

GROUP RISK COMMITTEE REPORT



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Role and Composition

I have been the Acting Chairman of the Group Risk Committee following the resignation of Chief Financial Officer in November 2015. The Group Risk Committee (GRC) is a sub-committee of the Group Management Board, formed to enhance our focus on existing and potential risks of the Group. 2015 has been a busy year for this Committee and this report provides an overview of the responsibilities of the Committee and what we have done during the year.

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
Group General Manager, Operations

The GRC holds four regular meetings every year to discuss the emerging risk and mitigation issues which are significant to the Group as a whole. Heads of Corporate Departments are invited for deep-dive presentation on selected risks. The GRC is also responsible for reviewing and approving the Group Risk Management Report for submission to the Audit Committee and the Board. The Group Risk Management Report is a semi-annual reporting tool which consolidates the risk registers of each operations and the risks faced by the Group as a whole, in order to provide the Board and the Audit Committee with an overview of the types of the risks profile of the Group.

Group Risk Committee Charter

Group Risk Committee Charter (Charter) outlines the membership, meeting format and frequency, responsibilities for risk oversight and reporting, implementation of the Group Risk Register (Register), and the reporting line that applies to the Committee.

The main responsibilities of the GRC under the Charter:

- Evaluates the Group's principal risks through review and challenge, where necessary, of information received
- Monitors exposure to risk types in a sufficiently accurate and timely manner, and the available mitigating actions
- Evaluates the risk profile of the Group
- Develops and updating risk management procedures including oversees and advises

GMB on the embedding and maintenance of a supportive risk management culture throughout the Group, to ensure effective delegation of risk management responsibilities, identification of key risks, implementation of action plans and remedy of incidents

- Coordinates and compiles the Register with on-going maintenance, and prepares summaries of principal risks and related contingency plans to Audit Committee and the Board
- Implements the Register including establishing clear roles and responsibilities for risk oversight, risk reporting and escalation, risk ownership, and communicating across the Group
- Approves policies, procedures and instructions relating to the Register

Group Risk Management Evolution

2012-2013 Rolling out new ERM framework

- Expanded risk register
- Selected a single Global Risk System
- Monitored incidents with group-wide impact

2014 Building Group risk system and risk profile

- Established first Group level risk map
- Rolled out of risk registers completed (21 operations)
- Piloted Global Risk System in Head Office and The Peninsula Hong Kong

2015 Enhancing framework – semi annual risk updating and reporting

- Rolled out Global Risk System – 130 users in 21 operations
- Implemented new semi-annual risk update process
- Launched Risk Management Portal on intranet to raise staff awareness

2012-2013

2014

2015

Main Activities in 2015

In 2015, we continued to enhance our existing risk management structure and processes and at the same time foster a risk awareness culture. The actions taken in formalising the risk management process is as described under the “Risk Management Functions – second line of defence” on pages 129 and 130.

We also continued to monitor all incidents reported through the Incident Reporting Policy as described on page 129 and the actions taken and best practices shared. There was no incident of a material nature in 2015 which needed to be brought to the attention of the shareholders.

Other activities of the GRC in 2015 included:

- ✓ Launched the Group’s first Risk Management Portal on the Company’s intranet to promote staff awareness about risk management and share management tools, documentation and practices

The Risk Management Portal’s content:

- Promote employee awareness about HSH Group risk management framework
- Provide guidance and training on risk management processes and system
- Centralise management policies, defining roles and responsibilities

- ✓ Formalised and refined the Project Risk Assessment Guidelines to provide a practical and comprehensive tool to assist project owners to better manage key risks throughout the project cycle
- ✓ Reviewed and approved the GRC Charter to incorporate the enhanced risk management process which have already been put into practice
- ✓ Reviewed Group Risk Management Reports prepared by ARM for submission to GMB, then Audit Committee and the Board for approval
- ✓ Discussed the existing and emerging principal risks and measures and additional actions to be taken to deals with them
- ✓ Updated the Business Unit risk registers and captured top 3 risks of each operations along with the likelihood and impact of these risks
- ✓ Reviewed current Information Technology (IT) measures, policies and procedures and future IT security and risk management
- ✓ Reviewed the progress of the Global Command Centre project which is expected to be completed within the next five years across the Group




- ✓ Reviewed the progress of follow-up actions on recommendations in integrated property, safety and security risk reports of external third party specialists on selected US operations
- ✓ Endorsed HSH Code of Conduct Relaunch Project for 2016
- ✓ Endorsed the competition and anti-trust law compliance project to raise HSH employees' awareness of competition and anti-trust risks




Principal Risks





In 2015 we considered the following to be the Group's top ten principal risks. These principal risks are compiled through aggregation, filtering and prioritisation of the risks from a Group's perspective, taking into account each of

Business Unit's detailed risk registers. The process for compiling the principal risks faced by the Group included a special Group Management Board strategic meeting, discussion and review of management action on individual risks and multiple interviews and validation with risk owners.

The risk review process provides an opportunity to highlight emerging risks and/or include new risks to the risk registers. The risk registers also track movements of risks and their specific ratings across the Group, contributing to ensuring their proactive management. From this year's review, it is noted that foreign exchange and interest rate fluctuations, as well as the change and volatility in the macroeconomic and political environment have become principal risks to the Group, given our global presence. Details are set out in the chart below:

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Disaster Events		
A major disaster event, such as an incident, "Act of God," natural catastrophe, extreme weather due to climate change impact, terrorist activity, war or contagious diseases such as Zika, SARS or Ebola could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings	<ul style="list-style-type: none"> Comprehensive insurance coverage for properties and businesses Multiple risk inspections by external risk consultant on selected properties focusing on insurable risks Crisis Response Plan rolled out across all operations to ensure business continuity 	 Reason for trend: Heightened terrorism risk following attacks in key locations
Business Portfolio/Concentration		
A significant portion of our Group revenues is derived from our operations in Hong Kong. Unfavourable events in the city could disrupt our overall business, lower our revenues, and impact the valuation of our assets	<ul style="list-style-type: none"> Focus on increase of overseas revenue, including entering new markets Continuous monitoring of the operating and political environment of Hong Kong to anticipate issues for possible adjustment of any business activities promptly 	 No change
Foreign Exchange and Interest Rate		
Exchange rate fluctuations could result in significant foreign currency losses and affect our capital projects. Significant floating rate liabilities could result in higher cost of financing if current interest rates increase	<ul style="list-style-type: none"> Currency hedging policies, hotels charging in local currencies and expending in local currency All borrowings are denominated in the functional currency of the operations to which they relate Sensitivity analysis performed by Head Office (ad hoc for projects, and yearly for the Group's financial reporting) Monitoring of interest rate risk by Head Office 	 Reason for trend: Increasingly volatile currency markets and interest rates expected to increase

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Retail and Commercial Tenants		
Retail and commercial letting may become difficult due to factors such as increased competition, decline in spend within the luxury industry, or shifts of retail preferences leading to decrease in our arcade traffic	<ul style="list-style-type: none"> • Improvements in design of commercial and retail space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Marketing and sales initiatives to attract and retain quality retail tenants • Active engagement with current and potential tenants and closer relationship at higher level with key existing tenants to strengthen strategic relationships • Diversification and maintenance of an appropriate mix of tenants 	 Reason for trend: Decline in spend within the luxury industry
Brand and Reputation		
Protecting the Group's brand and reputation from significant adverse publicity in media, social media or elsewhere could result in a loss of confidence in our brand, a decline in guest, tenant and/or customer base, and affect our business and our ability to recruit and retain good people	<ul style="list-style-type: none"> • Care in staff recruitment and training to bring forth the level of service that is befitting of our brand • Our Code of Conduct and behavioural standards regulate staff conduct • Supplier Code of Conduct implemented to manage risks relating to labour standards and product integrity • Clear guidelines on incident communication and crisis management process by Crisis Management team • Implementation of group-wide social media usage guidelines 	 No change
Acquisitions, Investments and Developments		
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks relate to capital allocation, capital funding, meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	<ul style="list-style-type: none"> • Engagement with experienced and reputable local partners, and familiarisation with local authorities • Adequate due diligence to be conducted for each project • Developing complete and detailed integration plans and business strategies • Continuous monitoring and review of all aspects of developments, planning and construction progress • Involvement of Legal and Audit & Risk Management Departments to monitor legal, regulatory and risk management of our projects and developments assisted by external professionals 	 Reason for trend: Increased number of projects in the pipeline and expansion into new and emerging markets

Principal Risks	Key Controls and Risk Treatment	Changes since 2014 Annual Report
Competition		
Increased competition, cyclical over-supply of luxury hotels in some markets could also harm our business	<ul style="list-style-type: none"> Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes Brand and communication initiatives to drive revenue growth and strengthen our brand's market position Reinvestments into our properties to ensure competitiveness 	 No change
Macroeconomic and Political		
<p>Changes and volatility in general economic conditions, including the severity and duration of any downturn in the US, Europe or global economy and financial markets, decreased corporate budgets and spending could impact our business</p> <p>Political instability and uncertainties, including actions or interventions impacting hospitality and travel related activities, could impact travel patterns and guest spend</p>	<ul style="list-style-type: none"> Focus on spreading business area, including entering new markets Continuous monitoring of the macroeconomic, political and regulatory landscape in all our key markets to anticipate issues for possible adjustment of any business activities promptly Crisis Response Plan rolled out across all operations to ensure business continuity 	 Reason for trend: Political uncertainties and deteriorating economic conditions in some markets
Cybersecurity		
The number of online viruses, cyberattacks and malicious software rapidly increased in 2015. The threat of an attack is high	<ul style="list-style-type: none"> Step up our prevention and protection standards, enhanced our network protection Enforce security measures such as updating antivirus and firewall protection Enhance internal communication of these threats across our Group, and introduce more extensive orientation for new employees, with the objective of managing any vulnerabilities that may exist 	 Reason for trend: Number of cybersecurity incidents increased in 2015 around the world
Data Privacy		
Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions. Compliance could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and may adversely affect our brand and business	<ul style="list-style-type: none"> Implementation of group-wide data privacy policy manual and training (classroom and online formats) Assessments by Data Privacy teams across operations Implementation of a process for reporting and dealing with data breaches Investment in information technology infrastructure, application and training to protect personal data Management of risks via e-commerce functions at operational level 	 No change

Emerging Risks

In addition to addressing the principal risk categories faced by the Group, GRC also reviewed specific emerging risks. These emerging risks are normally results of changes in the economic, political, legal or technical environment, which may or may not be within an existing principal risk category. GRC recognises that the potential impact of such emerging risks may be significant and would monitor the potential impact to the Group, along with mitigating action plans.

Emerging Risk	Key Controls and Risk Treatment
Terrorist Threats	
The number of major terrorist attacks has increased on a global scale	<ul style="list-style-type: none"> • Strengthen our network with security stakeholders including local intelligence agencies and police departments, and to enhance our global intelligence monitoring
The increasing significance of our operations outside of Hong Kong make us increasingly susceptible to the risks of doing business internationally. Terrorist activities or threats and heightened travel security measures in some markets could disrupt our business and lower our revenues	<ul style="list-style-type: none"> • Upgrade our Global Crisis management capabilities with virtual and video conferencing technology, boost global security manpower resources in key markets • Enhance crisis training and drills for staff according to the local threats in their region • Increase travel security protection and tracking for staff

Major Initiatives for 2016

In 2016, the GRC's main focus will be continued refinement of the improved group-wide risk management process in line with the Corporate Governance Code and industry best practices. We will focus on communication, awareness and ownership of risks across the Group. Risk awareness training is being planned for all key operations. We will continue to assist Business Units in enhancing their risk management processes in line with Group's risk management framework and guidelines. Refinement of risk measurements and reporting, framework for emerging risks, and closer monitoring status of action plans against each principal risk are planned for 2016.

On behalf of the Group Risk Committee



Christobelle Liao

Acting Chairman of the Group Risk Committee

16 March 2016