

CORPORATE GOVERNANCE REPORT



Our Board sees corporate governance as an integral part of our business strategy

Our Corporate Governance Framework

As the platform supporting our business strategy

Good corporate governance is crucial to sustain the Group in the long-run through the changing regulatory and market environment. Our Board sees corporate governance as an integral part of our business strategy. By putting in place the right governance framework, our Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in our company.

Our 2016 Corporate Governance Initiatives and Activities

Below are the highlights of our initiatives and corporate governance activities. Further details can be found throughout this report and in the Corporate Responsibility and Sustainability Report which is posted on the Company's website³ and the Stock Exchange's website.

- **Risk Management Process** – We continued to fine-tune our risk management process by (i) improving the risk management methodology to give our executives better visibility on top risks for each operation; and (ii) expanding our risk assessment matrix. We launched two new reports: "Incident Insights" and "Risk Alerts" reports to raise awareness and enhance sharing of lessons learnt from incidents and educated our operations through the risk management workshops
- **Board Evaluation** – Our Board took actions after its second self-evaluation in 2015, with a view to improving the effectiveness of the Board
- **Succession Plan** – We employed an online Talent Management System to build a robust succession planning framework for key functions
- **Practices and Policies** – As part of our regular reviews and assessment of our governance processes, policies and practices: (i) we made the Code of Conduct more user-friendly; (ii) we continued to implement the Fair Competition Compliance Programme; and (iii) we updated our Data Privacy Manual on direct marketing consent
- **Information Technology** – The Technology Steering Committee, a sub-committee of Group Management Board, was formed to oversee the strategic direction of the Group's technology development
- **Projects** – With the Group's growing number of new and renovation projects, the Project Executive Committee was formed to strengthen the process and co-ordination of the project resources
- **Operational Finance** – We restructured the financial reporting function and renamed it as Operations Finance and Efficiency Department, to focus on business plans, budgets, efficiencies in the business, risk management, audit findings and data analysis
- **Communication** – The General Managers' Conference and Marketing Conference in May 2016 provided a forum to discuss the opportunities, challenges and focus for the Group

³ www.hshgroup.com/en/sustainable-luxury/sustainability-reports

Our corporate governance framework and the main responsibilities of each function is shown below:

Accountability

Board

responsible and accountable to the Company's shareholders and stakeholders for the long-term success of the Group

Governance Board Committees

Other Board Committees

Audit Committee	Nomination Committee	Remuneration Committee	Executive Committee	Finance Committee
<ul style="list-style-type: none"> ▶ oversees the integrity of the Group's financial reporting and the external and internal audit process ▶ monitors and reviews the effectiveness of Group's risk management and internal control systems 	<ul style="list-style-type: none"> ▶ reviews the structure, size and composition of the Board ▶ makes recommendation to the Board for appointments with reference to the Board Diversity Policy 	<ul style="list-style-type: none"> ▶ makes recommendations to the Board on the remuneration philosophy and policies of the Group ▶ reviews and approves the remuneration packages of the Executive Directors and senior management ▶ reviews and recommends to the Board the Non-Executive Directors' fees and the fees for serving on Board Committees 	<ul style="list-style-type: none"> ▶ develops and reviews strategic opportunities and significant investment proposals ▶ evaluates the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group ▶ oversees the implementation of strategic plans and investment proposals 	<ul style="list-style-type: none"> ▶ reviews all financial aspects and budgets of significant acquisitions, investments, assets disposals and new project commitments of the Group ▶ reviews and approves the establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group ▶ reviews the Group's financial performance

Chief Executive Officer

leads the management to fulfil objectives set by the Board and assisted by the Group Management Board

Group Management Board

reviews and monitors day-to-day operations and business affairs of the Group and supported by various sub-committees

Group Risk Committee	Group Corporate Responsibility Committee	Technology Steering Committee
<ul style="list-style-type: none"> ▶ oversees top tier risks of the Group and related contingency plans ▶ develops governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register 	<ul style="list-style-type: none"> ▶ monitors and oversees the implementation of the Group's responsibility and sustainability policy and initiatives 	<ul style="list-style-type: none"> ▶ oversees the strategic direction of the Group's technology development

Audit & Risk Management

- ▶ provides Internal audit assurance
- ▶ reports to Audit Committee and supports Group Risk Committee on risk management and internal control

General Managers of Operations and Heads of Corporate Departments as well as Business Operations

runs the day-to-day business of the Group

Delegation

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance. The Annual Report is an important tool which contributes to this commitment.

In 2016, the HSH Annual Report won an ARC Grand Award – Best of Category for the Chairman’s Letter, and 4 Gold Awards and 4 Bronze Awards in the Hotel & Leisure Category.

HSH also won the Silver Award for Best Annual Reports Awards under the General Category organised by The Hong Kong Management Association. In addition, we received the Platinum Award of Hong Kong Institute of Certified Public Accountants’ Best Corporate Governance Awards and Special Mention of the Sustainability and Social Responsibility Reporting Award under Non-Hang Seng Index (Large Market Capitalisation) Category. Receiving such external recognition serves to assure our shareholders and stakeholders that we are well placed amongst our peers in our corporate governance practices.



How our Board Works

The Role of the Board

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

The Board has its own terms of reference⁴ and has reserved its powers in strategic and significant matters of the Group, including:

- Formulating long and short-term strategic directions of the Group, including development strategy, major investments, acquisitions and disposal of major assets
- Approving the Group’s annual budgets and forecasts
- Approving significant changes in accounting policies
- Approving changes to the Company’s capital structure
- Setting the dividend policy
- Authorising material borrowings and expenditure
- Approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company’s disclosure statements
- Approving the appointments of Directors for election and/or re-election in general meetings
- Reviewing and ensuring corporate governance functions are carried out in accordance with the Stock Exchange’s Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code), including determining the Group’s

corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group

- Overseeing the risk management and internal control systems of the Group on an ongoing basis through review of reports of Audit Committee, the Group Management Board and the Group Risk Committee and reviewing the effectiveness of these systems

Through the Board’s leadership and direction, Group Management Board runs the Group’s day-to-day business (as more specifically described on pages 132 and 133).

The Board’s terms of reference are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. Revisions to the terms of reference of the Board were made in 2016 accordingly.

The Board also evaluates its performance every two years. Details are set out on page 128. With respect to the Directors’ responsibility for preparing the Financial Statements for the year ended 31 December 2016, please refer to the Directors’ Report set out on page 164.

The Roles of our Non-Executive Chairman and Chief Executive Officer and Division of Responsibilities

The Hon. Sir Michael Kadoorie has been our Non-Executive Chairman since May 1985 and Clement King Man Kwok has been the Chief Executive Officer since February 2002.

There is a clear division of the responsibilities in the Company between the running of the Board, and the executives responsible for the running of the Company’s business.

⁴ It is also available on the Company’s website www.hshgroup.com/en/about/leadership

The respective roles of the Chairman and the Chief Executive Officer and their division of responsibilities are established in our HSH Corporate Governance Code (HSH Code).

- Non-Executive Chairman** – The Chairman leads the Board and is responsible for ensuring that both the Board and individual Directors perform their duties effectively and make active contributions to the Board’s affairs. He fulfils this by facilitating and encouraging all Directors, in particular Independent Non-Executive Directors (each as INED) and other Non-Executive Directors, to voice their views and concerns openly. He also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. The Chairman keeps abreast of the development and operations of the Group via his frequent communication with the Chief Executive Officer and the Chief Operating Officer and/or Chief Financial Officer which takes place on average at least once each week. During the year, the Chairman also seeks an independent evaluation of management’s performance from the Non-Executive Directors, in the absence of the Executive Directors. He also leads the discussions on Board evaluation which is being conducted every two years. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group.
- Chief Executive Officer** – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for implementing the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has entrusted the Chief Executive Officer with the authority to operate the business and he is accountable to and reports to the Board on the performance of the business. The Chief Executive Officer is supported by the Chief Operating Officer, the Chief Financial Officer, the Group Executives and other members of the Group Management Board. This management structure facilitates clear reporting and provides the Board with high quality information and recommendations to enable informed decisions in all aspects of the Company’s business and strategy.

Our Chairman and Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

The Roles of the Non-Executive Directors and Independent Non-Executive Directors

Among our 12 Non-Executive Directors, six are INEDs, independent of management. The other six Non-Executive Directors do not participate in the day-to-day business of the Company, but are not considered independent due to their association with the substantial shareholder. They evaluate management’s performance in achieving the agreed corporate goals and objectives. They also serve to ensure clarity and accuracy on the reporting of financial information and that risk management and internal control systems are effective. Our NEDs are active and vocal in challenging and providing constructive feedback on the decisions of management in all areas, which is crucial to the objectivity of the Board’s deliberation and decision-making. They are also involved in determining the appropriate levels of remuneration for Executive Directors and senior management. Mr Patrick B. Paul, an INED, chairs the Audit Committee and the Remuneration Committee, and other Non-Executive Directors are also actively involved either directly on the Board or in the Board Committees. Non-Executive Directors serving on the Board and Board Committees give these Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles as Non-Executive Directors, our INEDs bring to the Board knowhow and business expertise that are extrinsic to the management, thereby providing insights and independent judgement on the situations that may be encountered in our business. Their presence further helps to maintain objectivity in the Board’s decisions when potential conflicts of interest arise.



The Role of Executive Directors

The Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of the Company serve as our Executive Directors and are involved in the day-to-day business. Whilst each has specific executive duties, their roles are not confined to the areas of business covered by their specific executive functions, but are extended to the entire Group's operations. They proactively communicate with the Non-Executive Directors and are open and responsive to any executive proposals and challenges made by the Non-Executive Directors.

The Role of Company Secretary

The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. Balancing efficacy and the importance of good corporate governance, her role includes the reviews and implements our corporate governance practices and processes as well as initiating improvements. Acting as Secretary of the Board as well as Governance Board Committees, she is responsible to the Board in respect of Board procedures and processes. All our Directors have direct access to the advice and support of the Company Secretary on such matters.

Our Company Secretary is also responsible for advising and keeping the Board and Board Committees up to date on legislative, regulatory and governance matters. In addition, she facilitates induction and professional development of the Directors.

Board Committees

The Board has established the following Board Committees in order to manage the Company effectively. The Audit, Nomination, and Remuneration Committees are Governance Board Committees under the CG Code. The Executive and Finance Committees are strategic and finance committees which are integral part of the management process. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters. Attendance and reports on main activities from these Governance Board Committees are included in this section.

The terms of reference of each Board Committee have been approved by the Board and are reviewed annually to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices and the needs of the Company. The terms of reference of the Finance Committee were revised in 2016 accordingly.

The full terms of reference of each Board Committee can be found on the Company's website⁵ and those for the Governance Board Committees are also published on the Stock Exchange's website. The Governance Committees' reports are set out on pages from 150 to 157.

Board Processes

We continue to adopt clear and consistent board processes. In 2016, the Board had duly convened 5 regular meetings and one special meeting. The attendance of individual Directors at the Board meeting and the Governance Board Committees are set out on page 129.

Sound decisions cannot be made unless Directors have accurate, clear, complete and reliable information. Directors are invited to include discussion items in the Board agenda and comprehensive Board papers are sent to all Directors in advance of each Board meeting or Board written resolutions to allow sufficient time for review of discussion topics. In addition, management provides Board members with a monthly update of our business operations. During the Board meetings, we ensure that all Directors are also given adequate and quality information in a timely manner, allowing them to maintain effective control over the strategic, financial, operational, compliance, sustainability and corporate governance matters of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

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

⁵ www.hshgroup.com/en/Corporate-Governance/Board-Committees

All Directors are required to comply with their common law duty to act in the best interests of the Company and the interests of our shareholders and stakeholders. All Directors are also required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board in accordance with the HSH Code and the CG Code. In 2016, no potential conflict of interest was determined by the Board to be material except the continuing connected transactions as disclosed in the Directors' Report on pages 159 and 160, which were discussed and approved in the March Board meeting.

Our Board Committees operate under similar processes as the Board.

2016 Board Focus

Taking the Group Forward in an Evolving Environment

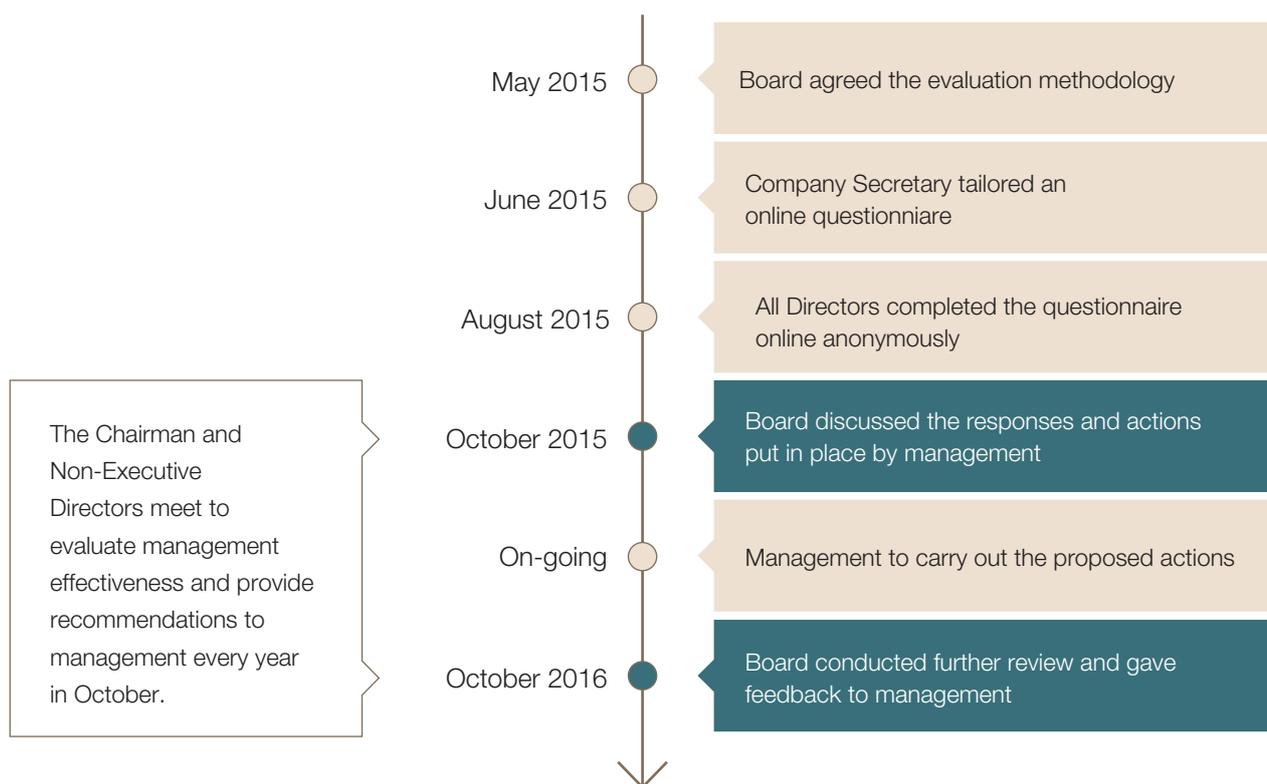
In addition to the usual decision matters that are within the Board's terms of reference, the Board discussed the Company's different businesses, financial performance and its strategic direction in light of our external environment. Highlights for the year include:

 <p>Governance</p>	<ul style="list-style-type: none"> ▶ Directors were updated on new trends, legislation, and the Group's business, through presentations by Heads of Corporate Departments on relevant topics including competition law, marketing strategy and trends, risk management, and security and crisis management ▶ Reviewed and approved the Fair Competition Guide to help our employees navigate through rugged landscape of competition law in line of their work
 <p>Strategy</p>	<ul style="list-style-type: none"> ▶ Reviewed the five years' financial projection for the Group and the short to medium term financial impact of potential investments on the Group ▶ Approved the restructuring of the joint venture arrangements of the London Project and monitored its progress ▶ Monitored the progress of the projects in Istanbul and Yangon ▶ Reviewed the leasing strategy of the Group's shopping arcade ▶ Monitored the renovation of The Peninsula Chicago, The Peninsula Beijing and 21 avenue Kléber ▶ Discussed the strategic and business development considerations which arose at the 2016 General Managers' Conference
 <p>Risk Management and Internal Control</p>	<ul style="list-style-type: none"> ▶ Approved the principal risks of the Group with key controls and risk treatment as disclosed in 2015 Annual Report ▶ Monitored the risk management and internal control systems on an ongoing basis and reviewed the effectiveness of these systems semi-annually through Audit Committee ▶ Reviewed and kept informed by reports from Audit Committee Chairman on audit, internal control and risk management matters ▶ Reviewed the Group's security and crisis management process
 <p>Leadership and Employees</p>	<ul style="list-style-type: none"> ▶ Appointed Mr Matthew J. Lawson as the Executive Director, the Chief Financial Officer and member of the Finance Committee and Group Management Board ▶ Discussed talent acquisition in the context of millennials' views on career development

Board Evaluation

Our Two-year Cycle

The Board evaluates its own performance and that of its committees and individual Directors every two years with the aim of improving effectiveness. In 2015, the Board carried out its second evaluation by way of self-assessment through the completion of a bespoke online qualitative questionnaire.



As a result of the last Board evaluation, management has put in place a number of actions to improve effectiveness, including the discussion of budget direction at every October Board Meeting, as well as the standardisation of our reporting on financial projection of the Group and its impact on cashflow and financial ratios. Management continues to facilitate more presentations by General Managers of Operations and Heads of Corporate Departments at Board Meetings to keep Board members apprised of best practices in different function trends, market conditions, technological advancement affecting our business.

In addition to the self-evaluation, the Chairman also met with Non-Executive Directors in October 2016 to review management performance and discuss how we may enhance our governance practices. These discussions were communicated to management for response or implementation.

2016 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 2016 were as follows:

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

Notes:

- (1) Representatives of the external auditor participated in all Audit Committee meetings and the Annual General Meeting
 - (2) Mr Matthew J. Lawson was appointed as Director with effect from 3 May 2016
 - (3) During 2016, Ms Christobelle Liao undertook over 15 hours of professional training requirement of the Listing Rules
- (A) Reading materials which covered relevant new laws and regulations and Group's business related topics
- (B) Visiting operations such as The Peninsula Beijing in October 2016
- (C) Seminars/conferences which are relevant to the business or Directors' duties in the following areas:
- Competition law and anti-trust
 - Corporate governance matters
 - Risk management
 - Latest marketing trends in the world of millennials
 - Sustainable development
 - Security and crisis management

Board Induction, Familiarisation and Training

Induction

The Company provides a tailored induction programme for all Directors upon joining the Board. The programme provides a broad introduction to the Group's business to ensure new Directors develop a quick insight and understanding of the business. New Directors would meet with the Executive Directors and members of senior management on a one-on-one basis to discuss the Group's businesses, strategy and core function, and visits to the Group's major businesses in Hong Kong initially and overseas would be arranged. All corporate policies would also be explained and provided to new Directors by the Company Secretary. Dr Kim L. Winser and Mr Matthew J. Lawson, who joined the Board in January and May 2016 respectively, have completed their induction programmes.

Familiarisation and Training

To ensure the effective fulfilment of the roles of the Directors, various steps are taken to ensure that all Directors continually update and refresh their knowledge and skills, as well as familiarise themselves with the Company through gaining access to its operations and employees.

The Board aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The October 2016 Board meeting was held at The Peninsula Beijing which has undergone phase one of its renovation. Board members toured the newly renovated facilities and met with local management to understand their business challenges and market environment. Such overseas site-visits provide Non-Executive Directors with deeper insight into the Group's different businesses, thus enabling them to make sound decisions that are in line with the Group's business strategy.

Our Directors participate in continuous training and development activities that keep themselves abreast of developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Directors provide the Company with details of their training

attended by them annually and such records are maintained by the Company Secretary. The training records of Directors and the Company Secretary for 2016 are reflected in page 129.

Other Compliance Matters

Appointments and Re-election of Directors

The Company confirms that all Directors' appointments and re-elections were conducted in compliance with the CG Code in 2016. All Directors including Non-Executive Directors are subject to a term of re-election every three years. Details of the appointments to the Board in 2016, and Directors who will retire and offer themselves for re-election in the 2017 Annual General Meeting are set out in the Directors' Report on page 160.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. The letters of appointment for Non-Executive Directors and INEDs, as well as service contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. In 2016, in view of the increase of time spent on the Company's affairs by Non-Executive Directors and INEDs, the Remuneration Committee has approved the revised time commitment of these Directors. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2016.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received annual written confirmations of independence from each of its six INEDs who served in 2016. The Nomination Committee and the Board considered that all six INEDs who served in 2016 were, and continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

Beyond the formal confirmation of independence referred to above, of overriding importance is that each INED has an independent mindset and is prepared to challenge conventional wisdom in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence. The Board will continue to review the independence of its INEDs by assessing whether they remain independent in character and judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board.

Directors' Dealings with Company Securities

All Directors conduct their dealings in the Company's Code for Dealing in the Company's Securities by Directors (Securities Code) which contains terms no less exacting than the standards set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code). Directors must seek approval before engaging in any dealing.

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2016. Details of the shareholding interests held by the Directors of the Company as at 31 December 2016 are set out on pages 160 and 161.

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 119 and 200, and 161 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 Company, and none of them has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules

In 2016, all Directors have fulfilled these disclosure requirements.

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

Internal Control Procedures on Connected Transaction

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

With respect to the connected transactions for the financial year of 2016, 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 159.

Corporate Governance Code Compliance

The CG Code forms the basis of the HSH Code. Our Board recognises the principles underlying the CG Code and have applied all of them to the HSH Code. The HSH Code is updated from time to time, most recently in December 2016, to formalise the establishment of the Technology Steering Committee.

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

- **CG Code code provisions**, which are “comply or explain” provisions; or
- **CG Code recommended best practices**, which are for guidance only, and issuers are encouraged to comply with or give considered reasons for deviation from compliance.

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2016.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2016, with the exception of the following:

- **Publication of quarterly financial results** – The Board believes that the businesses of the Group are characterised by their long-term and cyclical nature, while quarterly financial results reporting encourages a short-term view on performance. To keep our shareholders informed, we issue quarterly operating statistics setting out key operating information; and
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

Managing the Company and its Business

The Chief Executive Officer is accountable to the Board and the Shareholders on the day-to-day management of the Group's business. In discharging his responsibilities, the Chief Executive Officer is assisted by the Group Management Board (GMB) comprising senior management covering major operations and functions. Chaired by the Chief Executive Officer, the GMB is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board.

The GMB is in turn supported by four sub-committees, and the General Managers and Heads of Operations and Functional Departments. Each of the GMB and its sub-committees, has its own terms of reference or charter, as set out on the next page.

GMB and its Sub-Committees

Group Management Board

(please refer to pages 119 and 120 for membership)

Main Responsibilities

- ▶ Reviews and monitors day-to-day operations and business affairs of the Group
- ▶ Conducts business development
- ▶ Formulates strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources, corporate sustainability, and risk mitigation
- ▶ Makes recommendations to the Board and Board Committees on strategic and operating matters and matters reserved for the Board

Accountability

Group Risk Committee

Chairman and Members

- C** Mr Matthew J. Lawson, Chief Financial Officer
- M** Group General Manager, Audit & Risk Management, selected members of senior management and Group General Manager, Operations

Main Responsibilities

- ▶ Coordinates with operations to ensure that each of them addresses the risks identified, and tracks progress of mitigating plans and activities of key business risks and reports on examinations of specific risks as required
- ▶ Develops governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register
- ▶ Regularly reviews, assesses and updates Group risks and related contingency plans to GMB for further review by Audit Committee and the Board

Group Corporate Responsibility Committee

Chairman and Members

- C** Mr Clement K.M. Kwok, Chief Executive Officer
- M** Director, Corporate Responsibility and Sustainability, selected members of senior management, General Managers of Operations and Heads of Corporate Departments covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions

Main Responsibilities

- ▶ Considers the Company's corporate responsibility and key trends, and propose and recommends policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters including the Company's Sustainable Luxury Vision 2020
- ▶ Monitors and reports to GMB on the effectiveness of the corporate responsibility policies and practices and seeks improvements for them
- ▶ Reviews and recommends annual plans with respect to the community and the environment

Technology Steering Committee

Chairman and Members

- C** Mr Clement K.M. Kwok, Chief Executive Officer
- C** Mr Shane Izaks, Group General Manager, Information Technology
- M** Regional Vice President and General Manager of Peninsula Hong Kong and selected members of Heads of Corporate Departments

Main Responsibilities

- ▶ Oversees the strategic direction of the Group's technology development covering guest experience and in-room technology, customer information and marketing, operations efficiency and improvements, financial processing and human resources

HSH Retirement Plan ORSO Committee

Chairman and Members

- C** Mr Matthew J. Lawson, Chief Financial Officer
- M** Selected members of senior management, Heads of Corporate Departments and selected representatives from operations

Main Responsibilities

- ▶ Regularly reviews and monitors performances of the funds in which the HSH Retirement Plan has made investments
- ▶ Reviews and approves audited accounts of the HSH Retirement Plan
- ▶ Discusses and approves matters in relation to the operation and administration of the HSH Retirement Plan

Delegation

Our Shareholders

HSH had 1,795 registered shareholders as at 31 December 2016. 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	416	23.176	69,851	0.004
501-1,000	192	10.696	152,890	0.010
1,001-10,000	672	37.437	2,837,167	0.181
10,001-100,000	397	22.117	12,794,754	0.817
100,001-500,000	82	4.568	17,293,337	1.104
Above 500,000	36	2.006	1,533,706,008	97.884
Total	1,795	100.000	1,566,854,007	100.000

Note: as at 31 December 2016, 36.47% of all HSH total number of shares in issue were held through CCASS

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 58.99% as disclosed in “Interests of Directors” and “Interests of Substantial Shareholders” in Directors’ Report on pages 160 to 163. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2016 and has continued to maintain such a float as at 20 March 2017.

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 website⁶ 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.

2016 Annual General Meeting

The 2016 AGM was held on 11 May 2016 at The Peninsula Hong Kong. Of the 412 attendees, 190 were registered shareholders and 222 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. The Company regards AGM as an important event. Our Directors, including the Chairmen of the Audit and Remuneration Committees, were present at the 2016 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’s⁷ and the Stock Exchange’s websites. Media representatives were invited to observe and report on the AGM.

⁶ www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights

⁷ www.hshgroup.com/en/investors/corporate-announcements

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2016 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 2015	100%
Payment of final dividend of 15HK Cents per share for the year ended 31 December 2015	100%
Re-election of six retiring Directors: The Hon. Sir Michael Kadoorie, Mr Peter Camille Borer, Mr Patrick Blackwell Paul, Dr Rosanna Yick Ming Wong, Dr Kim Lesley Winser and Mr Matthew James Lawson as Directors of the Company	Ranging from 96.60% to 99.99% in respect of each individual resolution
Re-appointment of KPMG as the auditor of the Company and authorisation of the Directors to fix their remuneration	100%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	81.45%
Granting of the general mandate to Directors to buy-back the Company's shares	99.86%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	81.46%
Determining the ordinary remuneration of Non-Executive Directors and Independent Non-Executive Directors	100%

Other Information

Other information for our shareholders including our financial calendar and contact details are set out on page 231.

The Company's share price information as well as share and dividend per share information for the last ten years are disclosed on pages 61 and 17 respectively.

Engaging our Shareholders⁸

The Company attaches great importance in engaging the investing communities, both individuals and institutional shareholders. We believe that continued engagement is key to building increased understanding between the Company and the shareholders and sharing views, opinions and concerns with each other.

The Company utilises multiple platforms to engage investors:

- We encourage our shareholders to participate in our Annual General Meeting (AGM) and directly communicate with our Directors
- We participated in a major investor conference in Shanghai to engage existing and potential investors

- Throughout the year, our Executive Directors and Investor Relations team also held regular meetings and conference calls with institutional shareholders, financial analysts and potential investors
- Our Company's website⁹ gives the public a window to who 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 on along with the presentation materials from such announcements, our financial reports, financial statistics, corporate governance practices. In 2016, we re-designed the Corporate website to improve functionality and allow users easier to access information
- Our Shareholder Communication Policy (posted on the Company's website¹⁰) has specified the various communication platforms to which our shareholders and stakeholders have access

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

8 GRI G4 Material Disclosure: G102-40

9 www.hshgroup.com/en/investors

10 www.hshgroup.com/en/Corporate-Governance

Engaging our Stakeholders¹¹

As our businesses impact on the natural and social environment around us, we are proactive in engaging with our stakeholders, employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual Report, including our Corporate Responsibility and Sustainability Report, explains our approach to good governance in relation to environmental and social impact. We regularly engage with key stakeholder groups which most impact our business as outlined below:

Stakeholders Group	How We Engage
 <p>Customers</p>	<p>As a hospitality company with 150 years of history, engaging our customers and ensuring their satisfaction is critical to how we run our business</p> <p>In 2016 we continued to drive digital engagement through social media and enhanced our mobile website. We engaged bloggers and online influencers to drive brand awareness amongst our customers. We launched Peninsula WeChat for the China market, highlighting our destinations and also functioning as a room booking channel. Arabic language was added to our website to drive business with the growing Middle East market</p> <p>On the sales side, we focused heavily on expanding and enhancing our relationships with global travel agencies who can help interact with potential customers. We organised a 12-city European roadshow and sales missions to the Middle East to introduce our brand to cities and regions where we do not have a Peninsula Hotel</p>
 <p>Employees</p>	<p>In 2016, we focused on employee engagement as part of our 150th anniversary initiatives, inviting long serving staff to attend the Gala event and also providing a staff gift of a commemorative Octopus card</p> <p>We continued to enhance our Talent Management System and Learning and Development Programmes online</p>
 <p>Governments</p>	<p>Our Executive Directors and Chairman regularly meet with senior Hong Kong Government leaders and Legislative Council members to discuss areas of concern for the tourism and property sectors. Our Chief Executive Officer and selected senior management are members of the World Travel & Tourism Council (WTTC) which actively engages with governments around the world on industry issues on behalf of members</p>
 <p>Financial Analysts and Investors</p>	<p>Our Investor Relations team and our Executive Directors meet regularly with financial analysts and investors, as well as participate in non-deal investor road shows, post-results briefings and the annual general meeting</p>
 <p>Media</p>	<p>Our Marketing team conducts regular press briefings and attends high profile trade shows in all our key markets as well as emerging markets, and the Corporate Affairs team organises press conferences with Executive Directors at annual/ interim results and individual interviews throughout the year. For the Group's 150th anniversary we invited a group of 20 top travel media from the world's most prestigious publications to visit Hong Kong and write about the city</p>
 <p>NGOs and Academia</p>	<p>Our Corporate Responsibility and Sustainability team meets with non-profit organisations, academia and industry advocacy groups regularly throughout the year to keep ourselves informed of the latest developments on sustainability issues, and contributes to the sustainability development of the wider community by sharing HSH's experience at various local and regional conferences and industry committees</p> <p>This engagement also includes our support to different charities around the world, in particular our global partnership with Make-A-Wish Foundation, as well as the beneficiaries of our Peninsula in Pink programme to fundraise on behalf of breast cancer charities. Our operations globally also engage with local charities to provide support where possible</p>
 <p>Partners and Suppliers</p>	<p>Our partners are also key to our growth, as they help us to ensure the successful operation of our properties in their local markets. Sustainable guidelines such as the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated since the beginning of project planning, for the construction of the new hotels and renovation projects such as 21 avenue Kléber</p>

11 GRI G4 Material Disclosure: G102-40

We always seek to improve on the area of stakeholder engagement and we conducted a thorough stakeholder mapping and engagement exercise with an independent third party in March 2016.

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

Examples in 2016

- ▶ Collaborated with China's most celebrated avant-garde photographer, Chen Man, to deepen our association with the contemporary art world and partnered with online auctioneer Paddle8 to open Peninsula in Pink, our main charitable initiative for breast cancer, to a global audience
- ▶ Expanded PenClub, our in-house preferred travel partner programme, to 79 agencies in Latin America and 110 agencies in Europe. A closed Facebook page has been introduced to enhance communications
- ▶ Launched Peninsula WeChat for the China market and added Arabic language to our website

- ▶ See pages 94 to 98 for more details on our employee engagement strategy

- ▶ Advised on tourism industry issues
- ▶ Engaged with Hong Kong Government departments for our 150th anniversary, which was given policy support in recognition of our efforts to promote Hong Kong
- ▶ Membership of WTTC

- ▶ Investor Conferences
- ▶ Financial reports and website
- ▶ Annual General Meeting (AGM)
- ▶ One-on-one and group briefings

- ▶ International Luxury Travel Market (ILTM) in Cannes
- ▶ HSH financial results press conferences at The Peninsula Hong Kong and post-AGM with the Chairman
- ▶ 150th anniversary personalised high-profile media programme

- ▶ Membership of International Tourism Partnership (ITP)
- ▶ Partnership with WWF Hong Kong
- ▶ Partnership with The Hong Kong Council of Social Service
- ▶ Member of Hong Kong Council for Sustainable Development's Support Group for Promotion of Sustainable Use of Biological Resources

- ▶ The Peninsula Yangon has been undertaking an extensive restoration and heritage preservation, cataloguing to preserve the history and heritage of Myanmar
- ▶ BREEAM certification achieved for The Peninsula Beijing and 21 avenue Kléber

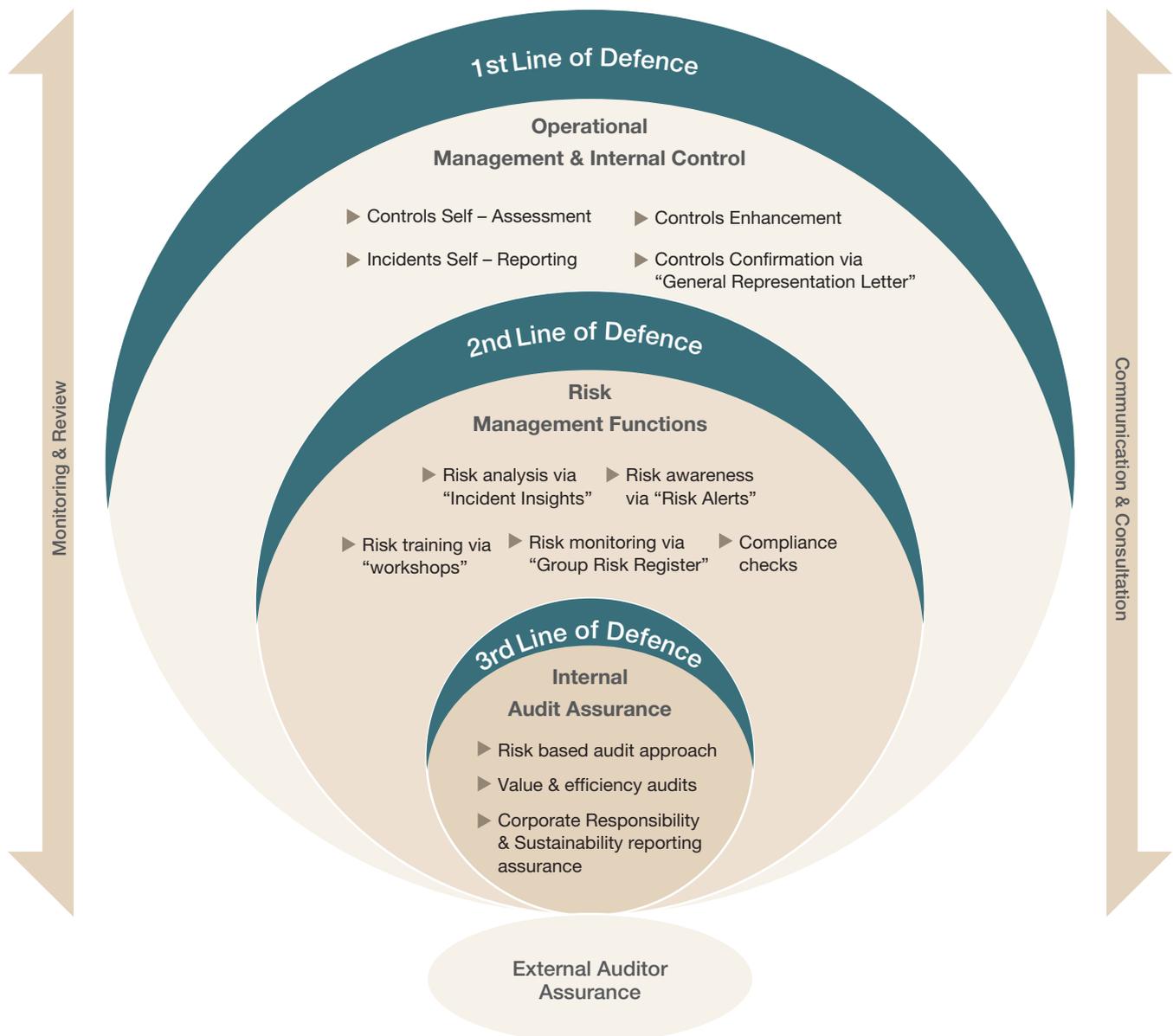
Risk Governance

Effective risk management is and has been an integral part of the overall achievement of the Group’s strategic objectives. Our risk management approach is shaped by our business strategy. We manage risks in order to optimise the quality of our asset portfolio in the long term. Our focus is on managing risks to ensure the long-term sustainability of our business, preserve a high standard of luxury, tradition of integrity and respect for our heritage as embodied in the culture of our Company.

The Board is ultimately responsible for establishing, maintaining and overseeing appropriate and effective risk management and internal control systems for the business of 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 from the Group Risk Committee and Audit & Risk Management (ARM).

Approach to Risk Governance

Our risk governance framework is guided by the model of “Three Lines of Defence”, in that we manage risks through operational management and internal control, risk management functions and internal audit assurance. The three lines of defence is also complemented by the independent assurance of the external auditor.



Our risk management framework and its process are designed to manage and mitigate risks rather than eliminate all risks. As with all systems, it does not provide an absolute shield against factors such as unpredictable risks, uncontrollable events such as natural catastrophes, fraud, and errors of judgement.

First Line of Defence

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

Controls Self-Assessment

Our business and functional units are at the forefront of risk management and they participate in assessing the Group's risk management and control processes. This year we enhanced the risk control assessment process by introducing a "control self-assessment" (CSA) process to our business and functional units. Management evaluates the effectiveness of material controls using a four-tiered controls rating criteria. The CSA process allows the Group and each operation to identify opportunities for further strengthening of controls and implement control enhancement plans with designated control executives, control owners and timelines. For example, in response to the increased risk of terrorism, we identified the need to enhance our operational controls surrounding security and the safety of our staff and guests. As a result, we approved capital investment to upgrade our physical security systems at certain operations. Similarly, certain operations identified the need to refresh staff training on their Crisis Management Plans.

Controls Enhancement

We took positive steps to improve our ability to respond to the regulatory risks that are relevant to our Group:

- We continued to implement the **Fair Competition Compliance Programme** to enhance awareness of anti-competition behaviour across the Group and minimise competition risks. Following the launch of the Fair Competition Guide, we arranged face-to-face trainings to the relevant departments and the executives at the General Managers' Conference and Marketing Conference. Interactive e-training would be rolled out across the Group in 2017.
- The **Data Privacy Manual** sets out the practical procedures which assist our employees in handling personal data collected in the normal course of business. We continue to provide on-board training to new employees and e-learning personal data privacy refresher training programme to all senior staff and employees who handle data of guest information. In 2016, we reviewed our marketing process and updated the Data Privacy Manual on obtaining consent for direct marketing for our operations.
- Our Whistleblowing Policy was renamed as the **Speak Up Policy**. In addition to providing employees and other stakeholders a reporting channel on suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation, it also outlines the report handling process to improve transparency. The policy is posted on the Company's website.¹² ARM promptly follows up on reports received through the dedicated and secure "speak up" channel. Investigation results are then communicated to the Executive Directors and the Audit Committee with approved recommendations implemented by the responsible parties.

Our **Inside Information Escalation Policy** regulates the handling of inside information within the Group, to ensure potential inside information are being captured and confidentiality of such information are being maintained until consistent and timely disclosure are made. The Policy includes:

- Designated reporting channels from different operations informing any potential inside information to Group Management Board (GMB)
- GMB to determine further escalation and disclosure as required
- Designated persons authorised to act as spokespersons and respond to external enquiries

Training has been provided to GMB, and interactive discussion conducted with key members of financial and operational management of all operations since the policy was adopted.

Incidents Self-Reporting

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

Controls Confirmation

General Managers and Directors of Finance or Financial Controllers of all operations have personal obligations to confirm compliance of internal control systems and procedures at operational level and the effectiveness of risk management and internal control systems. Their confirmation of the effectiveness and adequacy of material controls (which include financial, operational as well as compliance controls) is communicated via General Representation Letters (GRL) bi-annually to the Chief Executive Officer and Chief Financial Officer, which in turn forms the basis by which management confirms the effectiveness of the Group's risk management and internal control systems to the Audit Committee. We also took steps to update the design of the GRL to align with the changes in the risk and internal control systems.

Second Line of Defence

The second line of defence is our risk management functions which the Group Risk Committee oversees. The Group Risk Committee reviews the Group Risk Register and the Group Risk Management Report and monitor our risks and develop risk management procedures in response to such risks.

Incident Insights and Risk Alerts

This year, we introduced a new process to improve the way root causes to incidents are analysed. The Group Risk Committee analyses common incidents with similar root causes and summarised in an "Incident Insights" report for further discussion with the Group Management Board on a quarterly basis. Opportunities arising from this analysis to improve key controls and share best practice are now discussed and captured in an internal communication newsletter, "Risk Alerts", for communication across the Group.

Risk Monitoring

The Group Risk Committee continued to strengthen its monitoring of risks through a number of steps taken to enhance the Group Risk Register compilation process. For the initiatives taken in 2016, please refer to the Group Risk Committee report on pages 142 to 147.

Third Line of Defence

ARM performs the Group's internal audit assurance by assessing the effectiveness of our risk management and internal control systems.

Auditing

The Group continues to move towards a risk-based internal audit approach to determine whether material controls are effective in managing the risks which arise from the strategic direction of the Group. In formulating its internal audit approach, ARM identifies appropriate audit methodologies to assess internal controls with our risk management objectives. Among other things, the internal audit plan also now includes a review of our business processes as value chains with a view to optimising efficiency, and ultimately, the performance of our Group.

Corporate Responsibility and Sustainability (CRS) Reporting Assurance

During the year, ARM provided additional assurance to the Audit Committee on the data accuracy of the Group's CRS reports by reviewing the underlying record to report process and specific data points on energy consumption and carbon emissions. All of the Group's operations were independently reviewed by ARM during the year. Key observations and control gaps were addressed immediately and reported to the corporate responsibility and sustainability function for monitoring.

External Auditor Assurance

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

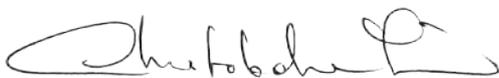
Board Confirmation

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and controls systems in the Group, namely that throughout 2016 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

Beyond 150 years

Commitment to high standards of corporate governance and business integrity has seen us through our 150th year of operations and we seek to maintain and develop our corporate governance standards for the continued future success of the Group.

By order of the Board



Christobelle Liao
Company Secretary
20 March 2017