## CHAIRMAN'S GOVERNANCE OVERVIEW



<sup>66</sup> During turbulent times such as those we have experienced in 2019, we believe it is our strong legacy, resilience and exceptional heritage which enables us to overcome adversity. 99

Dear Shareholders.

#### Building a legacy for a sustainable future

At HSH, we believe that excellent corporate governance is the foundation of a successful and sustainable company. As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance and by doing so, we are building a legacy for a sustainable future.

Our home market of Hong Kong has experienced an unprecedented period of social unrest and uncertainty. The effects of the outbreak of the COVID-19 coronavirus started to significantly negatively impact our operations in Greater China in late January 2020, this has now spread all over the world, affecting all of our global operations. During turbulent times such as those we have experienced in 2019, and as we weather the challenging times ahead, we believe it is our strong legacy, resilience and exceptional heritage of more than 150 years which enables us to overcome adversity. Good corporate governance underpins this resilience.

#### Improving our governance practices

With the objective of continually improving our governance practices, I am committed to ensuring that HSH has a dynamic Board with a diverse range and balance of skills, expertise and experience. Our Board members work 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.

In 2019, as part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy, as well as explore ways to enhance creativity and innovation. This offsite provided a lively discussion forum for Board Members to share a vision on how we can stay globally relevant to safeguard our future. We will continue to seek opportunities to grow by leveraging our brand and explore potential diversification possibilities, while remaining committed to protecting our heritage and the culture of our group. During the year, we also conducted an evaluation on the Board's effectiveness with the assistance of an external facilitator.

Good corporate governance relies on having a sound framework and, most importantly, having the right people to accept accountability and align themselves to the values and strategic vision of the company. We recognise that inspiring our people to reinforce the company's values and mindset is a crucial aspect of corporate governance, and we have a clearly defined framework within our Code of Conduct and other policies and procedures that clearly sets out our group's ethical boundaries and the tradition of integrity at the heart of our corporate culture. The company seeks feedback regularly from our employees through increased engagement and improved internal communication.

The Board is committed to the group's strategic approach to corporate responsibility and sustainability (CRS) and we ensure we are minimising any adverse environmental impact on the cities in which we operate. More details can be read in the Group Corporate Responsibility Committee Report on pages 148 to 151 of this report and our online CRS Report.

We continuously enhanced our risk management process across the group to improve the effectiveness of our controls. The principal and emerging risks facing the group and how they might be mitigated were closely monitored by the Group Risk Committee and reviewed by the Audit Committee and the Board. As part of our risk management strategy we also take the opportunity to review the resilience of our business model, particularly considering the reliance of our group's income on the Hong Kong market. More details can be read on pages 140 to 147 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 the commitment of Board and senior management to high standards of corporate governance, and our corporate governance framework which supports the development of strong corporate governance culture throughout the Group.

#### A commitment to long-term success

Overall, I am pleased with the progress we have made in 2019 in the area of governance. We strive to continually improve and enhance our efforts and ensure the long-term success of the company. Our objectives for the Board this year are to ensure that it continues to support the execution of our strategy and the opportunities and challenges that we face.

The Hon, Sir Michael Kadoorie 17 March 2020

# Our Leadership - Board Members



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

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

## Our Leadership - Board Members

#### Governance Board Committees

- Audit Committee
- Nomination Committee
- Remuneration 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. 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 brother-in-law of the Honorary Life President, Mr Ronald James McAulay. He is 78 years old.

#### Non-Executive Deputy Chairman

# Andrew Clifford Winawer Brandler $\bigcirc \mathbb{R} \boxdot \mathbb{P}$

Appointed a Director and Deputy Chairman in May 2014, Mr Brandler is also a Director of several 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 substantial 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 63 years old.

#### **Executive Directors**

Other Board Committees

Chairman of the Committee

(E) Executive Committee

(F) Finance Committee

## Chief Executive Officer Clement King Man Kwok

(E) (F)

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 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 and of Orient Overseas (International) 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 60 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. In 2019, he was recognised with a Lifetime Achievement Award from the Alumni Network of Ecole hôtelière de Lausanne. He is also a member of the Advisory Board of the School of Hotel and Tourism Management of The Chinese University of Hong Kong and a member of Advisory Council of Gleneagles Hong Kong Hospital. He is 66 years old.

#### Chief Financial Officer

#### Matthew James Lawson

(F)

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 46 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 substantial shareholders of the company. He holds other nonexecutive 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 67 years old.

#### John Andrew Harry Leigh

#### EF

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 substantial shareholders of the company. Previously, he worked in private practice as a solicitor in Hong Kong and the UK. He is 66 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 substantial 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 60 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 substantial 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 and Hong Kong. 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 45 years old.

## Our Leadership - Board Members

#### Philip Lawrence Kadoorie

Appointed to the Board in December 2017, 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 substantial 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). Mr Kadoorie is the son of The Hon. Sir Michael Kadoorie and nephew of the Honorary Life President, Mr Ronald James McAulay. He is 28 years old.

#### Independent Non-Executive Directors

## Dr the Hon. Sir David Kwok Po Li

#### $\mathbb{N}$

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 Executive Chairman 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). Sir David was an Independent Non-Executive Director of PCCW Limited until December 2018. 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, Chairman of the Executive Committee of St. James' Settlement and a Fellow of the Hong Kong Academy of Finance. 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 81 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 72 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 72 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 and Sun Hung Kai Properties Limited. 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 and Honorary Doctorate degree of Letters from Wawasan Open University of Malaysia. He is 71 years old.

#### $(\mathsf{R})$

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 and the Senior Advisor to The Hong Kong Federation of Youth Groups. She is the Chairman of the Asia International School Limited. 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 67 years old.

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#### Dr Kim Lesley Winser, OBE

Appointed to the Board in January 2016, Dr Winser has substantive experience and expertise in the consumer, digital and retail industries. She began her career with Marks & Spencer plc in the UK and became its first female commercial divisional board director as well as its youngest director in the 1990s. She went on to successfully deliver turnarounds for the iconic British heritage brands Pringle of Scotland as Chief Executive Officer and Aquascutum as President and Chief Executive Officer. She became a senior adviser to 3i, a leading private equity firm in the UK, for its investments in the consumer and retail industries and became Chairman of one of their brands, Agent Provocateur. Dr Winser has also previously served as an adviser to Natalie Massenet at online retailer Net-a-Porter and a Non-Executive Director of The Edrington Group Limited. Dr Winser is the Founder and Chief Executive Officer of Winser London Limited, an online womenswear business. Appointed by the British Prime Minister, Dr Winser is a member of the Board of Trustees and the Chairwoman of Commercial Advisory Committee of the Natural History Museum in the UK. Dr Winser was awarded an Order of the British Empire (OBE) by Her Majesty The Queen and a Doctorate from Heriot-Watt University for her work on British business. Her former name was Kim Lesley Haresign and she is 61 years old.

## Ada Koon Hang Tse

#### (A)

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, the Appeal Board Panel (Town Planning) and the Municipal Services Appeals Board of the Hong Kong SAR Government. She has also served on the Securities and Futures Commission Advisory Committee, Film Censorship Review Board and Travel Industry Compensation Fund Management Board. In addition, she runs her family's YangTse Foundation focusing on supporting education and arts initiatives. Ms Tse holds a BA in Applied Mathematics from Harvard University and JD from Harvard Law School. She is 53 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 84 years old.

# Our Leadership - Senior Management and Key Functions



## Senior Management

#### Group Management Board (GMB)

Chaired by Mr 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 business. Findings and recommendations are then communicated to the respective Board Committees or Board.

The Group Management Board consists of Executive Directors including Messrs Clement Kwok, Peter Borer and Matthew Lawson<sup>1</sup>, and senior management including the Group Executives and other members. In 2019, Mr Joseph Chong, Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong was appointed to GMB.

#### **Group Executives:**

Christobelle Liao Group Director, Corporate and Legal Appointed to GMB: 2011 Age: 51

#### Main responsibilities held with the group

Ms Liao joined the group in 2002 as General Counsel and Company Secretary. As the Group Director, Corporate and Legal, she is responsible for general management, all corporate and legal matters as well as the group's investment in Istanbul. She holds additional responsibilities for risk management, general corporate management and organisational development strategies, such as WorkPlace 2025. Ms Liao is a qualified solicitor in Hong Kong and England & Wales. She is a Director of a number of the group's entities.

#### Martyn Sawyer

#### Group Director, Properties

Appointed to GMB: 2002 Age: 62

#### Main responsibilities held with the group

Mr Sawyer joined the group in 1985 as Assistant Manager of Peninsula Clubs and Consultancy Services and was appointed as Group General Manager, Properties and Clubs in 1999. As the Group Director, Properties, 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 is a Director of a number of the group's entities.

#### Other members:

#### Joseph Chong

Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong Appointed to GMB: 2019 Age: 52

#### Main responsibilities held with the group

Mr Chong joined the group in 2000 at The Peninsula Beijing and has held a variety of positions at The Peninsula Bangkok and The Peninsula Shanghai, including General Manager and Managing Director of The Peninsula Shanghai. He was appointed as Area Vice President and Managing Director of The Peninsula Hong Kong and The Peninsula Shanghai in 2017. As the Area Vice President, Greater China and Managing Director, The Peninsula Hong Kong, he holds area responsibilities for The Peninsula Hotels, steering three Greater China properties including Hong Kong, Shanghai and Beijing. He is a Director of one of the group's entities.

#### Shane Izaks

#### Group Director, Information Technology Appointed to GMB: 2015 Age: 57

#### Main responsibilities held with the group

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. He was appointed as Group General Manager, Information Technology in 2013. As the 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 Kaleidoscope Lab. He is also the Joint Chairman of the Technology Steering Committee.

#### Maria Razumich-Zec

#### Regional Vice President and General Manager, The Peninsula Chicago

Appointed to GMB: 2007

Age: 62

#### Main responsibilities held with the group

Mrs Razumich-Zec joined the group as General Manager of The Peninsula Chicago in 2002. She was appointed as Regional Vice President – USA East Coast in 2007. As the Regional Vice President and General Manager, The Peninsula Chicago, she holds regional responsibilities covering The Peninsula Hotels in Chicago and New York, as well as overseeing Quail Lodge & Golf Club in Carmel, California.

#### Sindy Tsui

Age: 51

#### Group Director, Human Resources

Appointed to GMB: 2011

#### Main responsibilities held with the group

Ms Tsui joined the group as General Manager, Human Resources in 2007. She has many years of experience in human resources management in hospitality industry. As the Group Director, Human Resources, she holds overall responsibility for the group's strategy on human resources and talent development. She is one of the key leaders of the group's organisational development strategies, WorkPlace 2025.

## Our Leadership - Senior Management and Key Functions



#### **Key Functions**

The following are leaders 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 & Operations Finance

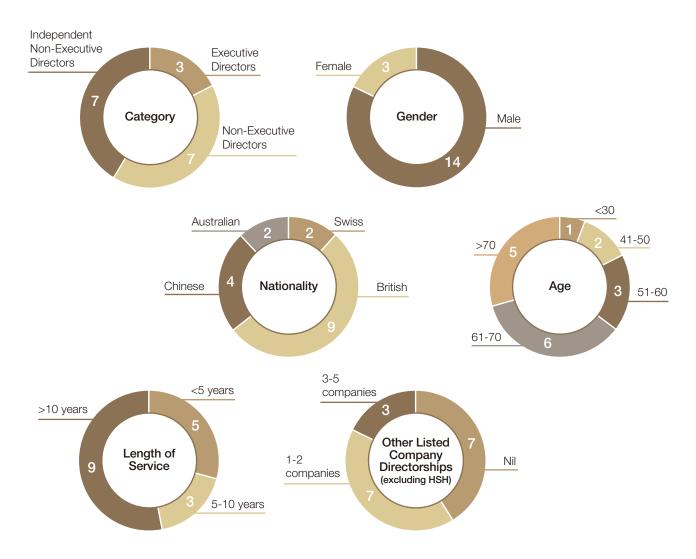
Christopher Chan, General Manager, Research and Technology Ming Chen, General Manager, Group Business Development Jisoo Chon, General Manager, The Peninsula Shanghai Mark Choon, General Manager, The Peninsula Tokyo Christopher Cribb, Group General Manager, Projects Jonathan Crook, General Manager, The Peninsula New York Alistair Gough, General Manager, Projects Mauro Governato, General Manager, The Peninsula Paris Judy Huang, Director, Corporate Finance Jason Hui, General Manager, Group Security and Operational Risk Mark Kobayashi, Senior Vice President, Sales and Marketing, The Peninsula Hotels Janice Lao, Director, Group Corporate Responsibility and Sustainability Kai Lermen, General Manager, Quail Lodge & Golf Club

Cecilia Lui, Director, PRC Affairs and Regional Director of Communications, Greater China Nadine Maurellet, Group General Counsel and Group General Manager, Business Diversification John H. Miller, Consultant Director of Design, Projects Lynne Mulholland, Director, Group Corporate Affairs Louise Napier, Vice President, Global Commercial Leasing Offer Nissenbaum, Managing Director, The Peninsula Beverly Hills Masahisa Oba, General Manager, The Peninsula Manila Vincent Pimont, General Manager, The Peninsula Beijing Guy Riddell, General Manager, Peninsula Merchandising Limited Gareth Roberts, Group General Manager, Operations and Senior Vice President, Operations, The Peninsula Hotels Joseph Sampermans, General Manager, The Peninsula Bangkok Ernest Tang, Group General Manager, Group Finance May Tsang, General Manager, The Peak Complex Sonja Vodusek, Managing Director, The Peninsula London Kitty Wan, Group General Manager, Audit & Risk Management Tina Wong, General Manager, The Repulse Bay Company, Limited

## **Our Leadership - Diversity**

#### Board Composition and 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.



#### Independence weighting of HSH Board and Governance Board Committees



## Our Leadership - Diversity

#### Board expertise and skills



#### Senior Management and Leaders of Key Functions 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 leaders of key functions as at the date of this report is set out below:



\* Inclusive of three Executive Directors

\*\* Leaders of 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 114 to 119 and information on the Board Diversity Policy and Nomination Policy are set out in the Nomination Committee Report on page 154 and also posted on the company's website<sup>2</sup>.

## CORPORATE GOVERNANCE REPORT

#### Our Values

Good corporate governance sustains 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 is an important tool for the company to provide shareholders and stakeholders with a transparent picture of our business performance as well as our commitment to high standards of corporate governance. We are constantly striving to improve the clarity and transparency of our reporting. This is recognised in the awards we received for our 2018 Annual Report. Details can be found in the "Awards in 2019" section on page 104.

The Board recognises that our people are key to maintaining good corporate governance and long-term sustainability of the company. The Corporate Responsibility and Sustainability Report<sup>3</sup> highlights our efforts in these areas in 2019.

#### 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 on implementing good governance in our daily business, as described below. The diagram on the next page illustrates how our corporate governance framework<sup>4</sup> 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

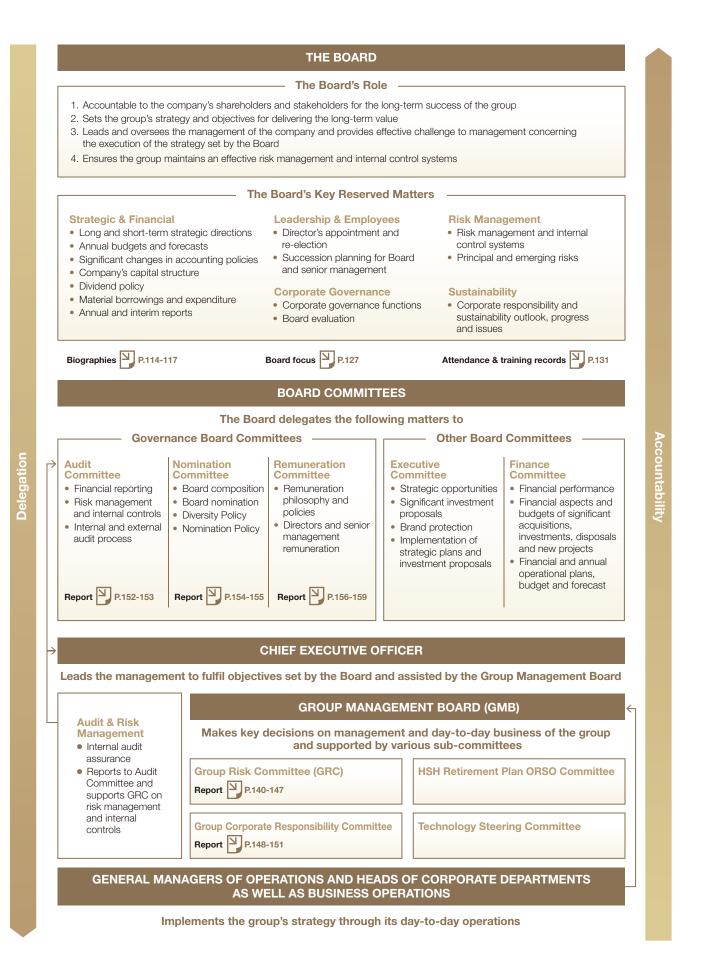
The Chief Executive Officer (CEO) leads the management of the group's business with the assistance of the Group Management Board (GMB) under the clear guidelines and delegated authorities of the Board. This management structure fosters accountability and provides the Board with high quality information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

For the implementation of our business strategy, GMB is supported by three 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. The Group Risk Committee, Group Corporate Responsibility Committee and Technology Steering Committee report to GMB, who in turn report to the Board for oversight on risk management and environmental and social issues, as well as the Group's technology strategy. In addition to the above three sub-committees, we also have the HSH Retirement Plan ORSO Committee which oversees the group's retirement plan.

<sup>3</sup> Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

<sup>4</sup> Details of responsibilities and memberships of the Board and Board Committees can be found on HSH website: www.hshgroup.com/en/corporate-governance

## Corporate Governance Report



#### Our 2019 Corporate Governance Focus

Our commitment to quality, excellence and the sustainability of the company in the long term continued to drive our corporate governance focus in 2019. As part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy in light of the evolving external environment and regulatory landscape, as well as explore ways to inspire creativity and innovation. Board members shared their vision and strategic ideas on how we can stay globally relevant to safeguard our future. In addition, the 2019 Board evaluation on its's effectiveness was conducted with the assistance of an external facilitator. More information on the Board Strategic meeting and Board evaluation can be found on pages 127 and 129 respectively.

The Group continues to implement its business strategy of balancing near-term commercial objectives and the sustainability of the company in the long term. We are also continually reviewing the resilience of the company in relation to our business concentration in Hong Kong, especially in the light of the recent social unrest and the COVID-19 coronavirus, and are exploring diversification and expansion options in other business streams.

Our business strategy has been organised in three pillars: Our Guests, Our People and Our Cities and we have aligned our corporate governance strategy with these pillars in mind.

#### **Guest focus**

Providing exceptional quality and services to our guests remains the foundation of the company's business. Apart from a regular review of service standards, the company seeks to improve its governance to safeguard our guests' interests and to enhance the guest journey from end to end. Our company continues to review and improve its controls on data privacy and take preventative measures to mitigate increasing cyber threats and data loss. In addition to complying with new laws and regulations such as the California Consumer Privacy Act (CCPA), which became effective in 2020, we engaged third party consultants to evaluate the adequacy of HSH data protection policies and processes. They conducted a customer data protection assessment of the hotel systems and business processes to determine the control gaps at the group and property level. In addition, we have implemented measures to strengthen our IT security plan, with a focus on four main areas:

- (i) control and compliance;
- (ii) data security;
- (iii) cybersecurity awareness; and
- (iv) cybersecurity incident detection and response.

We continue to provide data privacy and IT security online trainings to all relevant staff and drills have been carried out on responding to cybersecurity incidents.

#### **People focus**

Good corporate governance relies on having a sound framework and, most importantly, the right people to take accountability and align themselves to the values and strategic vision of the company. We recognise that inspiring our people to reinforce the company's values and mindset is a crucial aspect of corporate governance, and we have a clearly defined framework within our Code of Conduct and other policies and procedures that clearly sets out our group's ethical boundaries and the tradition of integrity at the heart of our corporate culture. We regularly conduct training workshops on our behavioural guidelines, service standards and practices and have enhanced our onboarding briefings for new colleagues to ensure everyone is aligned with the company's vision.

To preserve our corporate culture and promote our core values, continued employee engagement is high on the Board's agenda and the company seeks feedback regularly from our employees. In the 2019 employee engagement survey, we were encouraged to see a very positive response rate and high employee satisfaction levels overall, which indicates that our employees were happy working in the company. General Managers of operations and Head Office function heads discussed the survey results with their team members and action plans were formulated to seek further improvements.

## Corporate Governance Report

At our annual global and regional conferences, the group's general managers, hotel managers, human resources function heads and directors of finance are given the opportunity to exchange their views on the group's strategic direction, align objectives and share best practices.

Meanwhile, we continue to work on the WorkPlace 2025 programme<sup>5</sup>. During the year, selected employees volunteered and designed strategic objectives to modernise and innovate our workplace. This involves the employees in the improvements of the company.

#### **Cities focus**

The group operates in a number of cities around the world and our guests expect consistency and quality wherever we operate. Through our Group Corporate Responsibility Committee, we set a global strategic approach to corporate responsibility and sustainability (CRS) and we regularly monitor the effectiveness of these initiatives and policies. International best practices are adopted where feasible. At the minimum, the group ensures compliance with local laws and regulations. Our group is committed to contributing to the cities we operate in and our strategy is to invest in quality assets for the long term. During the year, the Group Corporate Responsibility Committee undertook a review of the company's sustainability strategy, which was set in 2013. Looking beyond 2020, we are developing our next sustainability strategy with a focus on further business integration and we are taking a regenerative and proactive approach. Our new strategy will leverage the strengths of our business, focusing on issues requiring significant and urgent attention, scaling positive benefits from our business, while effectively reducing our impact. In this new strategy update, we are considering different stakeholder expectations such as human rights and modern slavery due diligence, reducing social inequality, increasing diversity and inclusion and outcome-based community investment. For details on the group's CRS activities and compliance with local environmental and social-related laws in 2019, please refer to the CRS Report<sup>6</sup>.

Our Supplier Code of Conduct requires all suppliers to comply with all applicable anti-slavery and human trafficking laws. Modern slavery is a hot topic in the global economy, and we have organised group trainings for operations colleagues to raise awareness on detection and compliance. We continued to review the effectiveness of steps taken so far to ensure that there is no slavery or human trafficking in our supply chain. Our approach to prevent modern slavery and human trafficking can be found on our website<sup>7</sup>.

#### **Ongoing Improvements**

We have undertaken additional measures to enhance our governance practices and processes, with an emphasis on improving operational efficiency and communication. For example, we have restructured the Finance group to better align key accounting and planning functions. This included organisational and system transformation which is in progress. We also reviewed and updated the Purchasing and Tendering Policy to improve operational efficiency whilst maintaining internal control and provided support to staff on implementation via the intranet and in-person workshops.

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

<sup>5</sup> Details can be found on page 87 as well as page 25 of the CRS Report

<sup>6</sup> Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

#### 2019 Board Focus

In this section, we highlight the issues our Board has discussed and assessed with respect to the company's different businesses, financial performance and its strategic direction in light of our external environment:

#### HIGHLIGHTS

- Full Day 🧭 Board Strategic meeting
- External 🧭 Board evaluation

#### **In-depth Discussions**

Board meetings & Board lunches

#### A Fresh Approach

In 2019, the Board meeting format has been refined to allow more in-depth discussion on agenda topics. Board meetings are generally followed by Board lunches. Senior management and function heads are invited to update Directors on new trends, legislation and group's business. This provides a good opportunity for our directors, senior management and function heads to interact with each other in an informal setting and to discuss a wide range of issues including those concerning the group.

Strategy is always on the Board agenda and as part of its continuing strategic review, the Board held a full-day strategic offsite meeting to review and refine our group strategy, as well as explore ways to enhance creativity and innovation. The Deputy Chairman was the facilitator of the meeting and, together with the CEO, prepared a structure for discussion which covered key strategic issues that had been raised by Board members. This was an interactive session with different views raised and debated. Senior management also participated in the discussion on related topics. It was a very productive discussion and Board members shared their vision on how we can stay globally relevant to safeguard our future. It was agreed that we would continue to seek opportunities to grow by leveraging our brand and explore potential diversification possibilities, while remaining committed to protecting our heritage and the culture of our group. Management committed to give regular progress updates and agreed future strategy meetings would occur every two years.

## STRATEGY AND FINANCIAL

- Monitored the group's performance and evaluated the cost, key risks and progress of London, Istanbul and Yangon projects as well as the Peak Tram upgrade project
- Approved the budget increase for London project
- Conducted post-implementation review of several renovation projects
- Evaluated and approved budget and cost controls on all operations under the challenging business environment in Hong Kong
- In-depth review of two main areas of business, The Peninsula retail arcades and food and beverage outlets
- Monitored partnership dispute and protect the group's investment in Thailand

## LEADERSHIP AND EMPLOYEES

- · Reviewed employee engagement survey results
- Reviewed updates on employee engagement wisdom on wellness (WOW) programme

## 

- Reviewed and discussed the Board evaluation results
- Affirmed additional discussion time on strategy, risks and budget matters
- Reviewed the steps taken by the group in addressing modern slavery and human trafficking and approved the modern slavery statement
- Approved the continuing connected transactions of renewal of tenancy agreements of the office premises and master agreement of carpet purchases

#### 

- 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

#### 

- Monitored progress on our Sustainable Luxury Vision 2020 and its three key focuses: Our Guests, Our People and Our Cities via the Group Corporate Responsibility Committee
- Reviewed the Corporate Responsibility and Sustainability initiatives of the group

## Corporate Governance Report

#### Our Board

We have a diverse Board of 17 members with three Executive Directors and 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.

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

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

Role	Responsibilities
Non-Executive Chairman The Hon. Sir Michael Kadoorie	<ul> <li>Leading the Board and monitoring its effectiveness</li> <li>Fostering candid discussions and constructive relationships among Directors</li> <li>Reviewing management performance with the INEDs</li> <li>Safeguarding that good corporate practices and procedures are established and implemented throughout the group, with the assistance of the Company Secretary</li> </ul>
Chief Executive Officer* Clement Kwok *supported by GMB <sup>8</sup>	<ul> <li>Leading the management in the day-to-day running of the group business</li> <li>Developing strategies for the Board's approval</li> <li>Executing strategies, policies and objectives agreed by the Board</li> <li>Reporting to the Board on the performance of the business</li> </ul>
Non-Executive Directors and Independent Non-Executive Directors P. 114 to 117	<ul> <li>Evaluating the group's performance in achieving the agreed corporate goals and objectives</li> <li>Ensuring clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective</li> <li>Providing constructive feedback on management decisions</li> <li>Serving on the Board and Board Committees to give these committees the benefit of their skills, expertise, and varied backgrounds and qualifications</li> <li>The INEDs, being independent, have the additional role of: <ul> <li>bringing knowhow and business expertise that are supplementary to the management, thereby providing insights and independent judgement on the business</li> <li>helping to maintain objectivity in the Board's decisions when potential conflicts of interest arise</li> </ul> </li> </ul>
<b>Executive Directors</b> Clement Kwok Peter Borer Matthew Lawson	<ul> <li>Managing the day-to-day business of the entire group's operations</li> <li>Being accountable for their specific executive functions to the Board</li> <li>Communicating proactively with the NEDs and being open and responsive to any executive proposals and challenges made by the NEDs</li> </ul>
Company Secretary Christobelle Liao	<ul> <li>Reviewing, implementing and initiating improvements on our corporate governance practices and processes</li> <li>Advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters</li> <li>Facilitating induction and professional development of the Directors</li> </ul>

#### **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.

Board meetings are scheduled one year in advance in order to facilitate attendance by Directors. 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 for review of discussion topics. Where Board meetings cannot be convened at short notice, Board written resolutions are also accompanied by detailed justifications and business case to allow sufficient time for review. In addition, management provides Board members with a monthly update of our business operations. Board minutes and Board Committees minutes, except Finance Committee are also sent to all Directors to allow our Board members have the visibility of the discussions at various committees. Finance Committee discussions on financial aspects matters are included in monthly and Board updates given to Directors. During the Board meetings, we ensure that all Directors are also given sufficient time for discussion on the items in the Board agenda. Taking into account the Directors' comments from the Board evaluation, more time has been devoted to strategy, risk and budget discussion. Whilst matters may be decided at meetings by a majority of votes from voting Directors, the Board typically seeks to get unanimous consensus.

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 Evaluation**

Our Board evaluates its own performance every two years. This review identifies areas for enhancement and improving the Board's effectiveness. Having conducted the review internally since 2013, this year our Board decided to engage an independent facilitator to facilitate the review which included a number of one-on-one meetings with individual Directors. The independent facilitator reviewed the company's corporate governance structure and Board documents, sought feedback from the Deputy Chairman, Chief Executive Officer and Company Secretary, and developed a questionnaire which encouraged open feedback. A total of eight interviews were conducted, covering a balance of one Executive Director, four NEDs and three INEDs. The facilitator analysed the detailed reports and led the Board discussion on the findings and recommendations at the October Board meeting.

The 2019 Board evaluation was positively received and the anonymous feedback confirmed that the Board continued to work effectively. Some of the agreed actions have already been implemented in the December Board meeting.

## Corporate Governance Report

#### Stages of the Board evaluation review One-on-one meetings Directors requested to JUL AUG conducted by complete the questionnaire independent facilitator Independent facilitator Designed led discussions of results JUN OCT questionnaire with the Board and formulated agreed actions Determined Management implementing the methodology the proposed actions MAY GOING

#### Areas of enhancement

Enhancement	Actions
Ongoing and completed projects	Standardise all ongoing and completed projects review
Board discussion	Devote additional discussion time to strategy, risk and budget matters
Succession planning	Arrange mid-term review and continue to review the skill sets required when a Board vacancy arises in future
Refined Board processes and papers	Information packs/reports to directors are reformatted to include risks factors and mitigation

In addition to self-evaluation, the Chairman met with INEDs before the October Board meeting without management to discuss items that INEDs would like to raise at the meeting.

#### 2019 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 2019 are as follows:

	Board	Audit Committee <sup>(1)</sup>		Remuneration Committee	Annual General Meeting <sup>(1)</sup>	Types of Training
Non-Executive Directors						
The Hon. Sir Michael Kadoorie	•••••		••		•	A,B
Non-Executive Chairman						
Mr Andrew C.W. Brandler	•••••	••••		••	•	A,B
Non-Executive Deputy Chairman						
Mr William E. Mocatta	•••••				•	A,B
Mr John A.H. Leigh	•••••				•	A,B
Mr Nicholas T.J. Colfer <sup>(2)</sup>					0	A,B
Mr James L. Lewis <sup>(3)</sup>	$\bigcirc \bullet \bullet \bullet \bullet \bullet$				•	A,B
Mr Philip L. Kadoorie	•••••				•	A,B
Independent Non-Executive Directors						
Dr the Hon. Sir David K.P. Li			••		•	A,B
Mr Patrick B. Paul	•••••	••••		••	•	A,B
Mr Pierre R. Boppe	•••••				•	A,B
Dr William K.L. Fung	•••••		••		•	A,B
Dr Rosanna Y.M. Wong	•••••			••	•	A,B
Dr Kim L. Winser <sup>(3)</sup>	••0••				•	A,B
Ms Ada K.H. Tse	•••••	••••			٠	A,B
Executive Directors						
Mr Clement K.M. Kwok	•••••				•	A,B
Chief Executive Officer						
Mr Peter C. Borer	•••••				•	A,B
Chief Operating Officer						
Mr Matthew J. Lawson	•••••				•	A,B
Chief Financial Officer						
Company Secretary						
Ms Christobelle Liao <sup>(4)</sup>	•••••	••••	••	•	•	A,B

Present
 Apology

Notes:

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

(2) Mr Nicolas T.J. Colfer was unable to attend the Board meeting and the Annual General Meeting due to conflicting commitments

(3) Mr James L. Lewis and Dr Kim L. Winser were unable to attend the Board meeting due to illess and conflicting commitment respectively

(4) During 2019, Ms Christobelle Liao fulfilled the requirement under the Listing Rules by undertaking over 15 hours of professional training

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

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

• Anti-bribery and corruption

- Data analytics and digital marketing
- Corporate governance matters
- Political and economic climate in Myanmar
- Corporate responsibility and sustainability
- Revenue management

## Corporate Governance Report

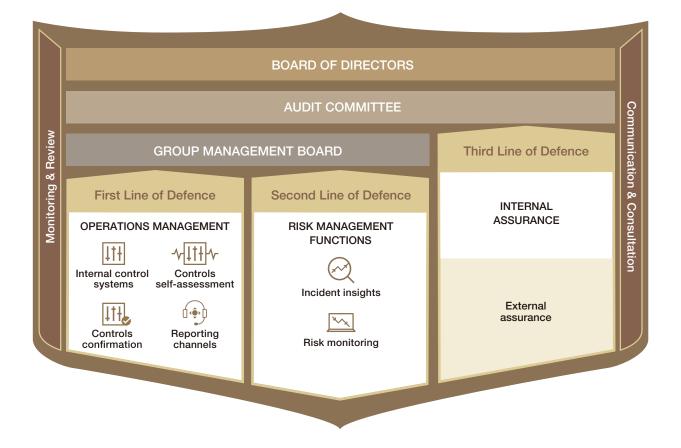
#### **Risk Governance**

Effective risk management plays an integral role in the overall achievement of the group's strategic objectives which are 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 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 risks such as natural catastrophes, fraud and errors of judgement, which are present in all businesses.



#### First Line of Defence: Operations management

The group has established a system of internal controls which is executed by operations management.

## Internal control systems

Controls adopted by the group can be divided into entity level and process level controls. Entity level controls include but are not limited to a code of conduct, a speak up hotline, and Purchasing and Tendering Policy revamped and relaunched in 2019. Process level controls include appropriate operational standards, policies and procedures governing approval authority requirements, due diligence requirements, safeguarding of assets and reconciliation of account balances.

The group has implemented new controls and strengthened a number of existing controls to cope with the ever-changing regulatory and operational environment. For controls enhancement measures related to our principal risks undertaken in 2019, please refer to the GRC Report on pages 140 and 141.

#### ✓ ↓↓↓↓ ✓ Controls self-assessment

Our business and functional units are at the forefront of risk management and they form part of the Group's risk management process by undertaking a "control self-assessment" (CSA). Formally conducted twice a year, the CSA process allows the group and each operation to identify and reassess risks affecting their businesses, evaluate the effectiveness of existing controls in managing the identified risks and if necessary, implement control enhancement plans with risk owners and timelines.

## Controls confirmation

General Managers, Hotel Managers and Directors of Finance or Financial Controllers of all operations confirm the effectiveness and adequacy of material internal controls (which include financial, operational and 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.

Collectively, these internal control systems form the basis by which operations management reviews and confirms the effectiveness of the risk management and internal control systems to the Audit Committee.

#### **P** Reporting channels

The group has multiple channels to handle and communicate crises, including an online incident reporting platform that 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 Policy<sup>9</sup> 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. Furthermore, 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.

#### **HSH Handling Inside Information Guide**

- A user-friendly guide is shared on our intranet to promote staff awareness
- Non-compliance of the Guide is a breach of the Code of Conduct
- A system is in place to monitor what the market says about HSH and there is an inside information escalation process

## Corporate Governance Report

#### Second Line of Defence: Risk management functions

The second line of defence is overseen by the relevant group functions and 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 effectiveness of controls in response to such risks. A 5-step risk management methodology is applied to ensure the risk assessment process and internal controls remain current, are adapted and modified as business conditions and the organisation change. In 2019, we strengthened our second line of defence by focusing on the validation and improvement of key control activities for the more prominent risks. Details can be found on page 140 in the GRC Report.

## Incident insights

The GRC analyses common incidents across all operations and identifies any trend of root causes which are summarised in an "Incident Insights" report for further discussion with the Group Management Board as needed. 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, especially on ESG related risks. For the improvements taken in 2019, please refer to the GRC Report on pages 140 and 141.

#### Third Line of Defence: Internal assurance

The third line of defence is supported by internal assurance activities. ARM provides internal assurance by assessing the effectiveness of the group's internal control systems.

Key processes are audited using an end-to-end approach thus control improvement opportunities can be readily identified and implemented. Since the company operates in a decentralised control environment, any common control weaknesses across the group are also assessed through an aggregation process and group level control recommendations are initiated as needed.

The internal audit plan in 2019 included reviews of the efficiency of key business processes with a view to optimising efficiency and performance of the group and individual operations. Audits of new development projects such as The Peninsula London were also conducted in 2019.

#### **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. Details can be read in Audit Committee Report on page 152. Throughout 2019 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 1,837 registered shareholders as at 31 December 2019. 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	535	29.123	69,743	0.004
501-1,000	194	10.561	154,764	0.010
1,001-10,000	635	34.567	2,598,367	0.159
10,001-100,000	371	20.196	11,822,144	0.723
100,001-500,000	70	3.811	14,735,762	0.902
Above 500,000	32	1.742	1,605,042,111	98.202
Total	1,837	100.000	1,634,422,891	100.000

Note: as at 31 December 2019, 36.35% 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 59.78% as disclosed in "Interests of Directors" and "Interests of Substantial Shareholders" in Directors' Report on pages 162 to 164. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

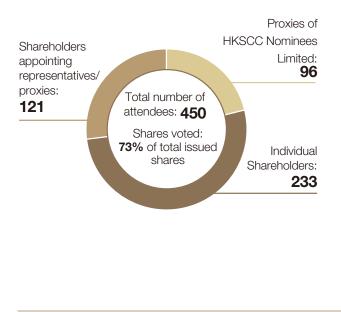
From publicly available information and within the knowledge of the Directors, HSH has maintained the required 25% public float throughout 2019 and up to the date of this report.

#### 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 website<sup>10</sup> sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

#### 2019 Annual General Meeting



The 2019 AGM was held on 10 May 2019 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. Our Directors, including the Chairman of the Audit and Remuneration Committees, were present at the 2019 AGM. KPMG, the company's external auditor, was also present to answer questions from any shareholder relating to its audit of the company's financial statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the company's Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the company's<sup>11</sup> and the Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

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

11 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 2019 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 2018	99.99%
Payment of final dividend of 16 HK cents per share for the year ended 31 December 2018	99.99%
Re-election of six retiring Directors: The Hon. Sir Michael Kadoorie, Mr Peter C Borer, Mr Matthew J. Lawson, Mr Patrick B. Paul, Dr Rosanna Y.M. Wong and Dr. Kim L. Winser as Directors of the company	Ranging from 98.71% to 99.96% in respect of each individual resolution
Re-appointment of KPMG as the auditor of the company and authorisation of the Directors to fix their remuneration	99.95%
Granting of the general mandate to Directors to allot, issue and deal with the company's shares	91.43%
Granting of the general mandate to Directors to buy-back the company's shares	99.96%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	91.46%

#### Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 246.

The company's share price information as well as share and dividends per share information for the last ten years are disclosed on pages 83 and 21 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
- Our Executive Directors and Investor Relations team engaged with shareholders and potential investors via oneon-one meetings and conference calls, as well as held regular briefings with research analysts
- We also participated in investor conferences in Hong Kong and China to further engage existing and potential investors
- Our company's website<sup>12</sup> gives the public a window to who we are, what we do and how we are doing. There is a wealth of current and historical information such as webcasts of the announcements of the latest financial results along with presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices

- Our Shareholder Communication Policy<sup>13</sup> has specified the various communication platforms to which our shareholders and stakeholders can access
- The company's branded social media sites provide investors and other stakeholders 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 102 and 103.

#### 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.

Throughout 2019, 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 instead 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 provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

#### Environmental, Social and Governance Reporting Guide (ESG Guide)

The Stock Exchange issued an updated ESG Guide which only comes into effect for the financial years commencing on or after 1 July 2020. However, due to our commitment to promoting transparency in our reporting, our Corporate Responsibility and Sustainability Report<sup>14</sup> has been prepared in accordance with this updated ESG Guide.

#### Other Compliance Matters

#### Appointments and re-election of Directors

The appointment and re-election of Directors are governed by the Nomination Policy which is set out in the Nomination Committee Report on page 154. The company confirms that all Directors' re-elections were conducted in compliance with the CG Code in 2019. 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 2020 Annual General Meeting are set out in the Directors' Report on page 161.

#### **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 confirmed his or her understanding of such time commitment when the appointment was 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 2019. The Board is 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.

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

<sup>14</sup> Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

## Corporate Governance Report

#### Independence of INEDs

The independence of the NEDs 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. The company has received written confirmations of independence from each of its seven INEDs who served in 2019. The Nomination Committee and the Board considered that all seven INEDs who served in 2019 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 right experience and is prepared to challenge the Board in a constructive fashion. The Nomination Committee and the Board continue to believe 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 2019. Details of the shareholding interests held by the Directors of the company as at 31 December 2019 are set out on page 162.

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 118 and 162 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 2019, all Directors have fulfilled these disclosure requirements.

We have also extended the annual disclosure requirements on potential conflict of interests to senior management and leaders of 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 2019, no potential conflict of interest was determined by the Board to be material. However the continuing connected transactions as disclosed in the Directors' Report on page 161 were reviewed in the March Board meeting held in 2020.

#### **New Directors' induction**

The company provides new Directors with a comprehensive tailored induction programme which includes meetings with Executive Directors, Company Secretary, and senior management and visiting a number of Group's properties. 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.

#### **Directors training and development**

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 training records of Directors and the Company Secretary for 2019 are reflected on page 131.

#### 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 Committee<sup>15</sup> 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 Board and Governance Board Committees were reviewed and confirmed remain relevant and no revision was required in 2019.

The full terms of reference of the Board and each Board Committee can be viewed at the company's website<sup>16</sup> and those of the Governance Board Committees<sup>17</sup> are also published on the Stock Exchange's website. The Governance Board Committees' reports are set out on pages from 152 to 159.

## 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 semiannually; (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 2019, 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 161.

#### Annual Report and Corporate Responsibility and Sustainability Report

In March, the Board reviewed and approved the 2019 Annual Report and Corporate Responsibility and Sustainability Report<sup>18</sup>. With respect to the Directors' responsibility for preparing the financial statements for the year ended 31 December 2019, please refer to the Directors' Report set out on page 165.

#### High Standards of Corporate Governance

Commitment to high standards of corporate governance and business integrity has seen us through years 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

Thefolo (

Christobelle Liao Company Secretary 17 March 2020

<sup>15</sup> Audit, Nomination, Remuneration, Executive and Finance Committees

<sup>16</sup> www.hshgroup.com/en/corporate-governance/board-committees

<sup>17</sup> Audit, Nomination and Remuneration Committees

<sup>18</sup> Posted on the company's website: www.hshgroup.com/en/sustainable-luxury/sustainability-reports

## **GROUP RISK COMMITTEE REPORT**

Composition:	Chairman Mr Matthew Lawson, Chief Financial Officer Members Group Director, Corporate and Legal Group Director, Properties Group General Manager, Audit & Risk Management Group General Manager, Operations
Meeting Frequency:	<ul><li>Quarterly</li><li>Four meetings in 2019</li></ul>
Responsibilities:	<ul> <li>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 group</li> </ul>
	<ul> <li>To 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 plans</li> </ul>
	• To 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

#### 5-Step Risk Management Methodology

The 5-step risk management methodology continues to be applied across the group. In 2019, a focus was placed on the validation and improvement of key control activities for more prominent risks, including data privacy, cybersecurity, security and operational risks.



We have improved the effectiveness of our controls in the following focus areas in 2019:

#### 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 project on a quarterly basis. A project owner's risk register is maintained to facilitate the identification and management of risks the group has been facing as the owner of the three new hotels. Furthermore, tailored pre-opening plans are being developed for the specific needs of the new hotel projects.

#### Cybersecurity and data privacy

A variety of enhancements and improvements have been conducted by the Group Information Technology and Group Legal throughout the year to strengthen our controls over cybersecurity and data privacy. These included penetration testing, cybersecurity incident response drills and the introduction of an online dashboard to measure compliance of computer and user account management at each operation. In addition, a data privacy assessment exercise was conducted in selected operations to assess the maturity of key compliance areas to identify any gaps and areas for improvement.

#### **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.



The principal risks are monitored and reviewed on an ongoing basis, by focusing on how changes may arise and how our controls should be adapted in response to business conditions and organisational changes.

The movements of our principal risks since the publication of our 2018 Annual Report are described on pages 142 to 147.

#### **Emerging Risks**

The outbreak of the COVID-19 coronavirus in late 2019 started to significantly negatively impact the group's operations in Greater China in January 2020, and this has now spread all over the world, affecting all of the group's global operations. Most of the group's hotels have seen substantial room cancellations and restaurant closures as a result of government travel restrictions, guarantines and state and country lockdowns. The hotels division as well as The Peak Complex have seen a devastating revenue decline. The group is now focused on all possible operational cost containment options, as well as deferring capital spend where possible. The group continues to monitor its financial and liquidity position which remains healthy.



In 2020, the GRC's main focus will continue to be on (i) enhancement of internal controls to manage the strategic risks of the group, especially risks pertinent to development projects and ESG risks (ii) a focus on communication, awareness and ownership of risks and controls across the group, and (iii) further improvements to 5-step risk management methodology by introduction of the framework to other areas of the group such as functional divisions and managed clubs.

management process has formed a solid platform for us to focus on control effectiveness assessment

Matthew Lawson Chairman of the Group Risk Committee 17 March 2020

#### Political environment in Hong Kong

The protests which Hong Kong has experienced since June 2019 have had a direct adverse impact on the hospitality and tourism industry with tourist arrivals reporting their sharpest drop in more than a decade. Our tourism-related operations in Hong Kong, namely The Peninsula Hong Kong and the Peak Tram, suffered the greatest financial impact. The Peninsula Hong Kong reported significantly lower occupancy and a decline in average rates. Revenues from the Peak Tram had been budgeted to decline during the three-month suspension period for the upgrade project. Nonetheless, in additional to this, ticket sales and patronage further declined unexpectedly as tourist arrivals dropped during the protest months. Although occupancy levels and rates at The Repulse Bay remained largely steady, the outlook for our overall Hong Kong business remains uncertain in 2020 and beyond.

In response to the adverse tourism situation and related reduction in revenue, major cost saving programs have been initiated throughout the group. These include a recruitment freeze for existing operations, reduction in the use of casual labour, select secondment of Hong Kong staff to overseas operations, deferment of certain capital investment programs and an overall curtailment on expenditure. Management will continue to monitor the situation closely and may consider stepping up certain mitigating actions if needed.

Security and safeguarding of our properties, people and customers has also been a major initiative and additional resources have been implemented to safeguard our Hong Kong properties.

## Group Risk Committee Report

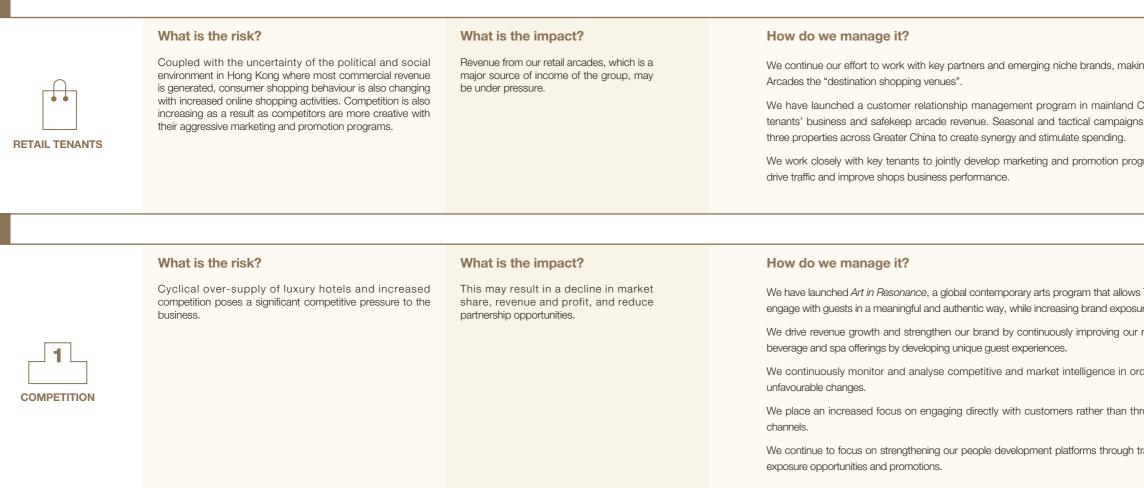
## Overview of Principal Risks

1					Disaster Events
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
DISASTER EVENTS	Disaster events, such as extreme weather events, natural disasters, war, terrorism and pandemics, may damage our properties or result in business interruption.	Disaster events may result in physical harm to guests and employees, damage to property, and an increased perception of risk reducing business and leisure travel, investment, and general activity.	We maintain crisis management plans to manage severe business interruption caused by disaster events. We maintain insurance coverage on property damage and business interruption for each operation. With respect to terrorist risks, we leverage well established commercial, formal and informal security intelligence networks to provide advance warning of changes in the security and risk landscape.	Why?	Natural disasters, and local and international acts of terrorism contributed towards a rapidly changing threat and risk picture.
2				Bı	usiness Dependency
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
BUSINESS DEPENDENCY	A significant portion of our group earnings is derived from our operations in Hong Kong.	Unfavourable events (e.g. protests, terrorism, pandemic, natural disaster) in the city could severely disrupt our overall business, lower our earnings, and impact the valuation of our assets.	We focus on increasing our overseas earnings contribution, by developing new assets and businesses outside Hong Kong, and increasing the profitability of our existing international businesses. We maintain moderate levels of debt to insulate the business against earnings volatility. We implement proactive cost savings and deferment of non-essential capital expenditure when required.	Why?	Decline in number of visitors due to social unrest in Hong Kong, suspension of the Peak Tram service for upgrade, and disruption caused by renovation of The Peninsula Hong Kong Arcade.
3				Macroeco	onomic and Political
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
MACROECONOMIC AND POLITICAL	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. Local political instability, geopolitical instability, civil disobedience may occur and negatively impact our business.	This 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. Local political instability and or geopolitical instability may result in risk, or the perception of risk, and lead to a reduction of business and tourist activity, which in turn reduces hospitality business levels.	We aim to increase diversification in terms of the number and location of assets and target market segments we pursue. We exercise continuous monitoring of the macroeconomic, political and regulatory landscape and closely monitor operating costs, implementing cost savings measures when required.	Why?	The ongoing trade tensions between US and China, the Hong Kong political situation and social unrest, and simmering geopolitical tensions in other areas affected business and leisure travel.
4			Investme	ent and De	evelopment Projects
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
INVESTMENT AND DEVELOPMENT PROJECTS	Capital allocation, funding, meeting budgets, project milestones, partnership relationships and competition for resources are inherent risks to projects. Challenges may also 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. There may also be potential misalignment and disagreements with partners.	This may result in a major impact on our capital, partnership relationships and reputation. Should partnership relationships deteriorate, this may also result in a loss of hotel management contracts, potential loss of value of investment or mobility to generate the expected returns and/or incurring legal fees.	We maintain continuous top level management of partnership relationships, as well as continuous monitoring and review of major aspects of a development and reporting on potential project risks. We conduct business stress testing under various downside scenarios. We implement enhanced oversight of tendering throughout project construction, and develop clear pre-opening plans and early deployment of dedicated resources to support hotel openings. We counteract individual and aggregated investment or development-related risk levels and a robust risk management process by having a robust oversight by GRC.	Why?	We had an ongoing legal dispute with our Thai partner. We also faced increasing capital allocation to our new hotel projects in London, Istanbul and Yangon and the Peak Tram upgrade project, as construction on these projects continued to progress.

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## Group Risk Committee Report



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FOREX, INTEREST &

FUNDING

#### What is the risk?

Our assets, investments and operations located in different parts of the world are exposed to foreign exchange and interest rate risks, as currency and interest rate may fluctuate in an unfavorable direction to the group.

#### What is the impact?

Exchange rate fluctuations may create volatility in our financial statements and ratios. Unfavourable movements in our financials may impact financing requirements and ultimately increase cost of capital. In addition, significant floating rate liabilities may result in higher cost of financing if current interest rates increase.

#### How do we manage it?

Our operations are predominantly charging and expending in local currencies mismatch. The majority of borrowings are denominated in the functional curre to which they relate.

We review and hedge major foreign exchange transactional and capital expen actively manage fixed or floating interest rate exposure.

We conduct regular stress testing and calculation of value at risk to monitor interest rate impact on the profit and loss, balance sheet and financial ratios.

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		Retail Tenants
	2019 risk movement	Increased
making The Peninsula	Why?	Social unrest through the second half of the year has adversely impacted
land China to support		commercial revenue. The
paigns are planned for		sharp decline of tourists and
ng.		retail spending forced shops to demand rent reduction.
n programs in order to		

		Competition
	2019 risk movement	Slightly increased
allows The Peninsula to xposure. g our rooms, food and	Why?	Competition level remained high and new luxury hotels opened in cities we operate.
in order to anticipate		
an through third party		
ough training and cross		

	Forex	, interest & funding
	2019 risk movement	Increased
s to minimise currency rency of the operations	Why?	The volatility in the foreign exchange rates of Chinese Renminbi and Pound Sterling to Hong Kong Dollars, and the
nditure exposures, and		fluctuation of the Hong Kong Interbank Offered Rate have created movements in our
foreign exchange and		financials.

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**BRAND AND REPUTATION** 

## Group Risk Committee Report

be frivolous or misconceived, could result in brand and

reputational damage.

					Cybersecurity
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Remains broadly the same
CYBERSECURITY	Failure of information technology systems due to internal or external circumstances, either malicious or unintentional may result in financial loss, business disruption, damage to reputation.	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.	We have increased resources deployed for information technology security and risk, and conducted group-wide online security awareness training to all employees having access to IT systems. We conduct an ongoing review of business-critical applications for our disaster recovery plan and regular vulnerability assessments and penetration tests. We conduct systematic due diligence for third party solution/service providers, strengthened account authentication and password management for all employees. We continuously enhance security measures and adopt cybersecurity insurance against potential loss.	Why?	The number of cybersecurity incidents remained globally high in 2019.
					Data Privacy
	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Slightly increased
<b>DATA PRIVACY</b>	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.	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.	We carry out continuous monitoring of privacy laws and regulations to enhance our data privacy policies and practices, and conduct independent third party assessments of our data privacy policies and processes in key locations. Mandatory e-training for all relevant staff members is conducted at regular intervals, with targeted training sessions where it is deemed beneficial. We conduct maintenance and review of a comprehensive data register across the group covering all applications which collect and store personal information. We have ongoing communication and risk assessments with Data Privacy teams across operations. We promote employees' overall awareness from data capture standards, reporting channels and work flows for data processing requests and data breaches.	Why?	Jurisdictions around the world continue to strengthen existing privacy legislation or implement new legal frameworks. This includes jurisdictions which previously had a lesser focus on privacy legislation, such as Thailand. This is in turn necessitates an increased focus on local laws and leads to increasing overal compliance obligations.
				Br	and and Reputation
_	What is the risk?	What is the impact?	How do we manage it?	2019 risk movement	Increased
	Adverse publicity in traditional or social media, which may	This may lead to a decline in loyalty of	We place a continuous effort on corporate branding, both in traditional media and digital platforms,	Why?	There was is a heightened risk

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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.

We place a continuous effort on corporate branding, both in traditional media and have established clear guidelines on incident communication and crisis ma by the Crisis Management team with clear roles and responsibilities for each op

We have formalised a new public communications and media policy to interactions with journalists, and implemented new guidelines related to the situation and how to communicate with team members and in public.

We have increased monitoring of social media sites and traditional media for issues relating to our brand.

Our Code of Conduct and behavioural standards and policies which regu conduct emphasises the zero-tolerance of abusive behaviour and miscondu and provides clear guidelines on the escalation process.

Brand and Reputation					
	2019 risk movement	Increased			
a and digital platforms, nanagement processes operation.	Why?	There was is a heightened risk of reputational damage due to political uncertainty in Hong Kong, with risks of our actions			
o ensure appropriate le Hong Kong political		or public statements being misinterpreted by the public, and risks of being targeted by either side of the political divide			
for potentially sensitive		have increased.			
ulate staff and guests uct by staff or guests,					

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, security and operational risks, operations planning and support, sales and marketing, human resources, legal and corporate affairs functions		
Meeting frequency:		At least three meetings each year Four meetings in 2019		
Responsibilities:	the Boar	To propose, recommend, monitor and report to the Group Management Board the Board of Directors on corporate responsibility and sustainability (CRS) top including the implementation of the company's Sustainable Luxury Vision 2020		
		w practices, standards, trends, regulation, plans related to CRS topics that act on the operations of the group		

## **Our CRS** Approach

Being a responsible and sustainable business is vital to the success of our group. The Sustainable Luxury Vision 2020 (Vision 2020) is our blueprint to being a sustainable business, strengthening our overall strategy and enabling significant value creation not only for our shareholders, but also our key stakeholders who benefit and are impacted by our business for now and into the future. Vision 2020 has three focus areas highlighting our key stakeholders: 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.

#### 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 regularly reports to the Board and GMB and updates the Group Risk Committee on environmental and social risks related to the business. The Director of Group CRS also coordinates CRS-related risk mitigation actions across the group. Depending on the severity of these risks, these can be escalated to the Audit Committee and Board for reference or action. At the local level, each operation has its own committee chaired by either the General Manager or the Hotel Manager, the most senior people in the local operations; with champions comprised of functional or department heads. They meet regularly to develop and implement action plans and improve on the performance of our commitments.

While we do not have a separate sustainability committee at board level, throughout the year, the Board considers this topic to be of substantial importance warranting Board review of the group's sustainability approach, strategy and performance. In 2019, CRS topics reviewed at Board level included the CRS Report, Vision 2020 performance, sustainability communications, approach to the new strategy, materiality process and results (refer to page 11 of the online CRS Report<sup>19</sup>) and anti-modern slavery statement. Specifically, on our Vision 2020 progress, the Board is provided with a yearly update, with the Executive Committee receiving detailed reports on our progress including commentary on a quarterly basis.



<sup>66</sup>While we remain committed to doing our part, we realise this is no longer enough. We must work with others and bring others with us so we can move the needle on sustainability faster, together. **??** 

#### THE BOARD

#### Board of Directors

• Oversees management of CRS issues • Reviews and provides final approval for CRS approach, strategy and performance at least once a year

## **GROUP LEVEL**

## **Group Management Board**

• Principle decision making body on CRS decisions and direction

#### Group Corporate Responsibility Committee Local CRS committees Chaired by CEO; Supported by Director of GCRS and Chaired by General Managers or Hotel Managers;

Vision 2020 Group Champions • Implements and manages CRS performance

#### **Reporting Approach**

We continued to publish a detailed CRS Report online<sup>19</sup>; which is also available on the Stock Exchange website. This report has been prepared in accordance with the December 2019 updated "comply or explain" provisions in the Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide)<sup>20</sup> and 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 the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC), as well as the Task Force on Climaterelated Financial Disclosures (TCFD) and the Sustainability Accounting Transparency Board (SASB). KPMG was commissioned to conduct assurance and to provide an independent opinion on the identified elements of the CRS Report in accordance with the updated ESG Guide<sup>21</sup>

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Clement Kwok Chairman of the Group Corporate Responsibility Committee 17 March 2020

#### **OPERATION LEVEL**

Supported by functional or department heads; Implements CRS programmes and action plans

<sup>19</sup> www.hshgroup.com/en/sustainable-luxury/sustainability-reports

<sup>20</sup> For disclosures where HSH is unable to provide information, according to the ESG Guide, an explanation (such as an issue not being material or a commitment to

provide this data in the future) will be provided on pages 38 to 46 on the CRS Report

<sup>21</sup> KPMG Independent Assurance Report can be read on pages 33 and 34 on the CRS Report

## Group Corporate Responsibility Committee Report

#### 2019 Main Activities

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 2019 revolved around deepening external engagement and preparing for the new post 2020 strategy:

- 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, the rise of "conscious capitalism", single use plastic, agricultural crisis, food waste, climate change and action, cotton use and electric vehicles
- · Evaluated progress towards our Vision 2020 commitments, particularly on the energy, water and waste targets; status of Building Research Establishment Environmental Assessment Method (BREEAM) certification of new projects; and community investment
- · Approved the external CRS communication and engagement approach, such as the CRS webpage in The Peninsula and HSH websites and the CRS video in-room and in social media channels
- Discussed the outcomes of an initial climate change adaptation study outlining the physical and regulatory impacts of climate change on the business
- · Presented and discussed a comprehensive diversity and inclusion approach for the group

In 2020, the Committee's focus will continue to be developing the post-2020 CRS approach; to ensure the full implementation of Vision 2020 and to enhance effective implementation towards mitigating our impacts. 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 89% of commitments on track. Some key examples in 2019 are:

#### **Our Guests**

- · Rolled out a CRS video in-room and in social media channels, with updated CRS information on the Peninsula and HSH websites
- Enhanced guest activities related to heritage preservation and/or nature conservation through new guest programmes in The Peninsula Academy
- On track to achieve BREEAM, one of the world's leading sustainable building standards for our new projects in London, Istanbul and Yangon
- · Implemented alternatives and upcycling and recycling initiatives for mooncake and laundry packaging, in-room complimentary bottled water and other key items
- · Final phase of implementation for our renewable energy project at Quail Lodge & Golf Club and assessing similar options in our other properties
- Conducted external-led energy and water audits for our hotels and properties

#### **Our People**

- Developing a comprehensive diversity and inclusion programme
- work
- 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**

- community areas such as youth development, elderly caring and meeting under-served needs
- · Majority of the paper products, cleaning products, tea and coffee are sourced sustainably/responsibly with several restaurants and operations in the group fully complying with these specifications
- do so
- · Conducted training globally on our human rights and anti-modern slavery approach
- · Strengthened the group's approach related to modern slavery, including the prevention of child trafficking and prostitution and identifying high-risk suppliers for monitoring

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 next year as we conclude Vision 2020.

· Rolled out WorkPlace 2025, a group-wide initiative to inspire innovation, and modernise our workplace and the way that we

Engaged with the Committee members globally on their views and insights regarding Vision 2020 and developing the post-2020

· Around 19% of our staff volunteered their time benefiting around 530 organisations across our operations, working on key

 Rolled out an endangered species policy referring to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and developed a sustainable seafood tool to improve sustainable sourcing, one of the first hotel companies to

Composition	Members	Mr Patrick Paul, INED Ms Ada Tse, INED Mr Andrew Brandler, NED	
Meeting Frequency	<ul> <li>At least four times every year with senior management, the external auditor and the Group General Manager, ARM in attendance by invitation</li> <li>Four meetings in 2019</li> </ul>		
Responsibilities		Board in carrying out its responsibility of overseeing financial reporting, , internal audit, risk management and internal controls	

## 2019 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 2018 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2019 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 endorsing the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases for Board approval

#### Internal and external audits

- Reviewed the 2019 internal audit plan progress and approved the proposed 3-year internal audit plan commencing 2020 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 2018 Annual Report
- Endorsed 2019 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 2018 as described below, assessed the performance and endorsed the re-appointment of KPMG as the company's independent auditor for 2019
- 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 approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the group's accounting, internal audit and financial reporting functions
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems
- Considered summaries of the internal representation letters from business operations which in turn formed the basis by which management confirmed 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 2018 Annual Report and Corporate Responsibility and Sustainability Report and 2019 Interim Report

#### Others

- · Reviewed the impacts and requirements of the new lease accounting standards
- Reviewed the group's tax position and the impacts arising from the changes in the tax laws and regulations and the relevant actions being taken

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<sup>66</sup> The Committee provides valuable independent challenge and assists the Board in fulfilling its oversight responsibilities on the group's financial reporting, its risk management and internal controls, including the assessment of the group's principal risks and risk tolerance, and the external and internal audit process. **??** 

- Reviewed the cybersecurity risks and preventive measures taken
- Reviewed the key changes to the Purchasing and Tendering Procedures and acknowledged the implementation across the group in January 2020
- Committee remained relevant and no revision was required

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 · Reviewed and confirmed the terms of reference of the 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 As the Chairman of the Audit Committee. I have met separately ensure the provision of such services do not impair KPMG's with the Group General Manager, ARM and the Audit independence or objectivity. In 2019, apart from audit work, Committee has met the external auditor without management the company also awarded non-audit work to KPMG including being present. taxation and other services. In our first meeting in 2020, 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 2020 Annual General Meeting.

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 2019 to be effective and adequate. Issues raised by the internal and external auditors during 2019 have been, or are being addressed by A summary of fees for audit and non-audit services to KPMG management, and the Audit Committee advised the Board that for the financial years ended 31 December 2019 and 2018 is as there are no issues required to be raised to shareholders. follows:

In March 2020, the Audit Committee reviewed and endorsed this annual report, the Corporate Responsibility and Sustainability Report, which is posted on the website<sup>22</sup>, and the annual results announcement, and recommended the same to the Board for approval.

Patrick Paul Chairman of the Audit Committee 17 March 2020

#### Ensuring the Independence of our External Auditor

Nature of Services	2019 HK\$m	2018 HK\$m
Audit Services	10	11
Non-audit Services Taxation and other services	4	4

<sup>22</sup> www.hshgroup.com/en/sustainable-luxury/sustainability-reports

## Nomination Committee Report

Composition	Chairman The Hon. Sir Michael Kadoorie, Non-Executive Chairman Members Dr the Hon. Sir David Li, INED Dr William Fung, INED	
Meeting Frequency	<ul><li>At least two meetings every year</li><li>Two meetings in 2019</li></ul>	
Responsibilities	To evaluate the structure, size and composition of the Board. This includes sele new Directors and/or maintaining an appropriate, adequate and balanced make-up effective Board and reviewing of independence of INEDs	

#### Board Composition and Diversity<sup>23</sup>

A diverse Board brings constructive challenge and fresh perspectives to Board discussion. 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. Our Diversity Policy adopted since 2013 can be found on the company's website<sup>24</sup>. 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 regularly reviews the composition, balance, skills and experience of the Board and confirmed that the HSH Board has continued in place a diverse mix of skills, knowledge and experience, as well as the gender diversity with three female members on the Board to fulfil its role effectively. As part of the Board evaluation described on page 129, the Committee has identified areas where we could further improve our diversity balance, principally our skills and knowledge diversity, when Board vacancy arises in future.

Furthermore, the Committee reviewed the appropriateness of an express diversity quota or measurable objective. The Committee concluded not to set any specific target and our 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

Our Board always recognises the benefits of diversity and ensures that the selection criteria including contribution and time commitment, nomination process and procedures set out in the Nomination Policy are followed when proposing a candidate for nomination or a Director for re-election. This policy can be found on the company's website<sup>24</sup>. We set out below a diagram on our nomination process.

#### **Nomination Committee**

- Proposes a candidate for nomination or a Director for re-election based on merit with reference to the Board Diversity Policy and Listing Rules requirements
- Considers the contribution and time commitment of the candidate or Director put forward for re-election
- Makes recommendations to the Board as appropriate

#### Board

#### Shareholders

- Newly appointed **Directors** are subject to election by shareholders at the first general meeting following the appointment
- Existing Directors are subject to re-election by shareholders every three years
- Approves the appointment or re-election of Directors at the company's general meeting
- Separate resolution will be put to vote for individual appointment or re-election



# our strategy. **?**

2019 Main Activities

#### In 2019, the Nomination Committee conducted the following business:

#### Year-end matters and re-election

- their independence
- Evaluated the contribution and time commitment of Directors (including INEDs) put forward for re-election as well as the respective skills and experience of the INEDs and recommended them for re-election
- Reviewed the 2018 Nomination Committee Report

#### Board structure and diversity

- Reviewed and confirmed that 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 that 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

· Reviewed the terms of reference of the Committee, Nomination Policy and Board Diversity Policy and confirmed that they remained relevant and no revision was required

23 Please also refer to page 121 on Board Composition and Diversity

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

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<sup>66</sup>Our Board has appropriate skills, knowledge and experience to operate effectively and deliver

Mon

The Hon. Sir Michael Kadoorie Chairman of the Nomination Committee 17 March 2020

Assessed and reviewed all INEDs' confirmations of independence and cross-directorships and affirmed the Committee's view of

## **REMUNERATION COMMITTEE REPORT**

Composition	Chairman Mr Patrick Paul, INED Members Dr Rosanna Wong, INED Mr Andrew Brandler, NED
Meeting Frequency	<ul> <li>At least two meetings every year with the Chief Executive Officer and Group Director, Human Resources in attendance</li> <li>Two meetings in 2019</li> </ul>
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' expectations.

#### Key guiding principles

- · Providing benefits that are competitive and support the longterm 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 management
- Designing a total cash package with an appropriate mix of fixed 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, retain and motivate 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 and other allowances and the general policy is to set them at the level required to retain and motivate, 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 while the two Group Executives are under a discretionary bonus plan to align with market practice. Other senior management participates in the HSH Management Bonus Plan<sup>25</sup> which is a short-term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- The group's financial performance
- The Business Units' quality measurement<sup>26</sup>
- Individual performance
- Share Price

In 2018, the Committee approved the management proposal to simplify the administrative procedures and the methodology for business units' quality measurement and individual performance within HSH Management Bonus Plan. The Committee also approved changing the bonus approval basis to a percentage



<sup>66</sup> On behalf of the Remuneration Committee, I am pleased to present our 2019 Report. The Committee has continued to play a key role to ensure that our financial and non-financial rewards remain competitive and can continue to attract, retain and motivate the company's executives. **??** 

of underlying profit which allows the Committee to focus proposal after benchmarking not to recommend any changes more on the total bonus pool and its relation to the group's to the fees of NEDs in 2019. performance. These revisions were implemented in 2019 with the first bonus payout in 2020.

#### **Retirement benefits**

The Executive Directors and 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 or a local 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.

#### 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 into 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. The Committee endorsed management's

Patrick Pau Chairman of the Remuneration Committee 17 March 2020

## 2019 Main Activities

The Remuneration Committee conducted the following business in 2019:

#### Remuneration

- Reviewed and endorsed management's proposals for the fees for NEDs to remain unchanged in 2019
- Reviewed and approved the 2018 proposed bonus pool for senior staff
- Reviewed and approved the 2018 annual discretionary bonus proposal for Executive Directors and Group Executives
- Reviewed and approved the revision of discretionary bonus range for Chief Executive Officer
- Noted the group-wide 2020 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 2020 salary of Executive Directors and senior management
- Reviewed and noted the remuneration of senior staff in grades A and B

<sup>25</sup> Senior staff also participates in the HSH Management Bonus Plan

<sup>26</sup> A quality score measuring user experience and/or operational excellence against a set of standards

## Remuneration Committee Report

#### Others

- Reviewed and approved the 2018 Remuneration Committee
  Report
- Reviewed and confirmed that the terms of reference of the Committee remained relevant and no revision was required
- Reviewed and approved the letter of appointment for an INED

## 2019 Remuneration of Directors and Senior Management

The following information is an integral part of the Audited financial statements for the year ended 31 December 2019.

#### Non-Executive Directors – remuneration

The fees paid to each of our NEDs in 2019 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	Audit	Remuneration	Nomination	Total <sup>*</sup>	Total <sup>*</sup>
(HK\$'000)	Board	Committee	Committee	Committee	Committee	2019	2018
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	325	100	-	-	40	465	456
Mr Andrew C.W. Brandler	325	100	150	60	-	635	626
Mr William E. Mocatta	325	-	-	-	-	325	316
Mr John A.H. Leigh	325	100	-	-	-	425	416
Mr Nicholas T.J. Colfer	325	-	_	-	-	325	316
Mr James L. Lewis <sup>(2)</sup>	325	-	-	-	-	325	316
Mr Philip L. Kadoorie <sup>(3)</sup>	325	-	-	-	-	325	316
Independent							
Non-Executive Directors							
Dr the Hon. Sir David K.P. Li	375	-	-	-	40	415	406
Mr Patrick B. Paul	375	-	185	<sup>c)</sup> 100 <sup>(c</sup>	) _	660	646
Mr Pierre R. Boppe	375	-	_	-	-	375	366
Dr William K.L. Fung	375	-	-	-	40	415	406
Dr Rosanna Y.M. Wong	375	-	-	60	-	435	426
Dr Kim L. Winser	375	-	-	-	-	375	366
Ms Ada K.H. Tse	375	-	150	-	-	525	516
	4,900	300	485	220	120	6,025	5,894

#### **Executive Directors – remuneration**

The remuneration paid to Executive Directors of the company in 2019 was as follows:

		Bonuses				
	Basic	and	Retirement	Other	Total <sup>*</sup>	Total*
(HK\$'000)	compensation	incentives	benefits	benefits	2019	2018
Executive Directors						
Mr Clement K.M. Kwok	7,260	7,213	1,194	186	15,853	16,548
Mr Peter C. Borer	5,211	3,363	844	137	9,555	9,710
Mr Matthew J. Lawson	4,822	2,385	791	186	8,184	8,505
	17,293	12,961	2,829	509	33,592	34,763

\* 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:

	2019 Number	2018 Number
HK\$4,000,001 – HK\$5,000,000	1	1
HK\$5,000,001 – HK\$6,000,000	3	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 six (2018: five) senior management who represent the various key functions and operations of the company

#### Individuals with highest remuneration

The five highest paid individuals in the group included three Executive Directors and two (2018: two) other members of senior management. The remuneration of the three Executive Directors are set out above. The remuneration of the two (2018: two) other individuals with highest remuneration are within the following bands:

	2019 Number	2018 Number
HK\$6,500,001 – HK\$7,000,000	1	1
HK\$7,000,001 – HK\$7,500,000	1	-
HK\$7,500,001 – HK\$8,000,000	-	1

The aggregate of the remuneration in respect of these two (2018: two) individuals is as follows:

(HK\$'000)	
Basic compensation	
Bonuses and incentives	
Retirement benefits	
Other benefits	

The Committee has reviewed the methodology and benchmarking of the remuneration disclosed above and has endorsed and approved the same. The Committee remains committed to careful oversight of the remuneration policies of the company.

2019	2018
9,024	8,475
4,191	5,173
902	847
239	225
14,356	14,720
	9,024 4,191 902 239

## DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2019.

#### **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 37 to 66 and Financial Review on pages 68 to 83. 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 140 to 147. Particulars of important events affecting the group that have occurred since the end of the financial year 2019 are set out in note 37 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 pages 34 and 35.

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 102 and 103.

The discussions with respect to the above topics in the annual report and CRS Report which is available online<sup>27</sup> form part of this Directors' Report.

# Ten Year Operating Statistics and Financial Summary

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

#### Share Capital

Movements in the share capital of the company during the year are set out in note 25 to the financial statements.

#### Equity-linked Agreements

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

# Purchase, Sale or Redemption of Listed Securities

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

#### Dividends

An interim dividend of 4 HK cents per share (2018: 5 HK cents per share) in respect of the year ending 31 December 2019 was paid during the year 2019. The Directors have recommended a final dividend of 9 HK cents per share (2018: 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 14 May 2020 (2020 Annual General Meeting), such dividends will be payable on 29 June 2020 to shareholders whose names appear on the register of members on 22 May 2020.

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 27 May 2020.

#### 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 HK1.8 million (2018: HK2.1 million)<sup>28</sup>.

#### 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 27 March 2019, 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 2019 at a market rent of (i) HK\$172,980 per month plus a monthly service charge of HK\$18,795.6 and (ii) HK\$2,385,830 per month plus a monthly service charge of HK\$18,795.6 and (ii) HK\$259,246.8 respectively. The rents and services charges incurred in 2019 amounted to HK\$32 million (2018: 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 27 March 2019.

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 31 to the financial statements.

#### Directors

Biographical details of the Directors in office at the date of this report are shown on pages 114 to 117. All these Directors held office throughout 2019.

In accordance with the Articles of Association of the company, the Directors who will retire at the 2020 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are Mr Andrew Brandler, Mr Clement Kwok, Mr William Mocatta, Mr Pierre Boppe and Dr William Fung.

<sup>28</sup> The donations amount of HK\$2 million (2018: HK\$2.5 million) referred to in the Sustainability Data Statements on page 242 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 2020 Annual General Meeting has a service contract with the company which is not determinable by the company within one year without payment of compensation, other than statutory compensation.

#### **Directors of Subsidiaries**

The list of directors who have served on the boards of the subsidiaries of the company during the year and up to the date of this report is shown on the company's website<sup>29</sup>.

#### Senior Management

Biographical details of senior management are shown on pages 118 and 119. All members of senior management held office throughout the years except Mr Joseph Chong who was appointed as a member of the Group Management Board with effect from 1 June 2019.

#### Interests of Directors

As at 31 December 2019, 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	% of total number of shares in issue of
	Capacity	the company	the company
The Hon. Sir Michael Kadoorie	Note (a)	892,692,080	54.618
Mr Clement K.M. Kwok	Beneficial Owner	750,509	0.046
Mr Peter C. Borer	Beneficial Owner	374,144	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)	84,423,462	5.165
Mr Philip L. Kadoorie	Note (c)	694,041,320	42.464
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,122,764	0.069
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 892,692,080 shares in the company. These shares were held in the following capacity:

- (i) 198,650,760 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
- (ii) 352,155,870 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) 341,885,450 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 892,692,080 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 84,423,462 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 84,423,462 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 84,423,462 shares.
- (c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 694,041,320 shares in the company. These shares were held in the following capacity:
  - (i) 352,155,870 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
  - (ii) 341,885,450 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 2019.

<sup>29</sup> 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 2019, 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 2019, 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 2019, 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

		Number of shares held in	% of total number of shares in issue of
	Capacity	the company	the company
Acorn Holdings Corporation	Beneficiary	198,650,760	12.15()
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	283,074,222	17.320
Guardian Limited	Beneficiary/Interest of controlled corporation	84,423,462	5.17 <sup>(v)</sup>
Harneys Trustees Limited	Interests of controlled corporations	694,041,320	42.46 <sup>(iii)</sup>
Lawrencium Holdings Limited	Beneficiary	341,885,450	20.92 <sup>(ii)</sup>
Lawrencium Mikado Holdings Limited	Beneficiary	352,155,870	21.55 <sup>(ii)</sup>
The Magna Foundation	Beneficiary	352,155,870	21.55 <sup>(ii)</sup>
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	694,041,320	42.46 <sup>(ii)</sup>
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	84,423,462	5.17 <sup>(iv)</sup>
Oak (Unit Trust) Holdings Limited	Trustee	84,423,462	5.17()
Oak HSH Limited	Beneficiary	84,423,462	5.17 <sup>(iv)</sup>
Mr Richard Parsons	Trustee	84,423,462	5.17 <sup>(v)</sup>

## 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 84,423,462 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	11.33
Mr Ng Chee Siong	Trustee	78,402,393	5.00()
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00()
Sino Hotels (Holdings) Limited	Interests of controlled	78,402,393	5.00()
	corporations		

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 2019, 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 2019, 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 2019 or at any time during the year.

#### 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 27 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 123 to 139.

#### 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 2019, 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 2019 have been audited by KPMG who will retire at the 2020 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance) as auditor and authorise the Directors to fix their remuneration will be proposed at the 2020 Annual General Meeting.

By Order of the Board

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Christobelle Liao *Company Secretary* 17 March 2020