

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework, with an emphasis on the principles of integrity, transparency, accountability and equity. The Board of Directors believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholder's value.

Corporate Governance Code and Corporate Governance Report

In light of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board has reviewed the corporate governance practices of the Company with the adoption of the various enhanced procedures which are detailed in this report. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the year ended 31 December 2018, except for certain deviations as specified together with considered reasons for such deviations as explained below. The Board has reviewed the practices at least annually and made appropriate changes if considered necessary.

The Board

During the year 2018 and up to the date of this report, the composition of the Board is set out as follows:

Executive Directors:	Lee Seng Huang <i>(Group Executive Chairman)</i> Simon Chow Wing Charn
Non-Executive Directors:	Peter Anthony Curry <i>(retired as an Executive Director and was re-designated as Non-Executive Director on 1 September 2018)</i> Jonathan Andrew Cimino
Independent Non-Executive Directors:	Evan Au Yang Chi Chun David Craig Bartlett Alan Stephen Jones Jacqueline Alee Leung <i>Peter Wong Man Kong (deceased on 11 March 2019)</i>

Board Process

During the year, the Non-Executive Directors ("NEDs") (five of whom were independent) provided the Company and its subsidiaries (collectively the "Group") with a wide range of expertise and experience. Their active participation in Board and committee meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, at the same time taking into account the interests of all shareholders of the Company ("Shareholders").

Throughout the year and up to the date of this report, Independent Non-Executive Directors ("INEDs") have the appropriate professional qualifications or accounting or related financial management expertise specified under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operations and financial performance of the Group. The Board also meets to review and approve the Group's annual and interim results and other ad hoc matters which need to be dealt with by the Board. Relevant senior executives are invited to attend Board meetings to make presentations and answer the Board's enquiries.

During the year, four Board meetings were held. The individual attendance records of each Director at the meetings of the Board, Nomination Committee, Remuneration Committee, Audit Committee, Risk Management Committee and the general meetings of the Company during the year ended 31 December 2018 are set out as follows:

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Name of Directors	Number of meetings attended/held					General Meetings
	Board	Nomination Committee	Remuneration Committee	Audit Committee	Risk Management Committee	
Executive Directors:						
Lee Seng Huang	4/4	1/1				2/2
Simon Chow Wing Charn	4/4				4/4	2/2
Non-Executive Directors:						
Peter Anthony Curry ¹	4/4			1/1 ¹	3/3 ¹	2/2
Jonathan Andrew Cimino	4/4					1/2
Independent Non-Executive Directors:						
Evan Au Yang Chi Chun ²	3/3 ²		1/1 ²	2/2 ²		2/2
David Craig Bartlett	4/4	1/1	2/2	3/3		1/2
Alan Stephen Jones	4/4	1/1	2/2	3/3		1/2
Jacqueline Alee Leung	4/4	0/1	2/2	3/3		1/2
Peter Wong Man Kong ³	4/4	0/1	2/2	0/2 ³		0/2

Notes:

1. Mr. Peter Anthony Curry retired as an Executive Director and was re-designated as Non-Executive Director and appointed as a member of the Audit Committee from 1 September 2018. He ceased as a member of the Risk Management Committee from 2 October 2018.
2. Mr. Evan Au Yang Chi Chun was appointed as an Independent Non-Executive Director and a member of each of the Nomination Committee, Remuneration Committee and Audit Committee on 22 March 2018.
3. Mr. Peter Wong Man Kong ceased as a member of the Audit Committee from 1 September 2018 and was deceased on 11 March 2019.

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, approval of Directors' appointment or re-appointment (based on the recommendations made by the Nomination Committee), material contracts and transactions, corporate governance as well as other significant policies and financial matters. The Board has delegated the daily operations and administration responsibilities to the executive management under the instruction/supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing. The Board reviews these procedures from time to time to ensure that they are consistent with the existing rules and regulations.

Regular Board meetings for each year are scheduled in advance to facilitate maximum attendance of Directors. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussions in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings, and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least three days prior to the proposed date of a Board meeting (and so far as practicable for other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. Minutes of meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

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According to the current Board practice, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter cannot be dealt with by a written resolution of the Board but will be dealt with by the Board at a duly convened Board meeting. The articles of association of the Company (the “Articles”) stipulate that save for the exceptions as provided therein, a Director shall abstain from voting on the relevant resolution and not be counted in the quorum at meetings of the Board for approving any contract or arrangement in which such Director or any of his/her close associate(s) has a material interest. The Board will also follow rules stipulated in the Listing Rules in this regard.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company’s senior management. In addition, a written procedure has been established since June 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Directors’ Continuous Professional Development

Directors will continuously be updated on major developments of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. During the year, the Company organised a briefing session on “Enhancing Hong Kong Listing Framework” for the Directors.

For continuous professional development, in addition to Directors’ attendance at meetings and review of papers and circulars sent by management, Directors participated in the following activities:

Participation in Continuous Professional Development Activities

Name of Directors	Reading regulatory updates	Attending seminars [^]
Executive Directors:		
Lee Seng Huang	✓	✓
Simon Chow Wing Charn	✓	✓
Non-Executive Directors:		
Peter Anthony Curry	✓	✓
Jonathan Andrew Cimino	✓	✓
Independent Non-Executive Directors:		
Evan Au Yang Chi Chun	✓	✓
David Craig Bartlett	✓	✓
Alan Stephen Jones	✓	✓
Jacqueline Alee Leung	✓	✓
Peter Wong Man Kong <i>(deceased on 11 March 2019)</i>	✓	✓

[^] Including trainings/briefings/seminars/conferences relevant to Directors’ duties

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Roles of Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's Principal Investments with support from the management team of the division as well as its interest in United Asia Finance Limited ("UAF") whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of the Mortgage Loans and other operating businesses of the Group as well as exploring new areas of growth.

The Board believes that this structure spreads the workload that would otherwise be borne by an individual chief executive, allowing the growing businesses of the Group to be overseen by appropriately qualified and experienced senior executives in those fields. Furthermore, it enhances communications and speeds up the decision-making process across the Company. The Board also considers that this structure will not impair the balance of power and authority between the Board and management of the Company. An appropriate balance can be maintained by the operation of the Board, which holds at least four regular meetings a year to discuss business and operational issues of the Group.

The Group Executive Chairman is responsible for the leadership of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner, all Directors are properly briefed on issues arising at Board meetings, and the Directors receive in a timely manner, adequate information which is accurate, clear, complete and reliable.

Appointment and Re-Election of Directors

The terms of reference of the Nomination Committee include a nomination procedure specifying the process and criteria for selection and recommendation of candidates for directorships of the Company.

New Directors, upon appointment, will be given an induction package containing the relevant requirements of the Listing Rules and other key applicable rules and regulations, as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. Senior management will subsequently conduct such briefings as necessary to provide the new Directors with detailed information on the Group's businesses and activities.

The NEDs (including the INEDs) of the Company are appointed for a specific term of two years, but subject to the relevant provisions of the Articles or any other applicable laws whereby the Directors shall vacate or retire from their offices but are eligible for re-election. The term of appointment of the NEDs (including the INEDs) has been renewed for two years commencing from 1 January 2019.

According to Article 94 of the Articles, any Director appointed to fill a casual vacancy shall hold office until the Company's next following general meeting and shall be eligible for re-election. Any Director appointed as an addition to the Board shall hold office only until the next following annual general meeting ("AGM") of the Company and shall be eligible for re-election at that meeting. Furthermore, pursuant to Article 103 of the Articles, at each AGM of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at least once every three years.

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Board Diversity

The Company recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining an effective Board to enhance the quality of its performance. The Board has adopted the Board Diversity Policy on 1 September 2013 with an aim to promote broad experience and diversity on the Board.

The objectives of the Board Diversity Policy include:

- (i) the Board should possess a balance of skills and experience appropriate for the requirements of the businesses of the Company. The Directors should have a mix of finance, legal and management qualifications with considerable experience in diversified businesses;
- (ii) selection of candidates for directorship will be based on a broad range of perspectives, including but not limited to gender, age, cultural, educational background or professional experience; and
- (iii) Directors (especially the NEDs) are encouraged to participate in Board meetings to bring an independent judgment, to promote critical review and to bring a wide range of business and financial experience to the Board which contributes to the effective direction of the Company.

Appointments to the Board should be made in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole and candidates will be considered against objectives, taking into account the Company's business and needs.

The Board has reviewed, through the Nomination Committee, the structure, size, composition and diversity of the Board as well as the nomination and appointment procedure of directors during the year.

Corporate Governance Functions

To maintain a high standard of corporate governance within a sensible framework, with an emphasis on the principles of integrity, transparency, accountability and equity, the Company has adopted a Corporate Governance Policy and terms of reference of the Board with effect from 1 April 2012.

The major duties of the Board in respect of performing corporate governance functions include:

- (i) to develop and review the Company's policies and practices on corporate governance;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices for compliance with legal and regulatory requirements;
- (iv) to develop, review and monitor the code of conduct and compliance manuals applicable to employees and Directors; and
- (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

In 2018 and up to the date of this report, the Board has performed its corporate governance duties in accordance with its terms of reference.

Board Committees

The Board has established various committees, including the Nomination Committee, Remuneration Committee, Audit Committee, Executive Committee and Risk Management Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members, and the committees are required to report back to the Board on their decisions and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

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Nomination Committee

The Nomination Committee has been established since April 2012 and at the date of this report consists of the Group Executive Chairman and four INEDs, including Messrs. Lee Seng Huang (Chairman), Evan Au Yang Chi Chun, David Craig Bartlett, Alan Stephen Jones and Ms. Jacqueline Alee Leung. The Nomination Committee is provided with sufficient resources to perform its duties, including, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The duties and authorities of the Nomination Committee are contained in its terms of reference, which fully comply with code provision A.5.2 of the CG Code and are available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

The Nomination Committee has formulated and set out its nomination policy ("Nomination Policy") in its terms of reference. The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's businesses. To ensure changes to the Board composition can be managed without undue disruption, a formal, considered and transparent procedure is in place for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company, contribution to the diversity of the Board and ability to effectively carry out the Board's responsibilities. Further details of the selection criteria and the procedure are set out in the terms of reference of the Nomination Committee which are available on the websites of the Stock Exchange and the Company.

The Nomination Committee will meet as and when necessary in accordance with its terms of reference and may also deal with matters by way of circulation of written resolutions. In 2018, one Nomination Committee meeting was held and the attendance of each member at the meeting is set out in the section headed "Board Process" of this report. In addition, the committee also dealt with matters by way of circulation of written resolutions. The work performed by the Nomination Committee in 2018 and up to the date of this report is summarised as follows:

- (i) considered the nomination of Mr. Evan Au Yang Chi Chun as a new INED and with a recommendation to the Board for approval which appointment was approved by the Board effective from 22 March 2018;
- (ii) reviewed the structure, size, composition and diversity of the Board;
- (iii) assessed the independence of the INEDs;
- (iv) reviewed the proposed re-election of Directors at the 2018 AGM and 2019 AGM, with a recommendation to the Board for proposal to Shareholders for approval at each meeting;
- (v) reviewed the revised terms of reference of the Nomination Committee with a recommendation to the Board for approval; and
- (vi) considered the renewal of the term of appointment of the NEDs (including the INEDs) for two years commencing from 1 January 2019 with a recommendation to the Board for approval.

Remuneration Committee

The Remuneration Committee has been established since April 1985 and at the date of this report consists of four INEDs including Messrs. Evan Au Yang Chi Chun (Chairman), David Craig Bartlett, Alan Stephen Jones and Ms. Jacqueline Alee Leung. The Remuneration Committee is provided with sufficient resources to perform its duties, and, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The duties and authorities of the Remuneration Committee are contained in its terms of reference which are available on the websites of the Stock Exchange and the Company.

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The terms of reference of the Remuneration Committee adopted by the Company are in compliance with code provision B.1.2 of the CG Code but with a deviation from the code provision that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision). The reasons for the above derivations are summarised as below:

- (i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors; and
- (ii) the Executive Directors supervise and control senior management and thus should be able to control their compensation.

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. Two Remuneration Committee meetings were held in 2018 and the attendance of each member at each meeting is set out in the section headed “Board Process” of this report. The committee also dealt with some matters by way of circulation of written resolutions.

The work performed by the Remuneration Committee during 2018 is summarised as follows:

- (i) reviewed the policy and structure for the remuneration of Directors;
- (ii) reviewed the remuneration packages of the Executive Directors, with a recommendation to the Board for approval of an increase in the monthly salary of each of the then three Executive Directors commencing from January 2018;
- (iii) reviewed the bonuses for the year ended 31 December 2017 for the then three Executive Directors, with a recommendation to the Board for approval;
- (iv) reviewed the remuneration of all Directors (including the NED and INEDs) and the consultancy fees of the INEDs, with a recommendation to the Board for approval for the increase in the annual consultancy fees of the INEDs commencing from January 2018; and

- (v) considered a proposal for a compensation review to be carried out by an independent professional consultant for benchmarking historical compensation and providing information in relation to future arrangements.

The remuneration payable to Directors (including any consultancy fees to the INEDs) for their responsibilities and services will be determined according to their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee.

After the end of the reporting period, two Remuneration Committee meetings were held in February and March 2019 to review the compensation report from the independent professional consultant, policy and structure of Directors’ remuneration, and remuneration packages of the Directors. The Remuneration Committee recommended the following to the Board and which recommendations were subsequently approved by the Board:

- (i) the payment of discretionary bonuses for the year 2018 to the two Executive Directors:
 - HK\$37 million in cash to Mr. Lee Seng Huang (“Mr. Lee”); and
 - HK\$3 million in cash and such number of shares of the Company to be awarded under the SHK Employee Ownership Scheme (“EOS”) equivalent of HK\$2 million to Mr. Simon Chow Wing Charn (“Mr. Chow”); and
- (ii) an increase of 2% to the monthly salary of each of Mr. Lee and Mr. Chow commencing from January 2019.

For the purpose of Rule 13.51B(1) of the Listing Rules, the amount for the monthly rental-related expenses which form part of the emoluments of Mr. Lee are varying in nature and has changed.

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Audit Committee

The Audit Committee has been established since April 1985 and consists of four INEDs and one NED. To retain independence and objectivity, the Audit Committee is chaired by an INED who possesses appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Messrs. Alan Stephen Jones (Chairman), Evan Au Yang Chi Chun, David Craig Bartlett, Ms. Jacqueline Alee Leung and Mr. Peter Anthony Curry. The Audit Committee is provided with sufficient resources to perform its duties and has access to independent professional advice according to the Company's policy, when necessary.

The responsibilities and duties of the Audit Committee are contained in its terms of reference which are available on the websites of the Stock Exchange and the Company.

The terms of reference of the Audit Committee of the Company are revised from time to time to comply with the code provision C.3.3 of the CG Code, but with deviations from the code provision regarding the Audit Committee's responsibilities to:

- (i) implement policy on the engagement of the external auditor to supply non-audit services;
- (ii) ensure that management has performed its duty to have effective risk management and internal control systems;
- (iii) ensure co-ordination between the internal and external auditors; and
- (iv) ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.

The Board considers that the Audit Committee of the Company shall recommend (as opposed to implement under the code provision) the policy on engaging the external auditor to supply non-audit services for the following reasons:

- (i) it is more proper and appropriate for the Board and its committees to develop policy and make appropriate recommendations;
- (ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and
- (iii) the INEDs are not in an effective position to implement the policy and follow up implementation of the same on a day-to-day basis.

Furthermore, the Board considers that the Audit Committee only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have an effective risk management and internal control systems. The Audit Committee is not equipped to ensure that the same is in place, as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position to ensure co-ordination between the internal and external auditors, but it can promote the same. Similarly, the Audit Committee cannot ensure that the internal audit function is adequately resourced and has appropriate standing within the Company but it can check whether it is adequately resourced and has appropriate standing within the Company, and recommend the correction of any identified deficiency.

The Audit Committee shall meet at least three times a year in accordance with its terms of reference. Three Audit Committee meetings were held in 2018 and the attendance of each member at these meetings is set out in the section headed "Board Process" of this report.

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Apart from committee meetings, the Audit Committee also deals with matters by way of circulation of written resolutions, when necessary. The work performed by the Audit Committee in 2018 and up to the date of this report is summarised as follows:

- (i) considered and approved the terms of engagement and fees proposed by the external auditor regarding the interim results review for the six months ended 30 June 2018 and the final audit of the Group for the year ended 31 December 2018;
- (ii) reviewed the reports from the external auditor, management representation letters in relation to the final audit of the financial statements of the Group for the years ended 31 December 2017 and 2018;
- (iii) reviewed the report from the external auditor and management representation letter in relation to the interim results review of the financial statements of the Group for the six months ended 30 June 2018;
- (iv) reviewed the financial reports of the Company for the years ended 31 December 2017 and 2018, and for the six months ended 30 June 2018, and recommended approval by the Board;
- (v) reviewed the effectiveness of the risk management and internal control system and recommended action to the Board where appropriate; and
- (vi) reviewed internal audit review reports prepared by the internal audit function and the 2019 internal audit plan.

Executive Committee

The Executive Committee (the “Exco”) has been established since November 1983 and consists of two Executive Directors, Messrs. Lee Seng Huang (Chairman) and Simon Chow Wing Charn. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board, save for those matters which are reserved for the Board’s decision and approval pursuant to the terms of reference of the Exco.

The Exco is mainly responsible for undertaking and supervising the day-to-day management of the Group, and is empowered, subject to the general policies adopted by the Board:

- (i) to formulate and implement policies for the business activities, internal control and administration of the Group; and
- (ii) to plan and decide on strategies to be adopted for the business activities of the Group.

Risk Management Committee

The Risk Management Committee (the “RMC”) has been established since January 2007 and consists of the Group Chief Financial Officer (“Group CFO”), an Executive Director, Managing Director of the Principal Investments and Head of Operations, being Messrs. Robert James Quinlivan (Chairman), Simon Chow Wing Charn, Benjamin John Falloon and Alfred Leung Sai Kit respectively.

The major roles and responsibilities of the RMC are:

- (i) to analyse and define risks likely to be encountered by the Group in the various aspects of its operation;
- (ii) to ensure through appropriate mechanisms including setting up committee(s) and supervision by division/department heads, adequate review, assessment, and monitoring the risks which may be encountered by the Group and the effectiveness of the Group’s systems of risk management and internal controls, including but without limiting financial, operational and compliance controls and risk management functions;
- (iii) to act as a provider of assurance (in conjunction with the Group’s internal audit function and the Group’s external auditor) to the Board in its annual review of:
 - (a) the changes in the nature and extent of significant risks likely to be encountered by the Group since the last annual review, and the Group’s ability to respond to such changes in its business activities and external environment;
 - (b) the scope and quality of management’s ongoing monitoring of risks and system of internal controls;

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- (c) the adequacy of the extent and frequency of the communication of the results of monitoring to the Board enabling it and the Audit Committee to develop a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed;
 - (d) any major incident that poses substantial risk and/or loss exposure to the Group, whether actual loss is incurred or not; in the event of likely or actual violations of any applicable laws, regulations, regulatory guidelines/codes; significant internal policies, operational or technological failures; and any other significant events that may expose the Group to substantial reputational risk;
 - (e) the effectiveness of the Group's processes relating to financial reporting and Listing Rules compliance; and
 - (f) all other relevant issues appropriate to risk identification and management and internal control issues.
- (vi) review of the anti-money laundering ("AML")/know your clients guidelines and policies and the adoption of AML Guidance Manual of the Group;
 - (vii) review of cyber security risk control measures and business continuity plan of the Group; and
 - (viii) review and approval of the updated Operational Procedures Manual of Principal Investments.

The RMC will normally meet quarterly or as directed by the chairman of the RMC. Four meetings of the RMC of the Company were held in 2018 and meetings were held in January and March 2019, and the work performed by the RMC during the year and up to the date of this report is summarised as follows:

- (i) review of the legal and compliance issues and requirements arising from business activities and regulatory issues;
- (ii) monitoring of the liquidity risk, credit risk, market risk and reporting approaches;
- (iii) review of the foreign exchange exposure of the Group's investment portfolio;
- (iv) review of the risk management reports from the Group's Principal Investments business, UAF and Sun Hung Kai Credit Limited;
- (v) review and assessment of the completed responsibility statements from the relevant business units and department heads regarding their risk, compliance and internal control procedures for the financial years ended 31 December 2017 and 2018;

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility, with the support of the Finance Department, for preparing the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 December 2018, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance have been complied with. The Directors believe that they have selected suitable accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable, and have ensured that the consolidated financial statements are prepared on a going concern basis.

External Auditor's Remuneration

During the year and up to the date of this report, the remuneration paid to Deloitte is set out as follows:

Services rendered for the Group	Fees paid (HK\$ Million)
Audit services	6.5
Non-audit services (taxation and other professional services)	1.0
Total	7.5

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Risk Management and Internal Control

The Board acknowledges its responsibility for the establishment and maintenance of sound and effective risk management and internal control systems to safeguard the Group's corporate interests.

Since its establishment in 2007, the Group's RMC has been delegated with the responsibility to assist the Board to review, assess and monitor the various risks which may be encountered by the Group and the effectiveness of the Groups' risk management system. The functions and compositions of the RMC are set out in the "Board Committees" section in the earlier part of this report.

The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage prudently but not completely eliminate the risk of system failure. Systems and procedures are put in place to identify, manage and control the risks of different businesses and activities. Risk control limits are established according to the appropriate authorisation hierarchy.

In addition to safeguarding the Group's corporate interests, the internal control framework is to maintain proper accounting records and to comply with relevant laws and regulations. It provides an independent and objective assurance to safeguard the Group's operations. The Group has its control functions e.g. internal audit. Together with the RMC, they play an important role in assuring the Board and management that a sound internal control system is being implemented, maintained, and relevant regulatory requirements are complied with.

Internal audit is an independent control function reporting to the Group CFO. It applies a systematic and disciplined approach to analyse and independently appraise the adequacy and effectiveness of the Group's risk management and internal control systems. The audit plans are risk-based to ensure that a

methodical coverage of the Group's operations and resources are focused on high risk areas. Ad hoc reviews are conducted on areas of concern where necessary. Internal audit reports are issued to the Audit Committee, relevant senior management and division/department heads.

Each year, a Group-wide self-assessment is conducted on the effectiveness of the risk management and internal control framework covering all major areas such as front-office, compliance, finance and operations with the purposes of assessing and documenting key risks to enable control improvement. The assessment is performed by the divisions and co-ordinated by the Group CFO who reports directly to the Group Executive Chairman. The results and findings are reported to the RMC, Audit Committee and the Board which have been considered effective and adequate. Other monitoring and review on risk exposures to formulate risk management policies is also co-ordinated by the Group CFO.

Management reviews are conducted on new processes and systems to ensure that policies and procedures are updated in accordance with the ever changing risk-related environment. The Group also engages external consultants on an ad-hoc basis to perform independent reviews covering significant parts of the Group's operations, when necessary.

The Board, through the Audit Committee, reviews the adequacy of resources, training programmes, budget, qualifications and experience of the accounting, internal audit and financial reporting staff in accordance with the requirements of the Listing Rules. The RMC, Audit Committee and the Board review the effectiveness of the risk management and internal control systems of the Group and fulfill the requirements of the CG Code regarding risk management and internal control systems in general.

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Disclosure of Inside Information Policy

The Board has adopted the Policy on the Disclosure of Inside Information effective on 1 January 2013 with respect to the procedures and internal controls for the handling and dissemination of inside information. The Group's Disclosure of Inside Information Policy sets out guidelines and procedures to the Directors and relevant officers of the Group to ensure inside information of the Group is to be disseminated to the public in an equal and timely manner. Directors and relevant officers in possession of potential inside information and/or inside information are required to take reasonable measures to ensure that proper safeguards are in place to preserve strict confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain the information confidential. The Policy shall be updated and revised as and when necessary in light of changes in circumstances and changes in the Listing Rules, Part XIVA of the Securities and Futures Ordinance and relevant statutory and regulatory requirements from time to time.

Company Secretary

Ms. Hester Wong Lam Chun is an employee and the Company Secretary of the Company. All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Group Executive Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with Shareholders and management.

Ms. Wong is a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. During 2018, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

Codes for Securities Transactions by Directors and Relevant Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specified enquiries of all the Directors, they have confirmed that they have complied with the required standard as set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees, to regulate dealings in the securities of the Company by relevant employees of the Company or any of its subsidiaries who are considered to be likely to possess inside information in relation to the Company or its securities.

Communication with Shareholders

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents, together with the latest corporate information and news, are also made available on the Company's website.

The Company's general meetings are valuable forums for the Board to communicate directly with Shareholders. Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his/her duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of Shareholders. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) should also be available to answer questions at any general meeting of the shareholders to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The 2018 AGM was held on 24 May 2018 and seven out of nine Directors attended the meeting. An extraordinary general meeting of the Company was held on 17 July 2018 for considering the off-market share buy-back from a substantial shareholder of the Company. For details of the Directors' attendance at the general meetings, please refer to the attendance record of the Directors set out in the section headed "Board Process" of this report. Separate resolutions are proposed at the AGM for each substantial issue, including the re-election of retiring Directors.

Corporate Governance Report

Notice of meetings to Shareholders is to be sent in the case of the AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in case of all other general meetings. An explanation of the detailed procedures of conducting a poll is provided to Shareholders at the commencement of the meeting. The chairman of the meeting answers questions from Shareholders regarding voting by way of a poll. The poll results of the resolutions are thereafter published in the manner prescribed under the requirements of the Listing Rules.

Shareholder(s) representing at least 5% of the total voting rights of all Shareholders having the right to vote at general meetings of the Company can request to convene an extraordinary general meeting according to Article 67 of the Articles and Section 566 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong). The business proposed to be transacted at the meeting must be stated in the related requisition which must be signed and deposited at the registered office of the Company. Besides, Shareholders may make a proposal at a Shareholders' meeting by submitting the proposed resolution in written form to the Board at the registered office of the Company, which shall clearly and concisely set out the proposal for discussion and be relevant to the Company's business scope.

The Board has adopted a shareholders' communication policy since March 2012 and subsequently updated in November 2016. Shareholders may make reasonable enquiries to the Company for information regarding the Company which has been made publicly available. Such enquiries should be directed to the Company Secretary at the Company's registered office. If a Shareholder wishes to make an enquiry to the Board, it must be served at the registered office for the attention of the Company Secretary. In addition, Shareholders can contact Tricor Secretaries Limited, the share registrar of the Company, for any questions about their shareholdings.

Dividend Policy

The Board has adopted the Company's Dividend Policy at its meeting in November 2018. The Company's Dividend Policy aims at providing reasonable and sustainable returns to Shareholders whilst maintaining a position of financial stability which allows the Company to take advantage of any investment and expansion opportunities that may arise from time to time.

The Board may declare or propose dividends on an annual basis and/or may declare interim dividends or special dividends. The proposal or declaration of dividends by the Board is subject to consideration of the Company's and the Group's operating results, accumulated and future earnings, gearing, liquidity position, capital commitment requirement and future expansion plan as well as general economic conditions and external factors that may have impact on the financial performance and position of the Company and the Group. In addition, as the Company is a holding company, the Board will also consider the dividends received from its subsidiaries and associates as the ability to pay dividends by the Company is dependent on the dividends received from those subsidiaries and associates.

The Board will regularly review the dividend policy and will amend and/or modify the dividend policy if necessary.

Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange, but about promoting and developing an ethical and healthy corporate culture. We will continue to review, and where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

On behalf of the Board

Lee Seng Huang
Group Executive Chairman

Hong Kong, 20 March 2019