

CORPORATE GOVERNANCE REPORT



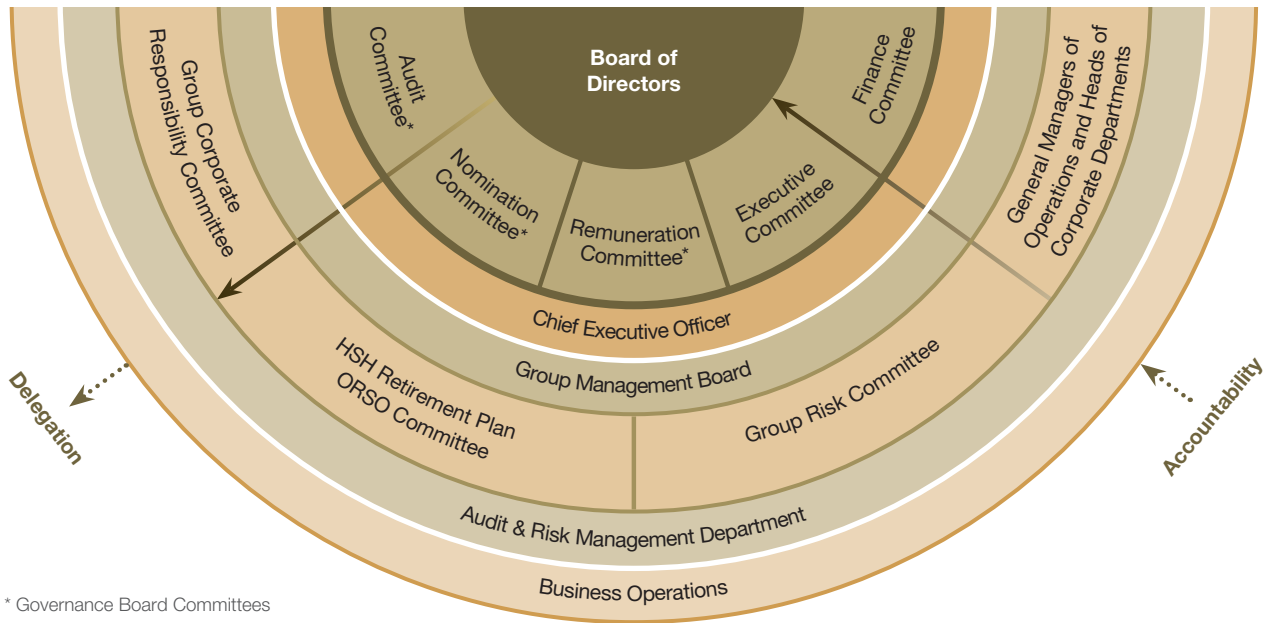
Our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group

Corporate Governance Commitment

Our Board of Directors is responsible to our shareholders and stakeholders for ensuring the success of the Company. Good corporate governance is crucial to carry the Group through the changing regulatory landscape and in fostering relationships with shareholders and

stakeholders of our company. By putting in place the right governance framework, our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. Our Board of Directors believes that such a framework is the cornerstone for good corporate governance throughout the organisation and in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

Our corporate governance framework is shown below:



Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2015, reflecting the new CG Code requirements for risk management and internal control compliance.

The CG Code sets out the principles of a good corporate governance 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 from compliance.

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2015.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2015, 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.

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance. The Annual Report is an important tool which contributes to this commitment.

In 2015, the HSH Annual Report ranked 17 in the World's Top 100 Annual Reports by the ARC Awards International. The Report also won an ARC Grand Award – Best of Category for the Chairman's Letter, and 3 Gold Awards and One Bronze in the Hotel & Leisure Category.

HSH also won the Bronze Award for Best Annual Reports Awards under the 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 and Winner of the Sustainability and Social Responsibility under Non-Hang Seng Index (Large Market Capitalisation) Category. Receiving such external recognition serves to assure our shareholders and stakeholders that we are well placed amongst our peers in our corporate governance practices.



2015 Key Initiatives and Activities in Corporate Governance Practices

Below are the highlights of our initiatives and activities on corporate governance practices during the year. Further details can be found throughout this report and in Corporate Responsibility and Sustainability Report.

1 Risk Management and Internal Control

- ✓ We took positive steps to enhance the Group's corporate governance policies and procedures before the new requirements in CG Code on risk management and internal control compliance become effective for the accounting periods beginning on or after 1 January 2016
- ✓ We reviewed our internal approval framework and updated our Company Management Authority Manual, with a view towards streamlining and improving operational efficiency
- ✓ We formalised and refined the Project Risk Assessment Guidelines for projects as a practical and comprehensive tool to assist project owners to better manage key risks throughout the project cycle
- ✓ We promoted staff awareness on risk management via our intranet, making transparent how key business risks are managed

2 Board Evaluation

- ✓ Our Board conducted its second self-evaluation aimed at improving effectiveness of the Board

3 Key Personnel Changes/Succession Plan

- ✓ We appointed Dr Kim L. Winser to the Board as an Independent Non-Executive Director with effect from 1 January 2016. Dr Winser brings extensive experience and expertise in brand management and business strategy, particularly in the luxury retail market and online business, and her appointment enriches the composition of the Board

- ✓ We appointed Matthew J. Lawson as our Chief Financial Officer who will come on board on 3 May 2016. He has extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring
- ✓ Our Group Management Board has been expanded to include Mr P.T. Wong (Group General Manager, Projects) and Mr Shane Izaks (Group General Manager, Information Technology), in view of the Group's growing number of new and renovations projects and the emphasis on technology development

4 Data Privacy

- ✓ 89% of all senior staff and guest data handling employees who enrolled in the data privacy training have completed it as at the end of 2015

5 Competition and Anti-trust Law

- ✓ We carried out a global risk assessment of the Group's business practices on competition and anti-trust risks. Existing policies and codes have been revamped and targeted training has been given to the more risk-prone operations.

6 Information Technology

- ✓ We updated and consolidated our Information Technology (IT) security policies into a group-wide IT Security Guidelines to raise staff awareness on IT security and protection to mitigate potential attacks and viruses

7 Strategic Development

- ✓ A General Managers' Conference was held to discuss the opportunities, challenges and focus in the medium term

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 102 to 105. This information is also posted on the Company's website.³

Each member of the Board is collectively responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group. Through the Board's leadership and direction, management runs the Group's day-to-day business (as more specifically described on pages 122 and 123). The Board leads and oversees the management of the Company by focusing on and reserving its 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 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 financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements
- 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
- Overseeing the risk management and internal control systems of the Group on an ongoing basis through review of reports of Audit Committee, the Group Management Board and the Group Risk Committee and reviewing the effectiveness of these systems

The Board also evaluates its performance every two years. Details are set out on page 120. With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2015, please refer to the Directors' Report set out on page 154.

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 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 keeps abreast of the development and operations of the Group via his frequent communication with the Chief Executive Officer and the Chief Operating Officer, which takes place on average at least once each week. During the year, the Chairman also seeks an independent evaluation of management's performance from the Non-Executive Directors, in the absence of the Executive Directors. He also leads the discussions on Board evaluation which is being conducted every two years. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group.

³ www.hshgroup.com/en/Corporate-Governance

- **Chief Executive Officer** – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for implementing the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has entrusted the Chief Executive Officer with the 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 Chief Operating Officer, the Chief Financial Officer, the Group Executives and other members of the Group Management Board. This management structure facilitates clear reporting and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the Company’s business and 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 12 Non-Executive Directors (six of whom are INEDs) evaluate management’s performance in achieving the agreed corporate goals and objectives. They also serve to ensure clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective. Our NEDs are active and vocal in challenging and providing constructive feedback on the decisions of management in all areas, which is crucial to the objectivity of the Board’s deliberation and decision-making. They are also involved in determining the appropriate levels of remuneration for Executive Directors and senior management. Mr Patrick B. Paul, an INED, chairs the Audit Committee and the Remuneration Committee, and other Non-Executive Directors are also actively involved either directly on the Board or in the Board Committees. Non-Executive Directors serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles as Non-Executive Directors, our INEDs bring to the Board knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the situations that

may be encountered in our business. Their presence further helps to maintain objectivity in the Board’s decisions when potential conflicts of interest arise.

Independence Weighting of HSH Board and Governance Board Committees	
Board	6/14 members
A Audit Committee	2/3 members (including Chairman)
N Nomination Committee	2/3 members
R Remuneration Committee	2/3 members (including Chairman)

The Role of Executive Directors

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the Company serve as our Executive Directors and are involved in the day-to-day business. Whilst 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

The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. Balancing efficacy and the importance of good corporate governance, her role includes the reviews and implements our corporate governance practices and processes as well as initiating improvements. Acting as Secretary of the Board as well as Governance Board Committees, she is responsible to the Board in respect of Board procedures and processes. 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 met five times in 2015. The dates of the 2015 Board meetings were determined and provided to the Directors in the fourth quarter of 2014. The Directors were notified of any changes to this schedule at least 14 days prior to the pertinent meeting. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 117. All Directors attended Board meetings in person or through electronic means of communication.

Prior to each Board meeting, the Company Secretary draws up the agenda in consultation with the Directors. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings. 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.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. During the meetings and from time to time throughout the year, we ensure that all Directors are given adequate and quality information in a timely manner, allowing them to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters 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 and supplemented by circulation of written resolutions between 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.

Board meetings are structured so as to encourage open dialogue, frank debate and active participation by Directors in meetings. The key activities of the Board during the year are set out on page 118.

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 2015, no potential conflict of interest was determined by the Board to be material expect the continuing connected transaction as disclosed in the Directors' Report on pages 149 and 150.

Our Board Committees operate under similar processes as the Board.

Board Committees

The Board has established five committees:

Governance Board Committees

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee

Other Board Committees

- E** Executive Committee
- F** 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. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters. Attendance and reports on main activities from these Governance Board Committees are included in this section.

Terms of Reference

Each Committee has its own terms of reference, which have been approved by the Board and are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. In 2015, we have revised the terms of reference of the Board and Audit Committee to incorporate the new requirements in CG Code on risk management and internal control compliance becomes effective for accounting periods beginning on or after 1 January 2016.

The full terms of reference of each Board Committee can be found on the Company's website⁴ and those for the Governance Board Committees are also published on the Stock Exchange's website. A summary of the terms of reference of each Board Committee is set out in the table below:

Governance Board Committees

Committee	A Audit	N Nomination	R Remuneration
Chairman	Mr Patrick B. Paul	The Hon. Sir Michael Kadoorie	Mr Patrick B. Paul
Composition	Chaired by INED, majority being INEDs	Chaired by the Chairman of the Board, all other members are INEDs	Chaired by INED, majority being INEDs
Main Responsibilities	<ul style="list-style-type: none"> Oversees the Group's financial reporting and audit processes with management and the internal and external auditors Reviews the Group's financial controls, risk management and internal control systems on an on-going basis Monitors and reviews the effectiveness of the Group's audit and risk management and internal control systems and reviews annual audit plan and reports Oversees the scope of work of external auditors including approving fees for non-audit work Reviews whistleblowing policies by which employees and stakeholders may raise concerns in confidence 	<ul style="list-style-type: none"> Reviews the structure, size and composition of the Board Evaluates the balance and blend of skills, knowledge, experience and diversity of the Board Reviews the Board Diversity Policy Maintains under review the leadership and succession needs of the Group Reviews and makes recommendations to the Board on the appointment and re-appointment of all Directors Assesses the independence of INEDs 	<ul style="list-style-type: none"> Makes recommendations to the Board on the remuneration philosophy and policies of the Group Reviews and approves bonus schemes for senior staff Reviews and approves employment terms (including compensation, performance related bonuses, and retirement provisions) for the Executive Directors and senior management Reviews and recommends Non-Executive Directors' fees to the Board and the fees for serving on Board Committees Ensures that no Director approves his or her own remuneration
Committee Report	Set out on pages 140 and 141	Set out on pages 142 and 143	Set out on pages 144 to 147

Other Board Committees

Committee	E Executive	F Finance
Chairman	The Hon. Sir Michael Kadoorie	Mr Andrew Brandler
Composition	Chaired by Non-Executive Chairman, consists of Non-Executive Directors and Chief Executive Officer	Chaired by Non-Executive Deputy Chairman, consists of Non-Executive Directors, Chief Executive Officer and Chief Financial Officer
Main Responsibilities	<ul style="list-style-type: none"> Develops and reviews strategic opportunities and significant investment proposals Evaluates the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group Oversees the implementation of strategic plans and investment proposals Monitors the Group's financial and operational plans and forecasts, and delivers these plans and monitor performance Interacts with the Finance Committee on its submissions 	<ul style="list-style-type: none"> Reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the Group Reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group Reviews the Group's financial performances Reviews the establishment of corporate capital and operating contingencies and approves requests for drawing on contingencies within the approved budgets Endorses issuance and allotment of shares and share buyback Reviews and approves treasury policies Reviews and approves granting of guarantees and indemnities

⁴ www.hshgroup.com/en/Corporate-Governance/Board-Committees

2015 Board and Committee Attendance and Training Records

The attendance of Directors and the Company Secretary at the Annual General Meeting, Board and Governance Board Committee meetings and training records in the year 2015 were as follows:

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

Notes:

(1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting

(2) Mr Alan Clark resigned as Director with effect from 30 November 2015

(3) During 2015, Ms Christobelle Liao undertook over 15 hours of professional training requirement of the Listing Rules

(A) Reading materials which covered relevant new laws and regulations and Group's business related topics

(B) Visiting operations including The Peninsula Paris in April 2015

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

- Cyber security
- Risk management
- Social media, e-commerce, marketing
- Competitive landscape for the hotel business
- Corporate governance matters
- Sustainable development

2015 Board Meetings

Five regular Board meetings took place in 2015. Two of the regular Board meetings took place at our operation, The Peninsula Hong Kong. In addition to the scheduled meetings, the Board has also dealt with certain matters by written resolutions.

The Board 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

On 1 January 2016, the Board increased the number of INEDs from five to six as Dr Kim Winsor joined as an INED. As of the date of this report, our Board comprises 14 members, of which 12 are Non-Executives. Among our Non-Executive Directors, six are INEDs independent of management, representing 43% of the entire Board. The other six Non-Executive Directors do not participate in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholders.

In February 2016, we announced the appointment of Mr Matthew Lawson as an Executive Director and Chief Financial Officer on 3 May 2016, replacing Mr Alan Clark who resigned on 30 November 2015.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2015 remained appropriate for it to perform its responsibilities.

Boardroom Diversity

The Board believes that having variety in its composition is important for a healthy and effective Board. The Board in March 2013 adopted its diversity policy, which can be found on the Company's website.⁵ This philosophy does not end at the Board level but is carried out throughout the Group.

Gender diversity of the Board and management as at the date of this report is set out below:

	Number	Proportion
The Board	2 females 12 males	14% female 86% male
Senior Management*	4 females 5 males	44% female 56% male
Key Functions**	12 females 16 males	43% female 57% male

* Inclusive of 2 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.

The Company has taken, and continues to take, steps to promote diversity, including gender, 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.

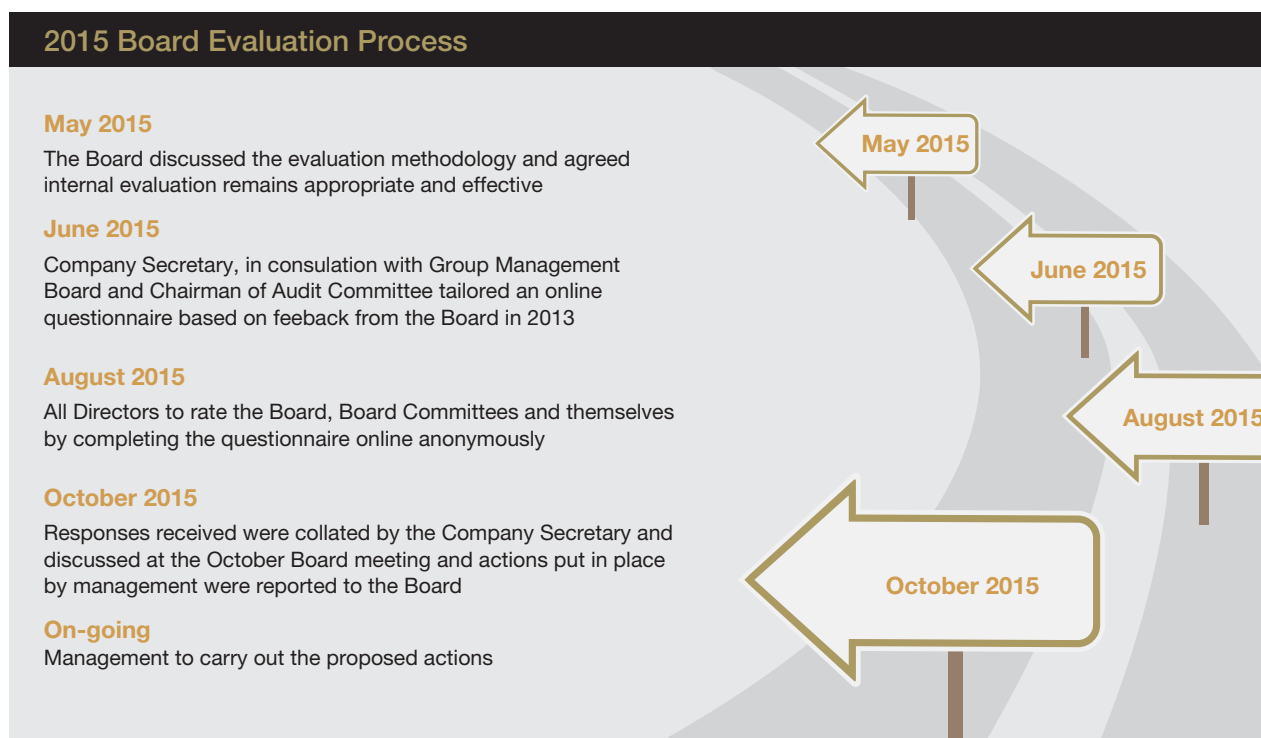
The Board has considered but decided not to adopt rigid quotas or measurable objectives for implementing diversity. The Board believes that every appointment should be made based on merits with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the Company, age, race and gender.

With the departure of Mr Robert Miller as our INED, we engaged external search consultants to select candidates with reference to our diversity policy, in particular preference for a female candidate as the Board recognised the lack of gender diversity at Board level. The process resulted in the appointment of Dr Kim Winsor as INED on 1 January 2016, being the second female Director of our company who brings with her expertise and experience in brand management and business strategy, luxury retail market and online business. In addition, in selecting the new Chief Financial Officer following the departure of Mr Alan Clark in November 2015, our search consultants were also tasked to shortlist the candidates based on the skills and experience of the individual, while bearing our diversity policy in mind. This process has led us to the appointment of Mr Matthew Lawson who will join the Board on 3 May 2016 as Chief Financial Officer. He has extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring.

For further information, please refer to the Nomination Committee Report on pages 142 and 143.

Board Evaluation

In 2013, the Board affirmed the value of Board evaluation and agreed that a similar evaluation should be conducted every two years. In 2015, the Board carried out its second evaluation by way of self-assessment to evaluate its own performance and that of its committees and individual Directors with the aim of improving effectiveness. The Company Secretary, in consultation with Group Management Board and Chairman of Audit Committee tailored a bespoke online qualitative questionnaire. In addition to the topics covered in the previous evaluation, we took into account comments made by Directors in the 2013 review. Key discussion topics in the review included: Group objectives, strategy and performance assessment, risk management and internal control systems effectiveness, succession planning, management performance, composition and effectiveness of the Board, process supporting the Board, Board Committees' performance, and individual members' performance. In addition to the self-evaluation, the Chairman met with Non-Executive Directors in October 2015 to review management performance and recommendations were communicated to management for implementation. At that meeting, the Board also acknowledged the information provided by management in response to the 2013 review.



The 2015 evaluation provided the Board and management with constructive feedback, and resulted in the following action:

- To keep the Board apprised of the budget process earlier in the year by introducing a presentation on budget direction at every October Board meeting before the budget is formally reviewed and approved in the annual budget at the December meeting
- With new projects in the pipeline, management updates the financial projection of the Group more regularly and its impact on cashflow and financial ratios
- Management continues to arrange presentations of General Managers of Operations and Head of Corporate Departments at Board meetings to keep Board members apprised of the presenters' roles and functions and understand the Group's businesses and risks
- The process for the appointment of the Chief Financial Officer was discussed

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. Dr Kim Winsor who joined the Board in January 2016, has commenced her induction programmes including visiting our US, Paris and some of our Asian properties.

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. In April 2015, all Board members attended The Grand Opening of The Peninsula Paris. Board members toured the facilities and 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 2015 are stated in page 117.

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 2015. 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 2015, and Directors who will retire and offer themselves for re-election in the 2016 Annual General Meeting are set out in the Directors' Report on page 150.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. The letters of appointment for 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 2015.

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 2015. The Nomination Committee and the Board considered that all these INEDs who served in 2015 were, and the current six 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 has an independent mindset 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 2015. Details of the shareholding interests held by the Directors of the Company as at 31 December 2015 are set out on page 151.

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 108, 109 and 151. All senior management confirmed that they do not have shareholding interests of the Company as at 31 December 2015.

Directors' Disclosure on Conflict of Interest

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

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

In 2015, 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
 - 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
 - Mr Shane Izaks, Group General Manager, Information Technology
 - Mrs Maria Razumich-Zec, Regional Vice-President and General Manager of The Peninsula Chicago
 - Ms Sindy Tsui, Group Director, Human Resources
 - Mr P.T. Wong, Group General Manager, Projects

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:

- Reviews and monitors day-to-day operations and business affairs of the Group
- Conducts business development
- Formulates 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

In order to streamline the decision-making process on finance, legal and administrative matters, a working team of the GMB, comprising Chief Executive Officer, Chief Financial Officer and Group Director, Corporate and Legal, was formed. This working team meets weekly immediately after the GMB meetings.

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

Group Risk Committee

Chairman and Members

- Chairman: Ms Christobelle Liao, Group Director, Corporate and Legal (Acting Chairman from 30 November 2015)
- Members: Group General Manager, Audit and Risk Management, selected members of senior management and Group General Manager, Operations

Main Responsibilities

- Coordinates with operations to ensure that each of them addresses the risks identified, and tracks progress of mitigating plans and activities of key business risks and reports on examinations of specific risks as required
- Develops governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register
- Regularly reviews, assesses and updates Group risks and related contingency plans to GMB for further review by Audit Committee and the Board.

Group 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

- Considers the Company's corporate responsibility and key trends, and propose and recommends policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters including the Company's Sustainable Luxury Vision 2020
- Monitors and reports to GMB on the effectiveness of the corporate responsibility policies and practices and seeks improvements for them
- Reviews and recommends annual plans with respect to the community and the environment

HSH Retirement Plan ORSO Committee

Chairman and Members

- Chairman: Mr Ernest Tang, General Manager, Group Finance (Acting Chairman from 30 November 2015)
- Members: Selected members of senior management, Heads of Corporate Departments and selected representatives from operations

Main Responsibilities

- Regularly reviews and monitors performances of the funds in which the HSH Retirement Plan has made investments
- Reviews and approves audited accounts of the HSH Retirement Plan
- Discusses and approves matters in relation to the operation and administration of the HSH Retirement Plan

Our Shareholders

HSH had 1,792 registered shareholders as at 31 December 2015. 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	391	21.819	66,995	0.004
501-1,000	190	10.603	150,606	0.010
1,001-10,000	679	37.891	2,842,658	0.184
10,001-100,000	410	22.879	13,216,375	0.857
100,001-500,000	86	4.799	18,139,004	1.176
Above 500,000	36	2.009	1,508,573,108	97.769
Total	1,792	100.000	1,542,988,746	100.000

Note: as at 31 December 2015, 36.80% 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 58.56% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 151 and 152. 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 2015 and has continued to maintain such a float as at 16 March 2016.

Engaging our Shareholders⁶

The Company attaches great importance in engaging the investing communities, 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.

The Company utilises multiple platforms to engage investors. We encourage our shareholders to participate in our Annual General Meeting (AGM) and directly communicate with our Directors. We participated in a major investor conference in Shanghai to engage existing and potential investors. Throughout the year, our Executive Directors and Investor Relations team also held regular meetings and conference calls with institutional shareholders, financial analysts and potential investors.

We also post webcasts of the announcements of the latest financial results on the Company’s website,⁷ along with the presentation materials from such announcements, specifically the Annual Report and the Interim Report. Financial statistics, corporate governance practices and the latest investor information are available on the Company’s website.⁸ Our Shareholder Communication Policy (posted on the Company’s website⁹) has specified the various communication platforms which our shareholders and stakeholders have access to.

For queries and additional information, shareholders and investors can send their requests to our Investor Relations email address at ir@hshgroup.com.

⁷ www.hshgroup.com/en/Investor-Relations

⁸ www.hshgroup.com/en

⁹ www.hshgroup.com/en/Corporate-Governance

⁶ GRI G4 Material Disclosure: G4-26

Shareholders' Rights to General Meetings

Shareholders holding not less than 5% of total voting rights of the Company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and sending the signed requisition to the Company.

Our company's website¹⁰ sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

2015 Annual General Meeting

The 2015 AGM was held on 11 May 2015 at The Peninsula Hong Kong. There were 411 attendees in total, of which 201 were registered shareholders and 210 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. The Company regards AGM as an important event. All Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2015 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 2015 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 2014	100%
Payment of final dividend of 18HK Cents per share for the year ended 31 December 2014	100%
Re-election of four retiring Directors: Mr Ronald James McAulay, Dr the Hon. Sir David Kwok Po Li, Mr John Andrew Harry Leigh and Mr Nicholas Timothy James Colfer as Directors of the Company	Ranging from 87.96% to 99.96% in respect of each individual resolution
Re-appointment of KPMG as the auditor of the Company and authorisation of the Directors to fix their remuneration	99.99%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	81.05%
Granting of the general mandate to Directors to buy-back the Company's shares	99.99%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	81.07%

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 219.

The Company's share price information is disclosed on page 65.

¹⁰ www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights

Engaging our Stakeholders¹¹

As our businesses impact on the natural and social environment around us, we are proactive in engaging with our stakeholders, employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual Report, including our Corporate Responsibility and Sustainability Report, explains our approach to good governance in relation to environmental and social impact. We regularly engage with key stakeholder groups which most impact our business as outlined below:

Stakeholders Group	How We Engage	Examples in 2015
 Customers	As a hospitality company with 150 years of history, engaging our customers and ensuring their satisfaction and happiness is critical to how we run our business. In 2015 we have enhanced our digital engagement through social media and a newly developed mobile website. We have created a new PenClub programme to enhance our engagement with online travel agencies	<ul style="list-style-type: none"> Enhanced digital engagement directly with customers via social media and mobile sites PenClub to enhance our engagement with online travel agencies
 Employees	In 2015, we conducted an internal HR Effectiveness Questionnaire with key stakeholders comprising of senior management and management at Head Office and Operations. Respondents were asked to provide feedback on the HR function at Head Office and Operational level. Over 90% of respondents said they felt HR cared about our employees and over 80% said HR creates a culture of engaged employees and supports our business leaders to achieve their business results	<ul style="list-style-type: none"> See page 78 to 80 for more details on our employee engagement strategy
 Governments	Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our CEO and selected senior management are members of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members	<ul style="list-style-type: none"> Peak Tramway Ordinance Advising on tourism industry issues Membership of WTTC
 Financial Analysts and Investors	Our Investor Relations team and the Executive Directors conduct one-to-one briefings with financial analysts and investors, as well as non-deal investor road shows, post-results briefings, annual general meeting; the Investor Relations team is also exploring ways to engage with the sustainable investment community	<ul style="list-style-type: none"> Financial reports and website Annual General Meeting (AGM) One-on-one meetings and group briefings
 Media	Our Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year	<ul style="list-style-type: none"> International Luxury Travel Market (ILTM) in Cannes HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman
 NGOs and Academia	Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees	<ul style="list-style-type: none"> Membership of International Tourism Partnership (ITP) Advisory Group of Cornell Hotel Sustainability Benchmarking Study Partnership with WWF Hong Kong Partnership with The Hong Kong Council of Social Service Member of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources
 Partners and Suppliers	Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. The spirit of cooperation and engagement is exemplified in the opening of The Peninsula Paris in 2015 and with the revised lease agreement at The Peninsula Tokyo	<ul style="list-style-type: none"> Peninsula Paris Grand Opening Peninsula Tokyo lease agreement Peninsula Istanbul signing

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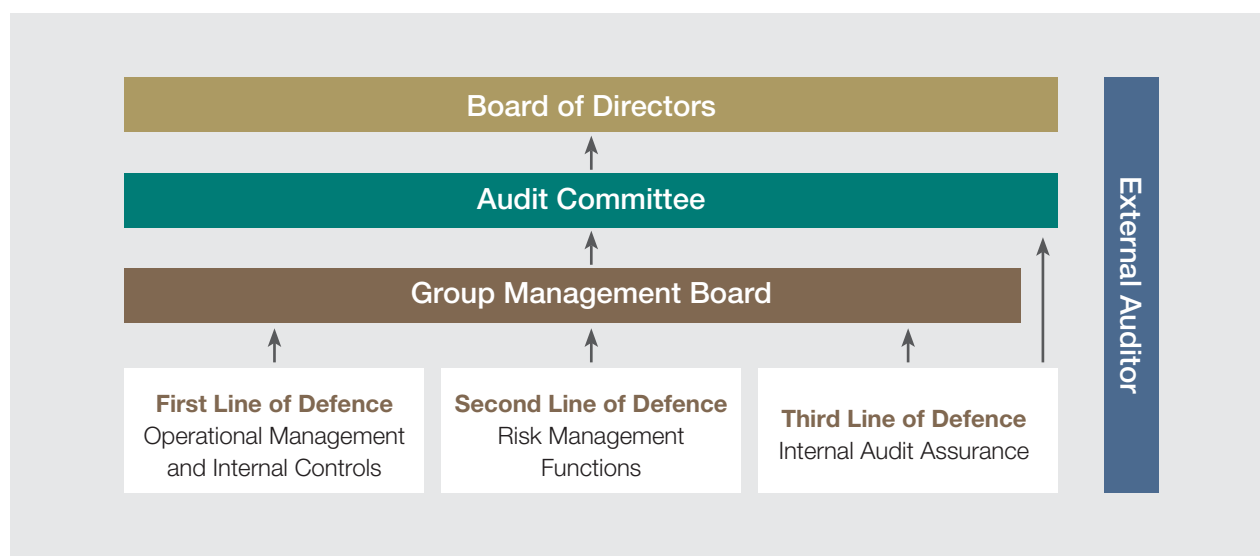
We always seek to improve the area of stakeholder engagement and are planning to conduct a thorough stakeholder mapping and engagement exercise with an independent third party during 2016.

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 managed, mitigated, transferred, avoided or understood and accepted. Effective risk management is and has been an integral part of the overall achievement of the Group's strategic objectives. 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 semi-annually. To achieve this, the Board ensures that there is a robust 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. Our Board has delegated the responsibility for overseeing the adequacy and effectiveness of risk management and internal control systems to Audit Committee.

Our risk management framework is guided by the model of "Three Lines of Defence" as shown below:



Three Lines of Defence

Our risk management framework and its processes are regularly reviewed and the latest review was completed in 2014. We implemented various recommendations endorsed by the Audit Committee and approved by the Board to make it an even more structured process. This includes the submission of the semi-annual Group Risk Management Report detailing the principal risks and management measures for the Board's review.

The system and processes that have been put in place are designed to manage our risks and not eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, 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.

Key Group Policies

The following policies and procedures form the backbone of our internal control processes which apply to all levels of staff:

- **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, delegation of authorities and accountability. In 2015, we carried out a detailed review of the CMAM with an objective to improving operational efficiency. Certain approval limits and approval process were updated under the CMAM.
- **HSH Code of Conduct** governs behaviour of our employees. In 2015 we have initiated a project to relaunch and revamp the Code of Conduct with the objective to enhance permeation of the Group's integrity and ethics values while fundamentally existing principles would remain unchanged.

- **Whistleblowing Policy** facilitates 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.¹² Audit & Risk Management promptly follows up incidents reported through the dedicated and secure whistleblowing email account. Investigation results are then communicated to the Executive Directors and Audit Committee with approved recommendations implemented by the responsible parties.

- **Inside Information Escalation Policy** regulates the handling and dissemination of inside information of the Group. We ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclose are made. 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.

Our **Inside Information Escalation 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
-

¹² www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy

Operational Policies

On daily operations of the businesses, we have built into the system of management controls:

- **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 Group Risk Committee.
- **Data Privacy Manual** sets out the practical procedures which assist our employees in handling personal data collected in the normal course of business. In 2015, in addition to on-board training for new employees, we rolled out the interactive e-learning personal data privacy refresher training programme to all senior staff and employees who handle data of guest information. As at the end of 2015, 89% of staff who enrolled in the training completed it.
- Additional group internal control policies and procedures cover 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. In 2015, the confirmation has been extended to the effectiveness of risk management and internal control systems. This formed the basis on which management confirmed to Audit Committee the effectiveness of the Group's risk management and internal control systems.
- Operations and businesses are also expected to conduct **Annual Compliance Checks** and provide confirmations to Group Legal on statutory or best practices compliance.
- Financial management and internal reporting 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. In 2015, this Department organised the biennial Finance Conference which was attended by all operational Directors of Finance and Financial Controllers and members of the Head Office team. The conference provides updates and allow the attendees to share the good corporate governance practices.

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** 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 registers at each operation, which are recalibrated based on magnitude. The risk 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 35 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 134 to 137.

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 systems 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 risk based internal audit reviews at both operational and corporate levels. Plans and tools for corrective action and improvements are identified with operations management to address any issues, or deficiencies identified. ARM follows up the implementation of its recommendations and reports the outcome to the Audit Committee.

External Auditor

The **external auditor** of the Group further supplements the third line of defence 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 internal control over financial reporting issues identified in the course of its audit work. The external auditor would report on any control weakness to the Audit Committee.

Audit Committee and Board

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 timing 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 2015, 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.

Moving towards Integrated Reporting

The Annual Report has always been a useful corporate governance tool which the Company uses to communicate to its shareholders and stakeholders. We understand that the constantly evolving external business environment means that our stakeholders desire to have a truer picture of our company's ability to generate value over time, and our ability to adapt and change to the external environment and manage our intangible assets. With this in mind, in this year's report, the Company has taken steps to move towards integrated reporting, taking reference from the International Integrated Reporting Framework. We believe this new approach offers a more holistic overview of how we create shareholder value in financial and non-financial terms.

By order of the Board



Christobelle Liao
Company Secretary
16 March 2016