

# Corporate Governance Report

The Company strives to attain and maintain high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices are fundamental to safeguarding interests of shareholders and other stakeholders and enhancing shareholder value. Accordingly, the Company has adopted and applied corporate governance principles that emphasise a quality Board, effective risk management and internal controls systems, stringent disclosure practices, transparency and accountability. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

The Company has complied throughout the year ended 31 December 2016 with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules, other than those in respect of the nomination committee. The reasons for deviation are explained subsequently in this report.

## The Board

### Corporate strategy

The strategy of the Group is to deliver sustainable returns with solid financial fundamentals, so as to enhance long-term total return for shareholders. Please refer to the Chairman's Statement and Management Discussion and Analysis for discussions and analyses of the performance of the Group and the basis on which the Group generates or preserves value over the longer term and the basis on which the Group will execute its strategy for delivering the objective of the Group.

### Role of the Board

The Board, which is accountable to shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interests of the Company.

The Board, led by the Chairman (Non-executive), Mr Fok Kin Ning, Canning, determines and monitors Group-wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company ("Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

### Board composition

As at 31 December 2016, the Board comprised eight Directors, including the Chairman (Non-executive), the Deputy Chairman (Non-executive), an Executive Director and the Chief Executive Officer & Group Managing Director, two Non-executive Directors and three Independent Non-executive Directors.

On 1 August 2016, Mrs Chow Woo Mo Fong, Susan retired as Non-executive Director.

On 1 January 2017, Mr Wong King Fai, Peter retired as Executive Director and Chief Executive Officer & Group Managing Director and Mr Frank John Sixt resigned as Non-executive Director; and Mr Lai Kai Ming, Dominic ceased to act as Alternate Director to Mr Frank John Sixt. Mr Woo Chiu Man, Cliff was appointed as Executive Director and Chief Executive Officer and Ms Edith Shih as Non-executive Director. Mr Lai Kai Ming, Dominic was appointed as Alternate Director to Mr Fok Kin Ning, Canning and Ms Edith Shih.

Mr Woo joined the HWL Group in 1998. He possesses extensive operations experience in the telecommunications industry and has been involved in cellular technology for over 30 years.

Ms Shih is currently the Company Secretary of the Company. She is also an executive director, Head Group General Counsel and Company Secretary of CKHH. She has been with the CKHH Group since 1989, overseeing legal, corporate finance, regulatory, compliance and corporate governance affairs of the CKHH Group, with in-depth knowledge of the business operations of the CKHH Group.

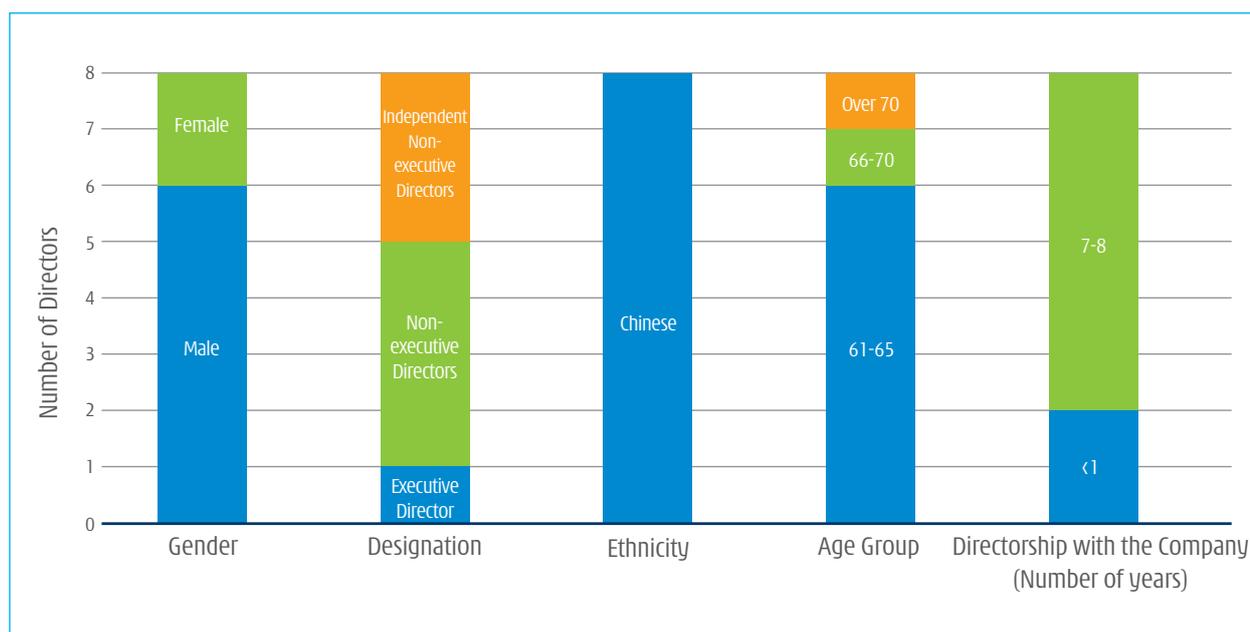
The Board believes that the appointment of Mr Woo and Ms Shih would be of significant benefit to the Group.

The Board has adopted a policy which recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

Board appointment has been, and will continue to be, made based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board.

The Board diversity policy is available on the website of the Company ([www.hthkh.com](http://www.hthkh.com)). The Board will review and monitor from time to time the implementation of the policy to ensure its effectiveness and application.

The following chart shows the diversity profile of the Board:



Biographical details of the Directors are set out in the “Information on Directors” section on pages 48 to 50 and on the website of the Company. A list setting out the names of the Directors and their roles and functions is posted on the websites of the Company and HKEX.

The Board has assessed the independence of all the Independent Non-executive Directors of the Company and considers all of them to be independent having regard to (i) their annual confirmation on independence as required under the Listing Rules; (ii) the absence of involvement in the daily management of the Company; and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment. Throughout the year, the number of Independent Non-executive Directors on the Board meets the one-third requirement under the Listing Rules.

## Chairman, Deputy Chairman and Executive Director

The roles of the Chairman and the Deputy Chairman are separate from that of the Chief Executive Officer. Such division of responsibilities reinforces the independence and accountability of these Directors.

The Chairman assisted by the Deputy Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. The Chairman is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by Directors and the Company Secretary. With the support of the Executive Director and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the affairs of the Board so as to contribute to the effective functioning of the Board. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders and other stakeholders, as outlined later in this report.

The Chief Executive Officer is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations. Acting as the principal manager of the businesses of the Group, the Chief Executive Officer attends to developing strategic operating plans that reflect the long-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Group. Working with the Chief Operating Officer, the Chief Financial Officer and the executive management team of each business division, the Chief Executive Officer presents annual budgets to the Board for consideration and approval, and ensures that the Board is fully apprised of the funding requirements of the businesses of the Group. With the assistance of the Chief Financial Officer, the Chief Executive Officer sees to it that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action if necessary. He maintains an ongoing dialogue with the Chairman, the Deputy Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

## Board processes

The Board meets regularly, and at least four times a year with meeting dates scheduled prior to the beginning of the year. Between scheduled meetings, senior management of the Group provides to Directors, on a regular basis, monthly updates and other information with respect to the performance, and business activities and development of the Group. Throughout the year, Directors participate in the deliberation and approval of routine and operational matters of the Company by way of written resolutions with supporting explanatory materials, supplemented by additional verbal and/or written information from the Company Secretary or other executives as and when required. Details of material or notable transactions of subsidiaries and associated companies are provided to the Directors as appropriate. Whenever warranted, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors and they are at liberty to propose appropriate matters for inclusion in Board agendas.

With respect to regular meetings of the Board, Directors receive written notice of the meeting generally about a month in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Except for those circumstances permitted by the Articles of Association and the Listing Rules, a Director would abstain from voting on resolutions approving any contract, transaction, arrangement in which he or any of his close associates is materially interested and such Director is not counted for quorum determination purposes.

The Company held four Board meetings in 2016 with overall attendance of approximately 94%. All Directors (including Non-executive and Independent Non-executive Directors) attended the annual general meeting of the Company held on 11 May 2016.

Name of Director	Attended/ eligible to attend Board Meeting	Attended 2016 Annual General Meeting
<b>Chairman and Non-executive Director</b>		
Fok Kin Ning, Canning	4/4	√
<b>Deputy Chairman and Non-executive Director</b>		
Lui Dennis Pok Man	4/4	√
<b>Executive Director</b>		
Wong King Fai, Peter <sup>(1)</sup> (Chief Executive Officer & Group Managing Director)	4/4	√
<b>Non-executive Directors</b>		
Chow Woo Mo Fong, Susan <sup>(2)</sup>	2/2	√
Frank John Sixt <sup>(3)</sup>	2/4 <sup>(4)</sup> 2/4 (by alternate)	√
Lai Kai Ming, Dominic	4/4	√
<b>Independent Non-executive Directors</b>		
Cheong Ying Chew, Henry	4/4	√
Lan Hong Tsung, David	4/4	√
Wong Yick Ming, Rosanna	4/4	√

Notes:

(1) Retired on 1 January 2017

(2) Retired on 1 August 2016

(3) Resigned on 1 January 2017

(4) Due to business commitments overseas, Mr Frank John Sixt arranged for his alternate, Mr Lai Kai Ming, Dominic, to attend the Board meetings held in February and December 2016, albeit the attendance of the alternate has not been counted in his attendance record.

In addition to Board meetings, the Chairman holds regular meetings with Executive Director and meets with Non-executive Directors (including Independent Non-executive Directors) at least twice annually without the presence of Executive Director. The Non-executive Directors (including Independent Non-executive Directors) freely provide their independent views to the Board.

Any Director who is appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting of the Company, or in the case of an additional appointment, until the next following annual general meeting of the Company, and shall be eligible for re-election at the relevant general meeting. All Directors are subject to retirement from office by rotation and re-election by shareholders at annual general meetings at least about once every three years. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate individual resolutions. In addition, Non-executive Directors were appointed for an initial term ending on 31 December of the year of their appointments which contracts are automatically renewed for successive 12-month periods, subject to re-election in accordance with the provisions of the Listing Rules and the Articles of Association.

No Director has a service contract with the Company which is not terminable by the Company within one year and without payment of compensation (other than statutory compensation).

Shareholders may propose a candidate for election as Director in accordance with the Articles of Association. The procedures for such proposal are posted on the website of the Company.

### Training and commitment

Upon appointment to the Board, Directors receive a package of orientation materials on the Group and are provided with a comprehensive induction to the businesses of the Group by senior executives.

The Company arranges and provides Continuous Professional Development (“CPD”) training such as seminars and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendance at external forums or briefing sessions (including delivery of speeches) on the relevant topics also counts toward CPD training.

The Directors are required to provide the Company with details of the CPD training undertaken by them from time to time. Based on the details so provided, the CPD training undertaken by the Directors in 2016 is summarised as follows, representing an average of approximately 14 hours by each Director in 2016.

Name of Director	Areas		
	Legal and Regulatory	Corporate Governance	Businesses of the Group/ Directors' Duties
<b>Chairman and Non-executive Director</b> Fok Kin Ning, Canning	√	√	√
<b>Deputy Chairman and Non-executive Director</b> Lui Dennis Pok Man	√	√	√
<b>Executive Director</b> Wong King Fai, Peter <sup>(1)</sup> (Chief Executive Officer & Group Managing Director)	√	√	√
<b>Non-executive Directors</b> Chow Woo Mo Fong, Susan <sup>(2)</sup>	√	√	√
Frank John Sixt <sup>(3)</sup>	√	√	√
Lai Kai Ming, Dominic	√	√	√
Ma Lai Chee, Gerald (Alternate to Lai Kai Ming, Dominic)	√	√	√
<b>Independent Non-executive Directors</b> Cheong Ying Chew, Henry	√	√	√
Lan Hong Tsung, David	√	√	√
Wong Yick Ming, Rosanna	√	√	√

Notes:

(1) Retired on 1 January 2017

(2) Retired on 1 August 2016

(3) Resigned on 1 January 2017

Confirmation is received from the Directors that they have provided sufficient time and attention to the affairs of the Group. In addition, Directors disclose to the Company in a timely manner their interests as director in other public companies and major appointments as well as update the Company on any subsequent changes.

### Securities transactions

The Board has adopted its own Model Code for Securities Transactions by Directors (the "HTHKH Securities Code") regulating Directors' dealings in securities (Group and otherwise), on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. In response to specific enquiries made, all Directors confirmed that they have complied with the HTHKH Securities Code in their securities transactions throughout 2016.

## Board Committees

The Board is supported by two permanent board committees: the Audit Committee and the Remuneration Committee, details of which are described later in this report. The terms of reference for these Committees, which have been adopted by the Board, are available on the websites of the Company and HKEX. Other board committees are established by the Board as and when warranted to take charge of specific tasks.

The Company has considered the merits of establishing a nomination committee but is of the view that it is in the best interests of the Company that the Board collectively reviews, determines and approves the structure, size and composition of the Board as well as the appointment of any new Director, as and when appropriate. The Board is tasked with ensuring that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Group and that appropriate individuals with relevant expertise and leadership qualities are appointed to the Board to complement the capabilities of the existing Directors. In addition, the Board as a whole is responsible for reviewing the succession plan for Directors, including the Chairman of the Board and the Chief Executive Officer.

## Company Secretary

The Company Secretary is accountable to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination to Directors comprehensive Board meeting agendas and papers. Minutes of all meetings of the Board and Board Committees are prepared and maintained by the Company Secretary to record in sufficient details the matters considered and decisions reached by the Board or Board Committees, including any concerns raised or dissenting views voiced by any Director. All draft and final minutes of Board meetings and meetings of Board Committees are sent to Directors or Board Committee members as appropriate for comments, approval and records. Board records are available for inspection by any Director upon request.

The Company Secretary is responsible for ensuring that the Board is fully apprised of all legislative, regulatory and corporate governance developments of relevance to the Group and that it takes these developments into consideration when making decisions for the Group. From time to time, she organises seminars on specific topics of importance and interest and disseminates reference materials to Directors for their information.

The Company Secretary is also directly responsible for the compliance of the Group with all obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Buy-backs, including the preparation, publication and despatch of annual reports and interim reports within the time limits laid down in the Listing Rules, the timely dissemination to shareholders and the market of information relating to the Group.

Furthermore, the Company Secretary advises the Directors on connected transactions, price-sensitive/inside information, and Directors' obligations for disclosure of interests and dealings in securities of the Company, to ensure that the standards and disclosures requirements of the Listing Rules are complied with and, where required, reported in the interim and annual reports of the Company.

The appointment and removal of the Company Secretary is subject to Board approval. Whilst the Company Secretary reports to the Chairman, all members of the Board have access to the advice and service of the Company Secretary. Ms Edith Shih is the Company Secretary of the Company and has day-to-day knowledge of the affairs of the Group. She confirms that she has complied with all the required qualifications, experience and training requirements of the Listing Rules in 2016.

## Accountability and Audit

### Financial reporting

The annual and interim results of the Company are published in a timely manner, within three months and two months respectively of the year end and the half-year end.

The responsibility of Directors in relation to the financial statements is set out below. This should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 87 and 91 which acknowledges the reporting responsibility of the auditor of the Group.

### *Annual report and financial statements*

The Directors acknowledge their responsibility for the preparation of this annual report and financial statements of the Company, ensuring that the financial statements give a true and fair presentation in accordance with the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the applicable accounting standards.

### *Accounting policies*

The Directors consider that in preparing the financial statements, the Group has applied appropriate accounting policies that are consistently adopted and made judgments and estimates that are reasonable in accordance with the applicable accounting standards.

### *Accounting records*

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the accounting policies of the Group.

### *Safeguarding assets*

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

### *Going concern*

The Directors, having made appropriate enquiries, are of the view that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate for the Group to adopt the going concern basis in preparing the financial statements.

## Audit Committee

The Audit Committee comprises three Independent Non-executive Directors who possess the relevant business and financial management experience and skills to understand financial statements and contribute to the financial governance, internal controls and risk management of the Company. It is chaired by Mr Cheong Ying Chew, Henry with Dr Lan Hong Tsung, David and Dr Wong Yick Ming, Rosanna as members.

The Audit Committee held five meetings in 2016 with 100% attendance.

Name of Member	Attended/eligible to attend
Cheong Ying Chew, Henry ( <i>Chairman</i> )	5/5
Lan Hong Tsung, David	5/5
Wong Yick Ming, Rosanna	5/5

Throughout 2016, the Audit Committee discharged the duties and responsibilities under its terms of reference and the CG Code. The terms of reference of the Audit Committee was revised and adopted by the Board effective on 1 January 2016.

Under its terms of reference, the Audit Committee is required to oversee the relationship between the Company and its external auditor, review the preliminary interim and annual results, and interim and annual financial statements of the Group, monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirements, review the scope, extent and effectiveness of the activities of internal audit, engage independent legal and other advisers and conduct investigations as it determines to be necessary.

Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters has been adopted by the Audit Committee and is posted on the website of the Company.

The Audit Committee meets with the Chief Financial Officer and other senior management of the Group from time to time for the purposes of reviewing the interim and final results, the interim and annual reports, and other financial, internal control, corporate governance and risk management matters of the Group. It considers and discusses the reports and presentations of Management, the internal and external auditors of the Group, with a view of ensuring that the consolidated financial statements of the Group are prepared in accordance with IFRS. It also meets at least four times a year with the external auditor of the Group, PwC, to consider the reports of PwC on the scope, strategy, progress and outcome of its independent review of the interim financial report and annual audit of the consolidated financial statements. In addition, the Audit Committee holds regular private meetings with the external auditor, the Chief Financial Officer and internal auditor separately without the presence of Management.

The Audit Committee assists the Board in meeting its responsibilities for maintaining effective risk management and internal control systems. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. It receives and considers the presentations of Management in relation to the reviews on the effectiveness of the risk management and internal control systems of the Group and adequacy of resources, qualifications and experience of staff in the accounting, financial reporting and internal audit functions of the Group, as well as their training programmes and budgets. In addition, the Audit Committee reviews with the internal auditor the work plans for its audits together with its resource requirements and considers the internal audit reports to the Audit Committee on the effectiveness of risk management and internal control systems in the business operations of the Group. Further, it receives the reports from the Company Secretary on the material litigation proceedings and compliance status of the Group on regulatory requirements. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

### External auditor

The Audit Committee reviews and monitors the external auditor's independence, objectivity and effectiveness of the audit process. Each year, the Audit Committee receives a letter from the external auditor confirming its independence and objectivity. It holds meetings with representatives of the external auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

The policy of the Group regarding the engagement of its external auditor for the various services listed below is as follows:

- Audit services - include audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by the external auditor.
- Audit related services - include services that would normally be provided by an external auditor but not generally included in audit fees, for example, audits of the pension plans of the Group, accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit reports for tax or other purposes. The external auditor is to be invited to undertake those services that it must, or is best placed, to undertake in its capacity as auditor.
- Taxation related services - include all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditor where it is best suited. All other significant taxation related work is undertaken by other parties as appropriate.
- Other services - include, for example, financial due diligence, review of actuarial reports and calculations, risk management diagnostics and assessments, and non-financial systems consultations. The external auditor is also permitted to assist Management and the internal auditor with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.
- General consulting services - the external auditor is not eligible to provide services involving general consulting work.

An analysis of the remuneration to PwC is shown in Note 8 to the consolidated financial statements. During the year ended 31 December 2016, the fees to PwC, amounting to approximately HK\$13 million, were primarily for audit services and those for non-audit services amounted to approximately HK\$0.8 million, or 6% of the total fees.

## Risk Management, Internal Control and Legal & Regulatory Compliance

### Role of the Board

The Board has overall responsibility for the systems of risk management, internal control and legal and regulatory compliance of the Group.

In meeting its responsibilities, the Board seeks to inculcate risk awareness across the business operations of the Group and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. The Board evaluates and determines the nature and extent of the risks that the Company is willing to accept in pursuit of the strategic and business objectives of the Group. It also reviews and monitors the effectiveness of the systems of risk management and internal control on an ongoing basis. Reporting and review activities include review by the Executive Director and the Board and approval of detailed operational and financial reports, budgets and plans provided by management of the business operations, review by the Board of actual results against budgets, review by the Audit Committee of the ongoing work of internal audit and risk management functions, as well as regular business reviews by the Executive Director and the executive management team of each business division.

On behalf of the Board, the Audit Committee regularly reviews the corporate governance structure and practices within the Group and monitors compliance fulfillment on an ongoing basis. To assist the Audit Committee in discharging its responsibilities, a Governance Working Group chaired by a Director and Company Secretary, comprising representatives from key departments of the Company, continuously provides updates, identifies emerging matters of compliance, and structures appropriate compliance policies and procedures for Group-wide adoption. During the year, the Company reviewed the key risk areas within the Group in light of the current antitrust and competition law regime. Practical trainings, internal control measures, guidelines and policies tailor-made for key business units were put in place to strengthen the compliance program of the Group in these areas. The Audit Committee is satisfied that the Company has complied throughout the year with all code provisions of the CG Code, other than those in respect of the nomination committee.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the business objectives of the Group, they do not provide absolute assurance against material mis-statement, errors, losses, fraud or non-compliance.

## Risk management

The Company adopts an Enterprise Risk Management (ERM) framework which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework. The framework facilitates a systematic approach to the management of risks within the Group, coupled with a strong internal control environment, enables the Group to effectively manage the risks it faces, be they strategic, financial, operational and compliance.

Risk management of the Group is integrated into the day-to-day activities of the Group and is a continuous process carried out at all levels of the Group. There are ongoing dialogues between the Executive Director and the executive management team of each business division about current and emerging risks, their possible impact and mitigation measures. These measures include instituting additional controls and safeguards and deploying appropriate insurance instruments to transfer or minimise the financial impact of risks to the business of the Group. The latter also includes Directors and Officers Liability Insurance to protect Directors and officers of the Group against potential personal legal liabilities.

In terms of formal risk review and reporting, the Company adopts a “top-down and bottom-up” approach, involving input from each business division as well as discussions and reviews by the Executive Director. More specifically, on a half-yearly basis, each business division is required to formally identify and assess the risks their business faces, and record them in the relevant risk register. Mitigation measures and plans are also registered to facilitate review and tracking of progress. These risk registers are considered by the Executive Director who takes a holistic assessment of all the significant risks that the Group faces.

The composite Register, of which the content is confirmed by the Executive Director, forms part of the Risk Management Report for review and approval by the Audit Committee on a half-yearly basis. The Audit Committee, on behalf of the Board, reviews the Report to ensure that all significant risks are identified and appropriately managed.

Pages 35 to 37 of this annual report provide a description of the risk factors of the Group which could affect the financial condition or results of operations of the Group that differ materially from expected or historical results.

### Internal control environment

Executive directors are appointed to the boards of all material operating subsidiaries and associates for monitoring those companies, including attendance at board meetings, review and approval of budgets and plans, and business strategies with associated risks identified and setting of key business performance targets. The executive management team of each business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly management of each business is accountable for its conduct and performance. The Executive Director monitors the performance and reviews the risk profiles of the Group companies on an on-going basis.

The internal control procedures of the Group include a comprehensive system for reporting information to the executive management team of each business division and the Executive Director.

Business plans and budgets are prepared annually by management of individual businesses and subject to review and approval by both the executive management teams and the Executive Director as part of the five-year corporate planning cycle. Reforecasts for the current year are prepared on a quarterly basis, reviewed for variances to the budget and for approval. When setting budgets and reforecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Director reviews monthly management reports on the financial results and key operating statistics of each business and holds monthly meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, the Chief Financial Officer and finance managers of the business operations have monthly meetings to review monthly performance against budget and forecast, and to address accounting and finance related matters.

The Group maintains a centralised cash management system for its subsidiary operations and the finance department oversees the investment and lending activities of the Group. Treasury reports on cash and liquid investments, borrowings and movements thereof are distributed weekly.

The Group has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels set by reference to the level of responsibility of each executive and officer. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the Chief Financial Officer or Executive Director are required for unbudgeted expenditures and material expenditures within the approved budget. Monthly reports of actual versus budgeted and approved expenditures are also reviewed.

In terms of formal review of the internal control system of the Group, an internal control self-assessment process is in place, requiring the executive management team and senior management of each business division to review, evaluate and declare the effectiveness of the controls over the operations and devise action plans to address the issues, if any. These assessment results, together with the Risk Management Report as mentioned earlier and the independent assessments by the auditors, form part of the bases on which the Audit Committee formulate its opinion on the risk management and internal control systems of the Group.

## Legal and regulatory compliance

The Group is committed to ensuring its businesses are operated in compliance with local and international laws, rules and regulations. The legal department has the responsibility of safeguarding the legal interests of the Group. It monitors the day-to-day legal affairs of the Group, including preparing, reviewing and approving all legal and corporate secretarial documentation of Group companies, working in conjunction with finance, tax, treasury, corporate secretarial and business unit personnel on the review and co-ordination process, and advising management of legal and commercial issues of concern. In addition, the legal department is responsible for overseeing regulatory compliance matters of all Group companies. It analyses and monitors the regulatory frameworks within which the Group operates, including reviewing applicable laws and regulations and preparing and submitting response or filings with relevant regulatory and/or government authorities on regulatory issues and consultations. In addition, the department prepares and updates internal policies and conducts tailor-made workshops where necessary so as to strengthen the internal controls and compliance procedures of the Group. The legal department reports to the group legal department of the holding company of the Group on all material legal, regulatory and corporate secretarial matters and it determines and approves in conjunction with the group legal department of the holding company of the Group the engagement of external legal advisors, ensuring the requisite professional standards are adhered to as well as the most cost effective services are rendered. Further, the legal department organises and holds continuing education seminars/conferences on legal and regulatory matters of relevance to the Group for Directors, business executives and the legal and corporate secretarial teams.

On the listed company level, the Group is subject to the Listing Rules, the Codes on Takeovers and Mergers and Share Buy-backs, the Cayman Islands Companies Law, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the SFO. The legal department is vigilant with the legal requirements under these statutes, rules and regulations.

## Code of Ethics and handling of inside information

The Group places utmost importance on the ethical, personal and professional standards of the Directors and employees of the Group. In addition to the various policies adopted and implemented by the Group imposing requirements on Directors and employees to conduct themselves in compliance with applicable laws, rule and regulations, every employee is required to undertake to adhere to the Code of Ethics, and is expected to achieve the highest standards of behaviour including avoiding conflict of interest, discrimination or harassment and bribery and corruption. Employees are required to report any non-compliance with the Code of Ethics to Management.

With a view to identifying, handling and disseminating inside information in compliance with the SFO, additional procedures - including pre-clearance on dealing in the securities of the Company by designated members of Management, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of project by code name and dissemination of information to stated purpose and on a need-to-know basis - have also been implemented by the Group to guard against possible mishandling of inside information within the Group.

## Internal Audit

The internal auditor, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the business operations of the Group. Using risk assessment methodology and taking into account the dynamics of the activities of the Group, internal audit derives its yearly audit plan which is reviewed by the Audit Committee, and continually reassessed during the year to ensure that adequate resources are deployed and the objectives of the plan are met. Internal audit is responsible for assessing the risk management and internal control systems of the Group, formulating an impartial opinion on the systems, and reporting its findings to the Audit Committee, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the senior management concerned as well as following up on all reports to ensure that all issues are satisfactorily resolved. In addition, a regular dialogue is maintained with the external auditor so that both are aware of the significant factors which may affect their respective scope of work.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by internal audit includes financial/IT and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

Reports from the external auditor on internal controls and relevant financial reporting matters are presented to the internal auditor and, as appropriate, to the Chief Financial Officer. These reports are reviewed and appropriate actions are taken.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016 covering all material controls, including financial, operational and compliance controls, and is satisfied that such systems are effective and adequate. In addition, it has reviewed and is satisfied with the adequacy of resources, qualifications and experience of the staff of the accounting, internal audit and financial reporting function of the Group, and their training programmes and budget.

## Remuneration of Directors and Senior Management

### Remuneration Committee

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Committee is chaired by Dr Lan Hong Tsung, David, an Independent Non-executive Director with Chairman, Mr Fok Kin Ning, Canning and Mr Cheong Ying Chew, Henry, an Independent Non-executive Director as members. The composition of the Remuneration Committee meets the requirements of chairmanship and independence of the Listing Rules. The Committee meets towards the end of each year to determine the remuneration package of Directors and senior management of the Group. Remuneration matters are also considered and approved by way of written resolutions and additional meetings where warranted.

The Remuneration Committee held one meeting in 2016 with 100% attendance.

Name of Member	Attended/eligible to attend
Lan Hong Tsung, David ( <i>Chairman</i> )	1/1
Fok Kin Ning, Canning	1/1
Cheong Ying Chew, Henry	1/1

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating employees of the highest calibre and experience needed to shape and execute strategy of the Group. It assists the Group in the administration of a fair and transparent procedure for setting remuneration policies for all Directors and senior executives of the Group. Whilst the Board retains its power to determine the remuneration of Non-executive Directors, the responsibility for reviewing and determining the remuneration package of the Executive Director and senior management of the Group is delegated to the Remuneration Committee.

During the year, the Remuneration Committee reviewed background information on market data (including economic indicators, statistics and the Remuneration Bulletin), the business activities and human resources issues, and headcount and staff costs of the Group. It also reviewed and approved the 2017 director's fees for Executive Director and made recommendation to the Board on the directors' fees for Non-executive Directors. Prior to the end of the year, the Committee reviewed and approved the year end bonus and 2017 remuneration package of the Executive Director and senior executives of the Group. The Executive Director does not participate in the determination of his own remuneration.

## Remuneration policy

The remuneration of Directors and senior executives is determined with reference to their expertise and experience in the industry, the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Directors and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance.

## 2016 remuneration

Directors' emoluments comprise payments to Directors by the Group. The emoluments of each of the Directors exclude amounts received from subsidiaries of the Group and paid to the Company, a subsidiary or an intermediate holding company of the Company. Details of emoluments paid to each Director in 2016 are set out below:

Name of Director	Director's fees HK\$ millions	Basic salaries, allowances and benefits-in-kind <sup>(6)</sup> HK\$ millions	Bonuses HK\$ millions	Provident fund contributions HK\$ millions	Inducement or compensation fees HK\$ millions	Total emoluments HK\$ millions
Fok Kin Ning, Canning <sup>(1)(4)(5)</sup>	0.09	-	-	-	-	0.09
Lui Dennis Pok Man <sup>(1)(5)</sup>	0.07	-	-	-	-	0.07
Wong King Fai, Peter <sup>(5)(7)</sup>	0.07	3.75	6.05	0.27	-	10.14
Chow Woo Mo Fong, Susan <sup>(1)(5)(8)</sup>	0.04	-	-	-	-	0.04
Frank John Sixt <sup>(1)(5)(9)</sup>	0.07	-	-	-	-	0.07
Lai Kai Ming, Dominic <sup>(1)</sup>	0.07	-	-	-	-	0.07
Cheong Ying Chew, Henry <sup>(2)(3)(4)</sup>	0.16	-	-	-	-	0.16
Lan Hong Tsung, David <sup>(2)(3)(4)</sup>	0.16	-	-	-	-	0.16
Wong Yick Ming, Rosanna <sup>(2)(3)</sup>	0.14	-	-	-	-	0.14
<b>Total</b>	<b>0.87</b>	<b>3.75</b>	<b>6.05</b>	<b>0.27</b>	<b>-</b>	<b>10.94</b>

Notes:

(1) Non-executive Director

(2) Independent Non-executive Director

(3) Member of the Audit Committee

(4) Member of the Remuneration Committee

(5) Directors' fees received by these Directors from subsidiaries of the Group during the period they served as directors that have been paid to the Company, a subsidiary or an intermediate holding company of the Company are not included in the amounts above.

(6) Benefits-in-kind included insurance and transportation

(7) Retired on 1 January 2017

(8) Retired on 1 August 2016

(9) Resigned on 1 January 2017

The remuneration to the members of senior management by bands in 2016 is set out below:

Remuneration Bands	Number of individuals
HK\$500,001 to HK\$1,000,000	1
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	2
HK\$2,500,001 to HK\$3,000,000	3
HK\$3,000,001 to HK\$3,500,000	1
HK\$4,500,001 to HK\$5,000,000	1
HK\$5,500,001 to HK\$6,000,000	1

### Relationship with Shareholders and Other Stakeholders

The Group actively promotes investor relations and communication with the investment community throughout the year. Through the Chief Executive Officer, the Chief Financial Officer, the Investor Relations Department and the Corporate Secretarial team, the Group responds to requests for information and queries from the investment community including shareholders, analysts and the media through regular briefing meetings, announcements, conference calls and presentations. A policy on shareholders' communication, which is available on the website of the Company, has been adopted and is subject to regular review by the Board to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Board is committed to providing clear and full information on the Group to shareholders through the publication of notices, announcements, circulars, interim and annual reports. The Memorandum and Articles of Association of the Company are published on the websites of the Company and HKEx. Moreover, additional information on the Group is available to shareholders and stakeholders through the Investor Relations page on the website of the Company.

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to article 58 of the Articles of Association, any shareholder holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company has statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders, by sending the Board or the Company Secretary at the principal place of business a written request for such general meetings, signed by the shareholders concerned together with the proposed agenda items and such meeting shall be held within two months of the deposit of such requisition.

All substantive resolutions at general meetings are decided on a poll which is conducted by the Company Secretary and scrutinised by the Hong Kong Share Registrar of the Company. The results of the poll are published on the websites of the Company and HKEx. In addition, regular updated financial, business and other information on the Group is made available on the website of the Company for shareholders and stakeholders.

The latest shareholders' meeting of the Company was the 2016 Annual General Meeting (the "AGM"), which was held on 11 May 2016 at Harbour Grand Kowloon, and attended by PwC and all Directors, including the Chairmen of the Board, the Audit Committee and the Remuneration Committee with attendance rate of 100%. The Directors are requested and encouraged to attend shareholders' meetings albeit presence overseas for the Group businesses or unforeseen circumstances might prevent Directors from so doing. Separate resolutions were proposed at that meeting on each substantive issue and the percentage of votes cast in favour of such resolutions as disclosed in the announcement of the Company dated 11 May 2016 are set out below:

Resolutions proposed at the AGM	Percentage of votes
1 Adoption of the audited financial statements together with the report of the Directors and the report of the Auditor for the year ended 31 December 2015	99.99%
2 Declaration of a final dividend	99.99%
3(a) Re-election of Mr WONG King Fai, Peter as a Director	99.90%
3(b) Re-election of Mr Frank John SIXT as a Director	96.20%
3(c) Re-election of Dr WONG Yick Ming, Rosanna as a Director	99.79%
3(d) Authorisation of the Board of Directors to fix the Directors' remuneration	99.98%
4 Re-appointment of PricewaterhouseCoopers as the Auditor and authorisation of the Board of Directors to fix the Auditor's remuneration	99.83%
5 Granting of a general mandate to the Directors to issue additional shares of the Company	85.88%
6 Granting of a general mandate to the Directors to repurchase the shares of the Company	94.25%
7 Extension of the general mandate to the Directors to issue additional shares of the Company	93.00%

Accordingly, all resolutions put to shareholders at the AGM were passed. The results of the voting by poll were published on the websites of the Company and HKEX.

Other corporate information relating to the Company is set out in the "Information for Shareholders" section of this annual report. This includes, among others, dates for key corporate events for 2017 and public float capitalisation as at 31 December 2016.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationship. Comments and suggestions to the Board or the Company are welcome and can be addressed to the Investor Relations Manager or the Company Secretary by mail to 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong or by e-mail at [ir@hthkh.com](mailto:ir@hthkh.com).

## Environmental, Social and Governance Responsibility

The Group is committed to the long-term sustainability of its businesses and the communities in which it conducts business. It has adopted a proactive approach to environmental, social and governance ("ESG") responsibility and has established a working group chaired by a Director comprising representatives from key departments of the Company to spearhead the ESG activities of the Group. The ESG Report of the Group is set out on pages 38 to 47 of this annual report.

By Order of the Board

**Edith SHIH**

Non-executive Director and Company Secretary

Hong Kong, 28 February 2017