

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 an effective corporate governance framework is fundamental to promoting and safeguarding interests of shareholders and other stakeholders and enhancing shareholder value. Accordingly, the Company has adopted and applied corporate governance principles and practices 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 2018 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 Company established a Nomination Committee on 1 January 2019 comprising all Directors. Further details of the Nomination Committee are set out in the section "Nomination Committee" below.

The Board

Corporate strategy

The primary objective of the Company is 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 and guiding the strategic objectives of the Company and overseeing and monitoring managerial performance of the business. Directors are charged with the task of promoting the long-term 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

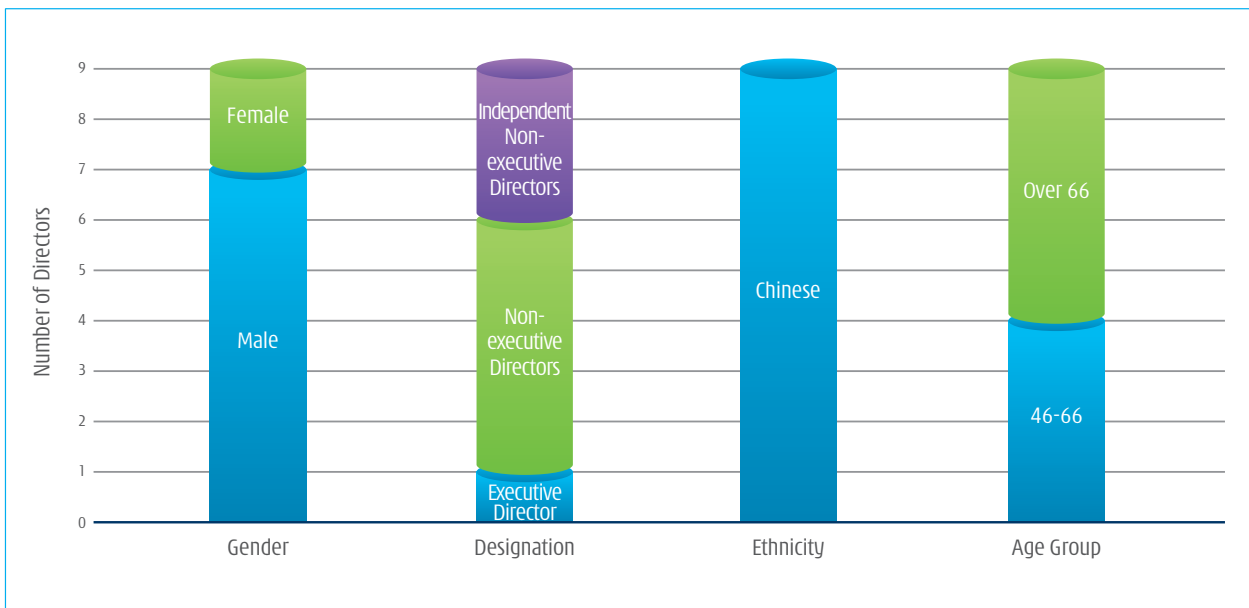
During the year ended 31 December 2018 and up to the date of this report, the following changes to the Board composition took place on 1 August 2018:

- (a) Mr Lui Dennis Pok Man was re-designated from his position of Deputy Chairman and Non-executive Director as Co-Deputy Chairman and Non-executive Director;
- (b) Mr Woo Chiu Man, Cliff was re-designated from his position of Executive Director and Chief Executive Officer as Co-Deputy Chairman and Non-executive Director; and
- (c) Mr Koo Sing Fai was appointed as Executive Director and Chief Executive Officer.

As at 31 December 2018, the Board comprised nine Directors, including the Chairman (Non-executive), two Co-Deputy Chairmen (Non-executive), an Executive Director and the Chief Executive Officer, two Non-executive Directors and three Independent Non-executive Directors. Throughout the year, the number of Independent Non-executive Directors on the Board meets the one-third requirement under the Listing Rules. Information about changes to the Board composition during 2018 are set out in the section "Report of the Directors" on page 48.

The full Board is responsible for reviewing the structure, size, diversity profile and skills set of the Board and the progress in achieving the diversity objectives of the Company. The Board as a whole is also responsible for the selection and appointment of Directors and the review of succession plan for Directors. To this end, the Board is mindful of having an appropriately structured recruitment, selection and training programme at appropriate levels so as to identify and prepare suitable talents for Board positions. Further details of the Company's Board diversity policy and Director nomination policy are set out in the section "Nomination of Directors" below.

The following chart shows the diversity profile of the Board as at 31 December 2018:



Biographical details of the Directors are set out in the "Information on Directors" section on pages 37 to 40 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 (www.hkexnews.hk).

Chairman, Co-Deputy Chairmen and Chief Executive Officer

The roles of the Chairman and the Co-Deputy Chairmen 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 Co-Deputy Chairmen 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 discussed 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 promote effective communication and ongoing engagement 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 Financial Officer and the executive management team of the Company, 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 performance of the businesses against plans and budgets, taking remedial action if necessary. He maintains an ongoing dialogue with the Chairman, the Co-Deputy Chairmen 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 management team to support him in his role.

Board process

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 she or any of his or her close associates is materially interested and such Director is not counted for quorum determination purposes.

The Company held four Board meetings in 2018 with overall attendance of 100%. All Directors (including Non-executive and Independent Non-executive Directors) attended the annual general meeting of the Company held on 8 May 2018. The attendance record is set out below:

Directors	Board meetings attended/ Eligible to attend	Attendance at 2018 AGM
Chairman and Non-executive Director		
Fok Kin Ning, Canning	4/4	√
Co-Deputy Chairmen and Non-executive Directors		
Lui Dennis Pok Man ⁽¹⁾	4/4	√
Woo Chiu Man, Cliff ⁽¹⁾	4/4	√
Executive Director		
Koo Sing Fai ⁽²⁾ (Chief Executive Officer)	1/1	N/A
Non-executive Directors		
Lai Kai Ming, Dominic	4/4	√
Edith Shih	4/4	√
Independent Non-executive Directors		
Cheong Ying Chew, Henry	4/4	√
Lan Hong Tsung, David	4/4	√
Wong Yick Ming, Rosanna	4/4	√

Notes:

(1) Re-designated as Co-Deputy Chairman and Non-executive Director on 1 August 2018

(2) Appointed on 1 August 2018

In addition to Board meetings, in 2018 the Chairman holds regular meetings with the Executive Director and meets with Non-executive Directors (including Independent Non-executive Directors) twice without the presence of the 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 then be eligible for re-election. 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 resolutions. In addition, all Non-executive Directors entered into service contracts 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 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).

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, webcasts and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial (including industry-specific and innovative changes), 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 2018 is summarised as follows, representing an average of approximately 11 hours by each Director during the year.

Directors	Areas		
	Legal and Regulatory	Corporate Governance	Businesses of the Group/ Directors' Duties
Chairman and Non-executive Director			
Fok Kin Ning, Canning	√	√	√
Co-Deputy Chairmen and Non-executive Directors			
Lui Dennis Pok Man	√	√	√
Woo Chiu Man, Cliff	√	√	√
Executive Director			
Koo Sing Fai (Chief Executive Officer)	√	√	√
Non-executive Directors			
Lai Kai Ming, Dominic	√	√	√
Edith Shih	√	√	√
Ma Lai Chee, Gerald (Alternate to Lai Kai Ming, Dominic)	√	√	√
Independent Non-executive Directors			
Cheong Ying Chew, Henry	√	√	√
Lan Hong Tsung, David	√	√	√
Wong Yick Ming, Rosanna	√	√	√

All Directors have confirmed that they have given sufficient time and attention to the affairs of the Group throughout their tenure during the year. In addition, Directors disclose to the Company in a timely manner their other commitments, such as directorships 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 their tenure during the year.

Board Committees

The Board is supported by three permanent board committees: the Audit Committee, the Remuneration Committee and the Nomination 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.

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 timely preparation of 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, notifiable transactions, price-sensitive/inside information and Directors' obligation for disclosure of interests and dealings in securities of the Company, to ensure that the standards and disclosures requirements under the Listing Rules and applicable laws, rules and regulations are complied with and, where required, reported in the interim and annual reports of the Company.

The Company Secretary also serves a crucial conduit of communications internally and externally. The Company Secretary conveys the Board's decisions to the Management from time to time and ensures a good channel of communication with shareholders. The Company Secretary also works with the Board and Management to assist in responding to regulators in a timely manner.

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 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 under the Listing Rules in 2018.

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 79 to 83 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 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 with Dr Lan and Dr Wong as members.

The Audit Committee held four meetings in 2018 with 100% attendance.

Members	Attended/Eligible to attend
Cheong Ying Chew, Henry (<i>Chairman</i>)	4/4
Lan Hong Tsung, David	4/4
Wong Yick Ming, Rosanna	4/4

Throughout 2018, the Audit Committee discharged the duties and responsibilities under its terms of reference and the CG Code.

Under its terms of reference, the Audit Committee is responsible for monitoring the integrity of the Group's preliminary interim and annual results, and interim and annual financial statements, reviewing the Group's risk management and internal control systems as well as overseeing the relationship between the Company and its external auditors. The Audit Committee is also required to develop and review the Company's policies and practices on corporate governance 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.

The Company is committed to achieving and maintaining a high degree of transparency, probity and accountability. In line with this commitment, the Company expects and encourages employees of the Group and those who deal with the Group (e.g. customers, suppliers, creditors and debtors) to report to the Company any suspected impropriety, misconduct or malpractice concerning the Group. In this regard, the Company has adopted the Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters, which 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 in 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 and the applicable disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). 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 maintaining effective risk management and internal control systems. It reviews the process by which the Group evaluates its control environment and risk assessment, and the way in which significant risks are identified and 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 the 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 in conjunction with the Group's 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 auditors 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 must be undertaken, or is otherwise 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 engages 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 system 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 fees of PwC and other external auditors is shown in note 8 to the consolidated financial statements. For the year ended 31 December 2018, the total fees to PwC amounted to approximately HK\$7 million, which were primarily for audit services and those for non-audit services amounted to approximately HK\$0.3 million, representing approximately 4% of the total fees (audit and non-audit).

Audit Report on the Annual Financial Statements

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by PwC in accordance with International Standards on Auditing issued by the International Accounting Standards Board. The unqualified auditor's report is set out on pages 79 to 83. The consolidated financial statements of the Group for the year ended 31 December 2018 have also been reviewed by the Audit Committee.

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 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. The reporting and review processes include review by the Executive Director and the Board of budgets, strategic plans, and detailed operational and financial reports as provided by business unit management as well as review by the Audit Committee of ongoing work of internal audit and risk management functions.

On behalf of the Board, the Audit Committee also 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 establishes 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 as explained in this report.

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

Based on the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) model, the Company establishes its Enterprise Risk Management (ERM) framework to support the delivery of the Group's business and strategic objectives. The framework facilitates a systematic approach in identifying, assessing and managing risks within the Group, be they of strategic, financial, operational or compliance nature.

The Group's risk management is a continuous process integrated seamlessly into the day-to-day activities at all levels of the group companies. There is ongoing communication between the executive management of the Group and the business units on the current and emerging risks, their plausible impact and mitigation measures so as to institute additional controls and deploy appropriate insurance instruments to minimise or transfer the impact of risks to the Group's business. In addition, the Group's Directors and officers are protected against potential personal legal liabilities through the Directors and Officers Liability Insurance.

In terms of formal risk review and reporting, the Company adopts a “top-down and bottom-up” approach, involving input from each major business unit as well as discussions and reviews by the Executive Director and the Board, through the Audit Committee. More specifically, on a half-yearly basis, each major business unit is responsible for formally identifying the significant risks their business faces, measuring them against a defined set of criteria, and considering likelihood of occurrence and potential impact to the business, whilst the Executive Director provides input after taking a holistic assessment of all the significant risks that the Group faces. Relevant risk information including key mitigation measures and plans are recorded in a risk register to facilitate the ongoing review and tracking of progress.

The composite risk register together with the risk heat map, as part of the Risk Management Report, are submitted to the Audit Committee for review on a half-yearly basis. The Audit Committee, on behalf of the Board, reviews the nature and extent of the significant risks facing the Group, and provides input as and where appropriate so as to ensure effective risk management system in place.

Pages 26 to 27 of this 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 and Non-executive Directors are appointed to the boards of all material operating subsidiaries and associated companies 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 is accountable for the conduct and performance of their business within the agreed strategies. 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 unit 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 team 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 by the Chief Financial Officer or Executive Director are required prior to commitment 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 major business unit to review, evaluate and declare the effectiveness of the internal 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 formulates its opinion on the effectiveness of 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, rules and regulations, every employee is required to undertake to adhere to the Code of Ethics, and is expected to meet 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 in accordance with the established reporting and escalation procedures.

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 and internal controls systems in the business operations of the Group. By applying risk assessment methodology and taking into account the dynamics of the activities of the Group, internal audit devises its yearly audit plan which is reviewed by the Audit Committee, and continually reassesses the plan 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, including reviewing the continuing connected transactions of the Company (refer to pages 49 to 51 of this report for more details), formulating an impartial opinion on the systems, and reporting its findings to the Audit Committee, the Executive Director and the executive management team concerned as well as following up on the issues to ensure that they are satisfactorily resolved. In addition, internal audit maintains a regular dialogue with the external auditor so that the parties 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, operations, and regulatory compliance reviews, recurring and surprise audits, fraud investigations, as well as 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 2018 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. It is chaired by Dr Lan, an Independent Non-executive Director, with the Chairman, Mr Fok and Mr Cheong, an Independent Non-executive Director as members. The composition of the Remuneration Committee meets the requirements of chairmanship and independence under the Listing Rules. The Remuneration 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 where warranted, at additional meetings.

The Remuneration Committee held one meeting in 2018 with 100% attendance.

Members	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 a broader and more diverse pool of employees of the highest calibre and experience needed to shape and execute the 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 2019 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 Remuneration Committee reviewed and approved the year end bonus and 2019 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 of the Group 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. The Executive Director and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance.

2018 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 2018 are set out below:

Directors	Director's fees HK\$ millions	Basic salaries, allowances and benefits-in-kind ⁽⁶⁾ HK\$ millions	Bonuses HK\$ millions	Provident fund contributions HK\$ millions	Inducement or compensation fees HK\$ millions	Total emoluments HK\$ millions
Fok Kin Ning, Canning ⁽¹⁾⁽⁴⁾	0.09	-	-	-	-	0.09
Lui Dennis Pok Man ⁽¹⁾	0.07	-	-	-	-	0.07
Woo Chiu Man, Cliff ⁽¹⁾⁽⁵⁾⁽⁷⁾	0.07	2.54	3.50	0.18	-	6.29
Koo Sing Fai ⁽⁵⁾⁽⁸⁾	0.03	1.07	0.93	0.08	-	2.11
Lai Kai Ming, Dominic ⁽¹⁾⁽⁵⁾	0.07	-	-	-	-	0.07
Edith Shih ⁽¹⁾	0.07	-	-	-	-	0.07
Cheong Ying Chew, Henry ⁽²⁾⁽³⁾⁽⁴⁾	0.16	-	-	-	-	0.16
Lan Hong Tsung, David ⁽²⁾⁽³⁾⁽⁴⁾	0.16	-	-	-	-	0.16
Wong Yick Ming, Rosanna ⁽²⁾⁽³⁾	0.14	-	-	-	-	0.14
Total	0.86	3.61	4.43	0.26	-	9.16

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) *Re-designated as Non-executive Director on 1 August 2018*
- (8) *Appointed on 1 August 2018*

The remuneration paid to the members of senior management by bands in 2018 is set out below:

Remuneration bands	Number of individual
HK\$1 to HK\$500,000	1
HK\$1,000,001 to HK\$1,500,000	1
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	1
HK\$2,500,001 to HK\$3,000,000	1
HK\$3,000,001 to HK\$3,500,000	1
HK\$3,500,001 to HK\$4,000,000	1

Nomination of Directors

Nomination Committee

The Company established the Nomination Committee on 1 January 2019 which comprises all Directors and is chaired by the Chairman of the Board. Its composition deviates from code provision A.5.1 which requires the nomination committee to comprise a majority of independent non-executive directors. The Board is of the view that the ultimate responsibility for the selection, nomination and appointment of Directors rests with the Board as a whole and 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 succession plan for Directors, as and when appropriate. A sub-committee, chaired by the Chairman of the Board comprising two Independent Non-executive Directors in compliance with the code provision requirement under the Listing Rules for a nomination committee, will be established as and when required to facilitate the Nomination Committee in the conduct of the selection and nomination process, and will be dissolved after the purpose for which it is established is achieved or discontinued.

The responsibilities of the Nomination Committee are to review the structure, size, diversity profile and skills set of the Board against its needs and make recommendations on the composition of the Board to achieve the Company corporate strategy as well as promote shareholder value. It facilitates the Board in the conduct of the selection and nomination of Directors, makes recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. It also assesses the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules.

Before the establishment of the Nomination Committee, the Board was tasked with ensuring that it has a balanced composition of skills set 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 existing Directors. During year 2018, the Board as a whole reviewed the succession plan for Directors, including the Chairman of the Board and the Chief Executive Officer, and made recommendation on re-appointment of retiring Directors. It has also assessed the independence of all the Independent Non-executive Directors and considered 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 day-to-day management of the Company; and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgment.

The Board has adopted a Board diversity policy which recognises the benefits of a Board that possesses a balance of skills set, experience, expertise and diversity of perspectives appropriate for the strategies of the Company. The Company believes that board diversity enhances decision-making capability and thus the overall effectiveness of the Board in achieving sustainable business operation and enhancing shareholder value.

Board appointment has been, and will continue to be, made based on merit and attributes that the selected candidate will bring to the Board to complement and expand the competencies, experience and perspectives of the Board as a whole, taking into account the corporate strategy of the Company and the benefits of various aspects of diversity, including gender, age, culture, ethnicity, educational background, professional experience and other factors that the Board may consider relevant from time to time towards achieving a diversified Board.

The Board diversity policy is available on the website of the Group. The Board reviews and monitors from time to time the implementation of the policy to ensure its continued effectiveness.

In February 2019, the Nomination Committee reviewed the structure, size and composition (including the skills set, knowledge and experience) of the Board, and performed an assessment on the independence of all the Independent Non-executive Directors with the conclusion that all of them are independent. It also established a sub-committee comprising the Chairman of the Board and two Independent Non-executive Directors, Dr Lan and Dr Wong which reviewed and recommended to the Board on the re-election of retiring Directors at the 2019 annual general meeting.

Director Nomination Policy

The Board has formalised the Company's existing approach and procedures and adopted a Director nomination policy on 1 January 2019 to ensure that, with the support of the newly established Nomination Committee and its sub-committee, proper selection and nomination processes are in place for the appointment of additional and replacement Directors and re-election of Directors.

As noted above, the Nomination Committee will, on an ad hoc basis, establish a sub-committee with members from the Nomination Committee who possess the relevant expertise as it considers appropriate, when the need to select, nominate or re-elect Directors arises. In the determination of the suitability of a candidate, the sub-committee will consider the potential contributions a candidate can bring to the Board in terms of skills set, experience, expertise, independence, age, culture, ethnicity, gender and such other factors that it may consider appropriate for a position on the Board. The sub-committee will provide updated information and status of progress to the Nomination Committee/Board throughout the determination process as and when appropriate. The Board will take into consideration the benefits of a diversified Board when selecting Board candidates.

If the Board determines that an additional or replacement Director is required, the relevant sub-committee will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms. Where a retiring Director, being eligible, offers himself/herself for re-election, the relevant sub-committee will consider and, if appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules. Shareholders may nominate a person to stand for election as a Director at a general meeting in accordance with the Articles of Association and applicable laws and regulations. The procedures for such proposal are posted on the website of the Company.

The Director Nomination Policy is available on the website of the Company. The Board will from time to time review the Director Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practices.

Relationship with Shareholders and Other Stakeholders

The Group actively promotes investor relations and communication with the investment community throughout the year. The Group is committed to enhancing investor engagement and communications. 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.

The Board formalised and adopted a dividend policy for the Company which took effect from 1 January 2019. The Board recognises the benefits of providing shareholders with dividends linked to the underlying earnings performance of the business. This is pursued to deliver value to the shareholders while maintaining a sustainable financial position and healthy operating cash flow. Subject to business conditions, market opportunities and maintenance of the Company's strong financial position, the Company has adopted a policy of paying regular dividends with a normal target payout ratio of 75% of recurring profit attributable to shareholders for the year.

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 last shareholders' meeting of the Company was the 2018 Annual General Meeting (the "AGM"), which was held on 8 May 2018 at Harbour Grand Kowloon, and attended by PwC and all Directors, including the respective chairman of the Board, the Audit Committee and the Remuneration Committee with attendance rate of 100%. 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 the AGM on each substantive issue and the percentage of votes cast in favour of such resolutions as disclosed in the announcement of the Company dated 8 May 2018 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 Independent Auditor for the year ended 31 December 2017	99.99%
2 Declaration of a final dividend	99.99%
3(a) Re-election of Mr LUI Dennis Pok Man as a Director	99.89%
3(b) Re-election of Dr LAN Hong Tsung, David as a Director	99.93%
3(c) Re-election of Dr WONG Yick Ming, Rosanna as a Director	99.93%
3(d) Authorisation of the board of directors to fix the Directors' remuneration	99.99%
4 Re-appointment of PricewaterhouseCoopers as the Auditor and authorisation of the board of directors to fix the Auditor's remuneration	99.91%
5 Granting of a general mandate to the directors to issue new shares of the Company	96.10%
6 Granting of a general mandate to the directors to repurchase shares of the Company	99.99%
7 Extension of the general mandate to the directors to issue additional shares of the Company	95.96%

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 report. This includes, among others, dates for key corporate events for 2019 and public float capitalisation as at 31 December 2018.

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 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong or by e-mail at 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 ESG responsibility and has established a working group chaired by a Director comprising representatives from key departments of the Company to spearhead the ESG initiatives and activities of the Group and continually enhance the Group's ESG efforts. The ESG Report of the Group is set out on pages 28 to 36 of this report.

By Order of the Board

Edith SHIH

Non-executive Director and Company Secretary

Hong Kong, 28 February 2019