

CHAIRMAN'S GOVERNANCE OVERVIEW



“ We uphold our core values and principles of integrity, accountability and transparency, with a focus on the long-term future. ”

Dear Shareholders,

Building a legacy for a sustainable future

We are proud that our company, The Hongkong and Shanghai Hotels Limited, which has an exceptional heritage of 150 years, is the owner and operator of The Peninsula Hotels which is considered to be one of the world's leading luxury hospitality brands. In 2018 we celebrated 90 years of history at The Peninsula Hong Kong and this anniversary is the feature theme of this report, in which we celebrate our guests, our people, and the cities in which we live and work.

The continuous enhancement of our assets, our practices and our people is one of our key philosophies to build a legacy for a sustainable future. Our sustainability framework of “Our Guests, Our People and Our Cities” forms an integral part of the group's long-term business strategy, which is supported and endorsed by the Board. Good corporate governance is at the heart of this strategy. We uphold the core values and principles of integrity, accountability and transparency, with a focus on the long-term future. We ensure that our values permeate throughout every level of our group, with the aim that every employee lives and breathes an ethos of always “doing the right thing”. In 2018, we held a mandatory group-wide training for our updated Code of Conduct, which is entitled “Tradition of Integrity”, with the aim of instilling our values into each staff member and applying them to our business practices.

Overseeing all aspects of our strategy and enabling this culture to succeed is our dynamic Board, which has a diverse range and balance of skills, expertise and experience and works effectively and constructively in challenging the Executive Directors and management. We regularly review our governance processes, policies, procedures and practices to ensure they are in line with global regulatory requirements and best practices.

Throughout 2018 the Board monitored the progress of the London, Istanbul and Yangon projects as well as the upgrade of The Peak Tram. Driving innovation remains a key focus on our management team and in the summer of 2018 the Board endorsed the Kaleidoscope Lab, which is the first programme of its kind in the luxury hospitality sector. The programme is aimed at attracting innovative startups and is run in collaboration with SRI International (Stanford Research Institute) (more details can be read on page 115). We believe our partnership will ultimately lead to a better guest experience by enhancing our technology offering.

In 2018 the Board continued to ensure that we invest in our people by evaluating the company's succession plans as well as training and selection for key management positions. We also 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 can be read on pages 154 to 161 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. However, we do not review corporate governance as simply a compliance exercise but as an evolving and core discipline which underpins the success of the company. 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 2018 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
14 March 2019

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 Winsor,
Dr Rosanna Wong

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 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 father of Mr Philip Lawrence Kadoorie, and the brother-in-law of the Honorary Life President, Mr Ronald James McAulay. He is 77 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 62 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 Orient Overseas (International) Limited until August 2018. He is currently 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, the Harbourfront Commission and the Interpretations Committee of the International Accounting Standards Board in London, as well as an Independent Non-Executive Director of Swire Pacific Limited. 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 59 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 65 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 is a member of CNBC Global CFO Council. 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 45 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 is a Fellow of the Institute of Chartered Accountants in England and Wales. He is 66 years old.

John Andrew Harry Leigh



Appointed to the Board in May 2006, Mr Leigh also 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 65 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 BA and MA degrees from the University of Oxford and has over 35 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution. He is 59 years old.

James Lindsay Lewis

Appointed to the Board in December 2017, Mr Lewis is 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. He was an Independent Non-Executive Director of Hong Kong Aircraft Engineering Company Limited which was privatised in November 2018. 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 44 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 Non-Executive Director of CLP Holdings 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. 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 27 years old.

Independent Non-Executive Director

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, FBCS, CITP, 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, 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 PCCW Limited and SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited) until December 2018 and June 2016 respectively. 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 Executive Council of Hong Kong from 2005 to 2008 and the Legislative Council of Hong Kong from 1985 to 2012. He is 80 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 71 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 71 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 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 a Non-Executive Director of Trinity Limited until April 2018. 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 70 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. Dr Wong is also a Steward of The Hong Kong Jockey Club. In addition, she 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 has extensive knowledge and over three decades of experience in the political and nonprofit arenas and from sitting on Boards in the private sector. She is particularly skilled in public sector, people, project, change and risk management. Dr Wong 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 66 years old.

Dr Kim Lesley Winsor, OBE

Appointed to the Board in January 2016, Dr Winsor 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 Winsor 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 Winsor is the Founder and Chief Executive Officer of Winsor London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winsor is a member of the Board of Trustees and the Chairwoman of Commercial Advisory Committee of the Natural History Museum in the UK. Dr Winsor 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. Her former name was Kim Lesley Haresign and she is 60 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 Solicitors Disciplinary Tribunal Panel, 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 52 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 83 years old.

OUR LEADERSHIP - SENIOR MANAGEMENT AND KEY FUNCTIONS



From left to right
 Back row: Maria Razumich-Zec, Shane Izaks, Martyn Sawyer, Christobelle Liao, Cindy Tsui
 Front row: Matthew Lawson, Clement Kwok, Peter Borer

Senior Management

Group Management Board

Group Management Board (GMB) consists of Executive Directors, Clement Kwok, Peter Borer and Matthew Lawson¹, and senior management, namely the Group Executives and other members.

Chaired by Mr Clement Kwok, GMB is the principal decision-making body responsible for management and day-to-day business of the group. It carries out its management function under clear guidelines and delegated authorities granted by the Board. GMB meets weekly to discuss and manage the affairs of the company, as well as the group's business strategy. Financial and non-financial factors, including sustainability factors, are considered in day-to-day decision-making at GMB meetings. GMB also reflects on the current status and progress made. It steers the future direction of the business with

reference to the market and other conditions that may affect all areas of business. Findings and recommendations are then communicated to the Board.

Group Executives:

Christobelle Liao

Appointed to GMB in 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 50 years old.

¹ Profiles of Clement Kwok, Peter Borer and Matthew Lawson are disclosed on pages 128 and 129

Martyn Sawyer

Appointed to the GMB in 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, Shanghai and France. 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 61 years old.

Other members:

Shane Izaks

Appointed to GMB in 2015, Mr Izaks joined the group as General Manager, Information Technology in 1995 and has been a key member of the development and restructuring of the technology function within the group. In 2013 he was promoted to Group General Manager, Information Technology and in 2019 he became Group Director, Information Technology. He is responsible for formulating and implementing information technology strategy at both group and operational levels, as well as overseeing the strategy and development of innovation and technology transformation, including the launch of Kaleidoscope Lab in 2018. He is 56 years old.

Maria Razumich-Zec

Appointed to GMB in 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 61 years old.

Sindy Tsui

Appointed to GMB in 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, organisational and talent development. She became Group Director, Human Resources in 2013. She is 50 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.

Theresa Au, *General Manager, Finance Systems and Operations Finance*

Julie Bourgeois, *General Manager, Peninsula Merchandising Limited*

Christopher Chan, *General Manager, Research and Technology*

Ming Chen, *General Manager, Group 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*

Brice Delclos, *Hotel Manager, The Peninsula Paris*

Jason Hui, *Director, Group Security and Operational Risk*

Mark Kobayashi, *Senior Vice-President, Sales and Marketing, The Peninsula Hotels*

Janice Lao, *Director, Group 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, Group Corporate Affairs*

Louise Napier, *Vice President, Global Commercial Leasing*

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

Vincent Pimont, *General Manager, The Peninsula Beijing*

Gareth Roberts, *Senior Vice President, Operations, The Peninsula Hotels*

Joseph Sampermans, *General Manager, The Peninsula Bangkok*

Wilson So, *Group Chief Engineer*

Ernest Tang, *Group 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*

OUR LEADERSHIP - DIVERSITY

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 guidance to management.

CATEGORY



GENDER



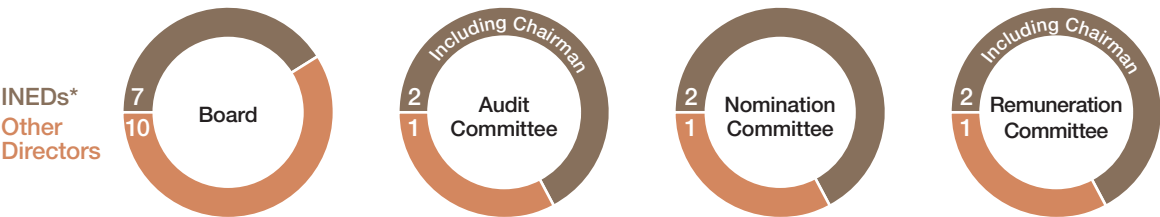
AGE



NATIONALITY



INDEPENDENCE WEIGHTING OF HSH BOARD AND GOVERNANCE BOARD COMMITTEES



* Independent Non-Executive Directors

BOARD EXPERTISE AND SKILLS



Senior Management and Management Diversity

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



* 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

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 128 to 133 and Information on the Board Diversity Policy and Nomination Policy are set out in the Nomination Committee Report on pages 166 and 167.

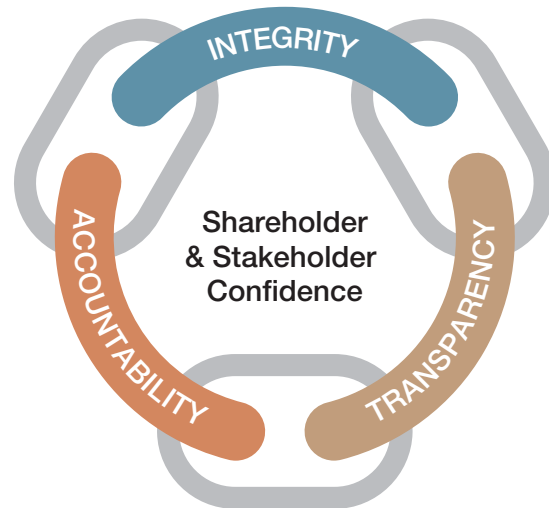
CORPORATE GOVERNANCE REPORT

Our Values

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, accountability and transparency 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 the clarity and transparency of our reporting is recognised in the list of awards we received for the annual report. The list can be found in the "Awards in 2018" section on page 118.

The Board recognises that our people are the key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report² highlights our efforts in these areas in 2018.



Corporate Governance Framework

The Board has set a two-tiered structure where the Board and the management team are led by the Chairman and the Chief Executive Officer respectively. The Board and its committees oversee the corporate governance structure and give guidance to management in implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework³ supports the development of good governance practices throughout the group.

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.

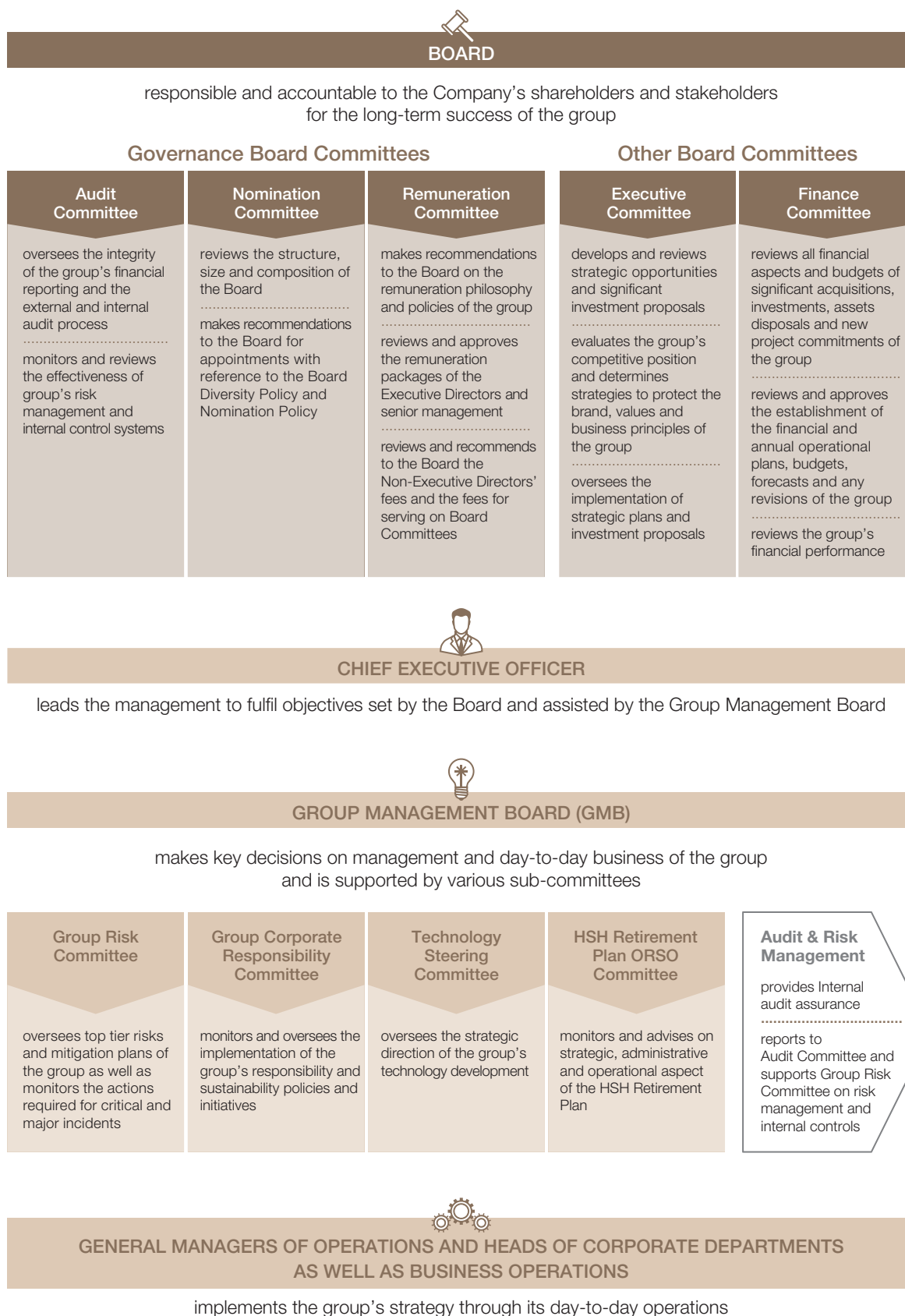
Chief Executive Officer and Group Management Board and sub-Committees

The Chief Executive Officer (CEO) leads the management of the group's business with the assistance of the Group Management Board (GMB) 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.

For implementation of our business strategy, GMB is supported by four sub-committees, as well as General Managers and Heads of Operations and Functional Departments. Each GMB sub-committee has its own terms of reference or charter.

² Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

³ Details of responsibilities and memberships of the committees can be found on HSH website: www.hshgroup.com/en/corporate-governance



Corporate Governance Report

Our 2018 Corporate Governance Focus

Our 2018 corporate governance focus was driven by our commitment to quality and excellence and the sustainability of the company in the long term, as well as changes in the evolving external environment and regulatory landscape.

The company continues to adapt and refine its governance practices within the framework of evolving laws and the Listing Rules. We have reviewed our policies and practices and modified the HSH Corporate Governance Code, and terms of reference of the Nomination Committee. We adopted a nomination policy to formalise our criteria, process and procedures for nominating a Director in light of the changes to the corporate governance regime which have come into effect in 2019. We have also refined our terms of reference of the Audit Committee to reflect our current practice. In addition, the annual confirmation of independence by Independent Non-Executive Directors (INEDs) have been enhanced to cover the strengthened INED's independence criteria.

In addition, the Board recognises that in practice, governance requires the company to strike a balance between its commercial objectives in the near term with its overall business strategy and risk exposure. Our group seeks to achieve this by keeping Our Guests, Our People, and Our Cities in mind.

Guest focus

While data privacy compliance is often seen as a regulatory driven requirement, the company has always valued the importance of our guests' privacy and has adopted a formal global privacy management programme since 2012. The programme has been and will continue to be refined over time as technology and business needs evolve and new legislation comes into force. In 2018, a thorough review of the framework was undertaken in light of the General Data Protection Regulations (GDPR). We undertook risk assessments of the data handling cycle and designed controls from early stages of vendor selection through to final implementation, as well as exploring how to prevent breaches. The measures taken were tailored in terms of what would have the least impact on services and the guest experience, and we received input from different functions and operations in the company. Training and good communication are key to the effective implementation of any new programme. The Data Privacy Champion at each operation and the global database management team took responsibility for communicating the changes. An information hub was set up on the company's intranet to share useful information. GMB and the Board were kept updated on the regulation changes and development of the group's privacy management programme.

People focus

The sustainability of the company relies on its corporate governance framework and the implementation and evolution of governance relies on its people. Hence, our employees continue to be a key focus for our group and their input is valued in both the shaping and implementation of the company's business strategy. Aside from regular communication, at our global and regional conferences, the group sets aside time for the general managers and different functions to exchange their views on the group's strategic direction, objectives alignment and sharing of best practices. A discussion at the 2018 General Managers' Conference led to the launch of a groupwide programme called "WorkPlace 2025". The aim of this programme is to encourage our employees to come up with new ideas, formulate proposals to modernise our workplace, and to inspire innovation.

Cities focus

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. The Group Corporate Responsibility Committee is responsible for setting the global approach on corporate responsibility and sustainability and monitoring the effectiveness of the initiatives and policies. International best practices are adopted where feasible. At a minimum, the group ensures compliance with local laws and regulations. Given that the group's strategy is to invest in quality assets in the long term, the group is also committed to contributing to the cities we operate in. For details on the group's corporate responsibility and sustainability activities and compliance with local environmental and social related laws in 2018, please refer to the Corporate Responsibility and Sustainability Report⁴.

4 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

In terms of risk management, the Group Risk Committee is responsible for the group risk management system. Recognising that we operate in cities with different geopolitical risk exposure, we seek to achieve uniformity in the end goals rather than in mitigation measures. For example, for security risks, we adopted a group security policy statement and security standards in 2018. We have begun assessment of each operation's security and operational plan and procedures, in order to adapt and develop tailored security measures to meet the objectives set out in the group's standards. Proposed enhancement, including security intelligence information gathering, crisis management workshops and improved security operating systems, will be rolled out to ensure each operation is aligned on security standards and regularly conducts drills.

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 group⁵, 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 expenditure ◆ Annual and Interim reports
 Leadership and Employees	<ul style="list-style-type: none"> ◆ Director's appointment and re-election ◆ Succession planning for the Board and senior management
 Corporate Governance	<ul style="list-style-type: none"> ◆ Corporate governance functions ◆ Board evaluation
 Risk Management	<ul style="list-style-type: none"> ◆ Risk management and internal control systems ◆ Principal and emerging risks
 Sustainability	<ul style="list-style-type: none"> ◆ Corporate responsibility and sustainability outlook and progress

Through the Board's leadership and direction, GMB runs the group's day-to-day business (as more specifically described on page 132).

⁵ Details can be found on the terms of reference of the Board: www.hshgroup.com/en/about/leadership

Corporate Governance Report

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 the 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 below.

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 NEDs⁶ 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 Kwok</i> <i>*supported by GMB⁷</i>	<ul style="list-style-type: none"> Leading the management in the day-to-day running of the group's 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 129 to 131</i>	<ul style="list-style-type: none"> Evaluating the group'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 to 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 Kwok</i> <i>Peter 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

⁶ In 2019, Chairman will meet only with INEDs without other Directors present

⁷ Details of the GMB members and its function can be found on pages 132 and 133

Board processes

Our Board maintains effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the company through the adoption of clear and consistent board processes.

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 sufficient time for discussion on the items in the Board agenda. All Directors are entitled to unrestricted access to independent professional advice, as well as direct access to senior management. They are also given access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are made at Board meetings or by written resolutions. Board meetings are structured in a way to encourage open dialogue, frank debate and active participation by Directors. Whilst matters may be decided at meetings and are decided by a majority of votes from voting Directors, the Board typically strives to get unanimous consensus.

2018 Board Activities

In line with the agreed meeting schedule, the Board held five meetings and two Board resolutions were circulated for Board approval in 2018. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 144.

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. The table on next page highlights what the Board did during the year to address them and the challenges identified.

Corporate Governance Report

Key areas of focus	Key Board activities in 2018
 Strategy and Financial	<ul style="list-style-type: none"> Monitored the group's performance and the progress of London, Istanbul, and Yangon projects as well as the upgrade of The Peak Tram Operational visit at The Peninsula Shanghai and discussed competition, challenges and opportunities with local management Evaluated and approved budget and cost controls on all operations and new developments Approved the changes to dividend policy in respect of the dividend payout ratio Evaluated the group's strategy of the retail, food and beverage businesses Endorsed the Kaleidoscope Lab programme⁸
 Leadership and Employees	<ul style="list-style-type: none"> Discussed selection, training and succession planning for management Discussed and evaluated on employee engagement, long-term talent plans and enlivening the workplace, including WorkPlace 2025⁹
 Corporate Governance	<ul style="list-style-type: none"> Monitored the follow-up actions for Board Evaluation Discussed the next Board evaluation's methodology Approved changes to the HSH Corporate Governance Code, terms of references of the Audit and Nomination Committees Adopted the New Nomination Policy Endorsed the increase for the NEDs and INEDs fees and approved the fee increase for the Chairman of the Remuneration Committee Reviewed the impact on the European data protection regulation and the relevant actions taken
 Risk Management	<ul style="list-style-type: none"> Approved the principal risks, key controls and risk mitigation of the group Monitored and reviewed the effectiveness of the risk management and internal control systems through Audit Committee Assessed the risks of cyberattacks and the effectiveness of controls
 Sustainability	<ul style="list-style-type: none"> Monitored the progress on our Sustainable Luxury Vision 2020 and the three key focuses: Our Guests, Our People and Our Cities through the Group Corporate Responsibility Committee Participated in Sir Horace Kadoorie Youth Development Foundation which is aimed at developing underprivileged and at-risk youth in China¹⁰

⁸ Details can be found on page 115

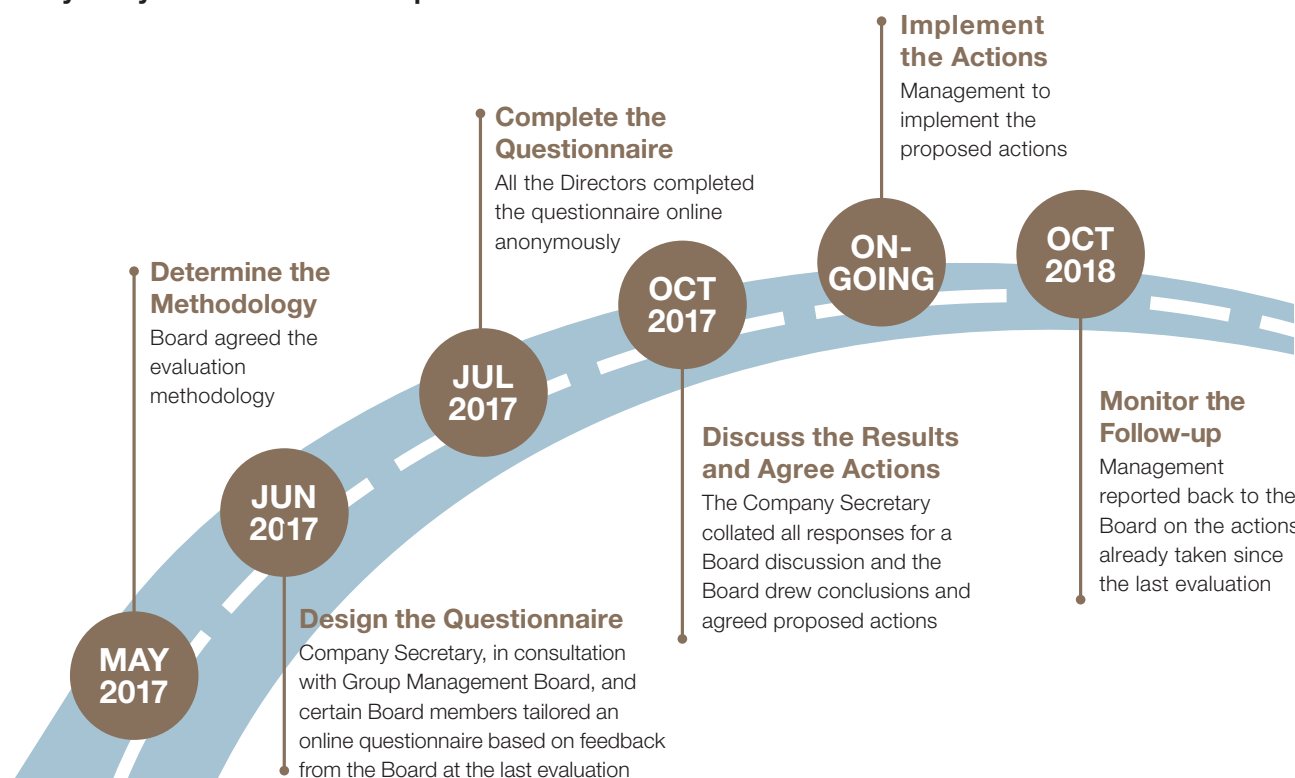
⁹ Details can be found on page 99

¹⁰ Details can be found on Corporate Responsibility and Sustainability Report posted on the company's website: www.hshgroup.com/en/sustainable-luxury

Board Evaluation

Since 2013 our Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness. This review identifies area for improvement and focus.

Two-year cycle Board evaluation process



The 2017 Board evaluation was positively received and provided the Board and management with constructive feedback. The Board has identified a number of focus areas for management to act upon, including succession planning, digital development, the group's principal risks and mitigation factors as well as post-implementation reviews on key projects. During the year, management implemented and kept the Board informed of the actions already taken. The next Board evaluation is planned for 2019 and the Board is considering different evaluation means to supplement the current method.

In addition to 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. In view of the change of the Stock Exchange's Corporate Governance Code, from 2019 onwards the Chairman will meet only with INEDs.

Corporate Governance Report

2018 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 2018 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 C.W. Brandler <i>Non-Executive Deputy Chairman</i>	●●●●●	●●●●		●	●	A,B,C
Mr William E. Mocatta ⁽²⁾	○●●●●				●	A,B,C
Mr John A.H. Leigh ⁽³⁾	●●○●●				●	A,B,C
Mr Nicholas T.J. Colfer	●●●●●				●	A,B,C
Mr James L. Lewis	●●●●●				●	A,B,C
Mr Philip L. Kadoorie	●●●●●				●	A,B,C
Independent Non-Executive Directors						
Dr the Hon. Sir David K.P. Li	●●●●●		●●		●	A,C
Mr Patrick B. Paul ⁽³⁾	○●●●●	●●●●		●	●	A,B,C
Mr Pierre R. Boppe	●●●●●				●	A,B,C
Dr William K.L. Fung ⁽²⁾	●●●○●		●●		●	A,C
Dr Rosanna Y.M. Wong	●●●●●			●	●	A,B,C
Dr Kim L. Winser	●●●●●				●	A,B,C
Ms Ada K.H. Tse ⁽²⁾	●●○●●	●●○●			●	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 J. Lawson <i>Chief Financial Officer</i>	●●●●●				●	A,B,C
Company Secretary						
Ms Christobelle Liao ⁽⁴⁾	●●●●●	●●●●	●●	●	●	A,B,C

● Present ○ Apology

Notes:

- (1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting
 - (2) Mr William E. Mocatta, Mr William K.L. Fung and Ms Ada K.H. Tse were unable to attend meetings of the Board and Audit Committee (for Ms Tse only) due to conflicting commitments
 - (3) Mr John A.H. Leigh and Mr Patrick B. Paul were unable to attend meetings of the Board due to illness
 - (4) During 2018, Ms Christobelle Liao undertook over 15 hours of professional training as required by the Listing Rules
- (A) Reading materials which covered relevant laws and regulations and group's business-related topics
- (B) Visiting operations such as The Peninsula Shanghai in October 2018
- (C) Seminars/conferences/webcast which are relevant to the business or Directors' duties in the following areas:
- ◆ Corporate governance matters
 - ◆ Social media
 - ◆ Data privacy
 - ◆ Sustainability
 - ◆ Digital marketing
 - ◆ Terrorist attack risk
 - ◆ Inside information

Board Induction, Training and Development

New Directors' induction



The company provides a comprehensive tailored induction programme for all newly-appointed Directors. The programme comprises a combination of briefings and meetings with Executive Directors, Company Secretary, and senior management, as well as visits to the group's major businesses in Hong Kong and overseas. Topics covered included Directors' duties, an overview of the group's business, its operations, risks and regulatory matters, governance, finance and investor relations. All corporate policies are 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 completed their tailored induction programmes in 2018 which allowed them to gain further insight into our business, our colleagues and stakeholders.

Directors training and development

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 by 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 2018 Board meeting was held at The Peninsula Shanghai. Board members toured the facilities and met with local management to understand their business challenges and the local 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 Heads of Corporate Departments were arranged after the Board Meeting to update our Directors on new trends, legislation and the group's business¹¹.

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 development programme records of Directors and the Company Secretary for 2018 are reflected on page 144.

¹¹ 2018 presentations to the Board included data privacy, digital marketing, inside information, social media and sustainability

Corporate Governance Report

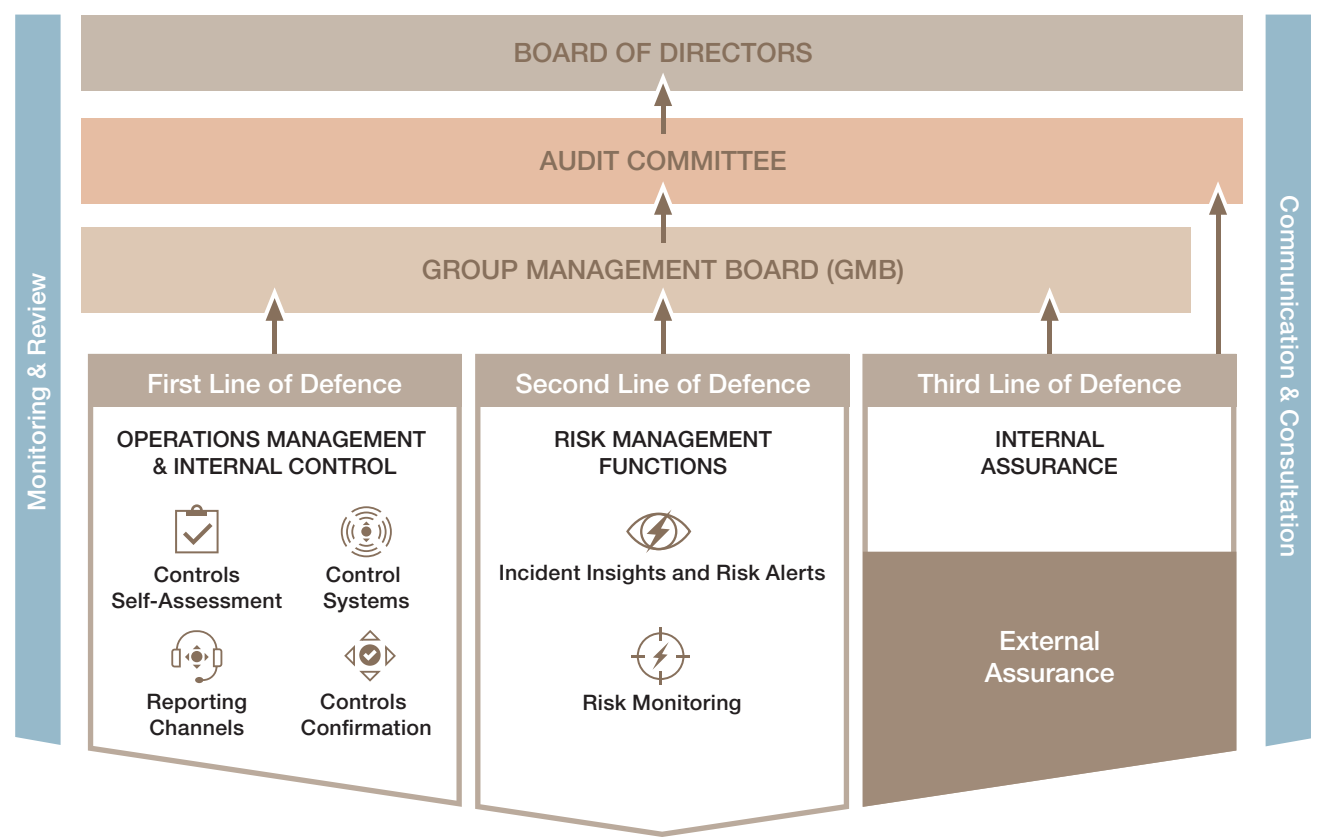
Risk Governance

Effective risk management plays an integral role in the overall achievement of the group’s strategic objectives. Therefore, 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 sustainability of our business, deliver a high standard of luxury, and to 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 governance

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.



First line of defence: Operations management & internal control

The group's operations management and internal control systems includes 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). Formally conducted twice a year, the CSA process allows the group and each operation to identify emerging risks affecting their businesses, assess the effectiveness of existing controls in managing the identified risks and if necessary, implement controls enhancement plans with designated persons-in-charge and timelines.



Control systems

The controls adopted by the group include but are not limited to segregation of duties, financial analytical review of performance reports, approval and verifications of these reports, and periodical checks of physical assets.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For the controls enhancement measures related to our principal risks undertaken in 2018, please refer to the GRC Report on pages 154 and 155.



Reporting channels

The group's online incident reporting platform enables each operation to report timely and efficiently incidents that have a major or critical impact, so that prompt action can be taken by senior management as appropriate. This technology tool also facilitates analytics to support identification of trends and patterns which may be indicators of emerging risks.

In addition, the Speak Up Policy¹² provides employees and other stakeholders a confidential reporting channel on suspected misconduct or malpractice within the group without fear for reprisal or victimisation. Reported allegations are taken seriously and are independently validated and investigated. The HSH Inside Information Policy regulates the handling of inside information within the group, to ensure potential inside information is being captured and confidentiality is being maintained until disclosures are made. The Policy was revamped in 2018 with a more user-friendly guide.

HSH Handling Inside Information Guide

- ◆ Shared in our intranet to promote staff awareness
- ◆ Non-compliance of the Guide is a breach of the Code of Conduct
- ◆ A system to monitor what the market says about HSH and inside information escalation process
- ◆ Refresher training to our senior management
- ◆ Interactive discussion with key members of financial and operational management of all operations
- ◆ Training to our Board members in 2018



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 and operational as well as compliance controls) via General Representation Letters. In addition, operations are required to perform Annual Compliance Checks and provide confirmations to Group Legal on statutory or best practices compliance.

The above operations management and internal control systems form the basis by which management reviews and confirms the effectiveness of the group's risk management and internal control systems to the Audit Committee.

¹² Posted on the company's website: www.hshgroup.com/en/corporate-governance/speak-up-policy

Corporate Governance Report

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 new development projects which, combined, form the Group Risk Management Report, (ii) monitors the principal risks and emerging risks, and (iii) regularly evaluates the risk management and controls 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 the organisation changes. In 2018, we enhanced our methodology by finetuning our risk concepts, and further considering the effectiveness of the mitigating controls.



Incident insights and risk alerts

The GRC analyses common incidents across the operation and the group for similar root causes which are summarised in an “Incident Insights” report for further discussion with the Group Management Board on a semi-annual 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 to respond to changes and developments in both the external and internal environment. For the improvements taken in 2018, please refer to the GRC Report on pages 154 and 155.

Third line of defence: Internal assurance

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

ARM applies a risk-based approach to identify key risks of the group and assess whether the material controls in mitigating those risks are effective. Key processes are audited using an end-to-end approach so that improvement opportunities contributing to internal control weaknesses or overall process inefficiencies can be readily identified and remediated.

The internal audit plan in 2018 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. A holistic view of internal controls across operations has been developed, enabling the identification of common control issues and facilitation of key recommendations.

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.

Board confirmation

The Board has considered and endorsed the Audit Committee’s assessment of the effectiveness of risk management and control systems in the group. Throughout 2018 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the group, and the existing risk management and internal control systems remained effective and adequate.

Our Shareholders

HSH had 1,834 registered shareholders as at 31 December 2018. 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	513	27.972	65,457	0.004
501-1,000	194	10.578	155,960	0.010
1,001-10,000	646	35.223	2,664,833	0.165
10,001-100,000	378	20.611	12,081,007	0.749
100,001-500,000	70	3.817	14,670,821	0.909
Above 500,000	33	1.799	1,583,603,928	98.163
Total	1,834	100.000	1,613,242,006	100.000

Note: As at 31 December 2018, 36.64% 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 59.44% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 174 to 176. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

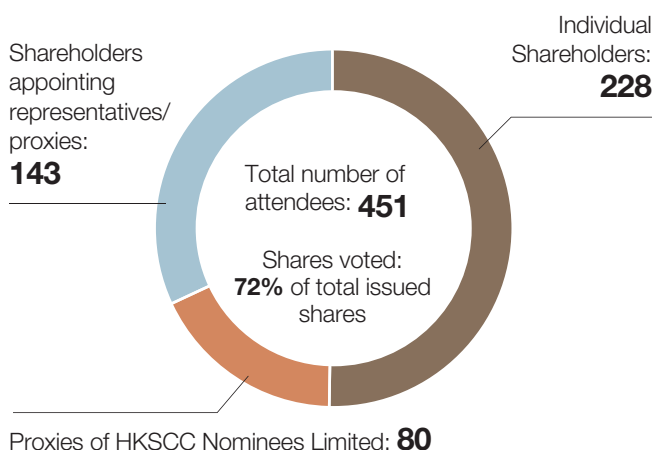
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2018 and up to the date of this report.

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 website¹³ 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.

2018 Annual General Meeting



The 2018 AGM was held on 9 May 2018 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 the AGM as an important event. It is also a main channel of communication between the Board and our shareholders. All Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2018 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’s¹⁴ and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

¹³ www.hshgroup.com/en/corporate-governance/shareholders-rights

¹⁴ www.hshgroup.com/en/investors/corporate-announcements

Corporate Governance Report

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2018 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 2017	99.99%
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2017	99.99%
Re-election of six retiring Directors: Dr The Hon. Sir David K.P. Li, Mr John A.H. Leigh, Mr Nicholas T.J. Colfer, Ms Ada K.H. Tse, Mr James L. Lewis and Mr Philip L. Kadoorie as Directors of the company	Ranging from 93.99% 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	91.15%
Granting of the general mandate to Directors to buy-back the company's shares	99.65%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	91.50%
Determining the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	99.99%

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 258.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 87 and 23 respectively. In addition, the company's dividend policy is set out in note 10 to the financial statements.

Engaging our Shareholders

The Company attaches great importance in engaging with the investor 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
- ◆ We arranged an "Analysts' Day" to engage existing and potential analysts by taking them to tour our Hong Kong properties and meeting the senior management in Hong Kong
- ◆ 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 website¹⁵ 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

15 www.hshgroup.com/en/investors

- ◆ Our Shareholder Communication Policy¹⁶ has specified the various communication platforms to which our shareholders and stakeholders can access
- ◆ The company's branded social media sites provide investors with regular 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. On how we engage our stakeholders, please refer to Creating Stakeholder Value on pages 116 and 117.

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 2018, reflecting the new CG Code requirements which took effect from 1 January 2019.

Throughout 2018, we have complied with all of the code provisions and recommended best practices in the CG Code 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

Our appointment is governed by the Nomination Policy which is set out in the Nomination Committee Report on pages 166 and 167. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2018. NEDs are appointed for a term of three years. All Directors are subject to a term of re-election every three years. Details of the Directors who will retire and offer themselves for re-election in the 2019 Annual General Meeting are set out in the Directors' Report on page 173.

Time commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the company to discharge their responsibilities. The letters of appointment for 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 2018. The Board was satisfied that the Directors had a strong commitment to the company and positively contributed to the company's affairs, discussions and decisions, as reflected in their participation in the Board and Governance Board Committee meetings during the year.

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

Corporate Governance Report

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance and considered on a regular basis to ensure they remain capable of providing unbiased and objective contribution to the Board discussion. In view of the changes to the Listing Rules we have revised our annual confirmation of independence to cover cross-directorships or significant links with other directors through involvements in other companies or bodies. The company has received written confirmations of independence from each of its seven INEDs who served in 2018. The Nomination Committee and the Board considered that all seven INEDs who served in 2018 were, and continued 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 brings great experience and is prepared to challenge the Board 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 2018. Details of the shareholding interests held by the Directors of the company as at 31 December 2018 are set out on page 174.

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 132 and 133, and 175 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 2018, 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 2018, 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 173, 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 Committee¹⁷ 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 HSH Code together with the terms of reference of the Audit and Nomination Committees were revised in 2018 accordingly.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website¹⁸ and those of the Governance Board Committees¹⁹ are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 164 to 171.

Internal control procedures on connected transactions

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 Audit Committee, INEDs, external auditor and Board.

With respect to the connected transactions for the financial year of 2018, 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 Audit Committee, please refer to the Directors' Report set out on page 173.

Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2018 Annual Report and Corporate Responsibility and Sustainability Report²⁰. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2018, please refer to the Directors' Report set out on page 177.

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
14 March 2019

17 Audit, Nomination, Remuneration, Executive and Finance Committees

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

19 Audit, Nomination and Remuneration Committees

20 Posted on the company's website: www.hshgroup.com/en/sustainable-luxury

GROUP RISK COMMITTEE REPORT

	Composition:	Chairman Members	Mr Matthew Lawson, Chief Financial Officer Group General Manager, Audit & Risk Management Select members of senior management Senior Vice President, Operations, The Peninsula Hotels
	Meeting Frequency:		<ul style="list-style-type: none">QuarterlyFour meetings in 2018
	Responsibilities:		<ul style="list-style-type: none">To identify and assess the principal risks at group level and their corresponding mitigating treatments, as well as monitor the actions required for critical and major incidents within the groupTo facilitate the process whereby each operation and project defines its business objectives, addresses the risks identified, conducts self-assessment of internal control activities and tracks progress of mitigating plansTo regularly review, assess and update the group risks and related contingency plans to Group Management Board (GMB) for further review by the Audit Committee and the Board

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.

5-Step Risk Management Methodology



The 5-step risk management methodology continues to be applied across the group. Furthermore, in 2018, we enhanced our methodology with a focus on risk identification and analysis by finetuning our risk concepts, and further treatment by considering the effectiveness of the mitigating controls.

A series of risk workshops were conducted in 2018, either in a face-to-face seminar or webinar format, with over 200 senior employees across all operations. Major topics of the workshops included an explanation of the group's risk management philosophy, an introduction of the enhanced risk management methodology and a brainstorming session on emerging risks arising from changes in internal and external environments.

In addition, we have improved the effectiveness of our controls in the following focus areas in 2018:

Investment and project development risks

The Group Risk Committee (GRC) continued to monitor the risk governance process and review the key risks surrounding The Peninsula London, The Peninsula Istanbul, The Peninsula Yangon and The Peak Tram upgrade every quarter. Moreover, a project owner's risk register was set up during the year to facilitate the identification and management of risks that the group was facing as the owner of the three new hotels. Furthermore, pre-opening plans are being developed and implemented.

Risk engineering survey

Our owner-operator business model is a capital intensive one and high attention is paid to protect and maintain our assets. To improve our assets' structural and engineering controls, our consultant has completed the second three-year cycle of risk engineering surveys in all our major properties during the year. Comparison of controls maturity across properties and sharing of best practices among the group will be conducted in 2019. Such comparison will assist us in formulating the next three-year plan by prioritising properties with a lower maturity to be inspected earlier in the upcoming cycle.



“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.”


Matthew Lawson
Chairman of
the Group Risk Committee
14 March 2019

Security and operational risk capability assessment

Guest safety is a priority for management. To provide the highest level of security in our operations and ensure consistency in execution, the Security & Operation Risk Department rolled out a new Group Security Policy Statement, Group Standard Operating Procedures and Group Crisis Management Plan to all hotel operations in 2018, with reference to ISO31000 Risk Management. Gap analyses between existing practices and the new standard were performed in nine hotels during the year. Recommendations to enhance security measures were communicated to management at the operations and undertaken where possible.

Cybersecurity and data privacy

A variety of further improvements have been carried out by the Information Technology Department and Legal Department throughout the year to strengthen our controls over cybersecurity and data privacy. These included penetration testing, gap assessment on Payment Card Industry compliance, online security training and phishing awareness exercises. Furthermore, in response to the implementation of the General Data Protection Regulation (GDPR) in the European Union, a GDPR Info Hub has been launched in the group's intranet to provide information updates, recommended workflows and processes to ensure compliance across operations.

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 movement of our principal risks since the publication of our 2017 Annual Report are shown on the next page.

Emerging Risks

The aggravation of income inequality in the cities we operate could impact economic growth, the desirability for people to work in the hospitality industry and society's perception of our brand. We will continue to monitor the latest development in our societies and ensure our labour practices are the best in class.


2019 Major Initiatives

In 2019, the GRC's main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the group; (ii) further improvements to 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

Investment and Development Projects					
1	 <p>INVESTMENT AND DEVELOPMENT PROJECTS</p>	<p>What is the risk?</p> <p>Investment and development of properties carries inherent risks. Risks relating to capital allocation, funding, meeting budgets, project milestones, partnership relationships and competition for resources need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards. Post construction, pre-opening and opening challenges also exist when entering new markets.</p>	<p>What is the impact?</p> <p>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"> Enhanced due diligence and a transparent tendering process throughout the construction procurement phase so as to mitigate potential escalation of construction costs Partnerships with experienced and reputable local partners Individual and aggregated Investment/development-related risk levels and a robust risk management process with an oversight by GRC Continuous monitoring and review of all aspects of a development and reporting on potential project risks Business stress testing under various downside scenarios Development of pre-opening plans, hiring of dedicated resources, enhancing resources in our Operations Planning & Support Department in advance of hotel openings 	<p>Risk movement in 2018</p> <p>Increased</p> <p>Why?</p> <p>Continued investment in London, Istanbul and Yangon and The Peak Tram as these projects move into construction phases</p>
Cybersecurity					
2	 <p>CYBERSECURITY</p>	<p>What is the risk?</p> <p>Financial loss, business disruption, damage to reputation from failure of information technology systems due to internal or external circumstances, either malicious or unintentional.</p>	<p>What is the impact?</p> <p>Inability to operate effectively may result in a loss of information and unavailability of critical systems. Significant costs may be incurred for data recovery and system restoration, and/or possible financial or other regulatory penalties, and the need to maintain reputational risk.</p>	<p>How do we manage it?</p> <ul style="list-style-type: none"> Increased resources deployed for information technology security and risk Roll out of a group-wide online security awareness training Ongoing review of business-critical applications for disaster recovery plan and regular vulnerability assessments and penetration tests Systematic due diligence for third party solution/service providers Strengthen account authentication and password management for all employees Continued to enhance security measures and adopt cyber insurance against potential loss 	<p>Risk movement in 2018</p> <p>Increased</p> <p>Why?</p> <p>Number of cybersecurity incidents increased globally in 2018</p>
Data Privacy					
3	 <p>DATA PRIVACY</p>	<p>What is the risk?</p> <p>Our business involves handling a large amount of personal data and given the nature of our global operations, we are regulated by privacy laws and regulations in all jurisdictions. We are also at risk from breaches occurring within our vendor network.</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"> Continuous monitoring of privacy laws and regulations to enhance our data privacy policies and practices Revamped data privacy compliance programme in light of GDPR and conducted training to the Board and senior management, data privacy teams at operations and selected employees Maintenance of a comprehensive data register across the group covering all applications which collect and store personal information Ongoing communication and risk assessments with Data Privacy teams across operations Promoting employees' overall awareness from data capture standards, reporting channels and workflows for data processing requests and data breaches 	<p>Risk movement in 2018</p> <p>Increased</p> <p>Why?</p> <p>Global trend of tightening privacy laws such as GDPR has increased compliance obligations. The rise in cybercrime also exposes us to higher risk of data security breaches</p>
Retail Tenants					
4	 <p>RETAIL TENANTS</p>	<p>What is the risk?</p> <p>Retail letting has become more difficult due to factors such as the increased proliferation of e-commerce changing consumers' shopping habits from offline to online, general decline in spending in the luxury segment, shifts in consumer preferences, and increased competition.</p>	<p>What is the impact?</p> <p>Revenue from our retail arcades may be under pressure.</p>	<p>How do we manage it?</p> <ul style="list-style-type: none"> Identification of exclusive niche retail brands and creation of exclusive VIP or concept stores that benefit from co-locating within a Peninsula hotel Proactively working with tenants to jointly develop marketing and incentive plans to drive traffic and repeat customers Improvements in the utilisation of floor space to allow flexible usage and conversion possibilities to accommodate tenants Seasonal and tactical campaigns held at the three properties across Greater China to stimulate spending 	<p>Risk movement in 2018</p> <p>Remains broadly the same</p> <p>Why?</p> <p>Continuation of the mentioned challenges</p>




Group Risk Committee Report

Business Portfolio/Concentration									
5	 BUSINESS PORTFOLIO/ CONCENTRATION	What is the risk? Owing to the origin of the company, a significant portion of our group earnings is derived from our operations in Hong Kong.	What is the impact? 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.	How do we manage it? <ul style="list-style-type: none">• Focus on increasing overseas earnings contribution• Ongoing focus to strengthen our brand globally and in Hong Kong, being prepared to make prompt adjustment to our business strategies when necessary• Maintain comfortable level of gearing	<table><tr><td>Risk movement in 2018</td><td>Remains broadly the same</td></tr><tr><td>Why?</td><td>Group earnings still predominantly derive from Hong Kong operations despite increased contribution from the recently renovated The Peninsula Chicago and The Peninsula Beijing</td></tr></table>	Risk movement in 2018	Remains broadly the same	Why?	Group earnings still predominantly derive from Hong Kong operations despite increased contribution from the recently renovated The Peninsula Chicago and The Peninsula Beijing
Risk movement in 2018	Remains broadly the same								
Why?	Group earnings still predominantly derive from Hong Kong operations despite increased contribution from the recently renovated The Peninsula Chicago and The Peninsula Beijing								
Competition									
6	 COMPETITION	What is the risk? Cyclical over-supply of luxury hotels and increased competition poses a significant competitive pressure to the business.	What is the impact? May result in a decline in market share, revenue and profit, and reduce partnership opportunities.	How do we manage it? <ul style="list-style-type: none">• Drive revenue growth and strengthen our brand by continuously improving our product and developing unique guest experiences• Increased focus on digital marketing and e-commerce opportunities, recruitment of digital talent to contribute to the company's digital transformation• Continuously monitor and analyse competitive and market information in order to anticipate unfavourable changes• Increased focus on engaging directly with customers rather than through third party channels• Continue to focus on strengthening our people development platforms through training and cross exposure opportunities and promotions	<table><tr><td>Risk movement in 2018</td><td>Remains broadly the same</td></tr><tr><td>Why?</td><td>Competition level remained high during the year</td></tr></table>	Risk movement in 2018	Remains broadly the same	Why?	Competition level remained high during the year
Risk movement in 2018	Remains broadly the same								
Why?	Competition level remained high during the year								
Disaster Events									
7	 DISASTER EVENTS	What is the risk? A major disaster, such as a natural catastrophe, extreme weather due to climate change impact, war or contagious diseases could impact our assets, business levels, level of travel activity, and therefore our ability to conduct business.	What is the impact? Major disaster events, although rare, may result in a severe impact on our customers, revenue and reputation.	How do we manage it? <ul style="list-style-type: none">• Enhanced risk engineering control process by external risk engineering consultant and group engineering team on selected properties focusing on insurable risks• Launched Group Security Operational Risk Framework to standardise the group's approach to security and operational risks management in accordance with ISO31000• Performed gap analysis for all hotels to design a bespoke plan on how to align their current practice with the global framework and the timeline for implementation• Established a group level crisis command centre in Hong Kong to assist with global crisis• Deployed threat management platform collating and analysing security intelligence from both open and closed sources• Comprehensive property damage, business interruption and terrorism insurance scheme	<table><tr><td>Risk movement in 2018</td><td>Slightly Increased</td></tr><tr><td>Why?</td><td>Rising likelihood of occurrence of extreme weather conditions such as super typhoons in Hong Kong due to climate change</td></tr></table>	Risk movement in 2018	Slightly Increased	Why?	Rising likelihood of occurrence of extreme weather conditions such as super typhoons in Hong Kong due to climate change
Risk movement in 2018	Slightly Increased								
Why?	Rising likelihood of occurrence of extreme weather conditions such as super typhoons in Hong Kong due to climate change								

Group Risk Committee Report

Foreign Exchange, Interest Rate and Funding Risk					
8	<div></div> <div>FOREIGN EXCHANGE, INTEREST RATE AND FUNDING RISK</div>	<div>What is the risk?</div> <div>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.</div>	<div>What is the impact?</div> <div>May impact our refinancing requirements and increase our cost of capital.</div>	<div>How do we manage it?</div> <div><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</div>	<div><div>Risk movement in 2018</div><div>Slightly Increased</div></div> <div><div>Why?</div><div>Depreciation in RMB and rising interest rates</div></div>
Macroeconomic and Political					
9	<div></div> <div>MACROECONOMIC AND POLITICAL</div>	<div>What is the risk?</div> <div>A global or regional economic downturn could lead to a reduction of global or country-specific travel activity, changes of travel patterns or business operating procedures.</div>	<div>What is the impact?</div> <div>May result in a decline in profit and cashflow, while inflation and currency fluctuation may increase operating costs. Changes to regulations may result in higher legal and compliance costs.</div>	<div>How do we manage it?</div> <div><ul style="list-style-type: none">• Diversification in terms of number and location of assets and target market segments we pursue• Continuous monitoring of macroeconomic, political and regulatory landscape• Close monitoring of operating costs and implementation of cost savings measures when required</div>	<div><div>Risk movement in 2018</div><div>Remains broadly the same</div></div> <div><div>Why?</div><div>Macroeconomic and political risks in our operating locations remain at a similar level of uncertainty, particularly with the ongoing trade tensions between US and China</div></div>
Brand and Reputation					
10	<div></div> <div>BRAND AND REPUTATION</div>	<div>What is the risk?</div> <div>Adverse publicity in traditional or social media, which may be frivolous or misconceived, but could still result in brand and reputational damage.</div>	<div>What is the impact?</div> <div>May lead to a decline in loyalty of existing guests, tenants and/or customers, and impairment of the ability to attract new customers. It may also result in a decline of ability to recruit and retain talent, and increased cost for crisis management and potential legal costs.</div>	<div>How do we manage it?</div> <div><ul style="list-style-type: none">• A continuous effort on corporate branding, both in traditional media and digital platforms• Clear guidelines on incident communication and crisis management processes by Crisis Management team with clear roles and responsibilities for each operation• Implementation of group-wide social media usage guidelines to ascertain appropriate behaviour online when representing the company or commenting on social media posts• Our Code of Conduct and behavioural standards and 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</div>	<div><div>Risk movement in 2018</div><div>Remains broadly the same</div></div> <div><div>Why?</div><div>Reputational risk still exists, as data privacy and sexual harassment remained topical throughout the year</div></div>

GROUP CORPORATE RESPONSIBILITY COMMITTEE REPORT

	Composition:	Chairman Members	Mr Clement Kwok, Chief Executive Officer Director, Group 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
	Meeting frequency:		<ul style="list-style-type: none">At least three meetings each yearFour meetings in 2018
	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 2020To review practices, standards, trends, regulation, plans related to CRS topics that may impact on the operations of the group

Our CRS Approach

Being a responsible and sustainable business is critical to the short, medium and long-term success of our group. The Sustainable Luxury Vision 2020 (Vision 2020) is our blueprint for sustainable growth, supporting the overall business strategy and enabling the group's overall value creation. Vision 2020 has been reassessed to include three focus areas of Our Guests, Our People and Our Cities. This strategy is underpinned by specific commitments developed not only to minimise our environmental and social impact but also to ensure that we operate our business in an ethical and responsible manner, maximising the overall benefits of our business to our key stakeholders.

Governance on CRS

Our CRS approach is managed and governed by the Committee, chaired by the Chief Executive Officer. The Committee reports to the Group Management Board, who in turn, reports to the Board for review and oversight. The Director of Group CRS also updates the Board and provides insights to the Group Risk Committee on environmental and social risks related to the business, including coordinating risk mitigation actions across the group. Each local operation has its own committee chaired by either the General Manager or the Hotel Manager, two of the most senior people in the local operations; with champions comprised of functional/department heads. Through direction from the Committee, these local committees develop and implement action plans, initiate actions and improve on the performance of our commitments.

Reporting Approach

We continued to publish a detailed CRS Report online²¹; also available on the Hong Kong Stock Exchange (HKEx) website. The CRS Report complies with the "comply or explain" provisions in the HKEx's Environmental, Social and Governance

Reporting Guide (ESG Guide) which includes a number of relevant recommended disclosures and this report has been prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core Option. As we aim to provide a connected view of our overall performance, we have increased discussion of the linkages of the different aspects of our business and the group's overall value creation, referring to International Integrated Reporting Framework from the International Integrated Reporting Council. KPMG was commissioned to conduct assurance and to provide an independent opinion on the CRS Report in accordance with ESG Guide²².

2018 Main Activities

We are working on further integrating sustainability into our operations to ensure it becomes an innate aspect of our business. We continued to monitor progress on our commitments and provided support and focused attention on those that needed more traction. With these objectives in mind, the Committee's work in 2018 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
- Considered recent global and local trends. For example, single-use plastic, food waste, climate change, human rights and modern slavery, elderly demographic shift, increasing customer expectations on sustainability, cotton use and electric vehicles
- Reviewed progress of the implementation of commitments on energy, water and waste targets; status of Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects; and community investment



“We regard corporate sustainability as a sensible and necessary business practice that benefits the overall value of the group in both the short and long term. I chair the Group Corporate Responsibility Committee because senior management believes that a topic this important requires our serious attention and focus.”

Clement Kwok
Chairman of the Group
Corporate Responsibility
Committee
14 March 2019

- Oversaw and approved the launch and implementation of the group's global single-use plastics approach announced in June 2018
- Discussed and agreed on the approach on the development of the new CRS strategy post-2020
- Discussed and reviewed the internal and external CRS communication and engagement approach

In 2019, the Committee's focus is to develop the post-2020 CRS approach; to ensure the full implementation of Vision 2020 and to enhance the engagement activities, especially with guests. More information is in the CRS Report.

Progress on Vision 2020

We continued to see good progress in achieving most of the Vision 2020 commitments, with more than 85% of commitments on track. Some key examples in 2018 are:

Our Guests

- Increased focus on family and wellness through our offerings and Peninsula Academy Programme
- Re-launched *Naturally Peninsula* as the choice for sustainable, organic, and healthy fare for guests
- Achieved BREEAM, one of the world's leading sustainable building standards, in the major renovation of The Peninsula Beijing and this standard is being implemented in new projects in London, Istanbul and Yangon
- Implemented steps to increase diversion rates for key waste streams such as food waste
- Began conducting external-led energy and water audits for our hotels and properties

Our People

- Published a consolidated list of all CRS guidelines to our staff in a readable, user-friendly manner called the 'CRS Concierge'
- Engaged with the Committee members globally on their views and insights regarding Vision 2020 and developing the post-2020 approach
- Launched CRS videos to increase awareness amongst staff and make CRS relevant and easily understood
- Completed gap analysis to improve on our safety and security approach

Our Cities




- Around 18.7% 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 under-served needs
- Majority of the paper products, cleaning products, tea, chocolate and coffee are sourced sustainably/responsibly
- Launched and begun implementation of our global single-use plastics approach starting with plastics straws and stirrers in 2018
- Developed a supply chain check approach and updated the Supply Chain Code of Conduct to include and strengthen elements on anti-bribery, human rights, modern slavery and plastics use

We are gratified to see progress as implemented by our colleagues around the world. We remain committed to implementing our Vision 2020 objectives in as practicable a manner as possible. We look forward to reporting our progress in future reports as we near the end of our Vision 2020.

21 www.hshgroup.com/en/sustainable-luxury

22 KPMG Independent Assurance Report can be read on pages 252 and 253

AUDIT COMMITTEE REPORT

	Composition	Chairman	Mr Patrick 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 invitationFour meetings in 2018	
	Responsibilities	To assist the Board in carrying out its responsibility of overseeing financial reporting, external audit, internal audit, risk management and internal controls	

2018 Main Activities

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

Annual/Interim Report and Financial Information

- Reviewed and endorsed the 2017 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2018 Interim Report and the interim results announcement
- Reviewed the valuations of the properties by independent valuers
- Reviewed all connected transactions and related party transactions including the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases

Internal and external audits

- Reviewed the 2018 internal audit plan progress and the proposed three-year audit plan commencing 2019 and assessed the proposed audit methodology
- Reviewed the key internal audit findings and initiatives recommended to the relevant operations and Head Office departments
- Endorsed KPMG’s audit report on the financial statements for the 2017 Annual Report
- Considered 2018 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 endorsed the external auditor’s audit and non-audit fees for 2017 as described below, assessed the performance and endorsed the reappointment of KPMG as the company’s independent auditor for 2018

- Discussed the key observations identified by KPMG during the course of their audit and the related recommendations

Financial reporting system, risk management and internal control systems

- Reviewed and confirmed 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 the risk dashboard of each operation and approved the changes to the principal risk map
- 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
- Considered summaries of the internal representation letters from business operations which in turn forms one of the bases 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 2017 Annual Report and Corporate Responsibility and Sustainability Report and 2018 Interim Report

Others

- Reviewed possible impacts of all new accounting standards, in particular, the requirements under the new lease accounting standard



“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.”

Patrick Paul
Chairman of the
Audit Committee
14 March 2019

- Reviewed the group’s tax position and the impacts arising from the changes in the tax laws and regulations
- Endorsed the proposed changes to the terms of reference of the Committee
- Reviewed reported speak up cases and investigations

As the Chairman of the Audit Committee, I have met separately with the Group General Manager, Audit & Risk Management (ARM) and the Committee has met 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 2018 to be effective and adequate. Issues raised by the internal and external auditors during 2018 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 2019, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website²³, 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 to ensure the provision of such services do not impair KPMG’s independence or objectivity. In 2018, apart from audit work, the company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2019, 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 Shareholders’ approval at the 2019 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2018 and 2017 is as follows:

Nature of Services	2018	2017
	HK\$m	HK\$m
Audit Services	11	10
Non-audit Services		
Taxation and other services	4	4

23 www.hshgroup.com/en/sustainable-luxury/sustainability-reports

NOMINATION COMMITTEE REPORT

	Composition	Chairman Members	The Hon. Sir Michael Kadoorie, Non-Executive Chairman Dr the Hon. Sir David Li, INED Dr William Fung, INED
	Meeting Frequency		<ul style="list-style-type: none">At least two meetings every yearTwo meetings in 2018
	Responsibilities		To evaluate the size, structure and composition of the Board. This includes selecting new Directors and/or maintaining an appropriate, adequate and balanced make-up of an effective Board and reviewing of independence of INEDs

Boardroom Diversity²⁴

We believe that having variety in composition is important for a healthy and effective Board. 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 Board has since 2013 adopted a diversity policy, which can be found on the company’s website²⁵. 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. The Nomination Committee evaluated the Board composition and considered that the HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with three female members on the Board. The three Directors who joined the Board in December 2017 bring constructive challenges and fresh perspectives to the Board discussion throughout 2018.

Furthermore, the Committee reviewed the appropriateness of an express diversity quota or measurable objective and concluded that it was unnecessary. 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 has been approved by the Board.

Nomination Policy

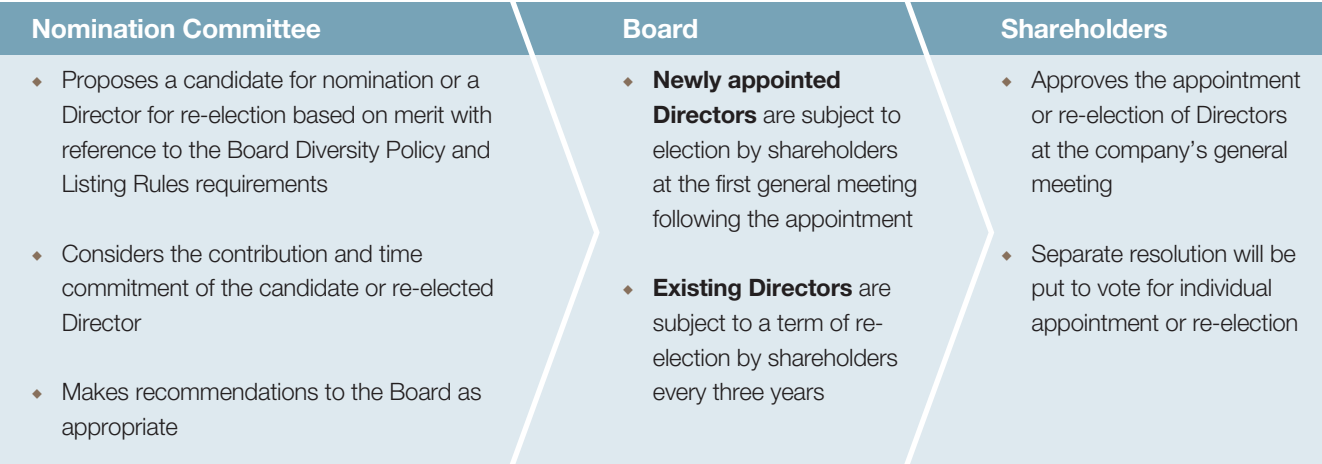
In 2017, when selecting the three Directors for the Board, while recognising the benefits of diversity, we also ensured that the selection criteria including contribution and time commitment, nomination process and procedures adopted by the Nomination Committee were followed. In 2018, the Committee formalised its current practices on nomination and set it out into a nomination policy for Board adoption giving our shareholders transparency on our nomination process. This policy can be found on the company’s website.²⁵ We set out on next page a diagram on our nomination process.

24 Please also refer to page 134 on Boardroom Diversity
25 www.hshgroup.com/en/corporate-governance



“At HSH, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board has the desired skills, knowledge and experience to successfully determine the group’s strategy.”

The Hon. Sir Michael Kadoorie
Chairman of the
Nomination Committee
14 March 2019



2018 Main Activities

In 2018, the Committee also conducted the following business:

Year-end matters and re-election

- Assessed and reviewed all INEDs’ confirmations of independence and affirmed the Committee’s view over their independence
- Recommended the re-election of retiring Directors as these Directors continue to contribute effectively
- Reviewed the 2017 Nomination Committee Report




Board structure and diversity

- 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
- Reviewed and confirmed the Board has a diverse mix of skills, knowledge, experience and gender
- Reviewed the value of having measurable objectives for implementing the Board Diversity Policy

Governance

- Endorsed the Nomination Policy and proposed amendment to the terms of reference of the Committee including the Nomination Policy for adoption by the Board
- Reviewed the Board Diversity Policy remained relevant and no revision was required

REMUNERATION COMMITTEE REPORT

	Composition	Chairman Mr Patrick Paul, INED Members Dr Rosanna 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 attendanceOne meeting and one meeting by written resolutions circulated for approval in 2018
	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 setting out various guiding principles. Our objective is to attract talent and retain good performers by offering a mix of financial and non-financial rewards to remain competitive and meet our 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 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. To align with market practice, we have also put two Group Executives under a discretionary bonus plan starting in 2018. Other senior management continues to participate in the HSH Management Bonus Plan²⁶ 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 measurement²⁷
- Individual performance
- Share Price

In 2018, management continued to review the HSH Management Bonus Plan and proposed the Plan to remain largely intact subject to a few refinement areas for the Committee's approval. The main purpose of the proposal

26 Senior staff also participates in the HSH Management Bonus Plan
27 A quality score measuring user experience and/or operational excellence against a set of standards



“On behalf of the Remuneration Committee, I am pleased to present our 2018 Report. This year we continued to review the HSH Management Bonus Plan looking for improvements and the Committee approved the proposed areas for refinement submitted by management. The revised plan will be implemented for the 2020 bonus payout.”


Patrick B. Paul
Chairman of the
Remuneration Committee
14 March 2019

is to simplify the administrative procedures of the Plan. The proposal includes changing the Committee's approval basis to a percentage of underlying profit which allows the Committee to focus more on the total bonus pool and its relation to the group's performance. The proposal also includes simplifying the methodology for business units' quality measurement and individual performance. These revisions will be implemented starting in 2019 with the first bonus payout in 2020.

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 of reviewing management's annual recommendations for these

fees. Factors taken account 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 as well as other international companies. After review, the Committee makes recommendations to the Board. No director approves his or her own remuneration.

In line with the annual fee review, the Board in March 2018 approved the proposal from the Committee (i) the fees of NEDs and INEDs 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 would be HK\$100,000 per annum. The NED and INED fees were approved by shareholders at the Annual General Meeting on 9 May 2018. These revised fees, took effect on 9 May 2018 and were paid to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ended 31 December 2018.

2018 Main Activities

The Remuneration Committee conducted the following business in 2018:

Remuneration

- Reviewed management's proposals for fees for NEDs and INEDs and additional fees for the same to serve on Board Committees in 2018, and recommended to the Board changes on NEDs and INEDs and Chairman of Remuneration Committee's fees
- Reviewed and approved the 2017 proposed bonus pool for senior staff

Remuneration Committee Report

- Reviewed and approved the 2017 annual discretionary bonus proposal for Executive Directors and Group Executives
- Reviewed and approved the proposed change in the discretionary bonus plan for Group Executives
- Reviewed the group-wide 2019 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 2019 salary increases of Executive Directors and senior management
- Reviewed and approved the proposed changes to the HSH Management Bonus Plan

Others

- Reviewed and approved the 2017 Remuneration Committee Report
- Reviewed and confirmed the terms of reference of the Committee
- Reviewed and approved the letters of appointment for two NEDs and two INEDs

(HK\$'000)	Executive Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total ⁽⁶⁾ 2018	Total ⁽⁶⁾ 2017
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	316	100	–	–	40	456	440
Mr Andrew C.W. Brandler	316	100	150	60	–	626	604
Mr Ronald J. McAulay ⁽¹⁾	–	–	–	–	–	–	106
Mr William E. Mocatta	316	–	–	–	–	316	300
Mr John A.H. Leigh	316	100	–	–	–	416	400
Mr Nicholas T.J. Colfer	316	–	–	–	–	316	300
Mr James L. Lewis ⁽²⁾	316	–	–	–	–	316	25
Mr Philip L. Kadoorie ⁽³⁾	316	–	–	–	–	316	25
Independent Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	366	–	–	–	40	406	390
Mr Patrick B. Paul	366	–	185 ⁽⁴⁾	95 ⁽⁴⁾	–	646	618
Mr Pierre R. Boppe	366	–	–	–	–	366	350
Dr William K.L. Fung ⁽⁴⁾	366	–	–	–	40	406	521
Dr Rosanna Y.M. Wong	366	–	–	60	–	426	410
Dr Kim L. Winser	366	–	–	–	–	366	350
Ms Ada K.H. Tse ⁽⁵⁾	366	–	150	–	–	516	42
	4,774	300	485	215	120	5,894	4,881

Notes:

(1) Mr Ronald J. McAulay resigned as a Director of the company with effect from 8 May 2017

(2) Mr James L. Lewis was appointed as a Director of the company with effect from 1 December 2017

(3) Mr Philip L. Kadoorie was appointed as a Director of the company with effect from 1 December 2017

(4) Dr William K.L. Fung resigned as a member of the Audit Committee of the company with effect from 1 December 2017

(5) 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

(6) 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

2018 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2018.

Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2018 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.

Executive Directors – remuneration

The remuneration paid to Executive Directors of the company in 2018 was as follows:

(HK\$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total' 2018	Total' 2017
Executive Directors						
Mr Clement K.M. Kwok	7,015	8,156	1,154	223	16,548	15,593
Mr Peter C. Borer	4,808	3,984	779	139	9,710	9,475
Mr Matthew J. Lawson	4,659	2,903	764	179	8,505	7,806
	16,482	15,043	2,697	541	34,763	32,874

* 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:

	2018 Number	2017 Number
HK\$4,000,001 – HK\$5,000,000	1	2
HK\$5,000,001 – HK\$6,000,000	2	2
HK\$6,000,001 – HK\$7,000,000	1	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 five (2017: six) 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 (2017: two members of senior management). The emoluments of the two (2017: two) individuals with highest emoluments are within the following bands:

	2018 Number	2017 Number
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$6,500,001 – HK\$7,000,000	1	–
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	–

The aggregate of the emoluments in respect of these two (2017: two) individuals is as follows:

(HK\$'000)	2018	2017
Basic compensation	8,475	8,188
Bonuses and incentives	5,173	4,337
Retirement benefits	847	819
Other benefits	225	270
	14,720	13,614

The Remuneration Committee remains committed to careful oversight of the 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 2018.

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 33 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 Operational Review on pages 39 to 70 and Financial Review on pages 72 to 87. Description of the principal risks and uncertainties facing the group can be found throughout this annual report, particularly in Group Risk Committee Report on pages 154 to 161. Particulars of an important event affecting the group that has occurred since the end of the financial year 2018 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 38.

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 sustainability and environment related policies and performance are provided in the CRS Report and an account of the group's relationships with its key stakeholders in Creating Stakeholder Value on pages 116 and 117.

The discussions with respect to the above topics in the annual report and CRS Report which is available online²⁸ 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 22 and 23.

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 5 HK cents per share (2017: 4 HK cents per share) in respect of the year ending 31 December 2018 was paid during the year 2018. The Directors have recommended a final dividend of 16 HK cents per share (2017: 16 HK cents per share) and this is in line with our dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 10 May 2019 (2019 Annual General Meeting), such dividends will be payable on 21 June 2019 to shareholders whose names appear on the register of members on 21 May 2019.

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 24 May 2019.

²⁸ www.hshgroup.com/en/sustainable-luxury

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\$2.1 million (2017: HK\$3 million)²⁹.

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\$17,570 with effect from 1 January 2018) and (ii) HK\$1,655,000 per month plus a monthly service charge of HK\$216,039 (revised to HK\$242,339 with effect from 1 January 2018) respectively. The rents and services charges incurred in 2018 amounted to HK\$24 million (2017: HK\$24 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 128 to 131. All these Directors held office throughout 2018.

In accordance with the Articles of Association of the company, the Directors who will retire at the 2019 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are The Hon. Sir Michael Kadoorie, Mr Peter Borer, Mr Matthew Lawson, Mr Patrick Paul, Dr Rosanna Wong and Dr Kim Winsor.

²⁹ The donations amount of HK\$2.5 million (2017: HK\$3.2 million) referred to in the Sustainability Data Statements on page 254 include donations by managed properties owned by a joint venture and associates and employees.

Directors' Report

None of the Directors proposed for re-election at the 2019 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 website³⁰.

Senior Management

Biographical details of senior management are shown on pages 132 and 133. All members of senior management held office throughout the year.

Interests of Directors

As at 31 December 2018, 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), as recorded in the register required to be kept under section 352 of the SFO, are as follows:

Long position in shares of the company

		Number of shares held in the company	% of total number of shares in issue of the company
	Capacity		
The Hon. Sir Michael Kadoorie	Note (a)	875,942,523	54.297
Mr Clement K.M. Kwok	Beneficial Owner	736,428	0.046
Mr Peter C. Borer	Beneficial Owner	367,125	0.023
Mr Matthew J. Lawson	Beneficial Owner	200,000	0.012
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	83,018,747	5.146
Mr Philip L. Kadoorie	Note (c)	681,019,042	42.214
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,101,698	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 875,942,523 shares in the company. These shares were held in the following capacity:

- (i) 194,923,481 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
- (ii) 345,548,381 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) 335,470,661 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 875,942,523 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 83,018,747 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 83,018,747 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 83,018,747 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 681,019,042 shares in the company. These shares were held in the following capacity:

- (i) 345,548,381 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
- (ii) 335,470,661 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 2018.

³⁰ www.hshgroup.com/en/corporate-governance/directors-of-subsidiaries

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 2018, 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, as 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 2018, 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 2018, 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	194,923,481	12.08 ⁽ⁱ⁾
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	277,942,228	17.23 ⁽ⁱ⁾
Guardian Limited	Beneficiary/Interest of controlled corporation	83,018,747	5.15 ^(iv)
Harneys Trustees Limited	Interests of controlled corporations	681,019,042	42.21 ⁽ⁱⁱⁱ⁾
Lawrencium Holdings Limited	Beneficiary	335,470,661	20.79 ⁽ⁱⁱ⁾
Lawrencium Mikado Holdings Limited	Beneficiary	345,548,381	21.42 ⁽ⁱⁱ⁾
The Magna Foundation	Beneficiary	345,548,381	21.42 ⁽ⁱⁱ⁾
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	681,019,042	42.21 ⁽ⁱⁱⁱ⁾
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	83,018,747	5.15 ^(iv)
Oak (Unit Trust) Holdings Limited	Trustee	83,018,747	5.15 ⁽ⁱ⁾
Oak HSH Limited	Beneficiary	83,018,747	5.15 ^(iv)
Mr Richard Parsons	Trustee	83,018,747	5.15 ^(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 83,018,747 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
Satinu Resources Group Ltd.	Interest of controlled corporation	185,179,077	11.48
Mr Ng Chee Siong	Trustee	78,402,393	5.00 ⁽ⁱ⁾
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00 ⁽ⁱ⁾
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00 ⁽ⁱ⁾

Note:

- (i) 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 nature, 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 2018, 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 2018, 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 2018 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 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 contract concerning the management and administration of the whole or any substantial part of the business of the company was 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 136 to 153.

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

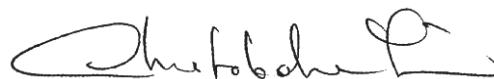
The Directors are responsible for preparing the financial statements for each financial period. These financial statements must present a true and fair view of the state of affairs of the group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that 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 2018, 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 ended 31 December 2018 have been audited by KPMG who will retire at the 2019 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 2019 Annual General Meeting.

By Order of the Board



Christobelle Liao
Company Secretary
14 March 2019