

# CORPORATE GOVERNANCE REPORT



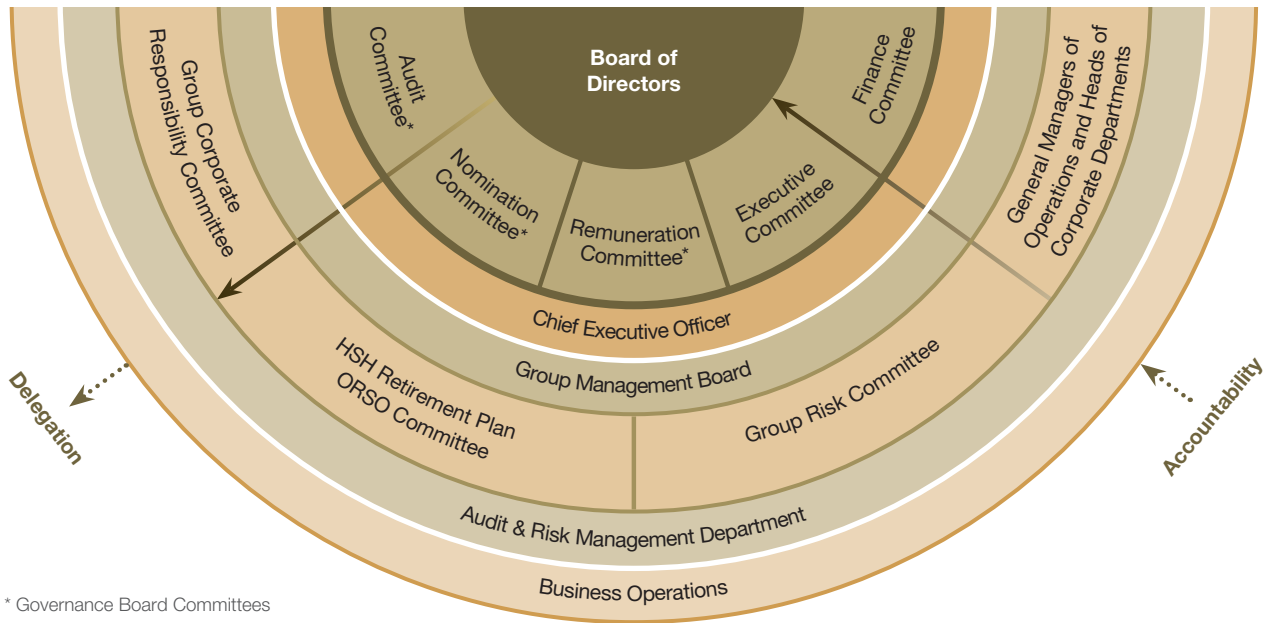
Our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group

## 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:



\* Governance Board Committees

## 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.<sup>3</sup>

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.

<sup>3</sup> [www.hshgroup.com/en/Corporate-Governance](http://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 website<sup>4</sup> 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	<b>A</b> Audit	<b>N</b> Nomination	<b>R</b> Remuneration
<b>Chairman</b>	Mr Patrick B. Paul	The Hon. Sir Michael Kadoorie	Mr Patrick B. Paul
<b>Composition</b>	Chaired by INED, majority being INEDs	Chaired by the Chairman of the Board, all other members are INEDs	Chaired by INED, majority being INEDs
<b>Main Responsibilities</b>	<ul style="list-style-type: none"> <li>Oversees the Group's financial reporting and audit processes with management and the internal and external auditors</li> <li>Reviews the Group's financial controls, risk management and internal control systems on an on-going basis</li> <li>Monitors and reviews the effectiveness of the Group's audit and risk management and internal control systems and reviews annual audit plan and reports</li> <li>Oversees the scope of work of external auditors including approving fees for non-audit work</li> <li>Reviews whistleblowing policies by which employees and stakeholders may raise concerns in confidence</li> </ul>	<ul style="list-style-type: none"> <li>Reviews the structure, size and composition of the Board</li> <li>Evaluates the balance and blend of skills, knowledge, experience and diversity of the Board</li> <li>Reviews the Board Diversity Policy</li> <li>Maintains under review the leadership and succession needs of the Group</li> <li>Reviews and makes recommendations to the Board on the appointment and re-appointment of all Directors</li> <li>Assesses the independence of INEDs</li> </ul>	<ul style="list-style-type: none"> <li>Makes recommendations to the Board on the remuneration philosophy and policies of the Group</li> <li>Reviews and approves bonus schemes for senior staff</li> <li>Reviews and approves employment terms (including compensation, performance related bonuses, and retirement provisions) for the Executive Directors and senior management</li> <li>Reviews and recommends Non-Executive Directors' fees to the Board and the fees for serving on Board Committees</li> <li>Ensures that no Director approves his or her own remuneration</li> </ul>
<b>Committee Report</b>	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	<b>E</b> Executive	<b>F</b> Finance
<b>Chairman</b>	The Hon. Sir Michael Kadoorie	Mr Andrew Brandler
<b>Composition</b>	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
<b>Main Responsibilities</b>	<ul style="list-style-type: none"> <li>Develops and reviews strategic opportunities and significant investment proposals</li> <li>Evaluates the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group</li> <li>Oversees the implementation of strategic plans and investment proposals</li> <li>Monitors the Group's financial and operational plans and forecasts, and delivers these plans and monitor performance</li> <li>Interacts with the Finance Committee on its submissions</li> </ul>	<ul style="list-style-type: none"> <li>Reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the Group</li> <li>Reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group</li> <li>Reviews the Group's financial performances</li> <li>Reviews the establishment of corporate capital and operating contingencies and approves requests for drawing on contingencies within the approved budgets</li> <li>Endorses issuance and allotment of shares and share buyback</li> <li>Reviews and approves treasury policies</li> <li>Reviews and approves granting of guarantees and indemnities</li> </ul>

<sup>4</sup> [www.hshgroup.com/en/Corporate-Governance/Board-Committees](http://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 <sup>(1)</sup>	Nomination Committee	Remuneration Committee	Annual General Meeting <sup>(1)</sup>	Types of Training
<b>Non-Executive Directors</b>						
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
<b>Independent Non-Executive Directors</b>						
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
<b>Executive Directors</b>						
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 <sup>(2)</sup> <i>Chief Financial Officer</i>	■ ■ ■ ■ ■				■	A,B,C
<b>Company Secretary</b>						
Ms Christobelle Liao <sup>(3)</sup>	■ ■ ■ ■ ■	■ ■ ■ ■ ■	■ ■	■ ■	■	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
- Social media, e-commerce, marketing
- Corporate governance matters
- Risk management
- Competitive landscape for the hotel business
- 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.<sup>5</sup> 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
<b>The Board</b>	2 females 12 males	14% female 86% male
<b>Senior Management*</b>	4 females 5 males	44% female 56% male
<b>Key Functions**</b>	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.

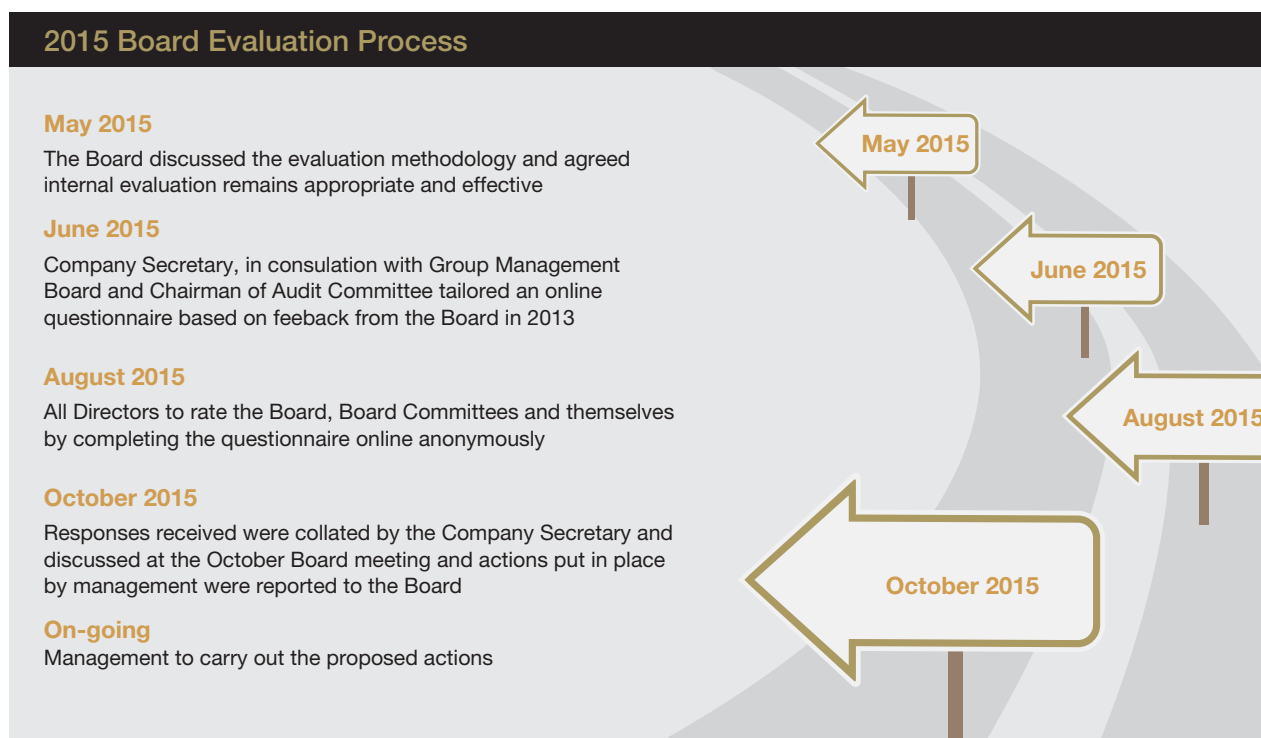
The Board has considered but decided not to adopt rigid quotas or measurable objectives for implementing diversity. The Board believes that every appointment should be made based on merits with reference to our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of 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
<b>Total</b>	<b>1,792</b>	<b>100.000</b>	<b>1,542,988,746</b>	<b>100.000</b>

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 Shareholders<sup>6</sup>

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,<sup>7</sup> 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.<sup>8</sup> Our Shareholder Communication Policy (posted on the Company’s website<sup>9</sup>) 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](mailto:ir@hshgroup.com).

<sup>7</sup> [www.hshgroup.com/en/Investor-Relations](http://www.hshgroup.com/en/Investor-Relations)

<sup>8</sup> [www.hshgroup.com/en](http://www.hshgroup.com/en)

<sup>9</sup> [www.hshgroup.com/en/Corporate-Governance](http://www.hshgroup.com/en/Corporate-Governance)

<sup>6</sup> 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 website<sup>10</sup> 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	<b>Ranging from 87.96% to 99.96% in respect of each individual resolution</b>
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.

<sup>10</sup> [www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights](http://www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights)

## Engaging our Stakeholders<sup>11</sup>

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
 <b>Customers</b>	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"> <li>Enhanced digital engagement directly with customers via social media and mobile sites</li> <li>PenClub to enhance our engagement with online travel agencies</li> </ul>
 <b>Employees</b>	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"> <li>See page 78 to 80 for more details on our employee engagement strategy</li> </ul>
 <b>Governments</b>	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"> <li>Peak Tramway Ordinance</li> <li>Advising on tourism industry issues</li> <li>Membership of WTTC</li> </ul>
 <b>Financial Analysts and Investors</b>	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"> <li>Financial reports and website</li> <li>Annual General Meeting (AGM)</li> <li>One-on-one meetings and group briefings</li> </ul>
 <b>Media</b>	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"> <li>International Luxury Travel Market (ILTM) in Cannes</li> <li>HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman</li> </ul>
 <b>NGOs and Academia</b>	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"> <li>Membership of International Tourism Partnership (ITP)</li> <li>Advisory Group of Cornell Hotel Sustainability Benchmarking Study</li> <li>Partnership with WWF Hong Kong</li> <li>Partnership with The Hong Kong Council of Social Service</li> <li>Member of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources</li> </ul>
 <b>Partners and Suppliers</b>	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"> <li>Peninsula Paris Grand Opening</li> <li>Peninsula Tokyo lease agreement</li> <li>Peninsula Istanbul signing</li> </ul>

11 GRI G4 Material Disclosure: G4-26

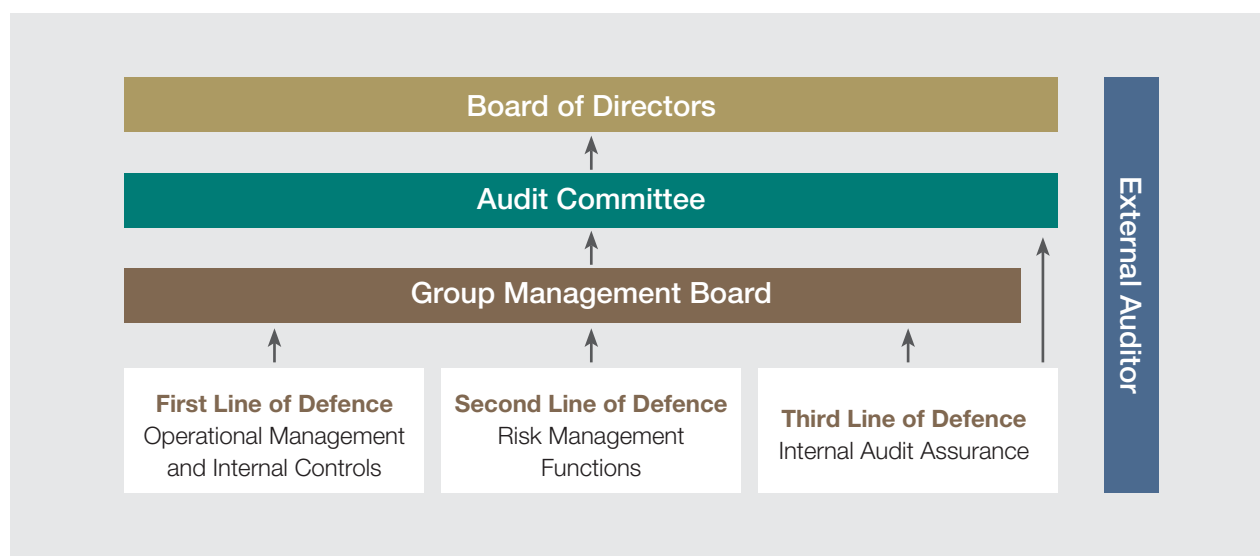
We always seek to improve the area of stakeholder engagement and are planning to conduct a thorough stakeholder mapping and engagement exercise with an independent third party during 2016.

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](mailto: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.<sup>12</sup> 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.

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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
- 

<sup>12</sup> [www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy](http://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

# GROUP RISK COMMITTEE REPORT



In 2015, we continued to enhance our existing risk management structure and processes and at the same time foster a risk awareness culture

## 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
<b>Disaster Events</b>		
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"> <li>Comprehensive insurance coverage for properties and businesses</li> <li>Multiple risk inspections by external risk consultant on selected properties focusing on insurable risks</li> <li>Crisis Response Plan rolled out across all operations to ensure business continuity</li> </ul>	 Reason for trend: Heightened terrorism risk following attacks in key locations
<b>Business Portfolio/Concentration</b>		
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"> <li>Focus on increase of overseas revenue, including entering new markets</li> <li>Continuous monitoring of the operating and political environment of Hong Kong to anticipate issues for possible adjustment of any business activities promptly</li> </ul>	 No change
<b>Foreign Exchange and Interest Rate</b>		
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"> <li>Currency hedging policies, hotels charging in local currencies and expending in local currency</li> <li>All borrowings are denominated in the functional currency of the operations to which they relate</li> <li>Sensitivity analysis performed by Head Office (ad hoc for projects, and yearly for the Group's financial reporting)</li> <li>Monitoring of interest rate risk by Head Office</li> </ul>	 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
<b>Retail and Commercial Tenants</b>		
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"> <li>• Improvements in design of commercial and retail space to allow flexible usage and conversion possibilities to accommodate tenants</li> <li>• Commitment to maintain high quality properties</li> <li>• Marketing and sales initiatives to attract and retain quality retail tenants</li> <li>• Active engagement with current and potential tenants and closer relationship at higher level with key existing tenants to strengthen strategic relationships</li> <li>• Diversification and maintenance of an appropriate mix of tenants</li> </ul>	 Reason for trend: Decline in spend within the luxury industry
<b>Brand and Reputation</b>		
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"> <li>• Care in staff recruitment and training to bring forth the level of service that is befitting of our brand</li> <li>• Our Code of Conduct and behavioural standards regulate staff conduct</li> <li>• Supplier Code of Conduct implemented to manage risks relating to labour standards and product integrity</li> <li>• Clear guidelines on incident communication and crisis management process by Crisis Management team</li> <li>• Implementation of group-wide social media usage guidelines</li> </ul>	 No change
<b>Acquisitions, Investments and Developments</b>		
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"> <li>• Engagement with experienced and reputable local partners, and familiarisation with local authorities</li> <li>• Adequate due diligence to be conducted for each project</li> <li>• Developing complete and detailed integration plans and business strategies</li> <li>• Continuous monitoring and review of all aspects of developments, planning and construction progress</li> <li>• Involvement of Legal and Audit &amp; Risk Management Departments to monitor legal, regulatory and risk management of our projects and developments assisted by external professionals</li> </ul>	 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
<b>Competition</b>		
Increased competition, cyclical over-supply of luxury hotels in some markets could also harm our business	<ul style="list-style-type: none"> <li>Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes</li> <li>Brand and communication initiatives to drive revenue growth and strengthen our brand's market position</li> <li>Reinvestments into our properties to ensure competitiveness</li> </ul>	 No change
<b>Macroeconomic and Political</b>		
<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"> <li>Focus on spreading business area, including entering new markets</li> <li>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</li> <li>Crisis Response Plan rolled out across all operations to ensure business continuity</li> </ul>	 Reason for trend: Political uncertainties and deteriorating economic conditions in some markets
<b>Cybersecurity</b>		
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"> <li>Step up our prevention and protection standards, enhanced our network protection</li> <li>Enforce security measures such as updating antivirus and firewall protection</li> <li>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</li> </ul>	 Reason for trend: Number of cybersecurity incidents increased in 2015 around the world
<b>Data Privacy</b>		
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"> <li>Implementation of group-wide data privacy policy manual and training (classroom and online formats)</li> <li>Assessments by Data Privacy teams across operations</li> <li>Implementation of a process for reporting and dealing with data breaches</li> <li>Investment in information technology infrastructure, application and training to protect personal data</li> <li>Management of risks via e-commerce functions at operational level</li> </ul>	 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
<b>Terrorist Threats</b>	
The number of major terrorist attacks has increased on a global scale	<ul style="list-style-type: none"> <li>• Strengthen our network with security stakeholders including local intelligence agencies and police departments, and to enhance our global intelligence monitoring</li> </ul>
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"> <li>• Upgrade our Global Crisis management capabilities with virtual and video conferencing technology, boost global security manpower resources in key markets</li> <li>• Enhance crisis training and drills for staff according to the local threats in their region</li> <li>• Increase travel security protection and tracking for staff</li> </ul>

## 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

# GROUP CORPORATE RESPONSIBILITY COMMITTEE REPORT



We focused on strengthening our foundation for achieving our long-term goals and enhancing communication on Vision 2020 to our employees and stakeholders

## Role and Composition

The Group Corporate Responsibility Committee (GCRC) is a sub-committee of the Group Management Board, formed as part of the governance structure to assist the Group Management Board and Board in reviewing and addressing the Group's environment, social and ethical responsibility and sustainability practices. As we move towards integrated reporting, for the first time, we include this report in the Annual Report so that our shareholders may have a more informed assessment of our company's strategy, governance, performance and long-term value within the commercial, social and environmental context in which we operate. Accompanying this Annual Report, a separate and more comprehensive Corporate Responsibility and Sustainability Report (CRS Report) in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) G4 disclosure standard is published. This report provides an overview of the GCRC's accomplishments during the year.

**Chairman:** Mr Clement K.M. Kwok, Chief Executive Officer

**Members:** Director, Corporate Responsibility and Sustainability  
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

The GCRC holds three regular meetings every year. In 2015, two additional meetings were held to review the Group operations' sustainability performances and to discuss the policies, objectives and plans for achieving HSH Sustainable Luxury Vision 2020 (Vision 2020). Vision 2020 comprises seven pillars, each of which is championed by a GCRC member whose role is to provide guidance and work with the operations of the Group to deliver progress. Progress towards Vision 2020 is reviewed regularly throughout the year while a Corporate Responsibility Performance Report covering the full range of key performance indicators of Vision 2020 of our operations is reviewed by GCRC semi-annually.

## Main Activities in 2015

In 2015, being the second year of our journey towards Vision 2020, we focused on strengthening our foundation for achieving our long-term goals and enhancing communication on Vision 2020 to our employees and stakeholders. We also used newsletters, workshops and calls to share best practices among our operation.

Other activities of the GCRC in 2015 included:

- ✓ Reviewed the Corporate Responsibility Performance Reports which captured the operation's progress towards Vision 2020 based on key performance indicators for disclosure in the CRS Report

- ✓ Reviewed and discussed the Group's 2015 commitments and improvement areas in terms of energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement
- ✓ Endorsed the suggestions of KPMG, our independent auditor, to deploy a software reporting system to enhance data collection and analysis
- ✓ Endorsed the new methodology to assess our energy saving and its financial saving for disclosure
- ✓ Discussed climate change issues and its impact to the Group
- ✓ Reviewed a new two-year stakeholder engagement plan
- ✓ Reviewed the terms of reference of the Committee

In 2016, the GCRC's main focus is to set up policies and action plans in developing a group-wide strategy on driving energy savings, and to review the current strategies of LED usage across the Group, as well as other specific initiatives as outlined in the CRS Report.

## Sustainability Reporting

We have continued to adopt the reporting requirements of the GRI G4 and the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide which will become effective for the accounting periods beginning on or after 1 January 2016 in our CRS Report 2015. The CRS Report meets GRI G4 Core Level compliance and is verified by GRI on Materiality Disclosures. KPMG were commissioned to conduct assurance of the CRS Report in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements, and to provide an independent limited assurance opinion on whether the reported information complies with GRI G4.

In addition, we responded to the CDP (formerly the Carbon Disclosure Project) and continued to be part of the CDP's Climate Disclosure Leadership Index for the region in 2015. This annual index recognises the top 10% of CDP reporting companies which demonstrated robust management and transparency in climate strategy and measurement.

The contents reported in the CRS Report covers the calendar year of 2015. In line with G4's materiality principles, our process for defining report content is guided by a process of engaging external and internal stakeholders in assessing the most significant and relevant business continuity and sustainability issues. Details of HSH Sustainability Materiality Matrix can be found in the CRS Report.

On behalf of the Group Corporate Responsibility Committee



Clement K M Kwok  
*Chairman of the Group  
 Corporate Responsibility Committee*  
 16 March 2016

# AUDIT COMMITTEE REPORT



The Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2015 to be effective and adequate

## Focus 2015

We continue to put emphasis on improving our risk management system, in line with the new requirements on risk management and internal control compliance under the CG Code.

## Role and Composition

The Audit Committee's principal role is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls. The Audit Committee met four times in 2015, with senior management, the external auditor and the Group General Manager, Audit & Risk Management (ARM) in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2015.

**Chairman:** Mr Patrick B. Paul (INED)

**Members:** Dr William K.L. Fung (INED)  
Mr Andrew Brandler (Non-Executive Director)

## Main Activities in 2015

During the year, in addition to the usual business set out below, we conducted a special review on cyber security including our current measures, policies and procedures and assess its risks to the Group. We also reviewed the treasury management and guidelines and the five key risks exposures, which are liquidity, refinancing, foreign exchange, interest rate and counterparties, and their mitigating actions taken. In addition, we

- ✓ reviewed and endorsed the Annual Report for the year ended 31 December 2014 and the annual results announcement, and the Interim Report for the six months ended 30 June 2015 and the interim results announcement;
- ✓ considered audit plans and reports from the external auditor on its audit and its review of the financial

statements including accounting policies and areas of judgement and its comments on control matters;

- ✓ reviewed and approved external auditor's audit and non-audit fees for 2014 as described below, assessed the performance of the external auditor and endorsed the reappointment of KPMG as the Company's independent auditor for 2015;
- ✓ considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2014 Annual Report and 2015 Interim Report;
- ✓ reviewed and endorsed the Group Risk Management Report detailing the principal risks facing the Group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems semi-annually;

- ✓ reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;
- ✓ considered internal audit reports submitted by ARM;
- ✓ reviewed and approved the internal audit plan for 2016;
- ✓ reviewed connected transactions and related party transactions;
- ✓ reviewed the valuations of all assets;
- ✓ reviewed the Group Risk Register and discussed the enhancement procedures;
- ✓ reviewed reported whistleblowing cases and incident reporting cases;
- ✓ reviewed, discussed and refined the Group's risk management framework processes;
- ✓ reviewed the deferred tax position of the Group's subsidiaries;
- ✓ reviewed and endorsed the revised terms of reference of the Committee to incorporate the enhanced risk management process which already put into practice; and
- ✓ discussed the new requirements for audits of the financial statements for 2016 Annual Report.

As the Chairman of the Audit Committee, I also met separately with the Group General Manager, ARM and the Audit Committee met with the external auditor without management being present during the year to discuss 2015 issues.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2015 to be effective and adequate. Issues raised by the internal and external auditors during 2015 have been, or are being addressed, by management and the Audit Committee recommended to the Board that there are no issues required to be raised to shareholders.

In respect of this Annual Report, including the Corporate Governance Report, Corporate Responsibility and Sustainability Report, the Directors' Report and Financial Statements for the year ended 31 December 2015 and the annual results announcement, after review and discussion, in March 2016, the Audit Committee endorsed and recommended the same to the Board for approval.

## Ensuring the Independence of our External Auditor

The Group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. In engaging the external auditor for non-audit work, we always take into account the guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2015, apart from audit work, the Company also awarded non-audit work to our independent auditor including, taxation and other services. In our first meeting 2016, the Audit Committee reviewed the nature of non-audit work performed by the external auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for 2016 for Shareholders' approval at the 2016 Annual General Meeting.

A summary of fees for audit and non-audit services to the Group's independent auditor, KPMG, for the financial years ended 31 December 2015 and 2014 is as follows:

Nature of Services	2015 HK\$m	2014 HK\$m
Audit Services	10	10
Non-audit Services		
Taxation and other services	3	2
Due diligence services	–	1

On behalf of the Audit Committee



Patrick B. Paul  
*Chairman of the Audit Committee*  
 16 March 2016



# NOMINATION COMMITTEE REPORT



The Nomination Committee considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity

## Focus 2015

We are pleased that Dr Kim L. Winser has joined us as an Independent Non-Executive Director (INED) from 1 January 2016 and that Mr Matthew J. Lawson will join us as our new Chief Financial Officer from 3 May 2016.

## Role and Composition

The key role of our Nomination Committee is to keep under review the size, structure and composition of the Board. This includes the selection of new Directors for the purpose of replacement and/or maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities and the review of independence of INEDs. The Nomination Committee met twice in 2015 and also dealt with a matter by written resolution.

**Chairman:** The Hon. Sir Michael Kadoorie  
(Non-Executive Chairman)

**Members:** Dr the Hon. Sir David K.P. Li (INED)  
Dr William K.L. Fung (INED)

## Main Activities in 2015

In 2015, with the assistance of external search consultants, we identified two new Directors and recommended their appointments to the Board: Dr Kim Winser who joined the Board as INED on 1 January 2016 and Mr Matthew Lawson who will come on board on 3 May 2016 as a replacement for the position of the Chief Financial Officer. The Nomination Committee also conducted the following business in 2015:

- ✓ Assessed and reviewed INEDs' confirmations of independence and affirmed the Committee's view over their independence
- ✓ Recommended the re-election of retiring Directors as these Directors continue to contribute effectively

- ✓ Reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors
- ✓ Reviewed the value of having measurable objectives for implementing the Board Diversity Policy
- ✓ Reviewed the terms of reference of Nomination Committee

## Boardroom Diversity

The Company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board including accounting, business, finance, legal, corporate and public sector management, banking, hospitality and online-retail experience. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity. While we recognise the gender diversity at Board level can be improved and this is taken into consideration, we continue to apply the principle of appointments based on merit. This year, our Committee continued with that diversity approach identifying a new INED and Chief Financial Officer. The objectives that we set for our external search consultants are described in page 119.

The Nomination Committee considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with the appointment of the two female members on the Board. In reviewing the appropriateness of an express diversity quota or measurable objective, our Committee concluded that it was not necessary, and the selection would continue to be based on merit with diversity being a factor taken into consideration. This approach is approved by the Board.

On behalf of the Nomination Committee



The Hon. Sir Michael Kadoorie  
*Chairman of the Nomination Committee*  
 16 March 2016

# REMUNERATION COMMITTEE REPORT



We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management

## Focus 2015

We continue to link pay holistically to business results, market practice as well as non-financial factors and individual performance in order to reward the high performers and critical positions in senior management.

## Role and Composition

The Remuneration Committee is empowered by the Board with the authority and duty to review and approve or endorse the management's remuneration and bonus proposals for Directors and senior management, as well as the Group's bonus scheme for senior staff, and to note salary increase budgets for all businesses.

**Chairman:** Mr Patrick B. Paul (INED)

**Members:** Mr Andrew Brandler (Non-Executive Director)  
Dr Rosanna Y.M. Wong (INED)

The Remuneration Committee met twice in 2015 and the Chief Executive Officer and Group Director, Human Resources attended the meetings by invitation. In addition to the scheduled meetings, the Committee has also dealt with certain matters by written resolutions.

- Promoting internal equity to ensure employees performing similar roles within the same market are rewarded fairly

## Remuneration Philosophy

Our HSH Rewards Philosophy which was established and approved by the Remuneration Committee in 2011 has not changed. A review of the philosophy will be carried out in 2016. This philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles, including:

- Linking pay to business results, market practice and non-financial goals
- Ensuring compensation and benefits programmes are legally compliant, locally relevant and globally consistent
- Providing a total remuneration package that rewards good performers competitively taking into account market movements and business performance

The Committee recognises that there is a competitive market for successful executive talent and believes that remuneration packages being offered must be set competitively with the market and at the right level to attract and retain the Company's executives.

All Executive Directors and senior management have service contracts, all terminable by notice. Review and approval of such contracts are within the scope of responsibility of this Committee. No individual is involved in the decision of his or her own remuneration. There are four components of remuneration paid to Executive Directors, senior management and other executives.

## Basic Compensation

Basic salaries are the primary element of remuneration and the general policy is to set them at the level required to retain and motivate employees, taking into account the scope and complexity of responsibilities, market pay levels

in the defined markets, as well as individual performance. Basic compensation may include basic salary, housing and other allowances.

### Bonuses and Incentives

The Committee believes that the provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components. Senior management participates in the HSH Management Bonus Plan which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The Group's financial performance
- The Business Units' quality measurement
- Individual performance
- Share price

The Committee retains discretion in the awarding of non-contractual annual bonuses.

### Retirement Benefits

The Executive Directors and most of the senior management participate in the Company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The employer contributions to the Company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees can opt to pay contributions. One member of the senior management participates in a local plan instead of the Company's plan due to the local requirements.

### Other Benefits

The benefits available to Executive Directors and senior management include, but are not limited to, health, life, disability and accidental insurance.

### Remuneration for Non-Executive Directors

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Remuneration Committee has the responsibility for reviewing Directors' fees and fees for serving on Board Committees and makes recommendations

to Board. These fees are reviewed on an annual basis. No Director approves his or her own remuneration.

In reviewing the fees, the Committee takes into account factors including the estimated time required to discharge their duties, benchmarking against other Hong Kong listed companies of similar market capitalisation and business.

In line with the above annual fee review's methodology, the Board approved in March 2016 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK\$300,000 and HK\$350,000 respectively per annum. These fees will be subject to Shareholders' approval at the Annual General Meeting on 11 May 2016. The Board also approved the recommendation from the Committee of a revision of the fees payable to the Chairman and members of Nomination Committee to HK\$40,000 per annum.

The revised fees will take effect on 11 May 2016 and be payable to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ending 31 December 2016.

### Main Activities in 2015

The Remuneration Committee conducted the following business in 2015:

- ✓ Reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2015. No changes were approved in 2015
- ✓ Reviewed and approved amendments relating to the calculation methodology of the 2014 HSH Management Bonus Plan for senior staff
- ✓ Approved the 2014 bonus proposal for Executive Directors and senior management and include 4 additional staff for the participation in the bonus scheme
- ✓ Reviewed and approved the terms of letters of appointment for Non-Executive Directors and INEDs
- ✓ Reviewed benchmarking of total remuneration of top 2 Grades senior staff against market
- ✓ Reviewed and approved 2014 Remuneration Committee Report
- ✓ Reviewed, amended and endorsed the terms of reference of the Committee
- ✓ Noted the group-wide 2016 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance

- ✓ Set the performance themes of the Chief Executive Officer in which his discretionary bonus will be paid
- ✓ Reviewed and approved the 2016 salary increases of Executive Directors and senior management
- ✓ Reviewed the service contract and remuneration package of the new Chief Financial Officer

## 2015 Remuneration of Directors and Senior Management

The following information is an integral part of the audited Financial Statements for the year ended 31 December 2015.

### Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2015 for their service on the Company's Board and, where applicable, on its Board Committees are set out below.

Higher levels of fees were paid to the Chairmen of the Audit Committee and the Remuneration Committee indicated by "C". Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees.

(HK\$'000)	Executive Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total <sup>A</sup> 2015	Total <sup>A</sup> 2014
<b>Non-Executive Directors</b>							
The Hon. Sir Michael Kadoorie	250	100	–	–	20	370	348
Mr Andrew Brandler <sup>(1)</sup>	250	100	120	60	–	530	338
Mr Ian D. Boyce <sup>(2)</sup>	–	–	–	–	–	–	172
Mr Ronald J. McAulay	250	–	–	–	–	250	232
Mr William E. Mocatta	250	–	–	–	–	250	232
Mr John A.H. Leigh	250	100	–	–	–	350	332
Mr Nicholas T.J. Colfer	250	–	–	–	–	250	232
<b>Independent Non-Executive Directors</b>							
Dr the Hon. Sir David K.P. Li	300	–	–	–	20	320	298
Mr Patrick B. Paul	300	–	175 <sup>(c)</sup>	85 <sup>(c)</sup>	–	560	533
Mr Pierre R. Boppe	300	–	–	–	–	300	282
Dr William K.L. Fung	300	–	120	–	20	440	418
Dr Rosanna Y.M. Wong	300	–	–	60	–	360	338
	3,000	300	415	205	60	3,980	3,755

Notes:

(1) Mr Andrew Brandler was appointed as a Director of the Company with effect from 12 May 2014.

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

### Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2015 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total <sup>A</sup> 2015	Total <sup>A</sup> 2014
<b>Executive Directors</b>						
Clement K.M. Kwok	6,420	7,354	1,056	245	15,075	14,653
Peter C. Borer	4,608	3,729	746	163	9,246	8,911
Alan Clark <sup>+</sup>	3,432	992	572	331	5,327	5,241
	14,460	12,075	2,374	739	29,648	28,805

+ Mr Alan Clark resigned as a Director of the Company with effect from 30 November 2015.

<sup>A</sup> In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management.

## Senior Management – Remuneration

Remuneration for senior management (GMB members other than Executive Directors\*) disclosed pursuant to the Listing Rules falls within the following bands:

	2015 Number	2014 Number
HK\$4,000,001 – HK\$5,000,000	5	3
HK\$5,000,001 – HK\$6,000,000	1	1
HK\$6,000,001 – HK\$7,000,000	1	1

\* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and seven (2014: five) senior management who represent the various key functions and operations of the Company.

## Individuals with Highest Emoluments

The five highest paid individuals in the Group included three Executive Directors and two members of senior management (2014: two members of senior management). The emoluments of the two (2014: two) individuals with highest emoluments are within the following bands:

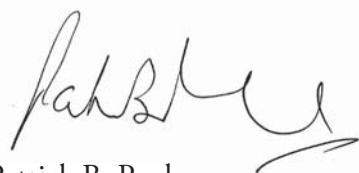
	2015 Number	2014 Number
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–

The aggregate of the emoluments in respect of these two (2014: two) individuals is as follows:

(HK\$'000)	2015	2014
Basic compensation	7,671	7,376
Bonuses and incentives	3,711	3,427
Retirement benefits	767	738
Other benefits	308	274
	<b>12,457</b>	<b>11,815</b>

The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company and to continued transparent disclosure on these matters.

On behalf of the Remuneration Committee



Patrick B. Paul

*Chairman of the Remuneration Committee*

16 March 2016