocatta</i>	✓	✓	✓
<i>Mr John A.H. Leigh</i>	✓	✓	✓
<i>Mr Nicholas T.J. Colfer</i>	✓	✓	✓
Independent Non-Executive Directors			
<i>Dr the Hon. Sir David K.P. Li</i>	✓	✓	✓
<i>Mr Patrick B. Paul</i>	✓	✓	✓
<i>Mr Pierre R. Boppe</i>	✓	✓	✓
<i>Dr William K.L. Fung</i>	✓		✓
<i>Dr Rosanna Y.M. Wong</i>	✓	✓	✓
Executive Directors			
<i>Mr Clement K.M. Kwok</i> Chief Executive Officer	✓	✓	✓
<i>Mr Peter C. Borer</i> Chief Operating Officer	✓	✓	✓
<i>Mr Alan Clark</i> ⁽³⁾ Chief Financial Officer	✓	✓	✓
Company Secretary			
<i>Ms Christobelle Liao</i> ⁽⁴⁾	✓	✓	✓

Notes:

(1) Mr Andrew Brandler was elected as Director with effect from 12 May 2014.

(2) Mr Ian D. Boyce resigned as Director with effect from 12 May 2014.

(3) Mr Alan Clark was appointed as Director with effect from 30 March 2014.

(4) During 2014, Ms Christobelle Liao undertook over 15 hours of professional training.

(a) Reading materials covered new laws and regulations and Group's business related topics.

(b) Visiting operations included The Peak Complex and The Peninsula Manila. Mr Andrew Brandler and Mr Alan Clark visited most of the Group's Hong Kong and overseas properties for their induction programmes.

(c) Seminars/conferences which are relevant to the business or Directors' duties in the following areas:

- Travel and Tourism development
- Corporate governance matters
- Risk management
- Sustainability development

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 2014. All Directors including Non-Executive Directors are subject to a term of re-election every three years. Details of the appointments to and resignations from the Board in 2014, and Directors who will retire and offer themselves for re-election in the 2015 Annual General Meeting are set out in the Directors' Report on page 186.

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

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2014.

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 five INEDs who served in 2014. 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 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 2014. Details of the shareholding interests held by the Directors of the Company as at 31 December 2014 are set out on page 187.

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 147 and 187.

DIRECTORS' DISCLOSURE ON CONFLICT OF INTEREST

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

- the number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements;
- their interests as a Director or shareholder in other companies or organisations significant to the businesses of the Company; and
- whether he or she (other than an INED) or any of his or her close associates has an interest in any business which competes with the Company.

In 2014, 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 operations and functional departments. Each of the GMB and its sub-committees, has its own terms of reference or charter that set out its authorities and responsibilities.

Group Management Board

Chairman and Members

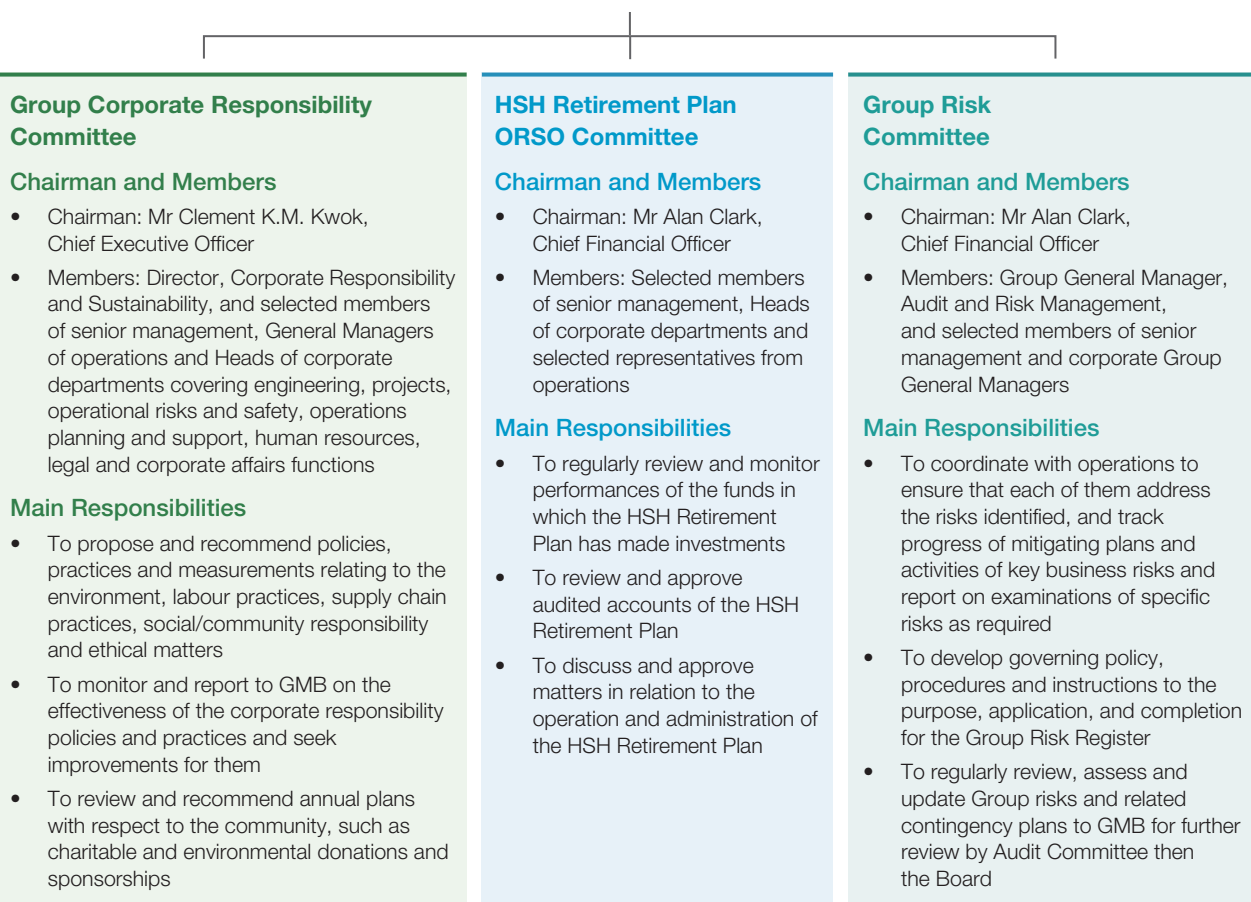
- Chairman: Mr Clement K.M. Kwok, Chief Executive Officer
- Members: Executive Directors: Mr Peter C. Borer, Chief Operating Officer; Mr Alan Clark, Chief Financial Officer
Group Executives: Ms Christobelle Liao, Group Director, Corporate and Legal; Mr Martyn Sawyer, Group Director, Properties
Other 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 Sindy 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, corporate sustainability, and risk mitigation

The GMB has three sub-committees consisting of the Group 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 risks respectively.



OUR SHAREHOLDERS

HSH had 1,817 registered shareholders as at 31 December 2014. 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	390	21.464	69,761	0.004
501-1,000	188	10.347	149,332	0.010
1,001-10,000	691	38.030	2,910,917	0.192
10,001-100,000	422	23.225	13,592,686	0.896
100,001-500,000	92	5.063	19,770,341	1.303
Above 500,000	34	1.871	1,480,674,559	97.595
Total	1,817	100.000	1,517,167,596	100.000

Note: as at 31 December 2014, 36.99% 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 58.25% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 187 and 188. 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 2014 and has continued to maintain such a float as at 20 March 2015.

ENGAGING OUR SHAREHOLDERS⁴

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

We encourage our shareholders to participate in our Annual General Meeting ("AGM") and directly communicate with our Directors. In 2014 we took a proactive approach to investor relations. In August, we conducted non-deal roadshows in

Hong Kong and Singapore with the objective of engaging potential and existing investors. Throughout the year, our Executive Directors and investor relations team also held meetings with institutional shareholders, financial analysts and potential investors.

We also post webcasts of the meetings announcing the latest financial results on the Company's website⁵, along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. Financial statistics, corporate governance practices and the latest investor information is available on the HSH corporate website. Our Shareholder Communication Policy (posted on the Company's website⁶) 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.

⁴ GRI G4 Material Disclosure: G4-26

⁵ www.hshgroup.com/en/Investor-Relations

⁶ www.hshgroup.com/en/Corporate-Governance

Our Company website⁷ 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.

2014 ANNUAL GENERAL MEETING

The 2014 AGM was held on 12 May 2014 at The Peninsula Hong Kong. There were 337 attendees in total, of which 159 were registered shareholders and 178 attended by proxies or through 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, including the Chairmen of the Audit and Remuneration Committees, were present at the 2014 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.

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2014 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 2013	100%
Payment of final dividend of 10HK Cents per share for the year ended 31 December 2013	99.99%
Re-election of five retiring Directors: Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe, Dr William K.L. Fung and Mr Alan Clark as Directors of the Company and election of a new Director: Mr Andrew Brandler as Director of the Company	Ranging from 94.66% to 99.99% 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	99.97%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	70.84%
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	81.81%
Determination of the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	99.99%
Deletion of the provisions of the former Memorandum of Association and amendment to the Articles of Association of the Company ⁸	95.45%

⁷ www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights

⁸ Details of the deletion of the provisions of the former Memorandum of Association and Amendments to the Articles of Association in response to the new Companies Ordinance were disclosed in the 2014 AGM circular to our shareholders.

OTHER INFORMATION

Other information for our shareholders including our financial calendar and contact details are set out on page 271.

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

ENGAGING OUR STAKEHOLDERS⁹

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.

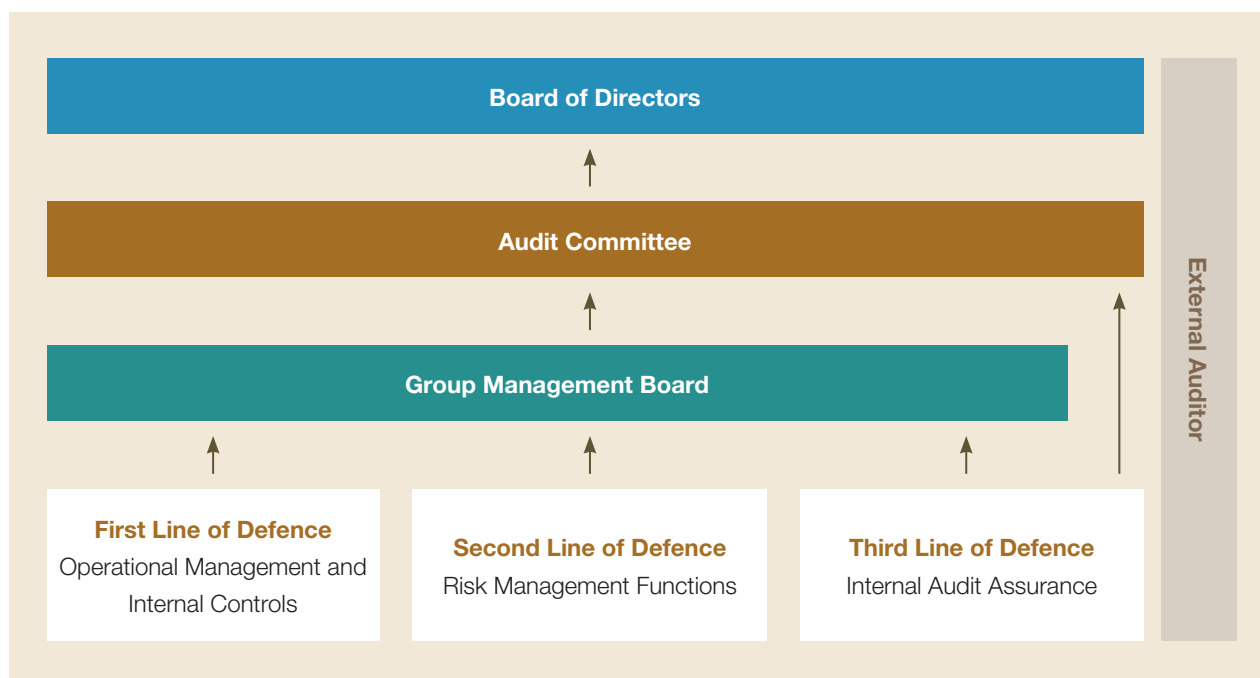
We encourage our stakeholders to give us feedback on our approach. Comments and enquiries can be sent to our email address at cr@hshgroup.com.

RISK MANAGEMENT

Risks are inherent in every business and the challenge is in identifying and managing them so that they are mitigated, transferred, avoided or understood. The Board acknowledges that it is ultimately responsible for establishing and maintaining appropriate risk management and internal control systems for the business of the Group and to assess their effectiveness on a regular basis. To achieve this, the Board ensures that there is an appropriate framework of ongoing risk management process in identifying, evaluating and managing significant risks faced by the Group to promote the long-term success of the Company.

THREE LINES OF DEFENCE

Our risk management structure, although not specifically designed as such, through years of development and improvements, meets with a best practice model known as the "Three Lines of Defence Model". Our operational management and internal controls are the first line of defence, the various risk control practices and oversight functions by our Group Risk Committee is the second line of defence and internal audit being the third.



⁹ GRI G4 Material Disclosure: G4-26

Our risk management framework and its processes are regularly reviewed and in 2014, we have completed a review with various recommendations to make it an even more structured process has been endorsed by the Audit Committee and approved by the Board.

It should, however, be noted that risks cannot be completely eliminated and that systems can only provide reasonable, but not absolute, outcomes. The systems can never protect against such factors as unforeseeable events, fraud, and errors of judgement.

FIRST LINE OF DEFENCE: OPERATIONAL MANAGEMENT AND INTERNAL CONTROLS

The first line of defence consists of our Group's internal control system which includes: (i) Group policies which are shared with our employees through intranet, (ii) operational policies, procedures and practices covering a range of areas including the authorisation and approval of transactions, (iii) the application of financial reporting standards, and (iv) the review of financial performance and significant judgements.

At the Group level, our **Company Management Authority Manual** ("CMAM") covers all Group operations and forms the backbone of all authority limits set by the Board for the Board Committees, management and operations. The CMAM creates clear stewardship responsibilities, authorities and accountability. In 2014, we carried out an overall review and updated some limits under the CMAM. The **HSH Code of Conduct and Equal Opportunities** governs behaviour of our employees.

Built into the system of operational management controls are additional group internal control policies and procedures covering every business within the Group. These policies, manuals and guidelines are reviewed from time to time and

updated where necessary. General Managers and Directors of Finance or Financial Controllers of all operations have a personal obligation to confirm compliance of internal control systems and procedures at operational level. They are required to submit **General Representative Letters** every six months to the Chief Executive Officer and the Chief Financial Officer. All representation letters and qualifications are summarised and submitted to the Finance Committee and Audit Committee for review.

In relation to financial management and internal reporting, this function is headed up by the Operations Finance Department, which co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and the integrity of financial reporting internally. This Department reviews and, where necessary, challenges the financial operating results with a view to finding 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 Controllers. The General Manager, Operations Finance reports to the Chief Financial Officer, and supports the Chief Operating Officer in the performance of his duties.

We recognise that even with a robust internal control system, there may be behavioural issues. Our **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 website¹⁰. In 2014, 9 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 and Audit Committee with approved recommendations implemented by the responsible parties.

10 www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy

An **Inside Information Escalation Policy** is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made.

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 has been provided to GMB, and interactive discussion conducted with key members of financial and operational management of all operations since the policy was adopted. Further training was conducted in 2014 to non-financial managers at a Finance for Business Managers course.

registers at each operation, which are recalibrated based on magnitude. The Register identifies the major challenges faced by the Group allowing the Board and management to make informed decisions.

The Group Risk Register assesses risks in five categories: strategic, financial, operational, compliance and external. It also contains data on 25 risk types across all operations of the Group. Within each category, the principal risks facing the Group that could have a material effect are identified and each risk is regularly evaluated based on its potential financial impact and likelihood of occurrence. For all key risks, existing controls are identified and assessed as well as the ability, benefit and cost to improve them.

Each business or operation has to submit updates to their respective risk registers on a semi-annual basis to Audit & Risk Management for the compilation of the Group Risk Management Report. Following a review of our risk management process in 2014, we have adopted a new process of a semi-annual risk review by the GRC which would endorse the Group Risk Management Report for review by the Group Management Board, the Audit Committee and ultimately the Board to tie in with our financial reporting requirements. This allows the Audit Committee and the Board a better overview of the Group’s major business risks and how management has sought to monitor and mitigate them.

Detailed disclosure on the principal risks and emerging risks of the Group are set out on pages 172 to 175.

SECOND LINE OF DEFENCE: RISK MANAGEMENT FUNCTIONS

The second line of defence comprises the Group’s various risk control practices with the oversight by the **Group Risk Committee** (“GRC”). Our GRC uses the **Group Risk Register**, a single centralised enterprise risk management system to support the Group’s risk management process and to assist operations in capturing and reporting on key risks which impact the Group with detailed action plan on each risk. The Group Risk Register is the result of a top down risk assessment from the corporate level as complemented by a bottom up approach of separate risk

In order to supplement the Group Risk Register and to capture risks and identify risk trends on a real time basis, the GRC monitors operational risk through our **Incident Reporting Policy**. Our Group-wide Incident Reporting Policy is a tool to allow systematic, timely and informative reporting of all incidents of the Group of a wide range of nature, in the form of a uniform protocol. The handling of the incidents and follow up actions are monitored by GRC. In addition, annual statutory compliance checks are required to be conducted by operations and businesses and confirmations provided to Group Legal. Operations are also required to check and provide confirmation on statutory or best practices compliance to Group Legal.

THIRD LINE OF DEFENCE: INTERNAL AUDIT ASSURANCE

The Group's internal audit function is performed by **Audit & Risk Management** ("ARM"), which plays an important part in the assessment of the effectiveness of our risk management and internal control system of the Group and reports to Audit Committee on a regular basis. The internal audit is a Group-wide function under the leadership of the Group General Manager, ARM who leads a team of six 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 2014, ARM conducted 10 internal audit exercises throughout the entire Group.

EXTERNAL AUDITOR, AUDIT COMMITTEE AND BOARD

The **external auditor** of the Group further supplements the risk management process by providing independent challenge to the levels of assurance given by the different businesses and operations as well as the internal auditor particularly on any material financial and control issues identified in the course of its audit work. The external auditor would report on any control weakness 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. Following a review in 2014, from 2015 onwards, we have split the regular risk management reports into separate internal audit and control reports and Group Risk Management Reports for more focused discussions. The internal audit reports are submitted four times a year, and the Group Risk Management Reports are reviewed on a semi-annual basis to tie in with financial reporting requirements of the Company. These reports allow the Audit Committee to assess the effectiveness of the risk management and internal 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 **Board** has confirmed that throughout 2014, no material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified and that the existing risk management and internal control systems remain effective and adequate.

By Order of the Board



Christobelle Liao
Company Secretary
20 March 2015