

LANGHAM

HOSPITALITY INVESTMENTS

ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY

1. Policy Statement

- 1.1 Langham Hospitality Investments (the “Trust”), LHIL Manager Limited (the “Trustee-Manager”, as the trustee-manager of the Trust) and Langham Hospitality Investments Limited (the “Company”, together with its subsidiaries and the Trust, the “Trust Group”) are committed to upholding high standards of business integrity, honesty and transparency in all its business dealings. The Trust Group strongly values the ethical conduct and integrity of the Employees and any third parties engaged by the Trust Group. Fraud, bribery and corruption hinder economic and social development and progress by confounding market principles and damage a company’s reputation. It may lead to criminal prosecution of or regulatory action against a company and/or its Employees, resulting in the imposition of criminal or civil penalties, including fines and imprisonment, and could damage a company’s business. The Trust Group strictly prohibits any form of fraud, bribery and corruption, and is committed to the prevention, deterrence, detection and investigation of all forms of bribery and corruption.
- 1.2 This Anti-Fraud, Bribery and Corruption Policy (“Policy”) sets out the standards of behavior expected from the Trust Group to ensure compliance with laws relating to anti-fraud, bribery and corruption and reaffirms the commitment of the Trust Group to provide guidance to all relevant parties about compliance with all relevant laws and regulations.

2. Scope

- 2.1 This Policy applies to all Directors, senior management, and employees (which for these purposes includes temporary, part-time or contract staff both inside and outside Hong Kong) (together with Executive Director(s) of the Trustee-Manager and the Company, the “Employees”) of the Trust Group.
- 2.2 Where the Trust and the Company participate in any joint ventures as a non-controlling shareholder, the other shareholder(s) shall, so far as reasonably practicable, be made specifically aware about the significance to the Trust Group of this Policy and shall be encouraged to apply the same policy or similar standard to the joint venture.

3. Definition

3.1 Fraud

Fraud commonly encompasses any deliberate intention to make some form of financial or personal gain for themselves or anyone else, or inflicting a loss (or a

risk of loss) to another i.e. the Trust Group. This could be through deception, bribery, forgery, extortion, theft, conspiracy, collusion, embezzlement, misappropriation, false representation, or falsification of any records or documents and/or failing to disclose information.

3.2 Bribery

Bribery involves giving or receiving something of value to influence a person's actions or decisions, often in violation of the law or ethical standards, and usually occurs where a person offers any advantage to a public servant or an agent (usually means Employee of the Trust Group or third party engaged by the Trust Group) as an inducement to or reward for the recipient to improperly influence his/her function at work, abuses his/her authority or position for personal gain. The person who offers the advantage and the public servant/agent who accepts the advantage are both guilty of an offence under Hong Kong law. The term "advantage" is defined in The Prevention of Bribery Ordinance and includes bribes and kickbacks. The basic standards of behavior expected of all Employees and the Trust Group's policy on matters like acceptance of advantages by Employees in connection with their official duties are set out in the Code of Conduct of the Trust Group. This Policy should be read in conjunction with the Trust Group's Code of Conduct.

3.3 Corruption

Corruption involves using power or authority for personal gain, often through illegal or unethical means and generally refers to the abuse of entrusted power for private gain. It is a form of dishonesty which is undertaken by a person or an organisation which is entrusted in a position of authority, in order to acquire illicit benefits or abuse power for one's personal gain. Corruption may involve many activities which include bribery, influence peddling and embezzlement.

A list setting out examples of "Red Flags" which may be indicative of fraud, bribery and corruption is attached in Appendix 1. Any Employee who becomes aware of any of the "Red Flags" in their dealings with a person/entity with whom the Trust Group does or proposes to do business that arouse suspicious of fraud, bribery and corruption, they should report the matter in accordance with the Trust Group's Whistleblowing Policy which provides a mechanism for Employees and those who deal with the Trust Group to raise concerns on any suspected impropriety, misconduct or malpractice through confidential reporting channels.

4. Roles and Responsibilities

4.1 Boards of Directors

The Boards of Directors of the Trustee-Manager and the Company ("Boards") have the overall responsibility to oversee the anti-fraud, bribery and corruption efforts for ensuring this Policy complies with all applicable legal obligations of the Trust Group. The Boards will provide the necessary direction, support and resources for implementation of this Policy. The Boards should demonstrate strong commitment to anti-fraud, bribery and corruption business practices, monitor and review the implementation of this Policy regularly.

4.2 Senior Management

Senior Management of the Trust and the Company has primary and day-to-day responsibility for implementing and overseeing this Policy and is responsible for:

- (a) setting the right tone at the top and demonstrating strong commitment to anti-fraud, bribery and corruption;
- (b) ensuring the effective implementation and the monitoring and investigation of any material fraudulent or bribery practices or activities committed with the Trust Group;
- (c) establishing and maintaining effective internal control systems to prevent, monitor and eliminate corruption risk; and
- (d) escalating and reporting to the Boards any potential material violations and any material issues relating to corruption risk.

4.3 Employees

Resisting fraud and helping the Trust Group defend against bribery and corruption practices are the responsibility of all Employees of the Trust Group. Employees are required to:

- (a) adhere to this Policy and understand the requirements under the Prevention of Bribery Ordinance and anti-bribery laws of the country in which they carry out business;
- (b) have basic knowledge of the corruption risks in their working environment and the proper anti-fraud, bribery and corruption practices they should adopt;
- (c) comply with the Trust Group's policies and procedures and the internal controls requirements;
- (d) promptly bring to the attention of his/her supervisor or appropriate reporting channel of any fraud, bribery or corruption or practices conducive to fraud noted; and
- (e) exercise common sense and judgment in assessing whether any arrangement could be perceived to be corrupt, illegal or otherwise inappropriate.

5. Risk Areas

5.1 Facilitation Payments and Kickbacks

- (a) "Facilitation Payment" is a payment to a government official designed to secure or speed up the performance of routine government actions, such as obtaining visas, permits, or licenses. "Kickbacks" consist of anything of value, monetary or non-monetary, that is made in return for a business favour or advantage. Both of them are corrupt payments and it is the Trust Group's policy

that they shall not be made or accepted. Even the mere act of offering is prohibited, regardless of whether or not the item of value is actually accepted by the intended recipient.

- (b) Employees should avoid any activity that might lead to or any activity that may suggest that a facilitation payment or kickback will be made or accepted by the Trust Group.

5.2 Charitable Donations and Sponsorships

- (a) The Trust Group supports the making of contributions (in cash or in kind, for instance, providing free venues, services or products etc.) to the communities in which it does business and permits reasonable donations to charities and sponsorships. Donations and sponsorships shall only be made to charitable or other organisations subject to the Trust Group's internal control policy and procedure and compliance with all applicable laws and regulations.
- (b) All sponsorship activities and donations need to be made in good faith and must be justified by reference to a legitimate commercial or charitable purpose and must not be made or received in conjunction with, as part of or in relation to negotiation of any bid, tender, contract renewal or prospective business relationship relevant to the Trust Group.
- (c) Payments to individuals or private accounts are not permitted.

5.3 Advantage

- (a) The exchange of business gifts and hospitality are customary courtesies (whether given or received) for various legitimate reasons, including to create goodwill, establish trust in relationships. However, Employees are required to exercise good judgment and practice moderation in giving or receiving advantage to or from anyone to avoid any possibility of compromising or appearing to compromise the objectivity of business decision.
- (b) The receiving or giving advantage of whatsoever nature are only permissible where they are given or received, as the case may be, in accordance with the following principles:
 - (i) all gifts, entertainment, hospitality and travel must comply with the Code of Conduct of the Trust Group and any policy or practice of the Trust Group;
 - (ii) they must be reasonable and not excessive;
 - (iii) the giving or receiving of cash gifts or loans is strictly prohibited. This does not prevent the acceptance, though not the solicitation, of Chinese New Year Red Packets given as a token of local custom during festive season.
 - (iv) they must be appropriate and consistent with reasonable business practice;

- (v) they must be provided with the intent only to build or maintain a business relationship or offer normal courtesy, rather than to influence the recipient's objectivity in making a specific business decision;
 - (vi) they should never be offered in return for financial or personal gain or favour; and
 - (vii) they must be permissible under all applicable laws, rules and regulations and the recipient's organisation's policies.
- (c) The Trust Group has a set of rules setting out in the Code of Conduct of the Trust Group governing the accepting and offering of advantage which includes money, gift, commission, loan, fee, reward, office, employment, contract, service or favour as more particularly mentioned in the Code of Conduct.

5.4 Procurement Process and Engagement of Third Party Representatives

- (a) Anti-bribery legislation in some countries imposes criminal liability for a company's failure to prevent bribery by anyone providing services for its behalf.
- (b) The Trust Group is committed to promoting anti-fraud bribery and corruption practices amongst any customers and suppliers. All Employees must adhere to the system of internal controls when evaluating prospective customers and suppliers.
- (c) All Employees should avoid any situation which may lead to an actual or perceived conflict of interest in any procurement process. A conflict of interest situation arises when your personal or financial interest (or those of your connections, such as family members, relatives, etc.) competes with or contravenes the interest of the Trust Group. Should such situation arises, declaration shall be made in accordance with the procedure and requirements as more particularly set out in the Trust Group's Code of Conduct.
- (d) The prohibitions in this Policy apply to third party ("Third Party Representative") engaged to represent the interests of the Trust Group, a breach of which could result in the termination of their engagement. Before entering into any contract or arrangement with Third Party Representative, relevant departments should:
 - (i) always act with due care and diligence to obtain comfort that such Third Party Representative does not pose an unacceptable risk of violation of Anti-Bribery Laws.
 - (ii) ensure that Third Party Representatives are aware of and respect this Policy;
 - (iii) consider that the contractual agreements with Third Party Representatives should allow for termination of their engagement if this Policy is breached;

- (iv) ensure that all fees and expenses paid to Third Party Representatives represent appropriate and justifiable remuneration, which is commercially reasonable under the circumstances, for legitimate services rendered by the third party representative; and
- (v) keep accurate financial records of all receipts and payments.

6. Training and Communication

- 6.1 All member companies of the Trust Group should ensure that Employees are informed about and understand this Policy, including applicable local procedures and requirements, and that there is a clear escalation procedure as set out in the Whistleblowing Policy for reporting actual or suspected breaches of this Policy and suspicious activity.
- 6.2 Regular training should be provided to Directors and Employees. The nature and frequency of the training will vary depending on the role of the individual and the likelihood that such person or entity will be exposed to corruption issues.
- 6.3 It is the responsibility of every manager to communicate this Policy and zero-tolerance attitude toward fraud, bribery and corruption to Employees. Managers should ensure that all Employees reporting to them, and external parties within their area of responsibility working on behalf of their respective companies, understand and comply with the prohibitions in this Policy.
- 6.4 No Employee will suffer demotion, penalty, or other adverse consequences for refusing the pay bribes even if such refusal may result in the Trust Group losing business.

7. Books and Records

- 7.1 Books and records include accounts, correspondence, invoices, memoranda, tapes, discs, papers, books and other documents or transcribed information of any type etc.
- 7.2 The Trust Group should establish a sound financial and accounting control system, including adequate segregation of duties, authorisation controls and logging of entries or changes to ensure the accuracy and completeness of its books of account, as well as to prevent or detect any irregularities. Such system is subject to regular review and audit.
- 7.3 All receipts and expenditures must be supported by documents that describe them accurately and properly. The falsification of any book, record or account of any company within the Trust Group is prohibited.

8. Reporting of Fraud and Suspicious Activity

- 8.1 Any Employee who becomes aware of, or has reasonable grounds to believe that there is an actual or suspected breach of this Policy, he/she must report such incidents in accordance with the Trust Group's Whistleblowing Policy which provides a guideline for the Employees or any relevant person on reporting channels and protection for whistleblower, and to provide details of how reports of improprieties will be handled. Employees are actively encouraged to report any concern regarding fraud, bribery and corruption.
- 8.2 Employees must cooperate fully and openly with any investigation into alleged or suspected corrupt activity or breach of this Policy. Failure to cooperate or to provide truthful information may also lead to the Employee being subject to disciplinary action, up to and including dismissal.

9. Subsidiary boards

- 9.1 Subsidiary boards and senior management remain responsible for developing effective anti-fraud, bribery and corruption processes for their entities. The principles and procedures applied by subsidiaries should support the effectiveness of this Policy.
- 9.2 Subsidiary management and boards should have appropriate input to their local or regional application and to the assessment of local risk areas.
- 9.3 While the strategic objectives, risk governance framework, corporate values and corporate governance principles of the subsidiary should align with that of the Trust Group (referred to here as "group policies"), the subsidiary board should make necessary adjustments where a group policy conflicts with an applicable legal or regulatory provision or prudential rule, or would be detrimental to the sound and prudent management of the subsidiary.
- 9.4 It is the responsibility of subsidiary boards to assess the compatibility of group policy with local legal and regulatory requirements and, where appropriate, amend those policies.
- 9.5 Where, because of local laws or regulations in any relevant overseas jurisdiction, an overseas subsidiary is unable substantively to reflect the principles and procedures set out in this Policy in its system, the Trust Group should be informed.

10. Review of the Policy

- 10.1 The Boards will review this Policy periodically to ensure its continued effectiveness.
- 10.2 This Policy should be read in conjunction with other governance policies of the Trust Group, including but not limited to the Code of Conduct.
- 10.3 Questions in relation to this Policy should be directed to the Company Secretary of the Trustee-Manager and the Company.

Appendix 1 : Red Flag List

(Reference from the Corruption Prevention Advisory Service (CPAS) under the Hong Kong ICAC)

This list is not intended to be an exhaustive list, but rather a list of factors which may be indicative of bribery or corruption and otherwise arouse suspicion about a person with whom a company is doing or proposes to do business and that the presence of any of these red flags does not automatically indicate wrongdoing, but rather serves as a prompt for further investigation.

Accounts

- ◆ Missing vouchers (e.g. receipts, invoices) or vouchers are not issued in sequential order.
[Potential malpractice: A staff member may have pocketed the cash received or made unauthorised payments for his personal gain.]
- ◆ There are many ambiguous transactions (e.g. other expense, miscellaneous) in the accounts.
[Potential malpractice: A staff member may have embezzled the funds of the company and falsified transactions to cover up.]
- ◆ Staff members always barely meet the performance indicators (e.g. a sales target) which are used for assessing the bonuses to be awarded.
[Potential malpractice: Colluded staff members may accept/offer bribes in return for referral of business among themselves to meet the performance indicators for bonuses.]
- ◆ Always unable to provide original receipts for payment claims or reimbursement of expenses.
[Potential malpractice: A staff member may have made fraudulent claims for non-existent or inflated expenses.]
- ◆ Same amount of payments are made to the same company/supplier repeatedly.
[Potential malpractice: A compromised staff member may collude with the company/supplier to claim payments for same services/items repeatedly.]

Inventory Management

- ◆ Exceptionally high consumption rate of an inventory item.
[Potential malpractice: A staff member may have exaggerated the quantity required and pocketed the spare for personal gain.]
- ◆ Frequent loss of inventory items (especially those expensive items) against the inventory record.
[Potential malpractice: A staff member may have stolen or improperly disposed of the inventory items.]
- ◆ Frequent delay in updating the inventory movement records by a particular staff member.
[Potential malpractice: A staff member may buy time to cover up stolen items.]

- ◆ Increase in the number of customer complaints on the quality of goods delivered.
[Potential malpractice: A compromised staff member and/or outsourced transport worker may have substituted the goods with substandard ones in the midway.]
- ◆ Consumption rate of raw materials used in a production line does not tally with the product output.
[Potential malpractice: A staff member may have pilfered the raw materials.]
- ◆ Quantity of items issued by a particular warehouse staff member is higher than normal.
[Potential malpractice: A warehouse staff member may have falsified the issue record to cover up misappropriation of items.]
- ◆ Users complain about the poor quality of goods received from a supplier.
[Potential malpractice: A staff member may turn a blind eye to substandard goods for a bribe.]

Sales Operation

- ◆ Frequent use of the same membership card for earning bonus points within a short period of time (e.g. within the same day).
[Potential malpractice: A staff member may use his/her own membership card or that of his/her relatives or friends to earn bonus points when a customer makes purchase without membership card.]
- ◆ Frequent use of the same credit card to make purchases within a short period of time (e.g. within the same day).
[Potential malpractice: When a customer pays by cash, a staff member may settle the payment by his/her credit card to earn bonus points. He/she may also pocket the difference if the credit card holder of a particular bank can enjoy a certain discount.]
- ◆ Exceptionally high refund cases at one store, or handled by one particular staff, when compared with the other stores/branches of the same operator.
[Potential malpractice: A compromised staff member may ignore the company's refund policy (e.g. by giving full refund for used or damaged items).]
- ◆ Although the store offers no special commission for sales of any products, a staff member keeps promoting to customers a particular product.
[Potential malpractice: The sales staff member may have accepted illegal rebate for promoting that particular product.]
- ◆ The promotional period of a particular product is unreasonably short.
[Potential malpractice: A compromised staff may favour a limited number of customers to enjoy the discount.]
- ◆ Popular items not replenished from the store's warehouse in time.
[Potential malpractice: A staff may hoard the items for personal gain or sell the items to colluded customers.]

Procurement – Bidding and Contract Award

- ◆ User department or technical staff insisting on using a particular brand or supplier despite there being a lack of objective justifications, and in particular, becoming irrational or irritated when queried or challenged.
- ◆ Use of the same supplier(s), or repeated extensions of contract with the same contractor(s), over years without any record of quotation exercise or price comparison, and the supplier(s)/contractor(s) are apparently not competitive in the market in terms of quality and price.
- ◆ Unfamiliar names of suppliers never/seldom heard of in the trade and whose reputation and reliability is unknown or in doubt, but either always winning bids or always on the quotation invitation list but never having any business awarded.
- ◆ Winning bids often just slightly below the next lowest bids, and/or always submitted in the last minute or late, etc.
- ◆ Staff frequently using exceptions or overrides to bypass normal procedures and controls, e.g. frequent use of the single quotation / direct purchase method claiming urgency.
- ◆ Purchases show pattern of being intentionally pooled together and approved while the normal approving authority is away from office (e.g. on long business trip or vacation), or repeated purchases of the same goods/services from the same supplier(s) often just below the value requiring a higher approving authority, etc. – showing signs of avoiding normal approval process.
- ◆ Where a contractor/supplier has been engaged under a term contract (often with highly competitive rates stated in the contract), staff frequently issue variation orders to the contractor/supplier for goods/services not covered by the contract (with different prices or specifications), resulting in increased payments to the contractor/supplier or substitution with lower quality goods.
- ◆ Unexplained/unusual increase in cost of goods sold to sales ratio, materials cost, etc. which does not compare with the industry norm or other branches of the same business operator.
- ◆ Suspicious signs on quotations or quotation invitation list, e.g. vendor which does not appear to be in the relevant business being invited, vendor name very similar to another more well-known one or not on the approved suppliers list, vendors' addresses / phone numbers / formats of quotations identical or very similar with each other, vendor's contact information matches that of an Employee or with no information except a mobile phone number, etc.

Procurement – Payment and Receipt of Goods / Services

- ◆ Frequent payments just under a certain authorisation level.
- ◆ Multiple invoices on the same date.
- ◆ A supervisor frequently allowing disbursements to vendors with insufficient supporting documents with various excuses.
- ◆ Frequent short delivery or provision of substandard goods.
- ◆ Increase in number of complaints about products or service procured.
- ◆ Replacement or repair after unreasonably short period of time.
- ◆ Unreasonably high cut of materials compared with industry norm or other branches within the company.

Staff Behaviour

- ◆ Staff members insisting on exclusively handling particular cases/accounts and resisting re-assignment of duties, without valid justifications.
- ◆ Staff members insisting on meeting clients, suppliers, or service providers alone, without appropriate oversight or accountability.
- ◆ Developing unusually close relationship with the service providers, such as engaging in private trips with the employees of the service providers.
- ◆ Refusal to take vacation leave or preventing colleagues from handling their work matters during leave, without reasonable justification.
- ◆ Exhibiting sudden and significant change of lifestyle, such as acquiring expensive cars, jewellery, homes, clothes, with a plausible source of income.
- ◆ Demonstrating significant personal debt and credit problems, including receiving debt collection calls or fax at the office, which indicate financial vulnerability or potential conflict of interest.