

CHAIRMAN'S GOVERNANCE OVERVIEW



“ I believe that our ability to continually create sustainable shareholder value and to attract and retain the best talent is primarily attributable to our dedication and commitment to high standards of corporate governance. ”

Dear Shareholders,

Preserving our heritage while continually evolving

Your company, The Hongkong and Shanghai Hotels, has been striving to perfect the art of hospitality and guest experience for many years, and as a result is considered one of the world's leading luxury hospitality brands. With this heritage in mind, we must continually improve and evolve in order to safeguard the future of our company, our people, and the cities in which we operate. This annual report is entitled “An Imperial Rebirth” to showcase how we generate shareholder value through continuous improvement of our assets and practices.

I believe that our ability to continually create sustainable shareholder value and to attract and retain the best talent is primarily attributable to our dedication and commitment to high standards of corporate governance. We uphold our core values and principles of integrity, transparency and accountability, with a focus on the long-term future.

With the objective of ensuring a stable and robust succession plan, we were delighted to welcome three new Board members, Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie, who joined the Board in December 2017. These Directors are a valuable addition bringing with them a variety of experience and new insights to our Board. We believe that HSH has a dynamic Board with a diverse range and balance of skills, expertise and experience, who can work effectively and constructively in challenging the Executive Directors and management. Our Board has also carried out a management succession planning review and we are satisfied that adequate succession planning is in place for key positions.

After serving our Board for 45 years, Mr Ronald McAulay retired in May 2017. In recognition of his extensive contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President.

Reinforcing a Tradition of Integrity

Continuous improvement is our goal. We conducted a self-evaluation of the Board during 2017 with the objective of enhancing our effectiveness and ensuring high standards of governance for the long term. The evaluation provided the Board and management with constructive feedback, and resulted in the actions described under the “Board Evaluation” section of this report. We regularly review our governance processes, policies, procedures and practices to ensure they are in line with the global regulatory requirements and best practices. Our Code of Conduct was given a fresh identity, the “Tradition of Integrity”, with the aim of instilling our values with each staff member and applying them to our business practices.

Throughout 2017 we continuously enhanced our risk management process across the projects to improve the effectiveness of our controls. The identified principal and emerging risks facing the Group and their mitigation methods were closely monitored by the Group Risk Committee and reviewed by Audit Committee and the Board. More details of which can be read on pages 145 to 151 of this report.

Compliance

As a Hong Kong listed company, we are reporting in the context of the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules. This report sets out our approach to corporate governance, how we have applied the main principles and whether we have complied with the relevant provisions. It also shows the structure of our Board and Board Committees, the roles that they play, how they operate, and our risk management structure and processes.

A commitment to long-term success

Overall, I am pleased with the progress we have made in 2017 in the area of governance. We strive to continually improve and enhance our efforts and ensure the long-term success of the Company.

The Hon. Sir Michael Kadoorie
16 March 2018

OUR LEADERSHIP - BOARD MEMBERS







From left to right

Back row: Peter Borer, James Lewis, John Leigh, Patrick Paul, Philip Kadoorie, Clement Kwok, Pierre Boppe, Dr William Fung, Nicholas Colfer, Matthew Lawson




Front row: Ada Tse, William Mocatta, Andrew Brandler, The Hon. Sir Michael Kadoorie, Dr the Hon. Sir David Li, Dr Kim Winser, Dr Rosanna Wong, Ronald McAulay

Our Leadership - Board Members

Governance Board Committees

-  Audit Committee
-  Nomination Committee
-  Remuneration Committee
-  Chairman of the Committee

Other Board Committees

-  Executive Committee
-  Finance Committee
-  Chairman of the Committee

Non-Executive Chairman

The Hon. Sir Michael Kadoorie



GBS, LL.D. (Hon), DSc (Hon), Commandeur de la Légion d'Honneur, Commandeur de l'Ordre des Arts et des Lettres, Commandeur de l'Ordre de la Couronne, Commandeur de l'Ordre de Leopold II

Appointed a Director in November 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company within the meaning of the Securities and Futures Ordinance. He is a Director of a subsidiary of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of CK Hutchison Holdings Limited, a Director of Sir Elly Kadoorie & Sons Limited, and he holds a number of other directorships. He was an Independent Non-Executive Director of Hutchison Whampoa Limited until July 2015 and an Alternate Director of Hong Kong Aircraft Engineering Company Limited until May 2016. In addition, Sir Michael acts as a trustee for a number of notable local charitable organisations. He is the brother-in-law of the Honorary Life President, Mr Roanld James McAulay. He is 76 years old.

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler



Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also Chairman of two subsidiaries of the Company. From May 2000 to September 2013, Mr Brandler was the Group Managing Director and Chief Executive Officer of CLP Holdings Limited and he remains a Non-Executive Director of this company. He is a Non-Executive Director of Tai Ping Carpets International Limited and an Independent Non-Executive Director of MTR Corporation Limited. As Chairman of Sir Elly Kadoorie & Sons Limited, he oversees a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Prior to joining CLP Holdings Limited, Mr Brandler worked for Schroders, a UK investment bank, and was based in London, in Singapore and latterly in Hong Kong, where his last position was Head of Asia-Pacific Corporate Finance.

He was the Chairman of The Hong Kong General Chamber of Commerce between 2008 and 2010. He holds BA and MA degrees from the University of Cambridge, an MBA degree from Harvard Business School, and is a Member of the Institute of Chartered Accountants in England and Wales. He is 61 years old.

Executive Directors

Chief Executive Officer

Clement King Man Kwok



Chevalier de la Légion d'Honneur

Appointed to the Board as Managing Director and Chief Executive Officer in February 2002, Mr Kwok is also a Director of the majority of the Group's entities. His career began with Price Waterhouse and Barclays de Zoete Wedd in the UK, following which he returned to Hong Kong in 1986 to work with Schroders Asia, where he was appointed as Head of Corporate Finance in 1991. From 1996 to 2002, Mr Kwok served as Finance Director of MTR Corporation. He was an Independent Non-Executive Director of Swire Pacific Limited until May 2015. He is currently an Independent Non-Executive Director of Orient Overseas (International) Limited, a Fellow of The Hong Kong Management Association, a Council Member of the World Travel & Tourism Council, a Member of the International Advisory Council of the Faculty of Business and Economics of The University of Hong Kong and an Honorary Adviser to the Financial Reporting Council. Over his long career in Hong Kong, he has served on the Stock Exchange Listing Committee, the Takeovers and Mergers Panel, the Securities and Futures Appeals Tribunal, the Hang Seng Index Advisory Committee and the Harbourfront Commission, as well as the Interpretations Committee of the International Accounting Standards Board in London. He holds a Bachelor of Science in Economics from the London School of Economics and is a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is 58 years old.

Chief Operating Officer**Peter Camille Borer**

Appointed to the Board as an Executive Director in April 2004, Mr Borer is a Director of the majority of the Group's entities. He joined the Group in 1981 and was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999. He was appointed as Chief Operating Officer in April 2004. Mr Borer is a graduate of the Ecole hôtelière de Lausanne, Switzerland and is now a member of the International Advisory Board of the school. He is also a member of the Advisory Board of the School of Hotel and Tourism Management of The Chinese University of Hong Kong. He is 64 years old.

Chief Financial Officer**Matthew James Lawson**

Appointed to the Board as an Executive Director and Chief Financial Officer in May 2016, Mr Lawson is also a Director of the majority of the Group's entities. Over the course of his career Mr Lawson has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. He began his career with Arthur Andersen Corporate Finance in Sydney in 1998 and subsequently joined Deutsche Bank AG in Sydney in 2001 where he worked across Equity Capital Markets and Real Estate Investment Banking. Mr Lawson joined JPMorgan in Asia in 2006, where he held senior positions in Hong Kong and Singapore. Prior to his departure he was Managing Director and Head of JPMorgan's Real Estate, Gaming and Lodging investment banking practice in Asia. He holds a Bachelor of International Business Relations from Griffith University and a Bachelor of Commerce from The University of Queensland. Mr Lawson has also completed various postgraduate studies in China, including at the Hopkins-Nanjing Center for Chinese and American Studies. He is 44 years old.

Non-Executive Directors**William Elkin Mocatta**

Appointed to the Board in May 1985, Mr Mocatta served as Deputy Chairman from 1993 until May 2002. He is also a Director of several subsidiaries of the Company. Mr Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings

Limited and Chairman of CLP Power Hong Kong Limited, CLP Properties Ltd., CLP Property Investment Limited, Castle Peak Power Company Limited and Hong Kong Pumped Storage Development Company, Limited. Mr Mocatta is also an Alternate Director for The Hon. Sir Michael Kadoorie in CK Hutchison Holdings Limited. He was an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited until July 2015. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 65 years old.

John Andrew Harry Leigh

Appointed to the Board in May 2006, Mr Leigh serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Previously, he worked in private practice as a solicitor in Hong Kong and the UK. He is 64 years old.

Nicholas Timothy James Colfer

Appointed to the Board in May 2006, Mr Colfer is Chairman of Tai Ping Carpets International Limited and a Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong. He holds a Master of Arts and has over 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. He is 58 years old.

James Lindsay Lewis

Appointed to the Board in December 2017, Mr Lewis is an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited, and a Director of Sir Elly Kadoorie & Sons Limited, being involved in a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Mr Lewis has experience in private equity, hotel, charity and aviation operations and currently serves on the Boards of several private companies in the United Kingdom, Hong Kong and the Philippines. Mr Lewis is a graduate of the Kellogg-HKUST Executive MBA program, holds a Master of Aviation Management from The University of Newcastle, Australia, a Certification of Hospitality Management from Cornell University, U.S.A. and is a Member of The Society of Trust and Estate Practitioners. He is 43 years old.

Our Leadership - Board Members

Philip Lawrence Kadoorie

Appointed to the Board in December 2017, Mr Kadoorie is the son of The Hon. Sir Michael Kadoorie. He is a Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. Mr Kadoorie holds a Bachelor of Science in Communication from Boston University. Prior to his appointment to the Board, Mr Kadoorie completed various internships in commercial property companies in London and at CLP Group in Hong Kong. He holds an FAA Commercial Pilot's License (Helicopter). He is 26 years old.

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li



GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum. Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBSC, CITP, FCIArb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur

Appointed to the Board in October 1987, Sir David is the Chairman and Chief Executive of The Bank of East Asia, Limited (listed in Hong Kong). He is an Independent Non-Executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited (all listed in Hong Kong). He is also a Director of Hong Kong Interbank Clearing Limited. Sir David was an Independent Non-Executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited) until June 2016. Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012. He is 79 years old.

Patrick Blackwell Paul, CBE



Appointed to the Board in February 2004, Mr Paul began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and a senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 70 years old.

Pierre Roger Boppe

Chevalier dans l'Ordre National de la Légion d'Honneur

From May 1996 until January 2002, Mr Boppe was Managing Director and Chief Executive Officer of the Group. He was re-designated from being a Non-Executive Director to an Independent Non-Executive Director in June 2009. Upon his return to Europe, Mr Boppe continues to be active in the hotel and travel industries. He holds Master of Science degrees from both the Swiss Federal Institute of Technology and Stanford University. Mr Boppe has held various executive positions with the international quality control company SGS. He is 70 years old.

Dr William Kwok Lun Fung, SBS, OBE, JP



Appointed to the Board in January 2011, Dr Fung is the Group Chairman of Li & Fung Limited and also serves as a Non-Executive Director of other Fung Group companies including Convenience Retail Asia Limited, Trinity Limited and Global Brands Group Holding Limited. Dr Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited. He was an Independent Non-Executive Director of Singapore Airlines Limited until July 2017. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference from 1998 to 2003. Dr Fung graduated from Princeton University with a Bachelor of Science degree in Engineering. He also holds an MBA degree from the Harvard Graduate School of Business. He was awarded Honorary Doctorate degrees of Business Administration from The Hong Kong University of Science and Technology, The Hong Kong Polytechnic University and Hong Kong Baptist University. He is 69 years old.

Dr Rosanna Yick Ming Wong, DBE, JP



Appointed to the Board in February 2013, Dr Wong is a member of the National Committee of the Chinese People's Political Consultative Conference. She is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr Wong is Honorary Chairman of World Vision Hong Kong, a Global Advisor to Mars, Incorporated and the Senior Advisor to The Hong Kong Federation of Youth Groups. She is a member of The Hong Kong University of Science and Technology Business School Advisory Council. Dr Wong was an Independent Non-Executive Director of Cheung Kong (Holdings) Limited until June 2015. She holds a Doctor of Philosophy degree in Sociology from University of California, Davis and has been awarded Honorary Doctorates from The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The University of Hong Kong, The Hong Kong Institute of Education and The University of Toronto. She is 65 years old.

Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser has substantive experience and expertise in the consumer and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. She became a senior adviser to 3i, a leading private equity firm in the UK, for its investments in the consumer and retail industries and became Chairman of one of their brands, Agent Provocateur. Dr Winser has also previously served as an adviser to Natalie Massenet at online retailer Net-a-Porter and a Non-Executive Director of The Edrington Group Limited. Dr Winser is the Founder and Chief Executive Officer of Winser London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winser is a member of the Board of Trustees and the Chairwoman of Commercial Advisory Committee of the Natural History Museum in the UK. Dr Winser was awarded an Order of the British Empire (OBE) by Her Majesty The Queen and a Doctorate from Heriot-Watt University for her work on British business. She is 59 years old.

Ada Koon Hang Tse



Appointed to the Board in December 2017, Ms Tse is a Senior Advisor of PineBridge Investments Asia (formerly, AIG Investments Asia). She joined AIG in 1996 and was President and Chief Executive Officer of AIG Investments Asia before assuming an advisory role in 2011. Ms Tse previously worked in financial advisory services and equity capital markets at Morgan Stanley in New York and Hong Kong. Prior to joining Morgan Stanley, she worked as a lawyer with Sullivan and Cromwell in New York. Ms Tse now serves on the Appeal Board Panel (Town Planning) and the Municipal Services Appeals Board of the Hong Kong SAR Government. She has also served on the Securities and Futures Commission Advisory Committee, Film Censorship Review Board and Travel Industry Compensation Fund Management Board. In addition, she runs her family's YangTse Foundation focusing on supporting education and arts initiatives. Ms Tse holds a BA in Applied Mathematics from Harvard University and JD from Harvard Law School. She is 51 years old.

Honorary Life President

Ronald James McAulay

Mr McAulay served on the Board as a Non-Executive Director of the Company for over 45 years until his retirement in May 2017. In recognition of his extensive contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President. He does not have any official responsibilities within the Company. Mr McAulay is the brother-in-law of The Hon. Sir Michael Kadoorie. He is 82 years old.

OUR LEADERSHIP - SENIOR MANAGEMENT AND KEY FUNCTIONS



From left to right

Back row: Martyn Sawyer, Christobelle Liao, Shane Izaks, Sindy Tsui, Maria Razumich-Zec

Front row: Matthew Lawson, Clement Kwok, Peter Borer

Senior Management

Group Management Board

Chaired by the Chief Executive Officer, Group Management Board (GMB) is the principal decision-making body on management and day-to-day business of the Group. It operates under clear guidelines and delegated authorities approved by the Board. GMB meets weekly and the Group's business strategy is often featured on its agenda. GMB also sets aside time every year for a strategic meeting to reflect on the current direction and review and reset the future direction of the business with reference to the current market and the progress made to date, and to debate, formulate and refine ideas. The discussions are then communicated to the Board.

GMB members consist of Executive Directors, Clement Kwok, Peter Borer and Matthew Lawson¹, Group Executives and other members.

Group Executives:

Christobelle Liao

Appointed to GMB since 2011, Ms Liao is a Group Executive and also a Director of a number of the Group's entities. She is the Group Director, Corporate and Legal, and responsible for general management, all corporate and legal matters as well as the Group's investment in Istanbul. Ms Liao joined the Group in 2002 as General Counsel and Company Secretary, and through the years took on additional responsibilities from risk management to general corporate management and new projects. She is a qualified solicitor in Hong Kong and England & Wales. She is 49 years old.

¹ Profiles of Clement Kwok, Peter Borer and Matthew Lawson are disclosed on pages 118 and 119

Martyn Sawyer

Appointed to the GMB since 2002, Mr Sawyer is a Group Executive and also a Director of a number of the Group's entities. He is responsible for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of the Group's properties and clubs in Hong Kong, Vietnam, Thailand, France and the UK. Mr Sawyer also oversees the Group's investment in Yangon. He has served the Group for over 30 years. He was appointed Group General Manager, Properties and Clubs in 1999, and became Group Director, Properties in 2013. He is 60 years old.

Other members:

Shane Izaks

Appointed to GMB since 2015, Mr Izaks was appointed General Manager, Information Technology in 1995 when he joined HSH and has been a key member of the development and restructuring of the Technology function within the Group. In 2013 he became Group General Manager, Information Technology and is responsible for formulating and implementing Information Technology strategy at both Group and Operational levels. He is 55 years old.

Maria Razumich-Zec

Appointed to GMB since 2007, Mrs Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York, and Quail Lodge & Golf Club in Carmel, California. She became Regional Vice-President and General Manager, The Peninsula Chicago in 2013. She is 60 years old.

Sindy Tsui

Appointed to GMB since 2011, Ms Tsui joined the Group as General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training. She became Group Director, Human Resources in 2013. She is 49 years old.

Key Functions

The following are members of key functions in the Group at the date of this report. Names are listed in alphabetical order by last name.

Julie Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *Director, Business Development*

Jisoo Chon, *General Manager, The Peninsula Shanghai*

Joseph Chong, *Area Vice-President and Managing Director, The Peninsula Hong Kong and The Peninsula Shanghai*

Mark Choon, *General Manager, The Peninsula Manila*

Christopher Cribb, *Group General Manager, Projects*

Jonathan Crook, *General Manager, The Peninsula New York*

Katja Henke, *General Manager, The Peninsula Paris*

Jason Hui, *Director, Security and Operational Risk*

Mark Kobayashi, *Vice President, Marketing, The Peninsula Hotels*

Janice Lao, *Director, Corporate Responsibility and Sustainability*

Suan Beng Lee, *Group Treasurer*

Kai Lermen, *General Manager, Quail Lodge and Golf Club*

Mark Lomas, *Project Director, Project, The Peak Complex*

Cecilia Lui, *Director, PRC Affairs*

Nadine Maurellet, *General Counsel*

Lynne Mulholland, *Director, Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

Offer Nissenbaum, *Managing Director, The Peninsula Beverly Hills*

Megan Palmer, *Senior Manager, Operations Finance and Efficiency*

Vincent Pimont, *General Manager, The Peninsula Beijing*

Gareth Roberts, *Group General Manager, Operations*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Wilson So, *Group Chief Engineer*

Ernest Tang, *General Manager, Group Finance*

May Tsang, *General Manager, The Peak Complex*

Sonja Vodusek, *General Manager, The Peninsula Tokyo*

Kitty Wan, *Group General Manager, Audit & Risk Management*

Tina Wong, *General Manager, The Repulse Bay Company, Limited*

Simon Yip, *Vice President, Sales, The Peninsula Hotels*

CORPORATE GOVERNANCE REPORT

Integrity, Transparency and Accountability

Good corporate governance is crucial to sustaining the Group through the changing regulatory and market environment over the long term. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in our company. The annual report has been an important tool for us to provide our shareholders and stakeholders with a transparent picture of our business performance. Our commitment to continuously improve on the quality of disclosure is recognised in the list of awards we received for the annual report. The list can be found in the "Awards in 2017" section on page 110.

Corporate Governance Framework

The Board has determined our corporate governance framework as follows:

Board and Board Committees

The Board has established five Board Committees in order to manage the Company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the Corporate Governance Code in Appendix 14 of the Listing Rules. Attendance and reports on main activities from the Governance Board Committees are included in this section.

The Executive and Finance Committees are strategic and finance committees which are integral parts 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.

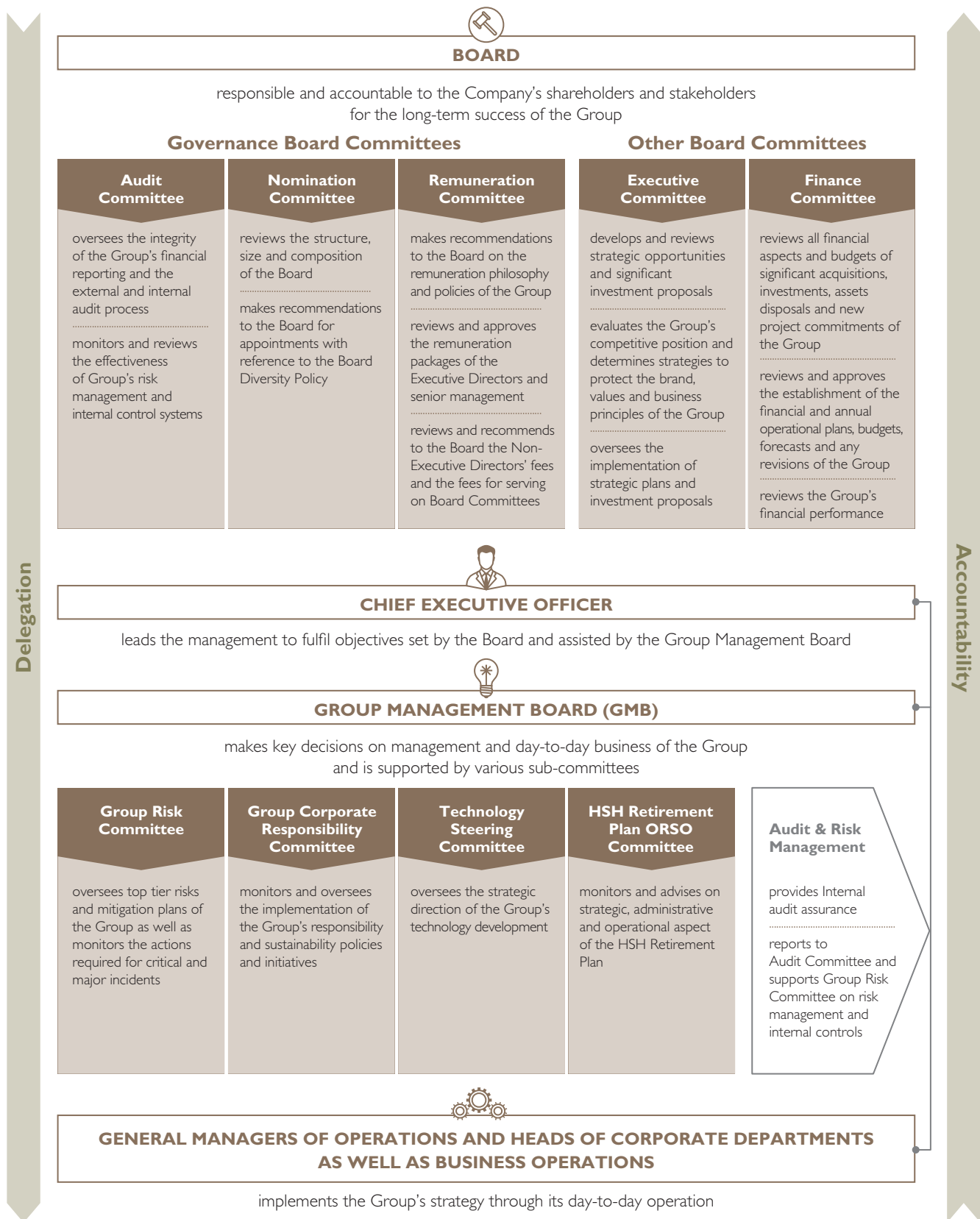
Chief Executive Officer and Group Management Board and sub-committees

The Chief Executive Officer (CEO) leads the management of the Group's business with the assistance of the Group Management Board (GMB) and under the clear guidelines and delegated authorities of the Board. This management structure fosters accountability and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the Company's business and strategy.

GMB is in turn supported by four sub-committees with different areas of focus, and the General Managers and Heads of Operations and Functional Departments on the implementation of our business strategy. Each GMB sub-committee has its own terms of reference or charter.

The main responsibilities² of each function is set out on next page.

² Details of responsibilities and memberships of the Committees can be found on HSH website: www.hshgroup.com/en/corporate-governance



Corporate Governance Report

Boardroom Diversity

A strong and effective Board requires an appropriate mix of skills, experience and diversity among its members, in order to provide sound judgement on strategic issues and effective oversight of and guidance to management.

CATEGORY



GENDER



AGE



NATIONALITY

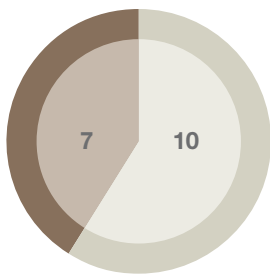


BOARD TENURE

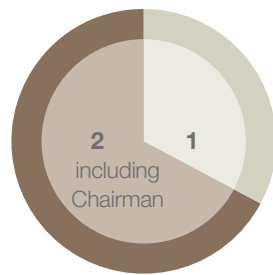


INDEPENDENCE WEIGHTING OF HSH BOARD AND GOVERNANCE BOARD COMMITTEES

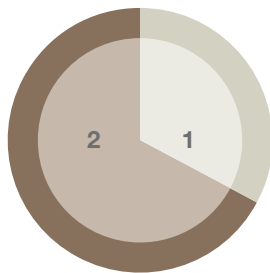
Board



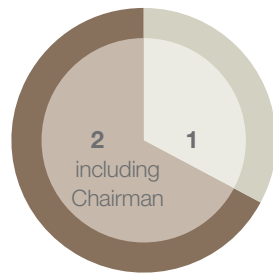
Audit Committee



Nomination Committee



Remuneration Committee



● INEDs ● Other Directors

BOARD EXPERTISE AND SKILLS



2017 Board diversity highlights

- ◆ Gender diversity (female representatives) increased to 3 members (2016: 2 members)
- ◆ Independent Non-Executive Directors increased to 7 members (2016: 6 members)
- ◆ Experience diversity broadened to provide new perspective on customer engagement, provision of services and corporate social responsibility

Our diversity philosophy does not end at the Board level but is carried out throughout the Group. Gender diversity of the management as at the date of this report is set out below:

GENDER OF SENIOR MANAGEMENT*



GENDER OF KEY FUNCTIONS**



* Inclusive of 3 Executive Directors

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

The Company has taken, and continues to take, steps to promote diversity, including gender diversity, at management levels. The Company has policies on equal opportunities and policies against gender and other forms of discrimination. Active steps were taken in promoting diversity in recruitment.

Biographical details of all Directors and senior management are shown on pages 118 to 123 and information on Board Diversity Policy is set out in the Nomination Committee Report on page 156.

Our 2017 Corporate Governance Focus

In addition to the regular activities, we continuously review and take initiatives to improve governance. In keeping with our commitment to quality and excellence, and the sustainability of the Company in the long term, our focus in 2017 was to broaden and bring fresh perspective to the Board, strengthen the Group's risk management and prepare the Group for future challenges.

New Directors

The Group operates in a world of rapid change and a diverse Board helps the Company to embrace these changes when setting its strategic direction for the future. The Nomination Committee considered the outlook of the Group and recognised the needs to bring new insights to the Board, particularly in the areas of technology, digital space and perspectives of different generations of guests. This resulted in the appointment of Ms Ada Tse, Messrs James Lewis and Philip Kadoorie as Directors in December 2017. Further details can be found in the Nomination Committee Report on page 156.

Corporate Governance Report

Board evaluation

The Board carried out its third self-evaluation. The overall results were very positive. Management has responded to the comments from the Board. The Board is considering an alternative evaluation method in supplement of the current format for the next evaluation that is planned for 2019. Further details on the evaluation process can be found under the heading of "Board Evaluation" on page 132.

Project risks and efficiency

To monitor and evaluate the ongoing hotel developments in London, Istanbul and Yangon, we continuously seek to improve the systems and processes in managing the risks and efficiency of our projects. For instance, we took steps to standardise the project risk register to facilitate better and consistent assessment, reporting and management of risks. In addition, we have undertaken organisational restructuring to optimise the use of our resources and achieve the goals of the projects.

Current risks

We have taken steps to address market trends and proactively manage our risks. For example:

Cybersecurity

With a number of cyberattacks making headline news this year, we became more vigilant in our cybersecurity measures. Group Information Technology strengthened its defence capabilities and increased training of its team and all employees.

Crisis management

We continuously review the Group's crisis management structure, policies and procedures on their strength, weaknesses and gaps.

Governance with a people focus

We regularly review our governance policies and processes with a focus on empowering our employees to learn, embrace and create a culture of compliance. The Company's Code of Conduct is titled "Tradition of Integrity" and the main pillar of our corporate values. As mentioned in the last year's report, we undertook the process of transforming the Code into principles of ethics which are relevant to our employees in the context of the workplace, our business practices and our community. The Code and has been translated into eight languages and made available on our website³. In addition, we create different "communication toolkits" which include e-learning training programmes, webinars, poster campaigns to help our employees understanding our corporate values and key compliance obligations such as anti-bribery and anti-corruption, fair competition and data privacy.

Inside information

HSH Inside Information Policy regulates the handling of inside information within the Group, to ensure potential inside information is being captured and the confidentiality of such information is maintained until consistent and timely disclosure is made. We have formalised and updated our policy and the internal guidance on the communication of the Group's monthly financial information. Refresher training on our inside information policy has been provided to our senior management in addition to the interactive discussion conducted with key members of financial and operational management of all operations. Further training to our Board members would be conducted in 2018.

Inside Information Policy includes:

- ◆ Designated reporting channels from different operations informing any potential inside information to GMB
- ◆ GMB to determine further escalation and disclosure as required
- ◆ Designated persons authorised to act as spokespersons and respond to external parties

How the Board Operates

The role of the Board

The Board leads and oversees the management of the Company and our Directors are collectively responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group.

The Board has reserved its powers in strategic and significant matters of the Group⁴, including oversight of:

| | |
|---|---|
|  Strategy and Financial | <ul style="list-style-type: none"> ◆ Long and short-term strategic directions of the Group ◆ Annual budgets and forecasts ◆ Significant changes in accounting policies ◆ Company's capital structure ◆ Dividend policy ◆ Material borrowings and expenditures ◆ Annual and Interim reports |
|  Leadership | <ul style="list-style-type: none"> ◆ Director's appointment and re-election |
|  Corporate Governance | <ul style="list-style-type: none"> ◆ Corporate governance functions |
|  Risk Management | <ul style="list-style-type: none"> ◆ Risk management and internal control systems |

Through the Board's leadership and direction, GMB runs the Group's day-to-day business (as more specifically described on page 122).

The Board also evaluates its own performance every two years. Details are set out on page 132. With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2017, please refer to the Directors' Report set out on page 167.

The role of the Board members and Company Secretary

There is a clear division of the responsibilities in the Company between the Chairman and the Chief Executive Officer and their division of responsibilities which was established in our HSH Corporate Governance Code. Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

Among our 14 Non-Executive Directors (NEDs), seven are Independent Non-Executive Directors (INEDs), independent of management. The other seven NEDs 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.

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the Company serve as our Executive Directors. The Company Secretary reports to the Chairman and the Chief Executive Officer. Their respective roles are set out in the table on next page.

⁴ Details can be found on the terms of reference of the Board: www.hshgroup.com/en/about/leadership

Corporate Governance Report

| Role | Responsibilities |
|---|--|
| Non-Executive Chairman <i>The Hon. Sir Michael Kadoorie</i> | <ul style="list-style-type: none"> ◆ Leading the Board and monitoring its effectiveness ◆ Fostering candid discussions and constructive relationships among Directors ◆ Reviewing management performance with the NEDs ◆ Safeguarding that good corporate practices and procedures are established and implemented throughout the Group, with the assistance of the Company Secretary |
| Chief Executive Officer* <i>Clement K.M. Kwok</i> <i>*supported by GMB⁵</i> | <ul style="list-style-type: none"> ◆ Leading the management in the day-to day running of the Group business ◆ Developing strategies for the Board's approval ◆ Executing strategies, policies and objectives agreed by the Board ◆ Reporting to the Board on the performance of the business |
| Non-Executive Directors and Independent Non-Executive Directors <i>see pages 119 to 121</i> | <ul style="list-style-type: none"> ◆ Evaluating management's performance in achieving the agreed corporate goals and objectives ◆ Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective ◆ Providing constructive feedback on management decisions ◆ Serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications ◆ The INEDs, being independent, have the additional role of: <ul style="list-style-type: none"> – Bringing knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the business – Helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise |
| Executive Directors <i>Clement K.M. Kwok</i> <i>Peter C. Borer</i> <i>Matthew Lawson</i> | <ul style="list-style-type: none"> ◆ Managing the day-to-day business of the entire Group's operations ◆ Being accountable for their specific executive functions to the Board ◆ Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs |
| Company Secretary <i>Christobelle Liao</i> | <ul style="list-style-type: none"> ◆ Reviewing, implementing and initiating improvements on our corporate governance practices and processes ◆ Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters ◆ Facilitating induction and professional development of the Directors |

Board processes

We continue to adopt clear and consistent board processes to allow the Board to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the Company. The Board held 5 scheduled meetings in 2017 and the attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 133.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. Directors


are invited to include discussion items in the Board agenda and comprehensive Board papers are sent to all Directors in advance of each Board meeting or Board written resolutions to allow sufficient time for review of discussion topics. In addition, management provides Board members with a monthly update of our business operations. During the Board meetings, we ensure that all Directors are also given adequate and quality information in a timely manner. 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.

⁵ Details of the GMB members and its function can be found on pages 122 and 123

Board decisions are voted on at Board meetings and supplemented by circulation of written resolutions between Board meetings. Board meetings are structured so as to encourage open dialogue, frank debate and active participation by Directors in meetings. Whilst matters may be decided at meetings are decided by a majority of votes from voting Directors, the Board would typically strive to get unanimous consensus.

2017 Board Activities

In addition to the usual decision matters that are within the Board's terms of reference, the Board discussed and assessed the Company's different businesses, financial performance and its strategic direction in light of our external environment. Highlights for the year included:

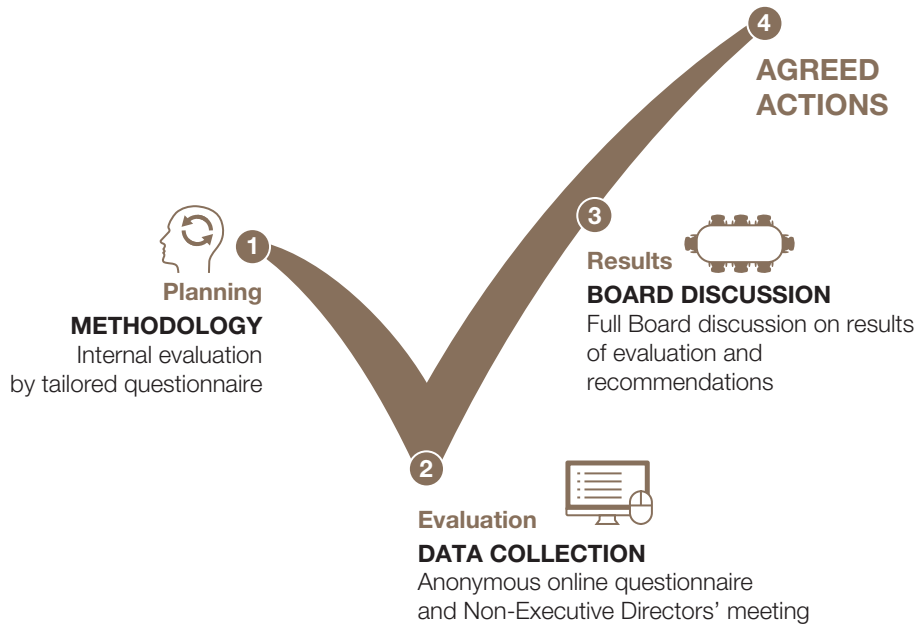
| | |
|--|--|
|  <p>Strategy</p> | <ul style="list-style-type: none"> ◆ Reviewed the five-year financial projection for the Group and the short to medium term financial impact of potential investments on the Group ◆ Monitored the progress of the ongoing projects in London, Istanbul and Yangon ◆ Discussed The Peninsula Tokyo position, competition, challenges and opportunities ◆ Reviewed our business strategy on luxury merchandise ◆ Reviewed the strategic priorities and the five-year roadmap of the Technology Steering Committee |
|  <p>Leadership and Employees</p> | <ul style="list-style-type: none"> ◆ Appointed Ms Ada Tse as INED and Mr James Lewis and Mr Philip Kadoorie as NEDs ◆ Reviewed succession planning for key positions for both unforeseen situations and the longer term ◆ Reviewed the talent assessment conducted by management every two years identifying high-potential employees across the Group and providing them with access to bespoke executive development programmes ◆ Accepted the resignation of Mr Ronald McAulay after having served on the Board for over 45 years |
|  <p>Risk Management and Internal Control</p> | <ul style="list-style-type: none"> ◆ Reviewed and approved the list of the principal risks of the Group and the key controls and risk treatments as disclosed in 2016 Annual Report ◆ Monitored the risk management and internal control systems on an ongoing basis and reviewed the effectiveness of these systems semi-annually through Audit Committee ◆ Reviewed and kept informed by reports from Audit Committee Chairman on audit, internal control and risk management matters ◆ Reviewed our risks and controls against cyberattacks and the security measures being taken |
|  <p>Governance</p> | <ul style="list-style-type: none"> ◆ Reviewed and approved the revamped Code of Conduct, Anti-Fraud Policy and Anti-Bribery and Anti-Corruption Policy ◆ Reviewed and discussed the Board evaluation results ◆ Directors were updated on new trends, legislation, and the Group's business, through presentations by General Manager of Operations and Heads of Corporate Departments on relevant topics including, technology development, consumer trends in luxury merchandise and project developments |

Corporate Governance Report

Board Evaluation

The Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness.

Board evaluation process



In May 2017, the Board agreed to carry out its third evaluation by way of self-assessment. The Company Secretary, in consultation with Group Management Board, Deputy Chairman and Chairman of the Audit Committee tailored an online questionnaire based on feedback from the Board in 2015. All Directors completed the questionnaire online anonymously. The Company Secretary collated all responses for Board discussion at the October Board meeting and the overall feedback was very positive.

The 2017 Board evaluation provided the Board and management with constructive feedback. Succession planning, digital development, the Group’s principal risks and mitigation factors as well as post-implementation reviews on key projects were recognised by the Board as being important items on the Board agendas and will continue to be reviewed and discussed throughout the year. In addition to the self-evaluation, the Chairman met with NEDs before the October Board Meeting to evaluate management performance and discussed how we might enhance our governance practices. These discussions were communicated to management for response or implementation at the October Board Meeting.

- Questionnaire – key discussion topics**
- ◆ Group objectives, strategy and performance assessment
 - ◆ Risk management systems and process effectiveness
 - ◆ Succession planning
 - ◆ Financial and project management
 - ◆ Composition and effectiveness of the Board and Board Committees
 - ◆ Process supporting the Board
 - ◆ Board Committees’ performance
 - ◆ Board evaluation and Chairman and NEDs’ meeting effectiveness
 - ◆ Individual Board member’s performance

2017 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 2017 are as follows:

| | Board | Audit Committee ⁽¹⁾ | Nomination Committee | Remuneration Committee | Annual General Meeting ⁽¹⁾ | Types of Training |
|--|-------|--------------------------------|----------------------|------------------------|---------------------------------------|-------------------|
| Non-Executive Directors | | | | | | |
| The Hon. Sir Michael Kadoorie <i>Non-Executive Chairman</i> | ●●●●● | | ●●● | | ● | A,B,C |
| Mr Andrew Brandler <i>Non-Executive Deputy Chairman</i> | ●●●●● | ●●●● | | ●● | ● | A,B,C |
| Mr Ronald J. McAulay ⁽²⁾ | ●● | | | | ● | 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 |
| Mr James L. Lewis ⁽³⁾ | ● | | | | | A,B,C |
| Mr Philip L. Kadoorie ⁽³⁾ | ● | | | | | A,B,C |
| Independent Non-Executive Directors | | | | | | |
| Dr the Hon. Sir David K.P. Li | ●●●●● | | ●●● | | ● | A,B,C |
| Mr Patrick B. Paul | ●●●●● | ●●●● | | ●● | ● | A,B,C |
| Mr Pierre R. Boppe | ●●●●● | | | | ● | A,B,C |
| Dr William K.L. Fung | ●●●●● | ○○● | ●●● | | ● | A,B,C |
| Dr Rosanna Y.M. Wong | ●●●●● | | | ●● | ● | A,B,C |
| Dr Kim L. Winser | ●●●●● | | | | ● | A,B,C |
| Ms Ada K.H. Tse ⁽³⁾ | ● | ● | | | | A,B,C |
| Executive Directors | | | | | | |
| Mr Clement K.M. Kwok <i>Chief Executive Officer</i> | ●●●●● | | | | ● | A,B,C |
| Mr Peter C. Borer <i>Chief Operating Officer</i> | ●●●●● | | | | ● | A,B,C |
| Mr Matthew Lawson <i>Chief Financial Officer</i> | ●●●●● | | | | ● | A,B,C |
| Company Secretary | | | | | | |
| Ms Christobelle Liao ⁽⁴⁾ | ●●●●● | ●●●● | ●●● | ●● | ● | A,B,C |

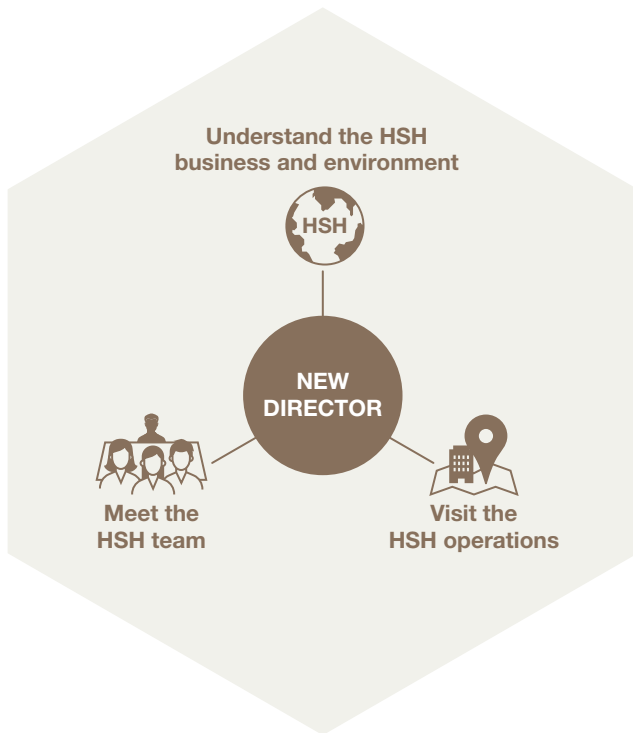
Notes:

- (1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting
 - (2) Mr Ronald J McAulay resigned as Director with effect from 8 May 2017
 - (3) Ms Ada K.H. Tse, Mr James L. Lewis and Mr Philip L. Kadoorie were appointed as Directors with effect from 1 December 2017
 - (4) During 2017, 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 such as The Peninsula Tokyo in October 2017
- (C) Seminars/conferences which are relevant to the business or Directors' duties in the following areas:
- ◆ Anti-fraud and anti-bribery and anti-corruption
 - ◆ Corporate governance matters
 - ◆ Risk management
 - ◆ Consumer trends in luxury markets
 - ◆ Information technology

Corporate Governance Report

Board Induction, Familiarisation and Training

Induction for new Directors



The Company provides a tailored and comprehensive induction programme for all new Directors upon joining the Board. The programme comprises a combination of briefings and meetings with Executive Directors, Company Secretary, and senior management, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. This covers Directors' duties, an overview of the Group's business, its operations, risks and regulatory matters, governance, finance and investor relations. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who joined the Board in December 2017 have been provided with tailored induction programmes to allow them to gain insight into our business, our colleagues and stakeholders.

Familiarisation and training to all Directors

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.

Our Board aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The October 2017 Board meeting was held at The Peninsula Tokyo. Board members toured the facilities and met with local management to understand their business challenges and market environment. Such overseas site visits provide NEDs with deeper insight into the Group's different businesses, thus enabling them to make sound decisions that are in line with the Group's business strategy. In addition, presentations by General Managers of Operations and Head of Corporate Departments after the Board Meeting were arranged to update our Directors on the new trends, legislation and the Group's business. Topics covered in 2017 include technology development, consumer trends in luxury merchandise, anti-fraud, anti-bribery and anti-corruption.

Our Directors participate in continuous training and development activities that keep them up to date on developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Directors provide the Company their training records annually and such records are maintained by the Company Secretary. The training records of Directors and the Company Secretary for 2017 are reflected on page 133.

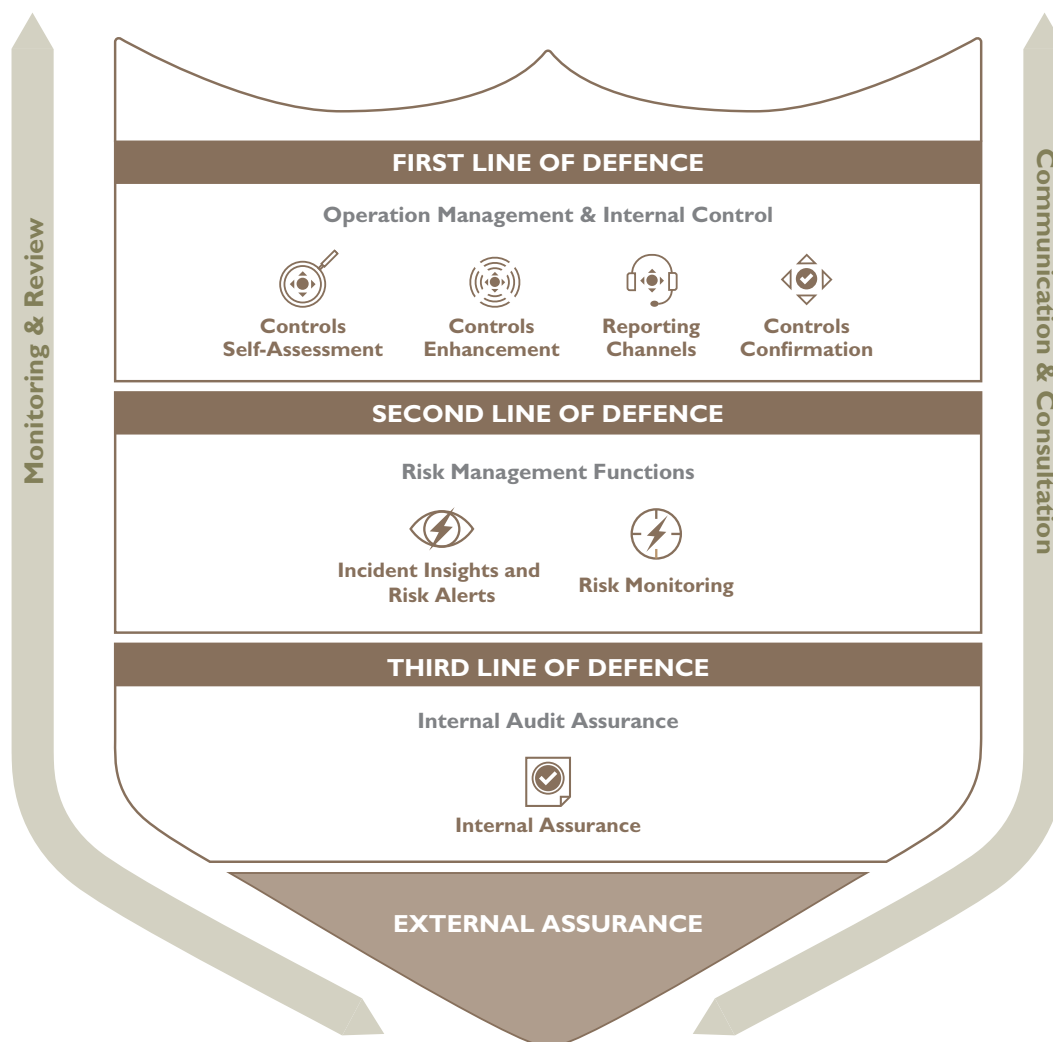
Risk Management

Effective risk management plays an integral role in the overall achievement of the Group’s strategic objectives. Our risk management approach is shaped by our business strategy which is to optimise the quality of our asset portfolio in the long term, ensure the long-term sustainability of our business, deliver a high standard of luxury, preserve the tradition of integrity and respect for our heritage.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for the Group. It has given the Audit Committee the responsibility to oversee these systems on an ongoing basis and to assess their adequacy and effectiveness semi-annually. This is done with the support of the Group Risk Committee (GRC) and Audit & Risk Management (ARM).

Approach to Risk Management

Our risk management framework is guided by the model of “Three Lines of Defence”. This framework and its process are designed to manage and mitigate risks rather than 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.



Board confirmation

The Board has considered and endorsed the Audit Committee’s assessment of the effectiveness of risk management and controls systems in the Group. Throughout 2017 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

Corporate Governance Report

Monitoring & Review

FIRST LINE OF DEFENCE

Operation Management & Internal Control

The Group's operational management and internal control system covers Group policies, procedures and practices, as well as internal control procedures.

 **Controls Self-Assessment**

Our business and functional units are at the forefront of risk management and they participate in assessing the Group's risk management and control processes by undertaking a "control self-assessment" (CSA). The CSA process allows the Group and each operation to identify potential new risks affecting their businesses, opportunities for further strengthening of controls and implement needed control enhancement plans with designated executives, management and timelines.

 **Controls Enhancement**

The Group has developed a number of controls to manage our regulatory and operational rules. For the enhancement measures undertaken in 2017, please refer to the GRC Report on pages 144 and 145.

 **Reporting Channels**

The Group's online incident reporting platform enables timely reporting of incidents that have a major or critical impact, so that prompt senior management action can be taken as appropriate. The technology tool also facilitates analytics for supporting early identification of emerging risks.

In addition, the Speak Up Policy⁶ provides employees and other stakeholders a reporting channel on suspected misconduct or malpractice within the Group in confidence and without fear for reprisal or victimisation. Moreover, HSH Inside Information Policy regulates the handling of inside information within the Group, to ensure potential inside information are being captured and confidentiality is being maintained until disclosure are made. Details about inside information can be found on page 128.

 **Controls Confirmation**

General Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material controls (which include financial, operational as well as compliance controls) via General Representation Letters bi-annually to the Chief Executive Officer and Chief Financial Officer, which in turn forms the basis by which management confirms the effectiveness of the Group's risk management and internal control systems to the Audit Committee.

Communication & Consultation

6 Posted on the Company's website: www.hshgroup.com/en/corporate-governance/speak-up-policy

Monitoring & Review

SECOND LINE OF DEFENCE

Risk Management Functions

The second line of defence is overseen by the GRC which (i) reviews the risk registers of the operations and the Group, and the Group Risk Management Report, (ii) monitors the principal risks and emerging risks of the Group, and (iii) regularly evaluates the risk management procedures in response to such risks. We use our 5-step Risk Management Methodology to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and for organisation changes. Details can be found on page 144 in the GRC Report.

 **Incident Insights and Risk Alerts**

The GRC analyses common incidents with similar root causes and summarised in an "Incident Insights" report for further discussion with the Group Management Board on a quarterly basis. Opportunities to improve key controls and share best practices are discussed and communicated across the Group.

 **Risk Monitoring**

The GRC continued to strengthen its monitoring of risks. For the initiatives taken in 2017, please refer to the GRC Report on pages 144 and 145.

THIRD LINE OF DEFENCE

Internal Audit Assurance

The third line of defence is supported by internal assurance activities. ARM performs the Group's internal audit assurance by assessing the effectiveness of our risk management and internal control systems.

 **Internal Assurance**

ARM applies a risk-based internal audit approach to determine whether material controls are effective in managing the key risks of the Group. The internal audit plan in 2017 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of our Group.

 **External Assurance**

The external auditor of the Group further complements the third line of defence process by independently auditing material internal controls over financial reporting of the Group. The external auditor would report on any material financial reporting control weakness to the Audit Committee.

Communication & Consultation

Corporate Governance Report

Our Shareholders

HSH had 1,816 registered shareholders as at 31 December 2017. 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 | 496 | 27.313 | 70,481 | 0.004 |
| 501-1,000 | 189 | 10.408 | 151,947 | 0.010 |
| 1,001-10,000 | 640 | 35.242 | 2,661,709 | 0.167 |
| 10,001-100,000 | 384 | 21.145 | 12,356,470 | 0.778 |
| 100,001-500,000 | 72 | 3.965 | 14,942,204 | 0.940 |
| Above 500,000 | 35 | 1.927 | 1,558,848,222 | 98.101 |
| Total | 1,816 | 100.000 | 1,589,031,033 | 100.000 |

Note: As at 31 December 2017, 36.33% 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 59.29% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 164 to 166. The remaining HSH shares are held by institutional and retail investors, with a considerable number of those investors being Hong Kong residents.

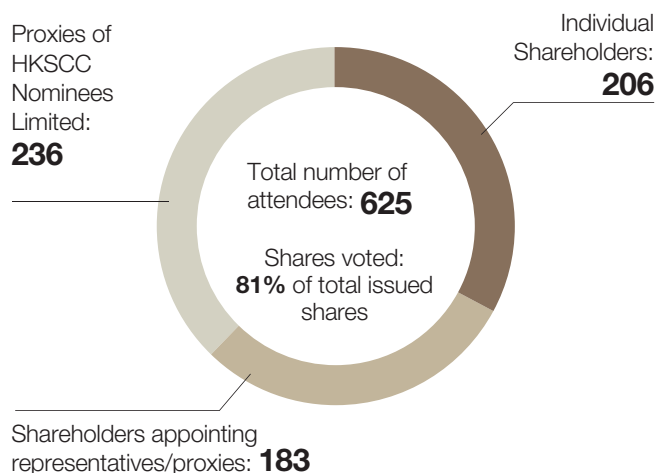
From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2017 and has continued to maintain such a float as at 16 March 2018.

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 website⁷ sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

2017 Annual General Meeting



The 2017 AGM was held on 8 May 2017 at The Peninsula Hong Kong. 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. Our Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2017 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's⁸ 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 2017 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 2016 | 99.99% |
| Payment of final dividend of 15 HK cents per share for the year ended 31 December 2016 | 99.99% |
| Re-election of five retiring Directors: Mr Andrew Brandler, Mr Clement K.M. Kwok, Mr William E. Mocatta, Mr Pierre R. Boppe and Dr William K.L. Fung as Directors of the Company | Ranging from 89.78% to 99.99% in respect of each individual resolution |
| Re-appointment of KPMG as the auditor of the Company and authorisation of the Directors to fix their remuneration | 99.97% |
| Granting of the general mandate to Directors to allot, issue and deal with the Company's shares | 88.02% |
| Granting of the general mandate to Directors to buy-back the Company's shares | 99.87% |
| Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased | 88.03% |

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 240.

The Company's share price information as well as share and dividend per share information for the last ten years are disclosed on pages 69 and 21 respectively.

Engaging our Shareholders

The Company attaches great importance in engaging with the investing community, including individuals and institutional shareholders and research analysts. 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 and directly communicate with our Directors
- ◆ We participated in investor conferences in Hong Kong and China to engage existing and potential investors

- ◆ Throughout the year, our Executive Directors and Investor Relations team also held roadshows, regular meetings and conference calls with institutional shareholders, analysts and potential investors in and outside of Hong Kong
- ◆ Our Company's website⁹ gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices
- ◆ Our Shareholder Communication Policy¹⁰ has specified the various communication platforms to which our shareholders and stakeholders can access
- ◆ The Company's branded social media sites provide investors with daily updates on our business initiatives in The Peninsula Hotels, The Repulse Bay, and The Peak, as well as HSH community and employee initiatives on employer branding social media sites

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

8 www.hshgroup.com/en/investors/corporate-announcements

9 www.hshgroup.com/en/investors

10 Posted on the Company's website:
www.hshgroup.com/en/corporate-governance

Corporate Governance Report

Engaging our Stakeholders

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:

| Stakeholder Group | How we engage | Examples in 2017 |
|---|--|--|
|  <p>Guests</p> | <p>Engaging our guests and ensuring their satisfaction is critical to how we run our business.</p> <p>In 2017, we continued to drive digital engagement by enhancing the peninsula.com website user experience and social media content. We engaged bloggers and online influencers to drive brand awareness amongst our customers. WeChat is a very important channel for the China market, and we use this to highlight Peninsula destinations and also as a room booking channel.</p> <p>On the sales side, we focused heavily on expanding and enhancing our relationships with global travel agencies who can help interact with potential customers. We organised roadshows and sales missions to Latin America and the Middle East to introduce our brand to cities and regions where we do not have a Peninsula Hotel.</p> | <ul style="list-style-type: none"> • In celebration of its tenth anniversary, The Peninsula Tokyo sponsored The Peninsula Tokyo Rally Nippon 2017, bringing together international and Japanese classic car enthusiasts on an epic motoring experience through Japan, encompassing five UNESCO World Heritage and Cultural Heritage Sites, including National Parks, historical landmarks, and ancient Japanese shrines • April marked the fourth edition of “Love Art at The Peninsula” – The Peninsula Hong Kong initiative that champions public art through site-specific works, exciting events, and partnerships. For the 2017 Peninsula Commission, The Peninsula Hong Kong welcomed the Irish-born artist Sir Michael Craig-Martin RA, for the third year in collaboration with Britain’s Royal Academy of Arts, unveiling a brand new sculptural work entitled “Bright Idea” to the public and the art world • The Peninsula Shanghai celebrated the graduation of the first batch of graduates from the Peninsula Shanghai Mentoring Programme, an initiative developed by the Sir Horace Kadoorie Youth Development Centre for Hospitality (SHKYDCH). The two-year mentoring programme began in 2015 and aims to inspire disadvantaged youths in China and provide access to career opportunities in the fast-growing hospitality industry |
|  <p>Employees</p> | <p>In 2017, we placed a greater emphasis on attracting and retaining employees, as well as rewards and recognition, employer branding, and staff engagement. We increased our information sharing on employee-focused social media sites such as LinkedIn and Glassdoor, rolled out an internal communication platform Yammer, increased two-way communication with senior management through discussion forums and Open House meetings, and are exploring best practices to reward and recognise high performing staff.</p> | <ul style="list-style-type: none"> • Developed a high level internal communications strategy aligned with Human Resources and business goals • Rolled out Microsoft Yammer as a communication tool across the Group • Exploring best practices and reward and recognition programmes • See pages 93 to 98 for more details on our employee engagement strategy |

| Stakeholder Group | How we engage | Examples in 2017 |
|--|---|---|
|  <p>Governments</p> | <p>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 Chief Executive Officer and select 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.</p> <p>Our Project team members in London, Istanbul and Yangon meet with select local government representatives, diplomats and relevant stakeholders to discuss local issues and enhance cooperation ahead of our three project hotel openings.</p> | <ul style="list-style-type: none"> ◆ Engaged with Hong Kong Government departments on tourism initiatives and advocated for the promotion of Kowloon as a tourist destination ◆ Membership of WTTC ◆ Engaged with local government representatives and diplomats in London, Istanbul and Yangon |
|  <p>Financial Analysts and Investors</p> | <p>Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor roadshows, post-results briefings and the AGM.</p> | <ul style="list-style-type: none"> ◆ Investor Conferences ◆ Financial reports and website ◆ Annual General Meeting (AGM) ◆ One-on-one and group briefings |
|  <p>Media</p> | <p>The Peninsula Hotels Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the HSH Corporate Affairs team organises press conferences with Executive Directors at annual/interim results and individual interviews throughout the year in Hong Kong. The Peninsula Hotels hosts regular press groups from the world's most prestigious travel, luxury and business publications to visit the cities in which we operate.</p> | <ul style="list-style-type: none"> ◆ International Luxury Travel Market (ILTM) in Cannes ◆ HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman ◆ High-profile media programmes |
|  <p>Community and NGOs</p> | <p>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.</p> <p>This engagement also includes our support to different charities around the world, in particular our global partnership with Make-A-Wish Foundation, as well as the beneficiaries of our Peninsula in Pink programme to fundraise on behalf of breast cancer charities. Our operations globally also engage with local charities to provide support where possible.</p> | <ul style="list-style-type: none"> ◆ Membership of Business for Social Responsibility ◆ Partnership with WWF Hong Kong ◆ Partnership with The Hong Kong Council of Social Service ◆ Membership of Responsible Luxury Initiative, Business Women for Action, Mekong Club and the Hong Kong Sustainable Seafood Coalition |
|  <p>Partners and Suppliers</p> | <p>Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects such as 21 avenue Kléber.</p> | <ul style="list-style-type: none"> ◆ The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar. The Peninsula Istanbul is undergoing a highly complex restoration and construction project on the banks of the Bosphorus, in collaboration with local authorities and Heritage Board. We worked extensively with local partners in Paris to restore and renovate 21 avenue Kléber (see pages 78 and 79) ◆ The Peninsula London, Istanbul and Yangon are referencing international green building standards during their development |

We always seek to improve on the area of stakeholder engagement and we are compiling a thorough stakeholder engagement profile for our three project markets in 2018.

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

Corporate Governance Report

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 2016.

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

- ◆ *CG 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 provisions*, we have complied with all of the code provisions throughout 2017.

In respect of *CG Code recommended best practices*, we have complied with all of the recommended best practices throughout 2017, 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.

Other Compliance Matters

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 2017. All Directors including NEDs are subject to a term of re-election every three years. Details of the appointments to the Board in 2017, and Directors who will retire and offer themselves for re-election in the 2018 Annual General Meeting are set out in the Directors' Report on page 163.

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 responsibility. The letters of appointment for NEDs 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 2017.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received written confirmations of independence from each of its seven INEDs who served in 2017. The Nomination Committee and the Board considered that all seven INEDs who served in 2017 were, and 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. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

Directors' dealings with Company securities

All Directors conduct their dealings in 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 2017. Details of the shareholding interests held by the Directors of the Company as at 31 December 2017 are set out on page 164.

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 122 and 123, and 165 respectively.

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 Group, and none of them has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules

In 2017, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to GMB members and key functions, which have also been fulfilled.

In addition, 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 2017, no potential conflict of interest was determined by the Board to be material except the continuing connected transactions as disclosed in the Directors' Report on page 163, which were reviewed in the March Board meeting.

Codes and terms of reference

Each year we review our governance and securities codes and the relevant terms of reference of the Board and each Board Committees¹¹ to ensure that they comply with the latest legal and regulatory requirements and reflect developments in best practices and the needs of the Company. The terms of reference of the Finance Committee were revised in 2017 accordingly.

The full terms of reference of the Board and each Board Committee can be viewed at the Company's website¹² and those of the Governance Board Committees¹³ are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 154 to 161.

Internal control procedures on connected transaction

We have implemented a series of measures to ensure our connected transactions are conducted in compliance with the connected transaction rules. These measures include: (i) tracking all current and potential connected transactions semi-annually; (ii) Group Legal review is required before any potential connected transactions are entered into; (iii) monthly connected transactions reports are prepared for monitoring purposes; and (iv) annual review of the continuing connected transactions of our office leases by the Audit Committee, INEDs, external auditor and the Board.

With respect to the connected transactions for the financial year of 2017, Audit & Risk Management has reviewed (i) the adequacy and effectiveness of the internal control procedures of connected transactions; and (ii) the continuing connected transactions of our office leases. Their findings are submitted to the Audit Committee, please refer to the Directors' Report set out on page 163.

High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through our year of operations and we continue to maintain and develop our corporate governance standards for the continued future success of the Group.

By Order of the Board



Christobelle Liao
Company Secretary
16 March 2018

11 Audit, Nomination, Remuneration, Executive and Finance Committees

12 www.hshgroup.com/en/corporate-governance/board-committees

13 Audit, Nomination, Remuneration Committees

GROUP RISK COMMITTEE REPORT

| | |
|--|---|
|  Composition | Chairman Mr Matthew Lawson, Chief Financial Officer Members Group General Manager, Audit & Risk Management Select members of senior management Group General Manager, Operations |
|  Meeting Frequency | <ul style="list-style-type: none"> Quarterly Four meetings in 2017 |
|  Responsibilities | <ul style="list-style-type: none"> To assess the top risks and risk treatments for our operations and major projects, as well as monitor the actions required for critical and major incidents To monitor the process whereby each operation addresses the risks identified, track progress of mitigating plans and activities of key business risks and report in the Group Risk Register To regularly review, assess and update the Group risks and related contingency plans to GMB for further review by the Audit Committee and the Board |

5-Step Risk Management Methodology



We continued to go deeper in implementing the Group’s 5-Step Risk Management Methodology across the Group, with a particular focus on further treatment (mitigation/action). We have improved the effectiveness of our controls in the following focus areas:

Development & investment risks

The Group continued to strengthen its governance surrounding The Peninsula London, The Peninsula Istanbul, The Peninsula Yangon and The Peak Tram Upgrade by standardising the risk management process across the projects and aligning it to the Group’s 5-Step Risk Management Methodology. Quarterly updates on the major risks relating to the projects are now being monitored and reviewed by the Group Risk Committee (GRC).

Risk engineering survey

Our owner-operator business model is a capital intensive one and higher attention is paid to protect and maintain our assets. To further improve our assets’ structural and engineering controls, our risk engineering consultant has performed risk engineering surveys for select operations. We further enhanced the risk engineering survey process by aligning it to the Group’s standards. Recommendations and mitigations were addressed by the respective engineering department.

Security and Operational Risk Capability Assessment

Guest safety is close to management’s heart and to ensure the highest level of security in our operations, the Security & Operation Risk Department appointed an external consultant to perform a gap analysis on the Group’s security management standard with ISO31000 Risk Management. The aim was to further strengthen



Matthew Lawson
 Chairman of
 the Group Risk Committee
 16 March 2018

The Group’s enhanced risk management process has formed a solid platform for us to focus on control effectiveness assessment and proactively address issues before they escalate.

and enhance our group-wide security standards. New Group Security Policy Statement, Group Standard Operating Procedures and Group Crisis Management Plan are under review and will be rolled out to operations in 2018 to ensure a consistent standard of security for our guests across operations.

Cybersecurity Incident Response Plan

Cybersecurity incident response has become a critical component of information security risk management. With the continued increase in the number of incidents and the level of sophistication in organisations across all industry sectors, one of the best defences is to ensure a cybersecurity incident response plan is in place to prepare for and respond to incidents in an effective and efficient manner. The Cybersecurity Incident Response Plan has been developed and will be rolled out across the Group in 2018.

Food Safety and Quality Management System

With the continued growth of The Peninsula mooncakes, artisan chocolates and specialty teas, Peninsula Merchandising Limited undertook a process to strengthen food safety and processes within its operation with the introduction of the Food Safety and Quality Management System. The system contains detailed guidelines aimed at ensuring the processes and supply chains surrounding our operations meet and exceed The Peninsula Boutique customer’s expectation for a high standard of food safety and production.

Principal Risks

The Board, with support from the Audit Committee and the GRC, has assessed the principal risks facing the Group, taking

into account those that would impact its strategies, future performance and long-term objectives.

Our principal risks are compiled through prioritisation of risks from a total Group perspective. This process includes an ongoing review by GMB of the most significant risks facing the Group, and the identification and evaluation of potential new risks.

Understanding why and how our principal risks change

The ongoing review of the most significant risks faced by the Group focuses on how changes may arise and how our controls need to be adapted in response to changing business conditions and organisational changes.

The movements of our principal risks since the publication of our 2016 Annual Report are shown on the next page.

Emerging Risks

The accelerating change of technology and ongoing growth of new technology based business models such as internet based aggregators and B2C online retail platforms may continue to disrupt our traditional business models and operations.

2018 Major Initiatives

In 2018, the GRC’s main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the Group; (ii) the roll-out of the 5-Step Risk Management Methodology to other areas of the Group such as the functional divisions and (iii) a focus on communication, awareness and ownership of risks and controls across the Group.

Group Risk Committee Report


| 1. Retail Tenants | | | | |
|--|--|---|---|--|
|  <p>RETAIL TENANTS</p> | <p>What is the risk?</p> <p>Retail letting, particularly in the non-luxury segment has become difficult due to factors such as the increased proliferation of cross border e-commerce changing consumer's shopping habits from offline to online, general decline in spend within the luxury retail segment, shifts in retail consumer goods preferences, an increase in competition leading to a decrease in our retail arcade traffic.</p> | <p>What is the impact?</p> <p>Revenue from our retail arcades may be hampered leading to a failure to achieve our retail letting targets.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> • Identification and acquisition of exclusive niche retail brands that would uniquely benefit from coinciding within Peninsula shopping arcade • Improvements in the utilisation of commercial and retail space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Marketing and sales initiatives to increase foot traffic • Proactively working with tenants to jointly develop marketing and incentive plans to drive traffic and repeat customers to our retail arcades • Diversification and maintenance of an appropriate tenant mix to enhance retail proposition • Employed a dedicated Retail Customer Relationship Management Manager | <p>Risk category FINANCIAL</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Continued challenges within the luxury retail industry in the markets that we operate and customer spending behaviour moving from offline to online purchasing</p> |
| 2. Acquisition, Investment and Development Projects | | | | |
|  <p>ACQUISITION, INVESTMENT AND DEVELOPMENT PROJECTS</p> | <p>What is the risk?</p> <p>Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks relating to capital allocation, capital funding, meeting budgets, incurring debt, missing project milestones, 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.</p> | <p>What is the impact?</p> <p>If we fail to deliver our planned acquisitions, investments or developments, it may result in a major impact on our capital, partnership relationships and reputation.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> • Greater due diligence throughout the construction procurement process by way of transparent and competitive tendering as to mitigate potential escalation of construction costs • Partnerships with experienced and reputable local partners, and familiarisation with local authorities • Individual and aggregated acquisition/development-related risk levels reviewed by the GRC • Robust and auditable risk management process applied to all live acquisitions/development • Continuous monitoring and review of all aspects of developments, planning, construction progress and reporting of potential project risks • Business stress testing under various downside scenarios • Formation of the Project Executive Committee to oversee governance and co-ordination of Group projects to ensure a disciplined and systematic approach to project management | <p>Risk category STRATEGIC</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Continued investment in London, Istanbul and Yangon as these projects move into construction phases</p> |
| 3. Foreign Exchange, Interest Rate and Funding Risk | | | | |
|  <p>FOREIGN EXCHANGE, INTEREST RATE AND FUNDING RISK</p> | <p>What is the risk?</p> <p>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. Entering into rising interest rate environment for the first time in many years.</p> | <p>What is the impact?</p> <p>Economic instability in exchange rate and interest rate may restrict our refinancing requirements and increase costs of capital.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> • Operations predominantly charging in local currencies and expending in local currency to minimise currency mismatch • The majority of borrowings are typically denominated in the functional currency of the operations to which they relate • Regular stress testing (ad hoc for projects, and yearly for the Group's financial reporting) • Actively managing fixed/floating interest rate exposure | <p>Risk category FINANCIAL</p> <hr/> <p>Risk movement in 2017 ▼</p> <hr/> <p>Why? Funding risk has reduced as financing for The Peninsula London project completed as of March 2018</p> |

Group Risk Committee Report

| 4. Disaster Events | | | | |
|---|---|---|---|---|
|  <p>DISASTER EVENTS</p> | <p>What is the risk?</p> <p>A major disaster event, such as a force majeure event, natural catastrophe, extreme weather due to climate change impact, war or contagious diseases could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings.</p> | <p>What is the impact?</p> <p>Major incident caused by disaster events, although rare, may result in the complete loss of assets causing severe impact on our customers, revenues and reputation.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> Enhanced risk engineering control process by external risk engineering consultant and Group engineering team on select properties focusing on insurable risks Security and Operational Risk Capability Assessment to align corporate security practices to international standards for security risk management Ongoing group-wide security threat awareness training sessions, bespoke to our hotels and the locations in which we operate Increased capital investment across the Group to upgrade all physical security systems to enhance our Global crisis management capabilities A comprehensive and effective travel risk management programme for all employees travelling and working abroad Strengthening our network with security stakeholders to enhance our global intelligence monitoring | <p>Risk category OPERATIONAL</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Terrorist risk exposure in our operating locations remains at a similar level</p> |
| 5. Macroeconomic and Political | | | | |
|  <p>MACROECONOMIC AND POLITICAL</p> | <p>What is the risk?</p> <p>A global or regional economic downturn could lead to a reduction of global or country-specific travel activity and hence reduced demand for hospitality services. Political instability and significant changes to regulatory relevant to hospitality industry and travel related activities result in changes of travel patterns and guest spend.</p> | <p>What is the impact?</p> <p>Reduced demand for hospitality services may result in a decline in profit and cash inflow, while inflation and currency fluctuation may increase operating costs. Changes to regulations may result in higher legal and compliance costs, as well as a restricted ability to repatriate profits.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> Diversification of target market segment to ensure the impact of a market loss due to adverse economic or political event is manageable and can be reasonably offset by increasing revenue from market segments through reallocating resources 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 Close monitoring of operating costs and implementation of cost savings measures when required | <p>Risk category EXTERNAL</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Macroeconomic and political risks in our operating locations remain at a similar level despite tensions in Middle East having an impact on number of guests received from the region</p> |
| 6. Cybersecurity | | | | |
|  <p>CYBERSECURITY</p> | <p>What is the risk?</p> <p>Frequency of cyberattacks like sophisticated phishing campaigns and ransomware continued increased in 2017. The threat of an attack is high.</p> | <p>What is the impact?</p> <p>Inability to operate effectively may result in a loss of information and unavailability of systems. Significant costs may be incurred for data recovery and system restoration, and/or possible financial or other regulatory penalties.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> A new leadership position for information technology security and risk Redesign group-wide security awareness training for all operations Ongoing review of business-critical applications for disaster recovery plan Strengthen account authentication for all employees Mandate regular vulnerability assessments and penetration test Continue to enhance security measures and adopt cyber insurance policy against loss | <p>Risk category OPERATIONAL</p> <hr/> <p>Risk movement in 2017 ▲</p> <hr/> <p>Why? Number of cybersecurity incidents increased globally in 2017</p> |
| 7. Data Privacy | | | | |
|  <p>DATA PRIVACY</p> | <p>What is the risk?</p> <p>Our business involves handling a large amount of personal data and given our wide guest base and global operations, we are regulated by privacy laws and regulations in all jurisdictions. In addition, as a result of a vendor data breach, we were on higher alert and expended more management time and effort to manage the risk.</p> | <p>What is the impact?</p> <p>Compliance could increase our operating costs and impact our ability to directly market. Breaches, either through deliberate targeted actions or inadvertent errors, may adversely affect our brand and business and may result in regulatory investigations and potential fines.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> Review of our data privacy policies and practices with reference to changes in privacy laws and regulation in the places we operate in Strengthened due diligence and controls with respect to third party data processors Revamped group-wide e-training and rolled it out to existing and new employees Compliance assessments by Data Privacy teams across operations Provide channels for reporting and dealing with data breaches | <p>Risk category OPERATIONAL</p> <hr/> <p>Risk movement in 2017 ▲</p> <hr/> <p>Why? Global trend of tightening privacy laws has increased the challenge of compliance. The rise in cybercrimes also exposed us to higher risks of data security breaches</p> |

Group Risk Committee Report


8. Business Portfolio/Concentration

| | | | | |
|---|---|--|--|--|
|  <p>BUSINESS PORTFOLIO/ CONCENTRATION</p> | <p>What is the risk?</p> <p>Owing to the origin of the Company, a significant portion of our Group earnings is derived from our operations in Hong Kong.</p> | <p>What is the impact?</p> <p>Unfavourable events (e.g. pandemic, terrorism, natural disaster) in the city could severely disrupt our overall business, lower our revenues, and impact the valuation of our assets.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> Focus on increasing overseas earnings contribution, by increasing earnings from existing operations outside of Hong Kong Ongoing focus to strengthen our brand with existing customers globally and, within the fast-changing business environment of Hong Kong, make prompt adjustment to our business strategies when necessary Maintain comfortable level of gearing | <p>Risk category STRATEGIC</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Group earnings still predominantly derived from Hong Kong operations despite an increase of contribution from recently renovated operations outside of Hong Kong such as The Peninsula Chicago and The Peninsula Beijing</p> |
|---|---|--|--|--|

9. Brand and Reputation

| | | | | |
|--|--|--|--|---|
|  <p>BRAND AND REPUTATION</p> | <p>What is the risk?</p> <p>Adverse publicity in traditional or social media, e.g. complaints, allegations, rumours, negative comments or reporting, which may be frivolous or misconceived, could result in brand and reputational damage.</p> | <p>What is the impact?</p> <p>Loss of confidence in our brand may lead to a decline in loyalty of existing guests, tenants and/or customers, and impairment of the ability to attract new customers from competitors. It may also result in a decline of ability to recruit and retain talent and increased cost for crisis management and potential legal fee.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> A continuous endeavour on corporate branding initiatives, both traditional and digital platforms Clear guidelines on incident communication and crisis management process by Crisis Management team Implementation of group-wide social media usage guidelines Our Code of Conduct, behavioural standards and other policies which regulate staff and guests conduct emphasises the zero-tolerance of abusive behaviour and misconduct by staff or guests, and provide clear guidelines on the escalation process Increased focus on employer branding to ensure awareness of HSH being a reputable listed company and considerate employer | <p>Risk category OPERATIONAL</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Reputational risk has slightly increased during the year due to cybersecurity incidents in hospitality industry and widespread media coverage on the topic of alleged sexual harassment around the world, with a particular focus on guest behaviour in luxury hotels</p> |
|--|--|--|--|---|

10. Competition

| | | | | |
|---|--|--|---|--|
|  <p>COMPETITION</p> | <p>What is the risk?</p> <p>Cyclical over-supply of luxury hotel and increased competition over pricing, quality of products and level of services pose a significant competitive pressure to the business.</p> | <p>What is the impact?</p> <p>Failure to compete effectively may result in a decline in market share, revenue and profit, and reduce partnership opportunities.</p> | <p>How do we manage it?</p> <ul style="list-style-type: none"> Increased focus on digital marketing and e-commerce opportunities, recruitment of digital talent from outside industries to contribute to the Company's digital transformation and development of guest experiences Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes Marketing and communication initiatives to drive revenue growth and strengthen our brand marketing position Increased focus on engaging directly with customers rather than through third party channels Reinvestments into our properties to ensure competitiveness Continue to focus on strengthening our people development platforms, in order to retain the best talent in the Company and within the industry as a whole Maintain comfortable level of gearing | <p>Risk category EXTERNAL</p> <hr/> <p>Risk movement in 2017 ◀▶</p> <hr/> <p>Why? Competition level remained high during the year</p> |
|---|--|--|---|--|

GROUP CORPORATE RESPONSIBILITY COMMITTEE REPORT

| | |
|--|---|
|  Composition | <p>Chairman Mr Clement K.M. Kwok, Chief Executive Officer</p> <p>Members Director, Corporate Responsibility and Sustainability Select members of senior management General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, sales and marketing, human resources, legal and corporate affairs functions</p> |
|  Meeting Frequency | <ul style="list-style-type: none"> At least three meetings each year Four meetings in 2017 |
|  Responsibilities | <ul style="list-style-type: none"> To propose, recommend, monitor and report to the Group Management Board on corporate responsibility and sustainability (CRS) topics, including the implementation of the Company's Sustainable Luxury Vision 2020 To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the Group |

Reporting Approach

As we aim to provide a connected view of our overall performance to both our shareholders and key stakeholders, we have increased discussion of the linkages of the different aspects of our business and how it contributes to the Group's creation of value on economic, environmental and social aspects. We continued to publish online¹⁴ a detailed Corporate Responsibility and Sustainability Report (CRS Report) and this was also published on the Hong Kong Stock Exchange website. The CRS Report complies with the "comply or explain" provisions in the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide which includes reporting of a number of relevant recommended disclosures and contains standard disclosures for Core level of the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) (re-launched in November 2016).

2017 Main Activities

We continued to embed sustainability principles and thinking in our operations through enhancing clarity on Vision 2020 commitments. We did this by categorising commitments according to three areas – Our guests, Our people, Our cities – while retaining six out of the original seven pillars. We also assessed progress on each of the commitments and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2017 revolved around clarity and enhanced implementation:

- Reviewed CRS performance data and recommended actions relating to energy, water and waste management, responsible sourcing, health and safety, workforce issues and ethical standards and community engagement

- Discussed recent global and local trends on the topics of CRS, e.g. single use plastic and food waste issues, carbon reduction targets, Sustainable Development Goals, etc.
- Reviewed progress of the implementation of CRS initiatives, e.g. building re-commissioning projects, LED re-lamping strategy, Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects
- Oversaw and approved an enhanced and streamlined progress reporting approach to enable a more focused and strategic performance reporting on Vision 2020
- Discussed key focus areas and communication strategy on Vision 2020 for the next three years
- Discussed and agreed on the approach of 2017/18 stakeholder engagement and materiality assessment
- Reviewed and confirmed the terms of reference of the Committee

In 2018, the Committee's main focus is to enhance engagement activities to embed CRS into the hearts and minds of our people; and to continue to provide effective support to the implementation of Vision 2020. We have also provided a list of other specific initiatives as outlined in the CRS Report on the Company's website.¹⁴




Clement K.M. Kwok
Chairman of the Group Corporate Responsibility Committee
16 March 2018

It is my belief that building our business to be sustainable for the long term is the most important task of our group. I believe we have exhibited a strong sense of responsibility, high level of consciousness and integrity which has contributed to our success. However, we understand that in creating a legacy and addressing the challenges we face, we must play a role in building a sustainable future, through continued dialogue, collaboration and innovation.

Progress on Vision 2020




We continued to see good progress in achieving most of the Vision 2020 commitments. We highlight some good examples to demonstrate how we have progressed since we launched this vision:

- CRS e-learning modules have now been provided to all our CRS champions and integrated into our e-learning platform, *Learning KEY*
- Expanded succession planning to about 500 of our management-level staff
- One of the world's leading green building standards, BREEAM, has been implemented in the major renovation of The Peninsula Beijing and new projects in London, Istanbul and Yangon
- Over 22% of our staff volunteered their time benefiting around 240 organisations across our operations, working on key community areas such as youth development, elderly caring and meeting underserved needs

- Increased focus on family and wellness through our offerings and Peninsula Academy Programme
- Embraced farm-to-table concept in most operations and re-launched *Naturally Peninsula* as the choice for sustainable, organic, and healthy fare for guests
- Continued to achieve better energy and water efficiencies by implementing appropriate technology and engineering solutions, e.g. low-temperature laundry programme, LED lighting technology, building re-commissioning, irrigation system upgrade, etc.
- Improved on our understanding of waste management and implementing steps to better increase recovery rates for key waste streams such as food waste
- Majority of the paper products, cleaning products, tea and coffee are sourced sustainably/responsibly

We are gratified to see the progress we have made since we launched Vision 2020. We know that there is still much more to be done, and we remain committed to implementing initiatives and programmes that align with our Vision 2020 objectives. We look forward to reporting our progress in future reports.

AUDIT COMMITTEE REPORT

| | |
|--|---|
|  Composition | Chairman Mr Patrick B. Paul, INED Members Ms Ada Tse, INED Mr Andrew Brandler, NED |
|  Meeting Frequency | <ul style="list-style-type: none"> At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitation Four meetings in 2017 |
|  Responsibilities | To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls |

2017 Main Activities

During the year, Audit Committee continued to oversee and consider the matters arising from the financial reporting and audit process, risk management and internal controls and compliance as stated below:

Financial information

- Reviewed and endorsed the 2016 Annual Report and Corporate Responsibility and Sustainability Report (CRS Report) and the annual results announcement, and the 2017 Interim Report and the interim results announcement
- Reviewed the valuations of the properties by independent valuers
- Reviewed the deferred tax position of the Group's subsidiaries

Audit

- Endorsed KPMG's audit report on the financial statements for the 2016 Annual Report
- Considered the 2017 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 the external auditor's audit and non-audit fees for 2016 as described below, assessed the performance and endorsed the reappointment of KPMG as the Company's independent auditor for 2017
- Reviewed the 2017 internal audit plan progress and its methodology, process and key observations on operations and progress of the 3-year audit plan which commenced in mid-2016
- Discussed the 2017 internal audit approach to the CRS Report

Financial reporting system, risk management and internal control systems

- Reviewed all connected transactions and related party transactions including but not limited to the continuing connected transactions of tenancy agreements of the office premises and the master agreement of carpet purchases
- 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
- Reviewed and endorsed semi-annually 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
- Reviewed the uninsured risks of the Group
- Considered summaries of the internal representation letters from business operations which in turn forms the basis by which management confirms the effectiveness of the Group's risk management and internal control systems and approved the representation letters to the external auditor before issuance of the 2016 Annual Report and 2017 Interim Report
- Reviewed and discussed the upcoming new accounting standard for revenue recognition and leased assets and potential tax implications of the new pricing rules



Patrick B. Paul
Chairman of the Audit Committee
16 March 2018

This year, Ms Ada Tse has replaced Dr William Fung as a Committee member and attended the December Committee meeting. The Committee has continued to play a key role supporting the Board in matters relating to financial reporting, internal control and risk management, including the assessment of the Group's principal risks and risk tolerance and a review of uninsured risks.

Others

- Reviewed and confirmed the terms of reference of the Committee
- Reviewed reported speak up cases and investigations

As the Chairman of the Audit Committee, I met separately with the Group General Manager, ARM and the external auditor without management being present.

Based on the reports from Group General Manager, ARM, summaries of internal representation letters and reports of the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2017 to be effective and adequate. Issues raised by the internal and external auditors during 2017 have been, or are being addressed by management, and the Audit Committee advised the Board that there are no issues required to be raised to shareholders.

In February 2018, the Audit Committee reviewed and endorsed this annual report, the CRS Report, which is posted on the website¹⁵, and the annual results announcement, 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 reviewed annually. In engaging the external auditor for non-audit work, we take into account the internal guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2017, apart from audit work, the Company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2018, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of 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 2018 Shareholders' approval at the 2018 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2017 and 2016 is as follows:

| Nature of Services | 2017 HK\$m | 2016 HK\$m |
|-----------------------------|---------------|---------------|
| Audit Services | 10 | 10 |
| Non-audit Services | | |
| Taxation and other services | 4 | 4 |

NOMINATION COMMITTEE REPORT

| | | |
|--|--------------------------|--|
| | Composition | 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 |
| | Meeting Frequency | <ul style="list-style-type: none"> At least two meetings every year Three meetings in 2017 |
| | Responsibilities | 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 |

Boardroom Diversity¹⁶

We believe that having variety in composition is important for a healthy and effective Board. In March 2013, the Board adopted its diversity policy, which can be found on the Company's website.¹⁷ 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. 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. With the departure of Mr Ronald McAulay in May 2017 as a NED, three new Directors, including one female Director, were appointed in December 2017 in accordance with our diversity approach. Ms Ada Tse, being the third female Director of the Company, brings a wide spectrum of expertise and experience in investment and international business. Mr James Lewis has a wealth of experience in private equity, hotel, charity and aviation operations and is knowledgeable about our company, having been invited to attend our Executive Committee meetings for the past six years as an observer. Mr Philip Kadoorie has also joined as a Board member and we believe he will bring to the Board a valuable perspective and different view and ideas of a younger generation.

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 three female members on the Board. The Committee reviewed the appropriateness of an express diversity quota or measurable objective, and concluded that it was unnecessary, and the selection would continue to be based on merit 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. This approach is approved by the Board.



Ada Tse



James Lewis



Philip Kadoorie



The Hon. Sir Michael Kadoorie
 Chairman of the
 Nomination Committee
 16 March 2018

Selecting and mentoring the next generation of leaders is a critical part of our sustainable development and planning for the future. We are pleased that Ms Ada Tse has joined our Board as an Independent Non-Executive Director and Messrs James Lewis and Philip Kadoorie have joined our Board as Non-Executive Directors on 1 December 2017. The Nomination Committee was of the opinion that their extensive and diverse experience would bring new insights and be beneficial to the Board and their appointments would add to the diversity of the Board.

2017 Main Activities




In addition to nominating the appointments of Ms Ada Tse as INED and Messrs James Lewis and Philip Kadoorie as NEDs as mentioned above, the Committee also conducted the following business in 2017:

- Assessed and reviewed all INEDs' confirmations of independence and affirmed the Committee's view over their independence, including the newly appointed INED, Ms Ada Tse
- Recommended the re-election of retiring Directors as these Directors continue to contribute effectively
- Reviewed and confirmed the structure, size and composition of the Board and the split between number of INEDs, NEDs and Executive Directors remained appropriate for it to perform its duties following the appointments of three new Directors
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy
- Reviewed and confirmed the terms of reference of the Committee and Board Diversity Policy remained relevant and no revision was required
- Reviewed the 2016 Nomination Committee Report

¹⁶ Please also refer to page 126 on Boardroom Diversity

¹⁷ www.hshgroup.com/en/corporate-governance

REMUNERATION COMMITTEE REPORT

| | |
|--|--|
|  Composition | Chairman Mr Patrick B. Paul, INED Members Dr Rosanna Y.M. Wong, INED Mr Andrew Brandler, NED |
|  Meeting Frequency | <ul style="list-style-type: none"> At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance Two meetings in 2017 |
|  Responsibilities | To exercise oversight of all aspects of the Group's remuneration policies, in particular to review and approve the proposals for the basic compensation and bonuses for Executive Directors and senior management, as well as the application of the Group's bonus scheme for senior staff |

HSH Rewards Philosophy

This philosophy is to ensure that compensation and benefits programmes are designed for the Group and its executives according to an overall framework of various guiding principles. Our latest review of the framework was done in 2016, with the aim of defining more clearly the objectives and refining the guiding principles of our philosophy. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to meet the employees' needs.

Key guiding principles

- Providing benefits that are competitive and support the long-term objective of caring for our employees and ensuring these benefits are legally compliant, locally relevant and globally consistent
- Formulating weightings of variable pay such as bonus and incentive targets, taking into account the business performance of the Group and the particular business unit
- Recognising and encouraging long-term careers within HSH through appropriate rewards and succession planning programmes
- Designing a pay mix of the total cash package with an appropriate mix of fixed pay and variable pay taking into account the Group's pay policy and market practice to incentivise management and individual performance

Remuneration for Executive Directors and Senior Management

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 in order to attract and retain the Company's key executives.

As part of its scope of responsibility, this Committee is involved in reviewing and approving the terms of the service of all Executive Directors and senior management, including remuneration and duration of the service contracts. No individual is involved in determining his or her own remuneration.

There are four components of remuneration paid to Executive Directors, senior management and other executives:

Basic compensation

Basic compensation includes basic salary, housing and other allowances 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.

Bonuses and incentives

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

In 2017, we initiated a review of the HSH Management Bonus Plan. The mechanism, strengths and weaknesses of the plan were discussed. The Committee confirmed that the current plan is fundamentally sound and no immediate changes to the plan are anticipated. Management continues to review and recommend any areas which can be refined for the Committee to consider.



Patrick B. Paul
 Chairman of the
 Remuneration Committee
 16 March 2018

On behalf of the Remuneration Committee, I am pleased to present our 2017 Report. This year we have initiated a review of the HSH Management Bonus Plan looking for improvements but the Committee confirmed that the current plan is fundamentally sound and no immediate changes to the plan are anticipated.

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 (NEDs) are fixed by shareholders at shareholders general meetings, while any additional fees of NEDs for serving on Board Committees are fixed by the Board. The Committee has the responsibility for reviewing management's annual recommendations for these fees. Factors taken account of in this process include estimated time spent in the discharge of these duties and benchmarking against other Hong Kong listed companies of similar size and activities. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration.

As disclosed in last year's Annual Report, the fees payable to the Chairman and members of the Audit Committee for 2017

were revised to HK\$185,000 and HK\$150,000 respectively per annum. These revised fees took effect on 20 March 2017 and were paid on a pro rata basis for the financial year ended 31 December 2017.

In line with annual fee review, the Board in March 2018 approved the proposal from the Committee (i) the fees of NEDs and INEDs to be fixed at the rate of HK\$325,000 and HK\$375,000 respectively per annum; and (ii) a revision of the fees payable to the Chairman of the Remuneration Committee to HK\$100,000 per annum. The NED and INED fees are subject to Shareholders' approval at the Annual General Meeting on 9 May 2018. These revised fees, if approved, will take effect on 9 May 2018 and be payable to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ending 31 December 2018.

2017 Main Activities

The Remuneration Committee conducted the following business in 2017:

Remuneration

- Reviewed management's proposals for fees for NEDs and INEDs and additional fees for the same to serve on Board Committees in 2017 and recommended to the Board and proposed changes on Audit Committee's fees
- Reviewed and approved the 2016 proposed bonus pool for senior staff
- Reviewed and approved the 2016 discretionary bonus proposal for Executive Directors and Group Executives

Remuneration Committee Report

- Reviewed the group-wide 2018 general salary increase proposal taking into account various factors including market pay trends, inflationary forecasts, labour market outlook and the Group financial performance
 - Reviewed and approved the 2018 salary increases of Executive Directors and senior management
 - Reviewed the HSH Management Bonus Plan and confirmed no immediate change was necessary
- Others**
- Reviewed and approved the 2016 Remuneration Committee Report
 - Reviewed and confirmed the terms of reference of the Committee
 - Reviewed and approved the letters of appointment for the three newly appointed Directors

2017 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited Financial Statements for the year ended 31 December 2017.

Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2017 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 ⁽⁶⁾ 2017 | Total ⁽⁶⁾ 2016 |
|--|-----------------|---------------------|--------------------|------------------------|----------------------|---------------------------|---------------------------|
| Non-Executive Directors | | | | | | | |
| The Hon. Sir Michael Kadoorie | 300 | 100 | – | – | 40 | 440 | 415 |
| Mr Andrew Brandler | 300 | 100 | 144 | 60 | – | 604 | 562 |
| Mr Ronald J. McAulay ⁽¹⁾ | 106 | – | – | – | – | 106 | 282 |
| Mr William E. Mocatta | 300 | – | – | – | – | 300 | 282 |
| Mr John A.H. Leigh | 300 | 100 | – | – | – | 400 | 382 |
| Mr Nicholas T.J. Colfer | 300 | – | – | – | – | 300 | 282 |
| Mr James L. Lewis ⁽²⁾ | 25 | – | – | – | – | 25 | – |
| Mr Philip L. Kadoorie ⁽³⁾ | 25 | – | – | – | – | 25 | – |
| Independent Non-Executive Directors | | | | | | | |
| Dr the Hon. Sir David K.P. Li | 350 | – | – | – | 40 | 390 | 365 |
| Mr Patrick B. Paul | 350 | – | 183 ^(c) | 85 ^(c) | – | 618 | 592 |
| Mr Pierre R. Boppe | 350 | – | – | – | – | 350 | 332 |
| Dr William K.L. Fung ⁽⁴⁾ | 350 | – | 131 | – | 40 | 521 | 485 |
| Dr Rosanna Y.M. Wong | 350 | – | – | 60 | – | 410 | 392 |
| Dr Kim L. Winser | 350 | – | – | – | – | 350 | 332 |
| Ms Ada K.H. Tse ⁽⁵⁾ | 29 | – | 13 | – | – | 42 | – |
| | 3,785 | 300 | 471 | 205 | 120 | 4,881 | 4,703 |

Notes:

- Mr Ronald J. McAulay resigned as a Director of the Company with effect from 8 May 2017
- Mr James L. Lewis was appointed as a Director of the Company with effect from 1 December 2017
- Mr Philip L. Kadoorie was appointed as a Director of the Company with effect from 1 December 2017
- Dr William K.L. Fung resigned as a member of the Audit Committee of the Company with effect from 1 December 2017
- Ms Ada K.H. Tse was appointed as a Director and a member of the Audit Committee of the Company with effect from 1 December 2017
- 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

Executive Directors – remuneration

The remuneration paid to Executive Directors of the Company in 2017 was as follows:

| (HK\$'000) | Basic compensation | Bonuses and incentives | Retirement benefits | Other benefits | Total ⁽²⁾ 2017 | Total ⁽²⁾ 2016 |
|----------------------------------|--------------------|------------------------|---------------------|----------------|---------------------------|---------------------------|
| Executive Directors | | | | | | |
| Mr Clement K.M. Kwok | 6,778 | 7,508 | 1,115 | 192 | 15,593 | 15,297 |
| Mr Peter C. Borer | 4,864 | 3,674 | 788 | 149 | 9,475 | 9,247 |
| Mr Matthew Lawson ⁽¹⁾ | 4,502 | 2,366 | 738 | 200 | 7,806 | 5,208 |
| | 16,144 | 13,548 | 2,641 | 541 | 32,874 | 29,752 |

(1) Mr Matthew Lawson was appointed as a Director of the Company with effect from 3 May 2016

(2) 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:

| | 2017 Number | 2016 Number |
|-------------------------------|-------------|-------------|
| HK\$4,000,001 – HK\$5,000,000 | 2 | 5 |
| HK\$5,000,001 – HK\$6,000,000 | 2 | 1 |
| HK\$6,000,001 – HK\$7,000,000 | 1 | – |
| HK\$7,000,001 – HK\$8,000,000 | 1 | 1 |

* GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and six (2016: seven) 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 (2016: two members of senior management). The emoluments of the two (2016: two) individuals with highest emoluments are within the following bands:

| | 2017 Number | 2016 Number |
|-------------------------------|-------------|-------------|
| 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 | – | – |
| HK\$7,000,001 – HK\$7,500,000 | 1 | 1 |

The aggregate of the emoluments in respect of these two (2016: two) individuals is as follows:

| (HK\$'000) | 2017 | 2016 |
|------------------------|--------|--------|
| Basic compensation | 8,188 | 7,901 |
| Bonuses and incentives | 4,337 | 3,992 |
| Retirement benefits | 819 | 790 |
| Other benefits | 270 | 299 |
| | 13,614 | 12,982 |

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

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited Financial Statements for the year ended 31 December 2017.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, joint ventures and associates are the ownership, development, and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services.

Particulars of the principal subsidiaries of the Company are set out in note 13 to the Financial Statements.

Business Review and Performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, including analysis using financial key performance indicators, are provided in the CEO's Strategic Review on pages 26 to 55 and Financial Review on pages 56 to 69. Description of the principal risks and uncertainties facing the Group can be found throughout this annual report, particularly in External Environment and Industry Trends on pages 80 to 83 and Group Risk Committee Report on pages 144 to 151. Particulars of an important event affecting the Group that has occurred since the end of the financial year 2017 are set out in note 31 to the Financial Statements. The future development of the Group's business is discussed throughout this annual report including in the CEO's Strategic Review on page 55.

Details regarding compliance with relevant laws and regulations which have a significant impact on the Group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the environmental policies and performance and an account of the Group's relationships with its key stakeholders are provided in the CRS Report.

The discussions with respect to the above topics in the annual report and CRS Report which is available online¹⁸ form part of this Directors' Report.

Ten Year Operating Statistics and Financial Summary

The Group's key operating statistics and financial data for the last ten years are set out on pages 20 and 21.

Share Capital

Movements in the share capital of the Company during the year are set out in note 24 to the Financial Statements.

Equity-linked Agreements

No equity-linked agreement was entered into by the Company during the year or subsisted at the end of the year.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Dividends

An interim dividend of 4 HK cents per share (2016: 4 HK cents per share) in respect of the year ending 31 December 2017 was paid during the year 2017. The Directors have recommended a final dividend of 16 HK cents per share (2016: 15 HK cents per share). Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 9 May 2018 (2018 Annual General Meeting), such dividends will be payable on 22 June 2018 to shareholders whose names appear on the register of members on 17 May 2018.

The proposed final dividend will be offered with a scrip alternative for shareholders to elect to receive such final dividend wholly or partly in the form of new fully paid shares instead of in cash. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 23 May 2018.

Borrowings

Particulars of all borrowings are set out in note 23 to the Financial Statements.

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK\$2,967,580 (2016: HK\$3,407,523).¹⁹

Major Customers and Suppliers

The diversity and nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group during the year.

Connected Transactions

Audit & Risk Management has reviewed and confirmed that (i) the internal control procedures of connected transactions are adequate and effective; and (ii) the continuing connected transactions of the Company set out below were undertaken in the ordinary and usual course of business and they are fair and reasonable and entered into on normal commercial terms. Their findings are submitted to Audit Committee. The Audit Committee and the Board have also reviewed the continuing connected transactions below.

On 21 March 2016, HSH Management Services Limited, an indirect wholly-owned subsidiary of the Company, entered into two tenancy agreements with Kadoorie Estates Limited (KEL) to renew the office leases of (i) Room 408 and (ii) 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong (Office Premises) for three years commencing on 1 April 2016 at a market rent of (i) HK\$120,000 per month plus a monthly service charge of HK\$15,663 (revised to HK\$16,344 with effect from 1 January 2017) and (ii) HK\$1,655,000 per month plus a monthly service charge of HK\$216,039 (revised to HK\$225,432 with effect from 1 January 2017) respectively. The rents and services charges incurred in 2017 amounted to HK\$24 million (2016: HK\$23 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the Company. The leases constituted continuing connected transactions of the Company and subject to the disclosure requirements under the Listing Rules. Details of the transactions were disclosed in the announcement dated 21 March 2016.

All the Independent Non-Executive Directors, who were not interested in the above continuing connected transactions, have reviewed the transactions and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued an unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The Company provided a copy of the said letter to the Stock Exchange.

Material Related Party Transactions

Details of material related party transactions which were undertaken in the ordinary and usual course of business are set out in note 30 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this report are shown on pages 118 to 121. All these Directors held office throughout 2017 with the exception of Ms Ada Tse who was appointed as Independent Non-Executive Director and Mr James Lewis and Mr Philip Kadoorie who were appointed as Non-Executive Directors, with effect from 1 December 2017. Mr Ronald McAulay resigned as Non-Executive Director with effect from the conclusion of the Annual General Meeting held on 8 May 2017. In recognition of his contribution to the Company, the Board conferred on Mr McAulay the title of Honorary Life President. He does not have any official responsibilities within the Company.

In accordance with the Articles of Association of the Company, the Directors who will retire at the 2018 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are (i) Dr the Hon. Sir David Li, Mr John Leigh and Mr Nicholas Colfer; and (ii) Ms Ada Tse, Mr James Lewis and Mr Philip Kadoorie who were appointed by the Board.

¹⁹ The donations amount of HK\$3,249,993 (2016: HK\$4,231,658) referred to in the Sustainability Data Statements on page 236 include donations by manage properties owned by a joint venture and associates and employees

Directors' Report

None of the Directors proposed for re-election at the 2018 Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is shown on the Company's website.²⁰

Senior Management

Biographical details of senior management are shown on pages 122 and 123. All members of senior management held office throughout the year except Ms Rainy Chan who has taken a one-year sabbatical leave commencing on 1 November 2017.

Interests of Directors

As at 31 December 2017, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, are as follows:

Long position in shares of the Company

| | Capacity | Number of shares held in the Company | % of total number of shares in issue of the Company |
|-------------------------------|------------------|--------------------------------------|---|
| The Hon. Sir Michael Kadoorie | Note (a) | 860,570,367 | 54.157 |
| Mr Clement K.M. Kwok | Beneficial Owner | 723,505 | 0.046 |
| Mr Peter C. Borer | Beneficial Owner | 360,683 | 0.023 |
| Mr Matthew Lawson | Beneficial Owner | 200,000 | 0.013 |
| Mr William E. Mocatta | Beneficial Owner | 17,000 | 0.001 |
| Mr John A.H. Leigh | Note (b) | 81,561,828 | 5.133 |
| Mr Philip L. Kadoorie | Note (c) | 669,067,652 | 42.105 |
| Dr the Hon. Sir David K.P. Li | Beneficial Owner | 1,082,365 | 0.068 |
| Mr Pierre R. Boppe | Beneficial Owner | 30,000 | 0.002 |

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 860,570,367 shares in the Company. These shares were held in the following capacity:

- (i) 191,502,715 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
- (ii) 339,484,260 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and
- (iii) 329,583,392 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 860,570,367 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

- (b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 81,561,828 shares in the Company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 81,561,828 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 81,561,828 shares.
- (c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 669,067,652 shares in the Company. These shares were held in the following capacity:
 - (i) 339,484,260 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
 - (ii) 329,583,392 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul, Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the Company have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2017.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2017, none of the Directors of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO.

At no time during the year was the Company, or its subsidiaries, or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of Senior Management

As at 31 December 2017, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director of the Company, as at 31 December 2017, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are as follows:

Long position in shares of the Company

(a) Substantial shareholders

| | Capacity | Number of shares held in the Company | % of total number of shares in issue of the Company |
|--|--|--------------------------------------|---|
| Acorn Holdings Corporation | Beneficiary | 191,502,715 | 12.05 ⁽ⁱ⁾ |
| Bermuda Trust Company Limited | Trustee/Interests of controlled corporations | 273,064,543 | 17.18 ⁽ⁱ⁾ |
| Guardian Limited | Beneficiary/Interest of controlled corporation | 81,561,828 | 5.13 ^(iv) |
| Harneys Trustees Limited | Interests of controlled corporations | 669,067,652 | 42.11 ⁽ⁱⁱⁱ⁾ |
| Lawrencium Holdings Limited | Beneficiary | 329,583,392 | 20.74 ⁽ⁱⁱ⁾ |
| Lawrencium Mikado Holdings Limited | Beneficiary | 339,484,260 | 21.36 ⁽ⁱⁱ⁾ |
| The Magna Foundation | Beneficiary | 339,484,260 | 21.36 ⁽ⁱⁱ⁾ |
| The Mikado Private Trust Company Limited | Trustee/Interests of controlled corporations | 669,067,652 | 42.11 ⁽ⁱⁱⁱ⁾ |
| The Oak Private Trust Company Limited | Trustee/Interests of controlled corporations | 81,561,828 | 5.13 ^(iv) |
| Oak (Unit Trust) Holdings Limited | Trustee | 81,561,828 | 5.13 ^(iv) |
| Oak HSH Limited | Beneficiary | 81,561,828 | 5.13 ^(iv) |
| Mr Richard Parsons | Trustee | 81,561,828 | 5.13 ^(iv) |

Directors' Report

Notes:

- (i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, Oak (Unit Trust) Holdings Limited and The Oak Private Trust Company Limited were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.
- The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is among the discretionary objects as disclosed in "Interests of Directors".
- (ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.
- The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie and/or Mr Philip L. Kadoorie are among the discretionary beneficiaries and/or a founder as disclosed in "Interests of Directors".
- (iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.
- (iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited was deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.
- (v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 81,561,828 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

| | Capacity | Number of shares held in the Company | % of total number of shares in issue of the Company |
|--------------------------------|--|--------------------------------------|---|
| Mr Chua Hwa Por | Interests of controlled corporations | 190,702,103 | 12.00 ⁽ⁱ⁾ |
| Chua Lee Holdings Limited | Trustee | 190,702,103 | 12.00 ⁽ⁱ⁾ |
| Tai He Financial Group Limited | Interests of controlled corporations | 183,552,272 | 11.55 ⁽ⁱ⁾ |
| Tai United Holdings Limited | Beneficiary/Interests of controlled corporations | 183,552,272 | 11.55 ⁽ⁱ⁾ |
| Mr Ng Chee Siong | Trustee | 78,402,393 | 5.00 ⁽ⁱⁱ⁾ |
| Mr Philip Ng Chee Tat | Trustee | 78,402,393 | 5.00 ⁽ⁱⁱ⁾ |
| Sino Hotels (Holdings) Limited | Interests of controlled corporations | 78,402,393 | 5.00 ⁽ⁱⁱ⁾ |

Notes:

- (i) Mr Chua Hwa Por and Chua Lee Holdings Limited were both deemed to be interested in the shares through their interests of controlled corporations including Tai He Financial Group Limited and Tai United Holdings Limited. The number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 16 and 26 October 2017.
- On 19 January 2018, Mr Chua Hwa Por and Chua Lee Holdings Limited ceased as substantial shareholders of the Company. On 25 January 2018, Satinu Resources Group Ltd. was deemed to be interested in the 183,552,272 shares through its interests of controlled corporations including Songbird SG Pte. Ltd., Tai He Financial Group Limited and Tai United Holdings Limited. The shares in the Company were acquired indirectly through the acquisition of shares in Tai United Holdings Limited by Songbird SG Pte. Ltd. The information is based on the substantial shareholder notices filed with the Stock Exchange on 25 and 26 January 2018.
- (ii) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 78,402,393 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated. The number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 8 May 2017.

Except as set out above, as at 31 December 2017, the Company had not been notified of any substantial shareholder (other than Directors of the Company) who had interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 31 December 2017, the Company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2017 or at any time during the year except the continuing connected transactions as disclosed in Connected Transactions and material related party transactions in note 30 to the Financial Statements.

Directors' Indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors. The level of the coverage is reviewed annually by Finance Committee. The Company has also granted indemnities to each Director of the Company (including a former Director) and some of the Directors of its associated companies to the extent permitted by law. The indemnity was in force throughout the financial year and is currently in force.

Employee Retirement Benefits

Details of the Group's employee retirement benefits are shown in note 26 to the Financial Statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Corporate Governance Report

The Corporate Governance Report outlines the Company's approach to governance is set out on pages 124 to 143.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

The Company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder, which is required to be disclosed in accordance with Rule 13.18 of the Listing Rules.

Directors' Responsibilities for the Financial Statements

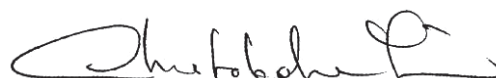
The Directors are responsible for preparing the Financial Statements for each financial period. These Financial Statements must present a true and fair view of the state of affairs of the Group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Group.

In preparing the Financial Statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis.

Auditor

The Financial Statements for the year have been audited by KPMG who will retire at the 2018 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG as auditor and authorise the Directors to fix their remuneration will be proposed at the 2018 Annual General Meeting.

By Order of the Board



Christobelle Liao
Company Secretary
16 March 2018