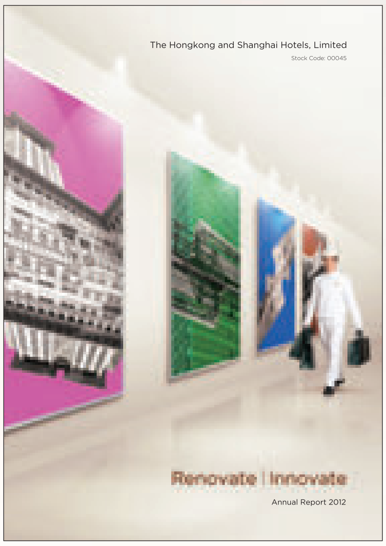
The Hongkong and Shanghai Hotels, Limited

Stock Code: 00045

Renovate | Innovate

Annual Report 2012



Renovate | Innovate

2012 was a year of Renovation and Innovation for The Hongkong and Shanghai Hotels, Limited and is the theme for this year's Annual Report. The Group's two key assets in Hong Kong and several hotel properties overseas underwent extensive enhancement programmes; at the same time, the Group deployed new technology at the new guestrooms in The Peninsula Hong Kong, advancing guest experience to a new era.

Contents

Company at a Glance

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on The Stock Exchange of Hong Kong (00045). HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotel, commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of transport, club management and other services.

HSH's businesses are grouped under three divisions: Hotels, Commercial Properties and Clubs and Services.

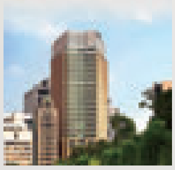
Hotels

Asia

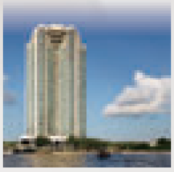
The Peninsula Hong Kong
Established: 1928
Rooms: 300
Ownership: 100%

The Peninsula Shanghai
Established: 2009
Rooms: 235
Ownership: 50%

The Peninsula Beijing
Established: 1989
Rooms: 525
Ownership: 76.6%*



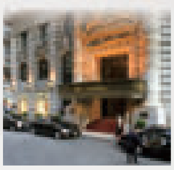
The Peninsula Tokyo
Established: 2007
Rooms: 314
Ownership: 100%



The Peninsula Bangkok
Established: 1998
Rooms: 370
Ownership: 75%

The Peninsula Manila
Established: 1976
Rooms: 497
Ownership: 77%

USA



The Peninsula New York
Purchased: 1988
Rooms: 239
Ownership: 100%

The Peninsula Chicago
Established: 2001
Rooms: 339
Ownership: 100%

The Peninsula Beverly Hills
Purchased: 1991
Rooms: 194
Ownership: 20%

Europe

The Peninsula Paris
Under construction
Rooms: 200
Ownership: 20%

* HSH owns 100% of the economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the cooperative joint venture period, expiring in 2033.

Commercial Properties

Residential

The Repulse Bay, Hong Kong
Established: 1976 & 1989
GFA: 996,788 sq. ft.
Ownership: 100%

The Landmark, Ho Chi Minh City, Vietnam
Established: 1994
GFA: 69,750 sq. ft.
Ownership: 70%

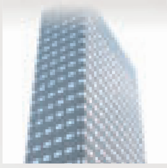
Commercial

The Peak Tower, Hong Kong
Established: 1996
GFA: 116,768 sq. ft.
Ownership: 100%

The Repulse Bay, Hong Kong
Established: 1989
GFA: 62,909 sq. ft.
Ownership: 100%

Office

The Peninsula Office Tower, Hong Kong
Established: 1994
GFA: 76,786 sq. ft.
Ownership: 100%



St. John's Building, Hong Kong
Established: 1983
GFA: 71,400 sq. ft.
Ownership: 100%

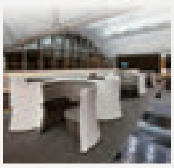
The Landmark Ho Chi Minh City, Vietnam
Established: 1994
GFA: 108,317 sq. ft.
Ownership: 70%

Clubs and Services

Peak Tramways, Hong Kong
Established: 1888
Ownership: 100%

Thai Country Club, Bangkok, Thailand
Established: 1996
Ownership: 75%

Quail Lodge & Golf Club, Carmel, USA
Purchased: 1997
Ownership: 100%



Peninsula Clubs and Consultancy Services
Established: 1977
Ownership: 100%

Peninsula Merchandising
Established: 2003
Ownership: 100%

Tai Pan Laundry, Hong Kong
Established: 1980
Ownership: 100%

Financial and Operating Highlights

	2012	2011	Increase/ (Decrease)
Consolidated Income Statement (HK$m)			
Turnover	**5,178**	5,009	3%
EBITDA	**1,201**	1,211	(1%)
Operating profit	**817**	834	(2%)
Profit attributable to shareholders	**1,555**	2,259	(31%)
Underlying profit attributable to shareholders*	**439**	464	(5%)
Dividends	**210**	208	1%
Earnings per share (HK$)	**1.04**	1.52	(32%)
Underlying earnings per share (HK$)*	**0.29**	0.31	(6%)
Dividends per share (HK cents)	**14**	14	–
Dividend cover (times)**	**2.1x**	2.2x	(5%)
Interest cover (times)	**9.6x**	9.5x	1%
Weighted average gross interest rate	**3.2%**	3.1%	0.1pp^
Consolidated Statement of Financial Position (HK$m)			
Total assets	**39,807**	38,233	4%
Audited net assets attributable to shareholders	**33,144**	31,455	5%
Adjusted net assets attributable to shareholders#	**36,390**	34,703	5%
Audited net assets per share (HK$)	**22.07**	21.11	5%
Adjusted net assets per share (HK$)#	**24.23**	23.29	4%
Net borrowings	**1,989**	2,335	(15%)
Net debt to EBITDA (times)	**1.7x**	1.9x	(11%)
Net debt to equity	**6%**	7%	(1pp)^
Gearing	**6%**	7%	(1pp)^
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities	**964**	999	(4%)
Capital expenditure on fixed assets	**(875)**	(312)	180%
Cash and cash equivalents at the year end	**1,682**	1,963	(14%)
Capital expenditure on fixed assets as a percentage to revenue	**17%**	6%	11pp^
Share Information (HK$)			
Highest share price	**11.92**	14.74	(19%)
Lowest share price	**8.63**	8.10	7%
Year end closing share price	**10.82**	8.61	26%
Operating Information			
Number of hotel rooms	**3,012**	3,012	–
Occupancy rate			
– Hong Kong	**79%##**	74%	5pp^
– Other Asia	**63%**	57%	6pp^
– United States of America	**72%**	69%	3pp^
Average room rate (HK$)			
– Hong Kong	**5,133**	4,503	14%
– Other Asia	**2,179**	2,156	1%
– United States of America	**4,627**	4,550	2%
RevPAR (HK$)			
– Hong Kong	**4,072##**	3,347	22%
– Other Asia	**1,367**	1,221	12%
– United States of America	**3,346**	3,135	7%

* Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating items.

** Dividend cover is calculated based on underlying profit attributable to shareholders over dividends.

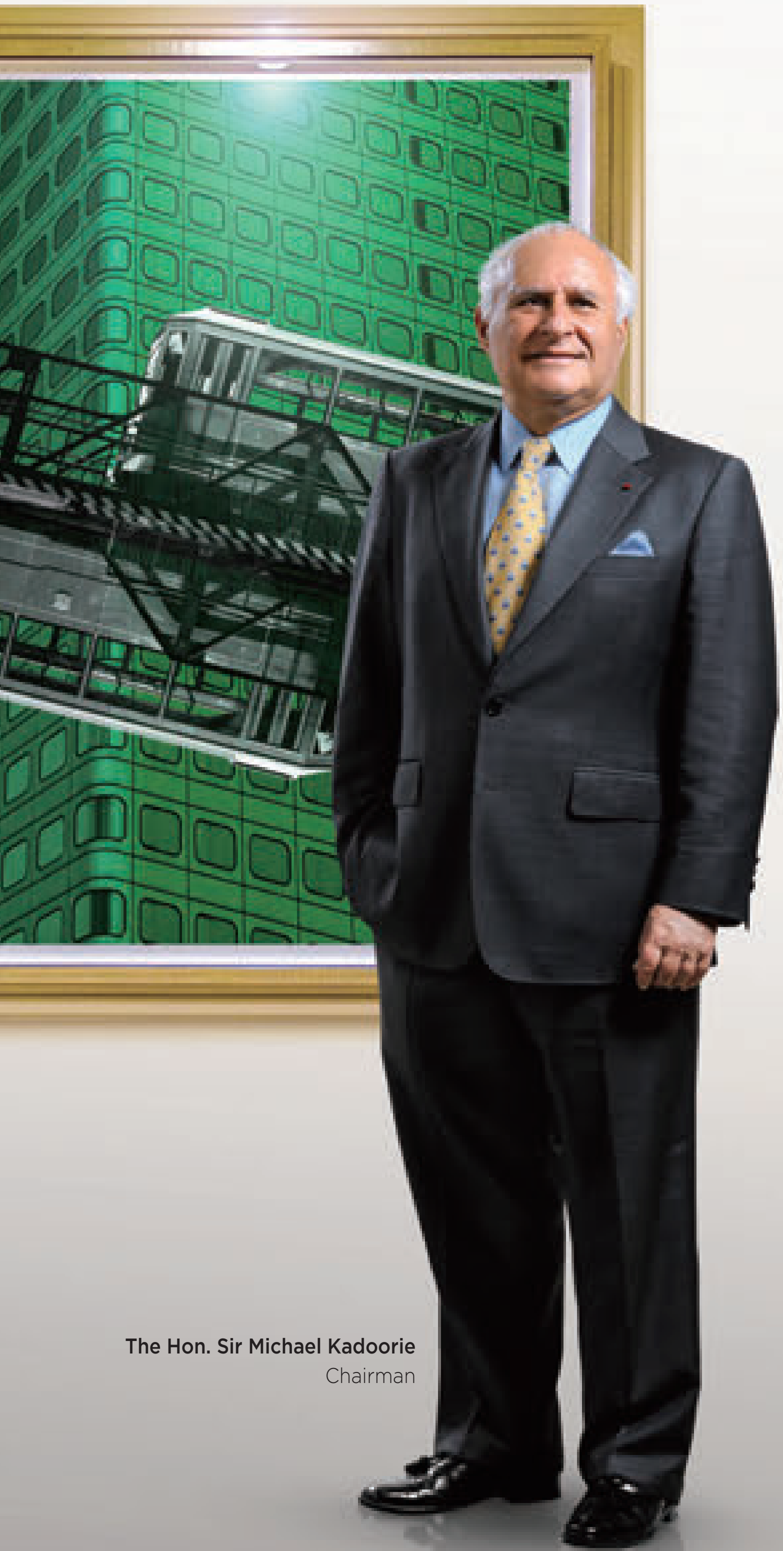
\# Adjusted net asset attributable to shareholders and adjusted net asset per share are calculated by adjusting the Group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers.

\## The occupancy and RevPAR for Hong Kong in 2012 are based on a reduced room inventory after taking into consideration the rooms not available for sale due to the room enhancement programme at The Peninsula Hong Kong.

^ pp denotes percentage points.

Chairman's Statement and Chief Executive Officer's Report

Chairman's Statement



The Hon. Sir Michael Kadoorie
Chairman

Dear Shareholders,

In recent years your Company has been challenged by the consequences of the global financial crisis which emerged in 2008-9 and by two natural disasters in 2011, being the earthquake and tsunami which hit Japan and the major flooding in Bangkok. During these trying times, our business has shown remarkable resilience. This is reflected in our financial performance in 2012, with the operating profit of HK$817 million representing a fall of only 2% compared to 2011. This performance was especially creditable, given that two of our most important income generating assets were partially closed for renovation during 2012, namely The Peninsula Hong Kong and the Repulse Bay Complex.

The reputation of The Hongkong and Shanghai Hotels, Limited as one of the leading hotel companies in the world is built upon a long-standing tradition of hospitality, leading design, innovative user-friendly technology and exemplary customer service. We bring together the best of our history and the best of the future. The renovation of The Peninsula Hong Kong has been undertaken in this spirit. We have now completed the first phase of a HK$450 million programme which will ensure that this "Grande Dame" continues to set the benchmark for outstanding standards of hospitality.

Whilst preserving the hotel's renowned heritage and tradition, we have introduced new conference facilities and redesigned, elegantly refined guestrooms and restaurants. This has been accompanied by the launch of ground-breaking hotel technology, which is described further on page 4 of Feature Stories.
I am particularly pleased that this technology has been developed by our in-house research and development team – demonstrating that the Company's capabilities to enhance the service we offer our guests, span the whole range from conception and implementation to day-to-day application. The second and final phase of the renovation programme at The Peninsula Hong Kong is scheduled for completion in Spring 2013. As my colleagues would testify, I have personally followed this programme closely and I am convinced that, on completion, The Peninsula Hong Kong will stand proud amongst the very best hotels in the world.

At the same time, we have been making good progress in the renovation of our other major asset in Hong Kong, the residential towers of the Repulse Bay Complex. The de Ricou serviced apartments are being renewed and reconfigured, whilst the public areas have been revitalised. This work will be completed by mid-2013. As with The Peninsula Hong Kong, I believe that the renovation of the Repulse Bay Complex will quickly make a positive contribution to the Company's business.

The enhancement and growth of the Company's asset portfolio is by no means limited to Hong Kong. In August 2012, we announced that the hotel element of the Quail Lodge & Golf Club in Carmel Valley, California would be undergoing a US$28 million renovation (including improvements to the golf course), with a view to the hotel portion of the Lodge re-opening in March 2013. Turning to Europe, the development of the new Peninsula Paris has been challenging, involving the conversion of an historic building on Avenue Kleber into an outstanding hotel. Bringing this project to completion has involved both an expanded scope of work and an increase in budget. Nonetheless, I am confident that The Peninsula Paris will be a worthy and valuable addition to our portfolio.

In my Chairman's Statement in last year's Annual Report I mentioned that corporate sustainability underpins activities across all our businesses. This involves not only paying the closest attention to the environmental and social impact of our operations, but also conducting our business in a manner and to standards which will ensure that the Company continues to prosper and succeed for decades to come. To that end, our management team and key stakeholder groups are involved in a structured and wide-ranging exercise of assessing the future trends that will affect our business over the long term and in creating a shared direction and vision for a sustainable business.

Looking towards the more immediate future, I believe that 2013 will be another landmark year for the Group. We look forward to the resumption of full operations at The Peninsula Hong Kong and the Repulse Bay Complex. We will also be celebrating two important anniversaries – the 125th anniversary of the Peak Tram and the 85th anniversary of The Peninsula Hong Kong. The celebration of the Peninsula will be under the theme "85 Years of Tradition Well Served". I regard this as an admirable expression of the traditions both of The Peninsula Hong Kong and of the Group as a whole.

Looking further afield, we continue to seek new opportunities to develop a select number of additional Peninsula hotels. However, we shall only pursue opportunities where we can develop hotels at the choicest locations and to the exceptional standards which are, and will remain, the hallmark of the Peninsula brand. Such opportunities will be rare, especially when coupled with the need to ensure that these projects deliver acceptable returns to the Company, as an owner-operator, and to our shareholders. We will be patient and selective, but we will be ready and capable to capitalise on suitable opportunities.

Over the past 12 months, the Company has successfully faced the challenges of a difficult business environment, whilst strengthening our platform for further growth and success. These achievements reflect the skill and dedication of our Chief Executive Officer, Clement Kwok and of all the Management and staff of the Group. I would also like to express my gratitude for the wisdom and guidance offered by my fellow Directors and for the continued trust of all our shareholders. Although the markets in which we operate will continue to be competitive, the talents of our people, the capabilities of our organisation and the support of our investors will ensure that the Company remains at the forefront of the world's luxury hospitality business.

The Hon. Sir Michael Kadoorie
13 March 2013

Chief Executive Officer's Report

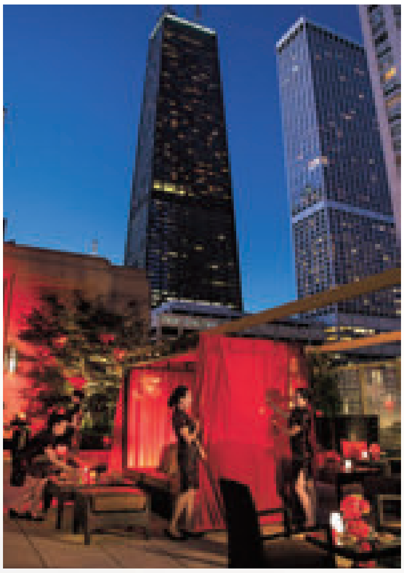
"We have revitalised our two principal operating assets in Hong Kong and we have ushered in a range of new systems and technology to support future development across the Group."

Clement K. M. Kwok
Chief Executive Officer

Overview

The theme of our Annual Report this year is Renovation and Innovation, reflecting the investment of financial and human resources which we have been making to renovate and upgrade our assets and in innovations to enhance our brand and guest experience. We have revitalised our two principal operating assets in Hong Kong and we have ushered in a range of new systems and technology to support future development across the Group.

As indicated in my Report last year, 2012 was a year of significant investment in the future of our Company through upgrading our rooms product in our flagship hotel, The Peninsula Hong Kong. Not only have we committed capital expenditure of HK$450 million to this rooms renovation project, but 2012 bore the brunt of the consequent disruption in operating earnings from the closure of rooms. With the de Ricou serviced apartments at the Repulse Bay Complex also closed for a significant reconfiguration for 11 months of 2012, our financial objective was to maintain the same level of group operational earnings as was achieved in 2011 through improved performances from the other operations across our three Divisions. I am pleased to report that this objective was achieved, with our EBITDA of HK$1,201 million being almost flat as compared with last year.



The Peninsula Moments Campagin

Hotels

In general, the hotel markets in which we operate continued to recover from the aftermath of the global financial crisis which started in 2008-2009, although a number of our hotel properties have not recovered their earnings to the pre-crisis level. Specific factors have also affected some of our markets, such as the earthquake and tsunami in Japan and the floods in Thailand in 2011. Markets such as Beijing, Shanghai, Bangkok and Chicago have seen an abundance of new 5 star hotel openings in recent years, giving rise to a highly competitive market environment. In 2012, strong financial performances were recorded by The Peninsula Hong Kong (despite the renovation) and The Peninsula Beverly Hills, whereas the best recovery from the previous year was recorded by The Peninsula Tokyo.

In September 2012, we launched a major new innovative global advertising campaign titled "Peninsula Moments". The images and videos, shot on location at the nine Peninsula Hotels around the world, showcased the special moments and memories which our hotels create for guests.

The Peninsula Hong Kong

Hong Kong: The Peninsula Hong Kong began the first phase of its rooms renovation project in January 2012 and successfully completed it in September 2012. The 135 newly designed guestrooms in the Tower were complemented by a new Conference Centre which was converted from a floor of the Office Tower, a new Bar and a rejuvenated and significantly expanded Verandah restaurant. The renovated guestrooms have been extremely well received by guests and the early indications are that the average room rate achieved post-renovation will be significantly above the rate pre-renovation. Overall, business continued to improve in both the corporate and leisure segments. The top producing markets for the hotel were Japan, China and the USA. There was also healthy growth from new customer markets including Russia and the Middle East. The food and beverage operations performed strongly, with the renovated and significantly expanded Verandah restaurant being very well received. The Peninsula Arcade remains highly sought after by leading luxury retail brands, with an average occupancy of 99% throughout the year, and both this and the Office Tower, which was fully let, were able to grow their average rent.

The Peninsula Shanghai

Mainland China: The Peninsula Shanghai, now in its third full year of operations and, we believe, is established as the best city hotel in mainland China as well as one of the leading hotels in the world. Despite intense competition from the large supply of new five star hotels in Shanghai, it continued to be the leader in RevPAR in Shanghai. The hotel enjoyed increased demand from domestic travellers and continued to step up its marketing efforts in mainland cities, as well as initiating partnerships with select high-end service providers. The Peninsula Arcade is occupied by 28 leading luxury retail brands. Meanwhile, The Peninsula Residences, which form part of this complex, commenced leasing activities in 2012. Its premier address on the Bund has appealed to premium residential tenants and over 25% of the 39 units have been leased. **The Peninsula Beijing** was able to maintain a leading position in the capital despite intense competition from the large supply of other luxury hotels, and was able to achieve improvements in both RevPAR and occupancy. Following the completion of extensive upgrading work for the Peninsula Arcade, the Arcade's position as a pre-eminent luxury goods shopping venue in Beijing was further strengthened and several leading brands are in the course of expanding their stores, in two cases into triplex spaces. The Arcade continues to provide an important stream of revenue for the hotel.

"The Peninsula Hong Kong began the first phase of its rooms renovation project in January 2012 and successfully completed it in September 2012. The renovated guestrooms have been extremely well received by guests and the early indications are that the average room rate achieved post-renovation will be significantly above the rate pre-renovation."

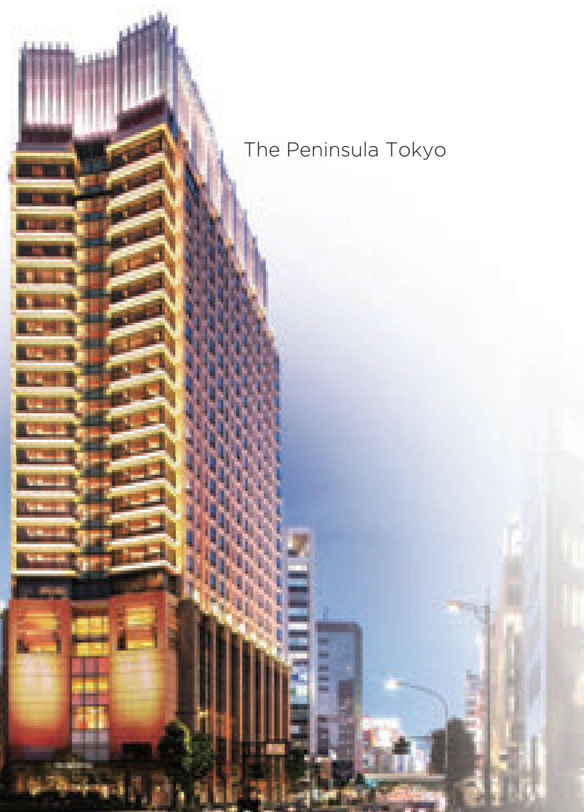
The Peninsula Residences

The Peninsula Beijing

"The Peninsula Beverly Hills experienced a remarkable year, achieving the highest revenue, highest average daily rate and the highest number of days with full occupancy in the hotel's 21-year history."

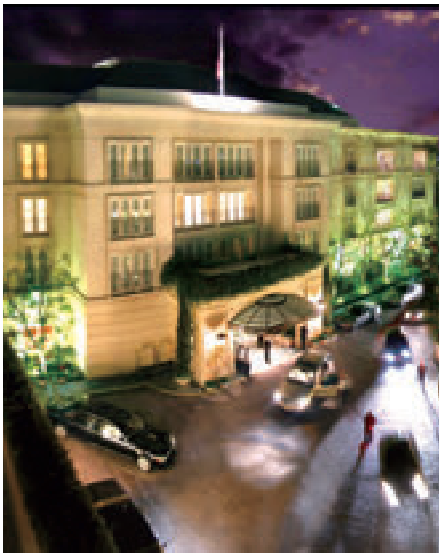
The Peninsula Bangkok

Asia: The Peninsula Tokyo continued to face the challenge of an economy in recession and a persistently high Yen for most of the year, which impacted tourist arrivals, but business was buoyed by domestic demand. Besides the recovery from the previous year's earthquake and tsunami, the hotel also enjoyed a rebound due to major international conferences held in Tokyo, such as the World Travel & Tourism Congress in May and the International Monetary Fund-World Bank meeting in October, the latter of which helped to move the hotel's occupancies and average rates in that month to their highest level since the hotel opened in 2007. The hotel's wedding business was also robust. The hotel continues to receive many accolades as one of the best hotels in Asia. In Thailand, **The Peninsula Bangkok** performed better than in 2011, with a stronger economy and rebounding from the massive floods in 2011. The new government appears to be more stable, although the political uncertainties of the past few years together with the increased supply of five star hotels, means that our



The Peninsula Tokyo

The Peninsula New York



The Peninsula Beverly Hills

earnings continue to be depressed as compared to the period prior to 2009. In The Philippines, **The Peninsula Manila** benefitted from a robust economy which boosted private spending, and saw an increase in frequent independent travellers' business while sustaining strong food and beverage business. The two recently created food and beverage outlets, Escolta and Salon de Ning, performed well.

USA: The Peninsula New York had a stable year, enjoying a good increase in business from some high-end overseas groups and expanding its business mix by focusing efforts on new sectors including technology, energy and entertainment. The renovation of the Peninsula Suite was completed, marking the full completion of the hotel's latest guestroom renovation project. In late 2012, the hotel had to face the havoc brought about by Superstorm Sandy, which severely interrupted arrivals, but The Peninsula New York was one of the few five star hotels in New York City to maintain full service for guests throughout the storm. Plans are proceeding for a major revamp of the food and beverage facilities at the hotel. Business remained relatively weak for **The Peninsula Chicago**, which is highly dependent on domestic and corporate business, although there was some improvement in business in the second half of 2012. During the year, The Peninsula Chicago renovated its Grand Suite and converted the Avenues restaurant into a junior ballroom, with great success. The hotel also hosted various national leaders and dignitaries who were in Chicago in May for the NATO Summit. In December, the hotel installed a skating rink outside Shanghai Terrace, which quickly became a popular feature in the city. In California, **The Peninsula Beverly Hills** experienced a remarkable year, achieving the highest revenue, highest average daily rate and the highest number of days with full occupancy in the hotel's 21-year history. The hotel continued to enjoy strong business from the entertainment industry and the Middle East market. Its guestroom renovation completed in 2011 is proving to be a success.

Overall, the revenue and EBITDA of the Hotels Division for the year were HK$3,885 million and HK$596 million respectively. Further details of individual hotel's financial performance can be found in the Financial Review (pages 38 to 42).

The Peninsula Chicago

"The Commercial Properties Division continues to provide a stable income contribution to the Group's earnings, counter-balancing the more cyclical nature of hotel earnings."

Commercial Properties

The Commercial Properties Division continues to provide a stable income contribution to the Group's earnings, counter-balancing the more cyclical nature of hotel earnings.

Our most important asset in this Division is **The Repulse Bay Complex**, whose major revenue is derived from residential lettings. During the year, lettings continued to experience strong demand, in line with Hong Kong's robust economy. In order to further enhance the yield from this Complex, we embarked on a major reconfiguration of the de Ricou serviced apartment tower within this Complex. The shopping arcade enjoyed high occupancy throughout the year while banquet and wedding business also achieved a record high. A commemorative history book was published in the last quarter of the year to celebrate The Repulse Bay's rich history and development over the last 92 years. Due to the closure of the de Ricou tower for renovation for 11 months of 2012, the overall revenue of the Complex fell 4% from 2011 to HK$518 million.

The Repulse Bay Complex

The Peak Complex

The Landmark

"The Peak Complex achieved excellent results in 2012 due to its strong positioning in the tourist market."

The **Peak Complex** achieved excellent results in 2012 due to its strong positioning in the tourist market. The Peak Tower maintained an average occupancy of 99.6% throughout the year and recorded an increase of 8% in year-on-year revenue, which was also boosted by a higher number of visitors to the rooftop Sky Terrace 428. St. John's Building enjoyed a high occupancy of 91% throughout the year and revenue was in line with 2011.

At **The Landmark** in Vietnam, both the office and residential portions maintained high occupancies despite the intense competition in Ho Chi Minh City and a fragile national economy. We have been undertaking a renovation of the serviced apartments to maintain a highly competitive position in the city.

Overall, the revenue and EBITDA of the Commercial Properties Division for the year were HK$733 million and HK$474 million respectively. Further details of individual property's financial performance can be found in the Financial Review (pages 43 to 49).

Cathay Pacific airport lounges

Thai Country Club

Clubs and Services

The historic **Peak Tram** has maintained its position as one of Hong Kong's most popular tourist attractions, welcoming thousands of visits every day from locals, tourists and even Chinese astronauts. In 2012, the patronage of the Peak Tram rose to a record 5.9 million passengers, a 2.4% increase from 2011. Revenue also grew by 6%.

Income from our club management activities rose with strong growth in utilisation of the **Cathay Pacific lounges** at the Hong Kong International Airport. The Wing, Cathay Pacific's first and business class lounges, partly re-opened during the year after extensive renovation with an upgrade in design and facilities and an enhanced food and beverage offer. The **Thai Country Club** saw an increase in the number of golf rounds played as well as an increase in revenue. At **Quail Lodge & Golf Club**, the annual Quail Motorsports Gathering celebrated its 10th anniversary in August. We announced in the same month that we would be committing US$28 million to renovating all of Quail's guestrooms, the lobby and golf course, following which the new Quail Lodge will re-open in March 2013. We have also appointed a specialist golf management

No.1 Waitanyuan

Quail Lodge & Golf Club

Peninsula Merchandising

company, KemperSports Management, to manage the golf and Clubhouse operations. In 2012, **Peninsula Merchandising** once again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes. We rebranded the range of products and franchised the first Peninsula Boutique in South Korea. In Shanghai, **No. 1 Waitanyuan**, managed by The Peninsula Shanghai, has gained a fine reputation for its fine food, service and ambiance in the historic setting of the former British Consulate. We have also leased other premises within the Bund 33 complex for commercial usage.

Overall, the revenue and EBITDA of the Clubs & Services Division for the year were HK$560 million and HK$131 million respectively. Further details of individual clubs and services' financial performance can be found in the Financial Review (pages 44 to 45).

"The historic Peak Tram has maintained its position as one of Hong Kong's most popular tourist attractions, welcoming thousands of visits every day."

The Peak Tram

"It has been a challenging and complicated project to convert this historic building into a Peninsula hotel. Since the commencement of the project, the scope of work has been expanded to address necessary additional structural works, historical preservation considerations, unknown site conditions and design improvements to the facilities for customers."

Projects and Developments

The focus of our projects and development activities continues to be on (i) the establishment of a small and select number of new Peninsula hotels in key international gateway cities and (ii) continual enhancement of our existing hotels and other properties so as to maximise their long term value.

Since the beginning of 2009, we have been engaged in an ambitious project, in partnership with Katara Hospitality, to convert a beautiful historic building on Avenue Kleber in Paris, close to the Arc de Triomphe, to be The Peninsula Paris hotel. This hotel will be our first in Europe and promises to set new standards in terms of design, luxury and comfort. A huge amount of work has been done by our project colleagues working in conjunction with Katara Hospitality and the project team in Paris. The project has now progressed to a stage where all of the main designs have been completed, the core of the building, its infrastructure and internal walls are close to completion and internal fitout is commencing.

The Peninsula Paris

However, it has been a challenging and complicated project to convert this historic building into a Peninsula hotel. Since the commencement of the project, the scope of work has been expanded to address additional structural works required, historical preservation considerations, unknown site conditions and design improvements to the facilities for customers. These issues have had consequences on timing, scope of consultants' services and contract costs. As a result, the total construction budget for the project was increased during the year from EUR295 million to EUR338 million (excluding contingency). The major part of the construction budget is being financed by a non-recourse project loan of EUR220 million which has been arranged. HSH owns 20% of the hotel.

Whilst the search for future new Peninsula hotel developments continue, we remain very selective in seeking opportunities in key gateway cities which will meet Peninsula's full requirements. A lot of time and effort goes into this endeavour and I hope to be able to report further progress in due course.

In the meantime, we continue to devote significant efforts to the continual enhancement of our existing assets. The second and final phase of the 15 month renovation in The Peninsula Hong Kong will be completed in the middle of 2013, which will return the remaining 165 guestrooms in the Original Building to inventory. The rooms in the Original Building incorporated the lastest touch screen technology for our in-room controls which were developed by our in-house research and development apartment and are being built on the same design as the renovated guestrooms in the Tower, which as mentioned earlier are already commanding a significantly improved room rate, as compared to before the renovation. At the Repulse Bay Complex, the finalisation of the de Ricou renovation in the middle of 2013 will provide a more efficient mix of unfurnished and serviced apartments to replace the previous serviced apartment-only configuration, which we expect to increase the rental yield significantly for that asset. In addition, the final phase of ongoing renovation of the public areas in the Complex will further improve the living environment for our residents in the entire Complex.

We believe that the significant investment in The Peninsula Hong Kong and The Repulse Bay projects will further enhance the value of these key assets and help to maintain their leading positions in the market.

Projects and renovations continue to be undertaken regularly at all properties in order to maximise usage and value of all areas. Other recently completed or ongoing projects include the renovation of the Peninsula Suite and the rejuvenation of the food and beverage facilities at The Peninsula New York, the creation of a junior ballroom at The Peninsula Chicago and the renovation of one of its Grand Suites, the renovation of all guestrooms at The Peninsula Beverly Hills completed during the year, the continual improvement of the retail arcade at The Peninsula Beijing, the renovation and re-opening of Quail Lodge and renovation of the serviced apartments at The Landmark in Ho Chi Minh City.

"Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 5% to HK$36,390 million, representing HK$24.23 per share, and our gearing remained at a conservative level of 6% at the year-end."

Financial Results

It continues to be a strength of our Group that our hotels business is balanced by a strong mix of commercial properties, including several successful high-end shopping arcades within our hotels, as well as our well-established commercial, residential and office properties. This comprehensive and diversified portfolio enables us to have balanced earnings over the long term.

Our Group results were impacted by the renovation work in The Peninsula Hong Kong, where 55% of the hotel room inventory was not available during 2012. The results, therefore, reflect a 1% fall in earnings before interest, taxation, depreciation and amortisation (EBITDA) to HK$1,201 million in 2012 and a fall of 2% in operating profit to HK$817 million in 2012. The EBITDA margin was 23%. We regard this to be a satisfactory result in the light of the renovation disruptions during the year.

Inclusive of non-operating items, being principally the year-end investment property revaluation surpluses, the net profit attributable to shareholders was HK$1,555 million, as compared to HK$2,259 million in 2011. Our underlying profit attributable to shareholders, which we have calculated by excluding the post-tax effects of the property revaluation surpluses and other non-operating items, amounted to HK$439 million, as compared to HK$464 million in 2011, representing a fall of 5%.

Our financial position remains strong. Our revalued net assets attributable to shareholders increased by 5% to HK$36,390 million, representing HK$24.23 per share, and our gearing remained at a conservative level of 6% at the year-end. Our net cash outflow for the year, after deducting capital expenditure, interest and dividends, amounted to HK$82 million.

> "Hong Kong remains the most important market for our businesses and it is pleasing and important to us that the economy here continues to be strong, providing stable demand for the retail spaces at The Peninsula Hong Kong, The Repulse Bay and the Peak Tower, as well as our residential and commercial lettings."

Based on our results, the Board has recommended a final dividend payable on 20 May 2013 of 10 HK cents per share. Together with the 2012 interim dividend of 4 HK cents per share paid on 28 September 2012, the total dividend in respect of the 2012 financial year will be 14 HK cents per share.

Corporate Responsibility

In 2012, we continued to refine our approach to addressing our environmental, social and ethical responsibilities. Despite the Group's business growth, our absolute energy and water consumption in 2012 have reduced by 5.8% and 6.1% since 2008 when we began our sustainability programme. We have also become more conscious of our impact on the world's bio-diversity. In line with our efforts in responsible sourcing, we stopped serving shark fin at all our owned and managed food outlets around the world and launched a commitment to procure all paper products only from responsibly managed forests by 2017. All Group companies have started to implement the policy during the year, with about 35% of paper product being FSC-certified, a 13% increase from the previous year.

I have always believed that the Group's sustainability journey would be made more focused by regular measurement of our progress. To further strengthen how we govern the environmental and social impact of our operations, we took an in-depth look at our sustainability management system and process in 2012. We expanded the reporting scope to cover more than 90% of the Group's businesses and reconsidered the metrics that we should use to give us greater clarity on our impacts. Some of the new reporting metrics were introduced during the year with the rest scheduled to roll out in 2013. We also renewed the discipline of tracking and driving our performance on a quarterly basis and introduced a new planning process of corporate responsibility initiatives in the annual budgetary exercise. The revamped and more robust sustainability management processes underpin our commitment to integrating sustainable practices and principles across our businesses with balance and focus. In the coming years, we will work on expanding our employee engagement programme so as to bring this commitment to all parts of our business.

Developing a shared direction for sustainable business at the Group will be a focus of our work over the next two years. In 2012, we began engaging our management team around the world in a forum to assess key macro trends that will affect the Group's ability to continue to thrive in the long term. It was followed up by a structured process to engage our major stakeholder groups in developing our Sustainability Materiality Matrix. These efforts in building shared understanding both internally and with our external stakeholders, supported by the renewed sustainability management processes, have laid a solid foundation for us to explore a new vision of sustainable luxury for the Group.

Outlook

The strength of our Group continues to emanate from our genuine commitment to the long term, which provides the vision and willingness to invest in assets for their long term value creation and the staying power to ride through shorter term cycles in the economy without compromising the quality of our products and services. In the volatile economic circumstances that we regularly encounter in today's environment, this commitment has enabled us to make investment and capital expenditure decisions with a very long term outlook and to maintain our service quality and the continuity of our people. With this in mind, I remain optimistic that we are continuing to chart a course which will maximise the quality and value of our assets and deliver long term returns to our shareholders.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime locations with the objective of being a long term owner-operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as possibly the leading luxury hotel brand in the world, thereby creating value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

For 2013, we are looking forward to bringing the entire room inventory of The Peninsula Hong Kong back into operation following the major renovation programme, which we expect will have a positive impact on earnings. The de Ricou reconfiguration will also be completed in the middle of the year, although with the time needed to build occupancy back up, we do not expect to benefit from the full impact of this until the following year. Following discussions with our joint venture partner in Shanghai, we have taken the decision to explore a potential sale of up to 49% of the Peninsula Residences within The Peninsula Shanghai Complex.

Other than these specific factors, the general market environment for most of our hotels remains stable to positive. However, we are watching with concern the territorial dispute between Japan and China which has already caused a reduction of travellers between these two countries. Our operating profit margins continue to be under pressure from rising wage costs and it remains of paramount importance to control costs and increase efficiency in delivering services to customers without any compromise to the quality of the experience of our guests.

Hong Kong remains the most important market for our businesses and it is pleasing and important to us that the economy here continues to be strong, providing stable demand for the retail spaces at The Peninsula Hong Kong, The Repulse Bay and the Peak Tower, as well as our residential and commercial lettings. Inward tourism remains on a growth trend, to the benefit of our hotel as well as the Peak Tram and the Peak Tower. On a celebratory note, we will be celebrating the 125th anniversary of the Peak Tram and the 85th anniversary of The Peninsula Hong Kong this year.

Finally, at the heart of our brand are our people, who exemplify our values and beliefs in their dealings with our guests and in contributing to the communities in which we operate. It is the drive and creativity of our people which provide special and memorable experiences for our guests and develop for us the many meaningful and long lasting relationships which are important to our business. In turn, we are greatly committed to their well-being and development and emphasise staff welfare and training in all our activities. I would like to thank every member of our big staff 'family' for their hard work and commitment.

Clement K.M. Kwok
13 March 2013

Hotels' Performance

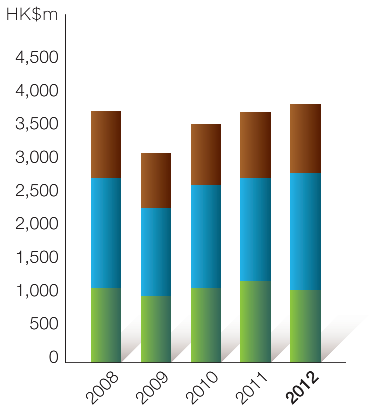
	Attributable Interest %	Revenue (HK$m)		Number of Rooms		Occupancy %		ARR (HK$)		RevPAR (HK$)	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
The Peninsula Hong Kong* **	100	**1,025**	1,156	**300**	300	**79**	74	**5,133**	4,503	**4,072**	3,347
The Peninsula Shanghai*	50	**492**	461	**235**	235	**59**	59	**3,603**	3,704	**2,140**	2,185
The Peninsula Beijing*	76.6	**417**	386	**525**	525	**53**	49	**1,643**	1,693	**864**	827
The Peninsula New York	100	**566**	552	**239**	239	**73**	71	**5,769**	5,841	**4,200**	4,159
The Peninsula Chicago	100	**469**	446	**339**	339	**68**	65	**3,002**	2,946	**2,044**	1,905
The Peninsula Beverly Hills	20	**481**	421	**193**	193	**79**	74	**5,782**	5,478	**4,575**	4,027
The Peninsula Tokyo*	100	**814**	699	**314**	314	**65**	54	**4,643**	4,409	**2,995**	2,388
The Peninsula Bangkok	75	**225**	193	**370**	370	**64**	51	**1,360**	1,480	**877**	748
The Peninsula Manila	77.4	**302**	273	**497**	497	**73**	70	**1,190**	1,133	**866**	792
Total		**4,791**	4,587	**3,012**	3,012						
Average						**66%**	62%	**3,091**	3,126	**2,046**	1,924

Starting from 2012, the average room rate (ARR) and RevPAR will now be presented including undistributed service charge. This has been changed to comply with the 10th Edition of the *Uniform System of Accounts for the Lodging Industry* and the practice in Hong Kong as recommended by the Hong Kong Hotels' Association and the Hotel Controllers and Accountants Association of Hong Kong.

* The average room rates and RevPAR include undistributed service charge, which is levied in Hong Kong and Tokyo at the rate of 10%, in mainland China at 15%.

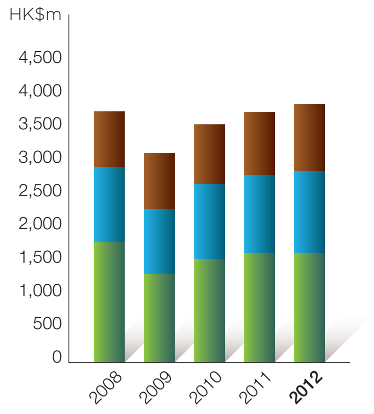
** The Peninsula Hong Kong had its first phase of renovation for 135 rooms from January to September 2012. The second phase for the 165 rooms in the Oiginal Building began in September 2012 and is scheduled for completion in mid 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.

Hotels' Revenue by Geographical Segment



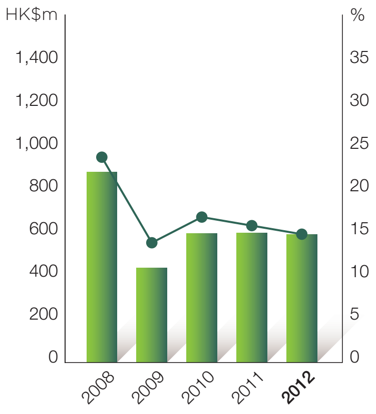
HK$m	2008	2009	2010	2011	2012
Hong Kong	1,122	997	1,119	1,217	**1,092**
Other Asia	1,641	1,328	1,547	1,551	**1,758**
USA	1,009	820	910	998	**1,035**
	3,772	3,145	3,576	3,766	**3,885**

Hotels' Revenue by Nature



HK$m	2008	2009	2010	2011	2012
Rooms	1,810	1,324	1,549	1,642	**1,637**
Food & Beverage	1,128	985	1,123	1,175	**1,232**
Others	834	836	904	949	**1,016**
	3,772	3,145	3,576	3,766	**3,885**

Hotels' EBITDA

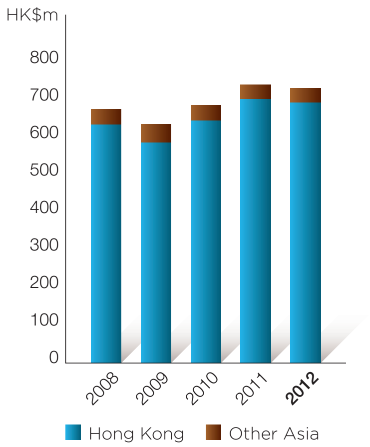


	2008	2009	2010	2011	2012
EBITDA (HK$m)	890	443	604	605	**596**
EBITDA Margin (%)	24%	14%	17%	16%	**15%**

Commercial Properties' and Clubs and Services' Performance

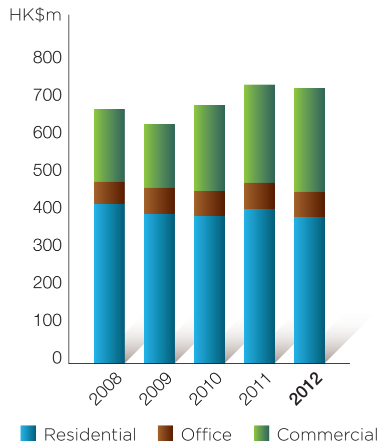
	Attributable Interest %	Revenue (HK$m)		Net Lettable Area (sf)		Occupancy %		Yield (HK$)	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
The Repulse Bay Complex	100	**518**	538	**732,732**	843,300	**92**	92	**43**	40
The Peak Tower	100	**131**	121	**67,254**	67,254	**99**	100	**95**	84
St. John's Building	100	**45**	45	**61,102**	61,102	**91**	100	**44**	44
The Landmark Vietnam	70	**39**	39	**132,740**	134,140	**88**	91	**20**	21
Total		**733**	743	**993,828**	1,105,796				
Average						**92%**	92%	**44**	40

Rental Revenue from Commercial Properties, by Geographical Segment



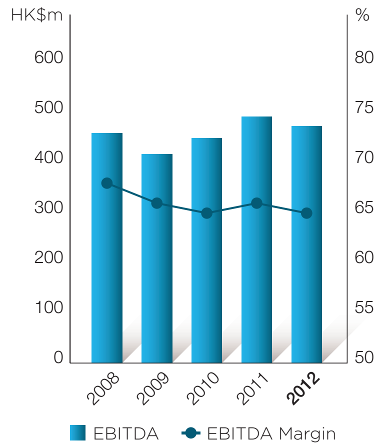
HK$m	2008	2009	2010	2011	2012
Hong Kong	636	588	646	704	**694**
Other Asia	41	49	42	39	**39**
	677	637	688	743	**733**

Rental Revenue from Commercial Properties, by Nature



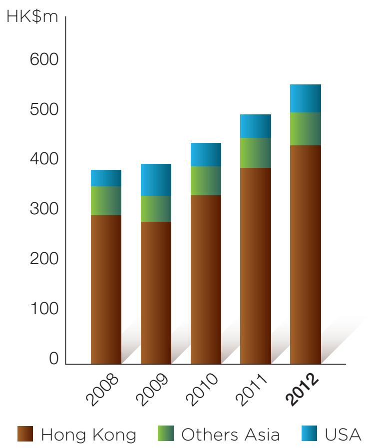
HK$m	2008	2009	2010	2011	2012
Residential	425	398	392	410	**390**
Office	59	70	66	71	**67**
Commercial	193	169	230	262	**276**
	677	637	688	743	**733**

Commercial Properties' EBITDA

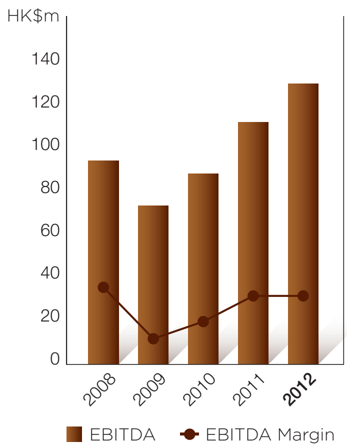


	2008	2009	2010	2011	2012
EBITDA (HK$m)	460	418	450	493	**474**
EBITDA Margin (%)	68%	66%	65%	66%	**65%**

Revenue from Clubs and Services, by Geographical Segment



Clubs and Services' EBITDA



Revenue from Clubs and Services, by Geographical Segment

HK$m	2008	2009	2010	2011	2012
Hong Kong	298	285	338	393	**438**
Other Asia	58	52	58	60	**66**
USA	33	64	47	47	**56**
	389	401	443	500	**560**

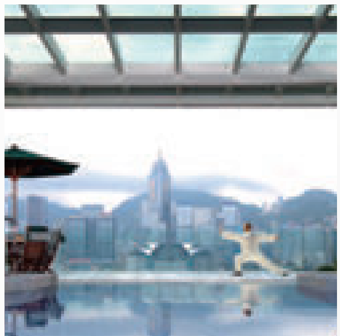
Clubs and Services' EBITDA

	2008	2009	2010	2011	2012
EBITDA (HK$m)	95	74	89	113	**131**
EBITDA Margin (%)	24%	18%	20%	23%	**23%**

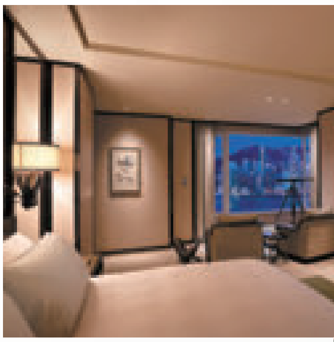

Renovate | Innovate

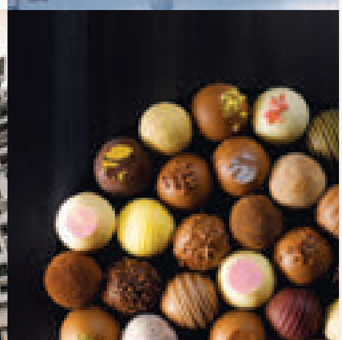
Feature Stories

The Way Forward



A New Era
at Repulse Bay

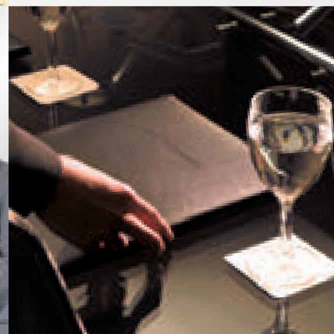




Fresh Looks for
Peninsula
Merchandising

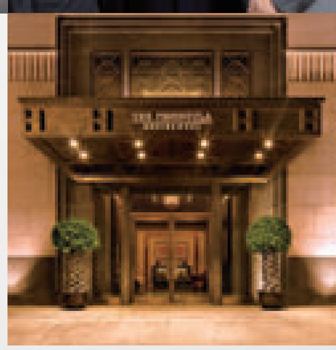
A Brand New Look

Staying Power

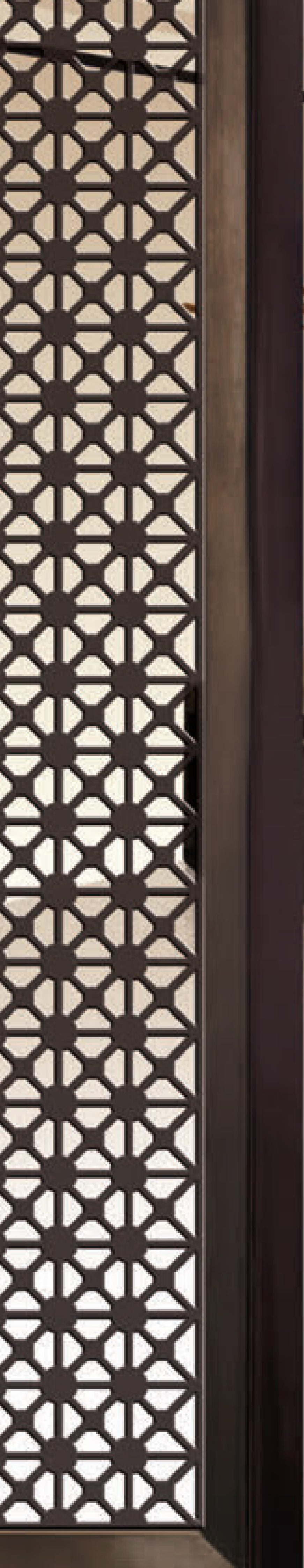


Tai Pan Laundry

Conversations



Luxurious Living
on the Bund



A Brand New Look

"The Peninsula Hong Kong is as committed to defining the future of luxury, as it has been to preserving its magnificent heritage of the past."

On 11 December 1928, The Peninsula Hong Kong opened its doors, paving the way for a remarkable story of vision and evolution that would unfold over the next eight decades. In 2012, a year short of the Grande Dame's 85th anniversary, the first phase of an extensive renovation project was completed. Classical, contemporary chic has redefined our flagship hotel, as this legend of the East once again takes luxury to the next level. Designed in-house and showcasing the finest materials and craftsmanship, the newly enhanced rooms boast a bespoke, residential feel, seamlessly blended with unique interior touches.

In a bid to offer guests the levels of comfort and experiential luxury during their stay at The Peninsula Hong Kong, the hotel has unveiled the first phase of a landmark room enhancement programme that will further cement its leadership position in global luxury hospitality. "Building on our role as a purveyor of timeless luxury, The Peninsula Hong Kong is as committed to defining the future of luxury, as it has been to preserving its magnificent heritage of the past," states Rainy Chan, General Manager of The Peninsula Hong Kong.

The HK$450 million project will transform all 300 of the hotel's guestrooms through a two-phase enhancement programme that commenced in January 2012, with the guestrooms in the Tower paving the way for the transformation of guestrooms in the Original Building, which will be unveiled in May 2013, the year of the hotel's 85th anniversary celebrations. "For me, the biggest accomplishment of The Peninsula Hong Kong's room enhancement has been to redefine luxury. The essence of this is simplicity, achieved by marrying the finest materials and craftsmanship with cutting-edge technology, demonstrating to every guest that luxury can be high tech and, ultimately, easy to use. Anyone can use our in-room technology, which – since its inception – has evolved from being a room control console to a user-friendly smart computer, that enables you to call the valet, order room service, watch high resolution TV or DVDs and customise the in-room experience to your language of choice," says Chan, adding, "I believe we have succeeded in creating the world's first truly personalised guestroom."

In addition to the rooms renovation, revolutionary in-room technology that was developed in-house sets new standards of guest personalisation, with fully customised interactive digital bedside and desk tablets preset in one of multiple languages, according to guest preference. Full control of all in-room functions is a touch away, via the bedside and desk tablets, which enable access to restaurant menus, hotel services, the new PenCities virtual city guide, personalised Internet TV with noise cancelling earphones, in addition to full in-room control, also offered by LED

“The first phase of our renovation programme has met with great success and guest feedback has been extremely positive.”

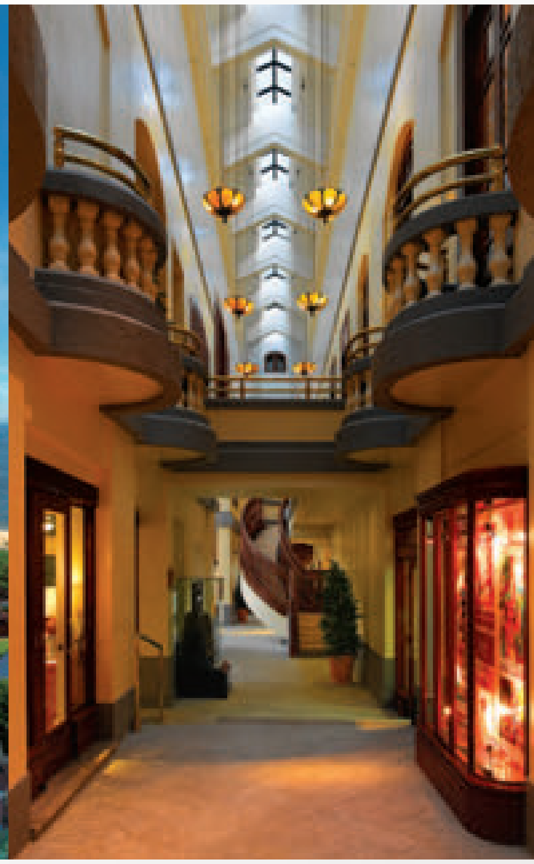
touch screen wall panels located on the walls. These feature valet call, weather details, thermostat, language and privacy options at a convenient touch. “One of the driving forces behind the newly renovated guestrooms at The Peninsula Hong Kong was to create accommodation that could provide multi-language facilities for all of our guests,” states Ingvar Herland, General Manager, Research & Technology. “Total integration is the key to our systems and I believe we are the only hotel company in the world to offer this.”

“The first phase of our renovation programme has met with great success and guest feedback has been extremely positive,” enthuses Chief Operating Officer, Peter Borer. “The increase in our average room rate is significant and our guests are prepared to pay to fully enjoy their experience. The additional renovations of the Peninsula Boutique, The Verandah and The Bar have also allowed us to offer a further new dimension in guest experience.”

A New Era
at Repulse Bay

"We believe that the continued significant investment in the Repulse Bay will further enhance the value of this key asset and help to maintain its leading position in the market."

An extensive renovation programme of The Repulse Bay Complex has been underway since 2011. This will see a significant upgrade of all the public areas of the apartment towers and a complete reconfiguration of the layout of the serviced apartment tower, de Ricou, in order to improve both its efficiency and rental yield. The project, which is divided into three phases, is targeted for completion in 2013.



Located on the scenic south side of Hong Kong Island and overlooking The Repulse Bay beach and South China Sea, The Repulse Bay Complex is comprised of eight apartment towers and a shopping arcade with restaurants and a health wing, built on the site of the former Repulse Bay Hotel (1920-1982). All the apartments are held as investment properties for lease.

Covering a total gross floor area of 996,788 square feet, the two residential properties were completed in 1976 and 1989, whilst the commercial entities which occupy 62,909 square feet were opened in 1986.

"The full renovation and upgrading works of the public area and car park of the Repulse Bay Apartments is now complete," says Palle Jensen, General Manager of the Repulse Bay. "This includes all entrance and lift lobbies and lift interiors, the indoor PlayStreet and outdoor playground, car park painting and floor resurfacing, as well as the paint work of the exterior façade of the building."

In February 2012, the Group commenced a full renovation of the de Ricou tower, to ensure that it remains a top choice for luxury residences in Hong Kong. The new development comprises a total of 49 unfurnished and serviced apartments.

In line with the Group's sustainability practices, Jensen is pleased to report that new chillers were installed in 2012. "The new oil-free, water-cooled chiller system allows an energy saving of up to 25% and produces less greenhouse gas and contaminants to the environment. Other environmental problems caused by the conventional chillers, such as noise, vibration, and thermal plume have also been addressed."

In addition, the lighting in the plant rooms of the Complex have been upgraded to energy-saving T5 tubes or LED lights, thus demonstrating further commitment to sustainability and environmentally-friendly policies.

"We believe that the continued significant investment in the Repulse Bay will further enhance the value of this key asset and help to maintain its leading position in the market," concludes Jensen.

The Peninsula Moments still images were captured by Singapore-based photographer Russel Wong. "Ultimately I wanted to be able to capture specific moments that are unique to each Peninsula property and at the same time be able to show some of the people and aspects of service that make the Peninsula Hotels tick," says Wong. "I wanted it to appear very narrative, like scenes from a movie. It's very challenging to do something different when photographing in the hospitality business, but I believe we have achieved that through this campaign, and the images are more atmospheric and very different to what one might see elsewhere."

The stills photography is complemented with a series of short video vignettes to be utilised on various digital marketing platforms. The creative direction is stylised and dynamic, evoking a sense of destination and luxury, driving aspiration and inspiring the viewer to see the destination as they have never done before. Produced by Ridley Scott Associates, the videos were directed by Jean-Claude Thibaut and Antony Crook. "My main objective was to amaze the audience with real stories and authentic moments to capture the overall magic of each Peninsula hotel," says Thibaut. "Those moments were fuelled by the staff's genuine desire to inspire, surprise and delight incoming guests. Their unique approaches to their work brought an original view on each city."

The Way Forward

Peninsula Moments

In September 2012, the Peninsula Hotels unveiled Peninsula Moments, a new, global brand campaign using video and photography to demonstrate how the Peninsula Hotels brings the very best and most unique aspects of each destination to its guests with style, sophistication and elegance. Conceived and developed in-house, the aim of the latest advertising campaign was to showcase the magic that the Peninsula Hotels brings to the lives of its guests by focusing on special memories created by staff members and showcasing unique elements of each hotel and its respective destination through highly compelling visual imagery.

"PenCities will further establish the Peninsula Hotels as the arbiter of luxury in each city."

Destination Peninsula

In September 2012, the Peninsula Hotels introduced PenCities, a website-based travel journal covering what is new in terms of luxury, culture, gastronomy and shopping in each Peninsula hotel destination city.

The Peninsula Hotels partnered with Hong Kong-based LUXE City Guides to develop proprietary and exclusive content for each destination. "The need for great and compelling content to engage with our guests and customers is the reason that we have partnered with LUXE City Guides. The luxury consumer is hungry for this type of content, and so with insightful weekly updates on our destination cities, PenCities will further establish the Peninsula Hotels as the arbiter of luxury in each city," says Chief Operating Officer, Peter Borer.

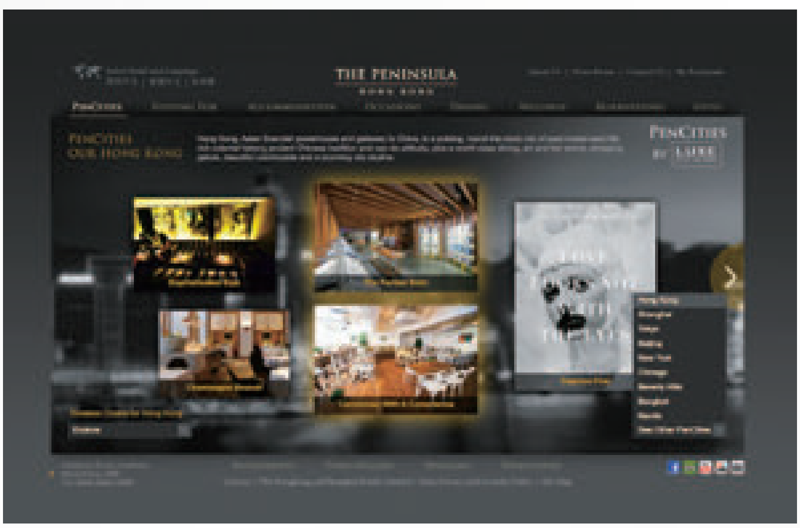
"LUXE City Guides is absolutely delighted to be working in partnership with the Peninsula Hotels, a brand that attracts a most discerning and vibrant clientele, and represents the epitome of elegant, seemingly effortless service and hospitality, setting an exceptional benchmark worldwide," adds Grant Thatcher, Founder and Publisher, LUXE City Guides.

Setting Sail

Long celebrated for its eclectic collection of transportation choices – ranging from Rolls-Royces to Minis, helicopters, riverboats and more, the Peninsula Hotels has now set sail on the ocean through its sponsorship of the Peninsula Signal 8 racing yacht.

The latest addition to an already formidable transportation collection is a Hong Kong-based, 40-foot (12-metre) fast offshore racing yacht. The vessel is the eighth boat in the revolutionary Ker 40 design.

Launched in December 2011 and sporting the Peninsula Hotels' branding on the spinnaker, main



sail and hull, Peninsula Signal 8 has already successfully competed in various races and regattas. "As yacht racing continues to gain popularity across the globe, we're delighted to sponsor this magnificent yacht, which represents not only a new direction for the Peninsula brand, but also a unique offering for our guests," says Borer.

When not racing in competition, Peninsula Signal 8 is available for Company hosted sailings, including hotel guests, staff, Peninsula hotel partners and Peninsula Academy

programmes, together with local charities and NGOs. VIP guests have the chance to join the crew on board for races, or follow the action from an accompanying support boat. "As part of the Peninsula Hotels' CRS initiatives, sailing brings joy to children and those less fortunate than ourselves, and our plans include helping sick children. Meanwhile, making Peninsula Signal 8 available to staff will help ensure our employees enjoy a work-life balance in which they can develop and fulfil their personal potential. Sailing is a clean, green activity and also raises awareness of Hong Kong's beautiful natural surroundings – many only accessible by water," adds Borer.

"We are very happy to fly the Hong Kong flag with Peninsula Signal 8," enthuses co-owner Jamie McWilliam. "And we are especially pleased to have been doing it with the support of the Peninsula Hotels. We are looking forward to flying the Hong Kong and the Peninsula flags wherever we compete."

"The new look Peninsula Boutique offers a whole new shopping experience with the debut of a selection of merchandise."

Peninsula Merchandising Limited is committed to developing and marketing merchandise for our retail operations and sister properties that complement the Peninsula brand. We create brand preference and loyalty by delivering enjoyable shopping experiences at the Peninsula Boutiques and by offering top quality products that are synonymous with the Peninsula name.

"In 2012, Peninsula Merchandising again achieved record sales in Hong Kong and Asia for its signature Mid Autumn Festival mooncakes, exceeding the previous year's revenue by 47%, whilst overall revenue for the year also increased by 12%," states General Manager Paul Tchen. "Significant developments for our business included the opening of our new flagship store at The Peninsula Hong Kong, designed by renowned international design firm Yabu Pushelberg, the debut of the Peninsula Boutique in South Korea, the further expansion of the Peninsula Boutique at Hong Kong International Airport and exclusive Peninsula merchandise now being available at airline duty free on Cathay Pacific, Dragonair and Japan Airlines. It has been a truly exceptional year."

Revamped Boutique at The Peninsula Hong Kong

In 2012, Peninsula Merchandising Limited unveiled its new look flagship boutique at The Peninsula Hong Kong. The HK$12 million project saw a total makeover of the existing Boutique located in the basement level of the hotel, a brand new look for its gift packaging and a complete review of the product range.

"The new look Peninsula Boutique offers a whole new shopping experience with the debut of a selection of merchandise including the new Peninsula Artisan and Signature Chocolate ranges, new premier tea flavours to provide greater selection from the current collection, unique silver-plated gifts, as well as the ever-popular and much-loved Peninsula bear products and gourmet items," says Tchen.

Inspired by travel, the 1,995 square foot boutique takes the form of a large suitcase with shelves and compartments fashioned from wood and leather to display the merchandise. Marble counter tops and flooring coupled with a metal closure gate add an elegant yet contemporary feel.

Fresh Looks for Peninsula Merchandising

New Boutique Experience

Complementing the interior is the new merchandise packaging design by Amsterdam-based firm, UXUS, which specialises in strategic design solutions for retailers and marketers. The merchandise is presented in chic green, brown, beige or dark red boxes made from fine textured, custom made FSC paper from Italy. In true Peninsula style, no detail has been spared in the finishing.

The Peninsula Boutique opening in Seoul, South Korea

On 21 August 2012, Peninsula Merchandising and Momus Ventures Group, the distributor of Peninsula merchandise and operator of Peninsula Boutiques in South Korea, opened the first South Korean boutique at the flagship Hyundai Department Store in the exclusive area of Apgujeong, Gangnam.

"Carrying a range of exclusive merchandise from the Peninsula Hotels, our South Korean boutique aptly reflects the Group's unique blend of the best of Eastern and Western hospitality, luxurious comfort, modern facilities and intuitive technology combined with exceptional, personalised Peninsula service," says Tchen of the project.

"Naturally Peninsula – Chocolate Flavours"

The latest and third in the Peninsula Hotels' cookbook series, "Naturally Peninsula – Chocolate Flavours" was published in 2012. "Naturally Peninsula" cuisine is specially created by the culinary teams of the Peninsula Hotels to introduce a variety of lighter and healthier dining options. Recipes are well balanced and use organic produce from reputable and sustainable sources wherever possible.

Fast Facts

In 2012, a total of **378,000 boxes** of Peninsula mooncakes were sold in Hong Kong and through our overseas distributors.

Peninsula Merchandising sells 43,000kg of chocolates every year through **27 retail outlets** in **seven countries**.

6,000 bottles of XO sauce are sold at the Peninsula Boutique flagship store every year.

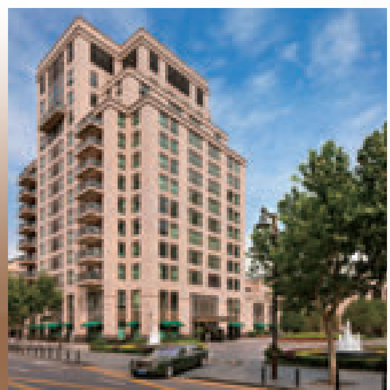
Luxurious Living on the Bund

The world's first Peninsula Residences in Shanghai are among the most luxurious and exclusive private residences in mainland China. 39 deluxe riverside apartments are located adjacent to The Peninsula Shanghai at No. 32 The Bund.

The Peninsula Residences feature exquisite one, two, three and four-bedroom residences which blend time-honoured Peninsula standards of luxury with Art Deco influences and contemporary styling by French designer Pierre-Yves Rochon. Each interior has been carefully created by a team of global design, lighting and art experts, and offers life-enhancing home comforts by leading brands, carefully selected furnishings, signature concierge services and the same patented advanced technology enjoyed throughout the Peninsula Hotels worldwide.

Managing Director of The Peninsula Shanghai, David Batchelor, says that there has been a significant level of interest from both expatriates and local Chinese in wishing to rent the apartments. "They appeal to people who have a desire to live in style", he states. "A number of our tenants are from other cities in mainland China who maintain an apartment with us for use when they are on business in Shanghai. There's nothing like it in terms of the level of finish that we have. These are serviced residences connected to a luxury hotel. We have individual lift lobbies for each apartment and they are all fully furnished to a level of comfort and style reflective of the Peninsula Hotels. Each Peninsula Residence is the ultimate Shanghai home, rich in design sophistication and offering unparalleled lifestyle comforts."

A world of extra benefits is also on the doorstep, courtesy of The Peninsula Shanghai. Residents receive priority booking and special rates at the Peninsula Spa and at The Peninsula Shanghai's restaurants and lounges. Superlative shopping is also close to home in the form of the two-level Peninsula Arcade which houses 28 of the world's top luxury brands in addition to the Peninsula Boutique. Riding around Shanghai is an optional pleasure thanks to the hotel's fleet of Rolls-Royce Phantoms and Peninsula Edition BMW 7-series limousines.



Tai Pan Laundry

A wholly-owned subsidiary of HSH, Tai Pan Laundry is a commercial operation that has contracts with major hotels, clubs and independent restaurants in Hong Kong. It also operates a valet service at The Repulse Bay for the convenience of residents.

In the 25 years that Manager, Chang Wai Yip has served Tai Pan Laundry, the company has evolved to become one of the leading operators in its field. When Chang first joined the company, its operations were based in an industrial premises in the Kowloon Wharf Godown. In 1994 the building was demolished and the company moved to new premises in Tsuen Wan, from where it continues to operate today.

In 2007, the company purchased adjacent premises, expanding from 20,000 to 36,000 square feet and installed additional machinery, thus allowing it to increase its business volume. Tai Pan Laundry now serves a number of five star hotels in Hong Kong, including The Peninsula, as well private clubs and restaurants, Cathay Pacific lounges and a leading fitness chain in the city. "Our aim is to provide the very best service to our customers," says Chang. "That also applies to our valet shop in The Repulse Bay Complex and our home collection and delivery service."

Chang manages a team of 180 staff at Tai Pan Laundry, overseeing all operations from sales to customer service, human resources and transportation. 2012 saw the completion of new construction in order to make the company's operations more efficient. The project also involved the purchase of two new tunnel washers which are capable of washing up to 1,633 kgs (3,600 lbs) of laundry at one time. "The washer uses 12 compartments to clean and dry laundry and is fully automated, thus saving energy and manpower," states Chang. "It also allows us a 30 percent saving on water."

The company also purchased two additional flatwork ironers, which are capable of drying, ironing and folding a bed sheet in just 22 seconds. "We are constantly looking for new equipment as in this business it is challenging to recruit staff due to the nature of the job," says Chang. Chief Operating Officer, Peter Borer adds, "the completion of the Tai Pan Laundry upgrade project in 2012 has undoubtedly made the operation more efficient and led to increased profitability for the year."

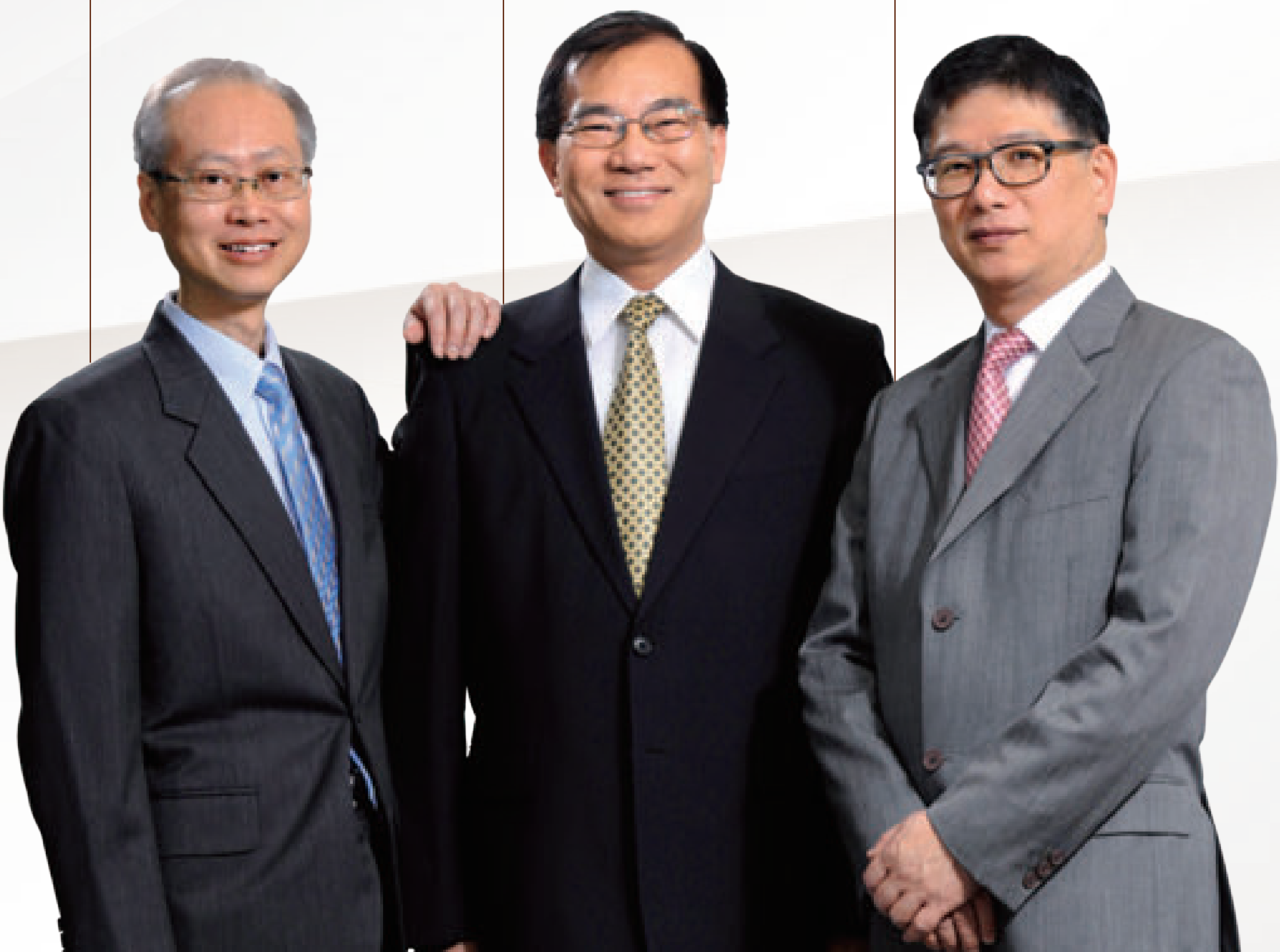
Staying Power

Three of the Group's longest serving colleagues have worked for HSH for a combined total of 132 years, symbolising exceptional levels of loyalty and service. Their accomplishments demonstrate great perseverance and sheer hard work.

Pitson Leung
Financial Controller,
Tai Pan Laundry
42 Years of Service

Shum Kwok Wah
Accounts Receivable
Supervisor
45 Years of Service

Chang Wai Yip
Manager,
Tai Pan Laundry
45 Years of Service



Chang Wai Yip was born in 1951 in Macau. He came to Hong Kong in the mid 1960s when the city welcomed tens of thousands of people from overseas who subsequently became the driving force of its success.

Q How did your employment with HSH come about?

C I had received little education and I joined HSH in 1967 at the age of 16, as a Messenger. I treasured the opportunity given to me and realised that the only way to a better life was through sheer hard work. A year later, I became a Typist and when everyone else in the office went out for lunch, I would use that time to improve my skills. Shortly thereafter, I was promoted to the position of Accounts Clerk.

Q What were the next steps in your career?

C In 1982, the Company transferred me to one of its subsidiaries, Premier Restaurants. I became a Senior Accountant and then Chief Accountant a few years later. In 1985, I was appointed Controller of Tai Pan Laundry and in 2001 I was promoted to become Manager.

Q What have been the most memorable times of your career with HSH?

C The early years spent at Head Office.

Q What advice would you give to newcomers joining the Company?

C It is very important to never be shy, don't be afraid of working too hard, and always learn from your mistakes.

Shum Kwok Wah was born in Hong Kong in 1952. His family was no stranger to HSH as his father, Shum Pui, was a long-serving employee of the Repulse Bay Hotel.

Q What was your first position with HSH?

S I joined the Company in 1967 when I was 14 years old as a Messenger.

Q How did your career progress from then on?

S I was promoted to be No. 2 Office Boy in 1969 and then Clerk in 1971. In 1972, I was promoted to the position of Assistant Cashier, at a time when the use of credit cards in Hong Kong had just started to gain popularity. I held several other positions in the accounting department before reaching my current position as Accounts Receivable Supervisor in 2010.

Q What are some of your fondest memories of working with the Company?

S I happily remember the days when I was dressed in a smart HSH uniform, a navy blue, buttoned-down shirt with silver buttons emblazoned with the Company logo, paired with navy blue trousers. I also take great pride in the fact that I have witnessed many memorable milestones, including the 1988 purchase of what became The Peninsula New York.

Q What is your advice to new Company employees?

S To constantly work hard, always have good manners, and utilise every opportunity to learn.

Pitson Leung was born in 1955 in Macau. He did not receive much education, but found his first job as a mechanic and printing assistant before joining HSH.

Q What was your first position with HSH?

L I joined as a Messenger at the age of 15. In subsequent years, I became No. 2 Office Boy, then Typist, Accounts Clerk and Senior Accounts Clerk.

Q How did your career with HSH further evolve?

L In late 1982, I joined HSH's subsidiary, Premier Restaurants, as Senior Accountant and three years later I was promoted to the position of Chief Accountant. In 1989, I became Controller. In 1995, I joined Peninsula Clubs & Consultancy Services (PCCS) as Controller.

Q What are the major challenges that you have faced over the years?

L In 1997, I suffered from kidney failure and for the following eight years, my health condition continued to deteriorate. However, I did not leave my post and actually took on a new position in 1999 as Financial Controller of The Repulse Bay. Fortunately, I received a kidney transplant in 2005 and soon after recovering, I joined Tai Pan Laundry as Financial Controller.

Q Having already achieved so much in your career, do you have any plans for retirement?

L I am simply happy and grateful to have my life and I have no plans for retirement yet.

Conversations

"This industry is undoubtedly challenging, especially given world events over the past decade. It is of utmost importance to be responsible to our guests and staff, and make many important decisions."

Rainy Chan
Area Vice-President – Hong Kong and Thailand

Passionate and inspirational are two adjectives that more than aptly describe Hong Kong-born Rainy Chan, who first joined HSH in 1994 as Front Office Manager at The Peninsula Hong Kong. Following a series of promotions within the hotel, Chan was appointed Resident Manager at The Peninsula New York. She returned to The Peninsula Hong Kong in 2001 as Hotel Manager, and in 2004 was appointed General Manager at The Peninsula Bangkok. In April 2007, she took up her current position as General Manager of The Peninsula Hong Kong and in May 2010, she was promoted to become Area Vice-President – Hong Kong and Thailand.

Chan began her hospitality career in Maui, Hawaii in 1989 when she joined the Inter-Continental Resort. "When I first moved to Hawaii, I decided to join the hotel industry because I had experience working in the sevice industry and I simply love working with people. I immediately realised that I was doing exactly what I enjoy.

"I came to HSH through my ex-boss in Hawaii who became a head hunter and he thought of me immediately when the Front Office Manager position at The Peninsula Hong Kong came up," recalls Chan. "I said to myself that I would only go for a year, and here I am today, almost 20 years later! When the Peninsula asks, how can you say no?

"This industry is undoubtedly challenging, especially given world events over the past decade. It is of utmost importance to be responsible to our guests and staff and make many important decisions," says Chan, who is currently one of the most senior female members of staff within the Group. "Joining HSH was a life-changing decision for me, and then as a junior manager, I never dreamed of being anywhere near where I am today. The Company has taught me to be a good hotelier, leader and person. I have learned that inspiration is a very important tool in leadership and a key aspect of our company culture."

Chan fondly remembers her first day as General Manager of The Peninsula Hong Kong. "I was sitting on the opposite side of the desk where I had first been interviewed and had to keep pinching myself, as it was a dream come true. I immediately knew that my job was about running the hotel for the future and not just for the present. My vision was to introduce a 5-day working week and to renovate the hotel." Today, these two goals have been achieved as well as a great deal more. "One of our important ongoing commitments is to be conscious of the community in which we operate, and this year as we celebrate our 85th anniversary, we will be honouring Hong Kong's best."

"I hope I can contribute to making it even more successful. There are always things to be done. Everyday is different, and we constantly have new customers."

Joseph Sampermans
General Manager, The Peninsula Beijing

Whilst studying for a Bachelor's Degree in Finance in his native Netherlands, Joseph Sampermans discovered his calling in the hospitality industry. "I have always had a sense of adventure," he says.

Between 1997 and 2004, Sampermans held positions at a number of luxury properties in both Europe and Asia. In 2004, he joined The Peninsula Bangkok as Director of Food & Beverage, subsequently becoming Executive Assistant Manager.

In 2007, with the imminent opening of The Peninsula Tokyo, Sampermans was appointed Pre-Opening Executive Assistant Manager, Food & Beverage, and then promoted to Resident Manager a year later.

2010 brought Sampermans to The Peninsula Hong Kong, where he spent two years as Hotel Manager. "There is something very special about the hotel. It is based on true tradition and when I walk into one of these historic hotels there's a very special feeling. This Company also really invests in its properties and everything is well maintained to the best standards in the industry."

In October 2012, Sampermans was appointed to his current position as General Manager of The Peninsula Beijing. "Beijing is rapidly becoming one of the most important capitals in the world," he states. "The Peninsula Beijing is also historic and was one of the first luxury properties in the country." When asked what his aspirations are for the hotel, Sampermans is enthusiastic. "I hope I can contribute to making it even more successful. There are always things to be done. Every day is different, and we constantly have new customers. This Company also really looks after its staff and everything is done for the long-term, which creates a sense of belonging as part of our Peninsula family."

"I found The Peninsula to be far more streamlined than most other hotel companies and I love its strong focus on people, its family environment, and its true sense of luxury."

Sonja Vodusek
General Manager, The Peninsula Manila

Australian born Sonja Vodusek has spent her entire career in the luxury hospitality industry. Following 16 years at Four Seasons properties across the globe, Vodusek was seeking new challenge and in 2010 she took up her first role with HSH as Hotel Manager at The Peninsula New York. Following her appointment, Vodusek actively sought to gain a deeper understanding of the Company's corporate culture. "I found The Peninsula to be far more streamlined than most other hotel companies and I love its strong focus on people, its family environment, and its true sense of luxury."

Seven months after her appointment at The Peninsula New York, Vodusek was asked to become General Manager of The Peninsula Manila. From the start of her appointment in 2011, Vodusek immediately immersed herself in the culture of The Philippines and proactively took steps to meet her guests and potential clients. "It is vital to be visible in the community and be totally present within the operation," she states passionately. "It's about leading from the front and not from your office. Our hotel is a major social hub and The Lobby is essentially our business card."

Vodusek is the first female General Manager of The Peninsula Manila in its 36-year history and she says, "for me, the most important thing is to be yourself and to ensure both staff and guests are well taken care of. I am very passionate about what I do."

May Tsang
General Manager, The Peak Complex

"We are fortunate to enjoy such a great image and market position. It is truly spectacular working on top of Hong Kong Island."

In 2001, May Tsang's career path took a somewhat unexpected direction. Having worked for the charitable organisation ORBIS for eight years, she felt that she needed a change. Coincidentally, HSH was recruiting a Director of Marketing & Promotions for The Peak Complex and Tsang was successfully appointed to the role. "It was both a challenge and a risk as I was completely new to the industry," she recalls. "I knew nothing about tourism, but I found it fascinating, which helped me to develop in my role and the support given to me by the Company was immensely helpful. HSH is renowned for its investment in and caring for its employees."

The Peak Tram and Peak Tower have for long been among the top tourist attractions in Hong Kong, and during the first few years of her employment, Tsang was tasked with focusing on the marketing and promotion of the entertainment facet of the destination. "We are fortunate to enjoy such a great image and market position, and this really enhanced my initial experiences with the Company," she says. "It is truly spectacular working on top of Hong Kong Island."

Work on the revitalisation of the Peak Tower began in March 2005 and was completed in December 2006. This extensive programme has transformed it into the major leisure destination that it is today, offering a great variety of dining, specialty shopping and interactive entertainment for Hong Kong residents and tourists alike. Being part of this project is one of Tsang's career highlights to date. "The revitalisation was a great success," she states, "and the Peak Tower continues to be one of Hong Kong's most visited destinations. We have also been able to increase profit substantially."

Shortly after the completion of the revitalisation project, Tsang was promoted to the position of Deputy General Manager in 2007 and subsequently to General Manager in 2009. Her next major project will be planning for the upgrade of the Peak Tram. "We have always been very proud to have served Hong Kong for over 120 years. With the ever increasing number of visitors, we need to ensure maximum reliability and efficiency of our system and services," she states. "We are currently conducting feasibility study for the upgrade. It's a very exciting time for us."

Natalie Chan
Senior Manager, Corporate Responsibility and Sustainability

"I can see that all the staff are so passionate about their work and they actually do things, rather than just talking about them."

Natalie Chan joined HSH in 2011 to lead the Group's strategy on corporate responsibility and sustainability. She has almost 10 years of experience in the field.

In 2005, Chan took a year off and went to Africa to undertake various types of volunteer work. Upon return to Hong Kong, she became involved with a charity project to benefit underprivileged communities.

"I was attracted by the clear desire and yearning for the Group to do more in the Corporate Responsibility and Sustainability areas," said Chan in explaining why she took on the role in HSH. "I can see that all the staff are so passionate about their work and they actually do things, rather than just talking about them."

In late 2011, HSH decided on a Group-wide ban on the serving of shark fin, and the ripple effect to other organisations and hotels has been very encouraging. The Group has also launched a Group Paper Policy whereby paper products are only purchased from well managed forests, to be implemented progressively over the next few years. In addition, the Group has implemented an indoor air quality policy, whereby all properties must conduct an annual assessment.

"Observing the growing interest among all our staff in the area of sustainability has been a rewarding experience. Ultimately, it will take the passion, commitment and creativity of each one of us to make a difference," said Chan. "CRS is a constantly evolving area. The Internet and journals are regular sources of information, but it's also important to work closely with NGOs and industry peers in order to acquire knowledge and more understanding. "

The Hongkong and Shanghai Hotels, Limited

Did You Know?

The Peninsula New York
is the oldest hotel that HSH owns and manages. It was opened as The Gotham Hotel in 1905 and was bought by HSH in

1988. It is also one of the earliest "skyscraper hotels" in the United States.

The Peninsula Chicago's
500 employees came from 37 nations and collectively they speak

46 languages.

Chicago

New York

The Peninsula Bangkok

has one of the most unique transportation fleets, including three river boats and a Tuk-Tuk.

The Peninsula Bangkok's three-tiered outdoor swimming pool stretches

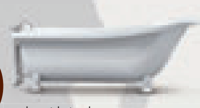
86.8 metres to the edge of the Chaophraya River.

Quail Lodge & Golf Club
purchases over

19,000

golf balls every year.

HSH
has saved 84,001 GJ of energy since we began our environmental programme in 2008, which is enough energy to power more than 1,000 homes in Hong Kong for three years. The water we saved amounted to 184,908 cubic metres, equivalent to just over



920,000 bathtubs.

The Peninsula Beverly Hills
has served over

58,967 kg

of salmon since the hotel opened in 1991.

In 2012, Group operations together diverted 2,350 tonnes of waste from landfill – the weight of more than 520 elephants.

We own three 1934 Rolls-Royce Phantom II which have been lovingly restored and reside in Hong Kong, Shanghai and Tokyo.

Interesting Facts
about HSH

The Peninsula Hong Kong

Each of the newly renovated guestrooms in The Peninsula Hong Kong is wired with

900 metres of fibre optic wires, but they are all invisible to the guests.

The Peninsula Hong Kong's team of page boys open the pair of large double glass doors in the Lobby about 3,000 times every day.

Clark Gable introduced the Screwdriver to Hong Kong when he stayed at The Peninsula Hong Kong in 1953 during the filming of *Soldier of Fortune*.

The Peninsula Hong Kong fleet has had

70 Rolls-Royces since the first one was purchased in 1970.

48,000 pieces of silverware, all of them embossed with the HSH seal, are in daily use at The Peninsula Hong Kong. Most of the silver date from the hotel's opening in 1928.

More than

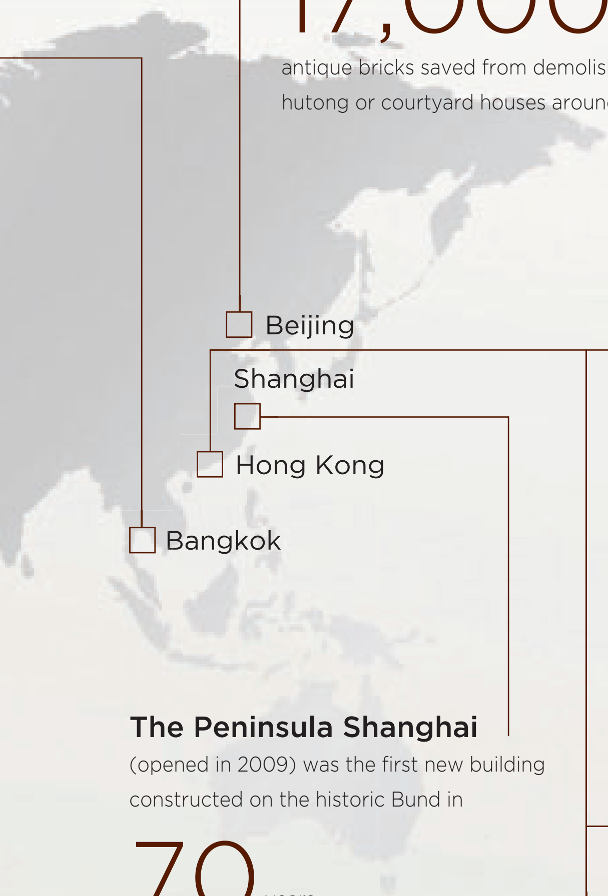
700 scones are served every day at The Peninsula Hong Kong's Lobby for afternoon tea.

The Peninsula Beijing

Huang Ting, the Cantonese restaurant in The Peninsula Beijing, was constructed using

17,000

antique bricks saved from demolished hutong or courtyard houses around Beijing.



The Peninsula Shanghai

(opened in 2009) was the first new building constructed on the historic Bund in

70 years.

Ernest Hemingway

stayed at the Repulse Bay Hotel for a prolonged period of time in the

1940s

The Peak Tram

made more than 77,000 trips up and down the Victoria Peak in 2012, covering

104,450km

in distance, which is equivalent to circling the globe 2.6 times.

Awards & Accolades

HSH 2011 Annual Report – Gold Award Hotel & Property Category (23rd Annual Galaxy Awards International Competition)

HSH 2011 Annual Report – Bronze Award, Hotel & Leisure Category (2012 ARC Awards)

The Peninsula Hong Kong: One of the Finest Hotels in the World and One of the Finest Spas in the World (Forbes Travel Guide, USA)

The Hongkong and Shanghai Hotels

- HSH 2011 Annual Report – Gold Award Hotel & Property Category *(23rd Annual Galaxy Awards International Competition)*
- HSH 2011 Annual Report – Bronze Award, Hotel & Leisure Category *(2012 ARC Awards)*

The Peninsula Hotels

- No. 1, Best Hotel Brands (Business Facilities), 15th Annual Business Travel Awards *(Conde Nast Traveler, USA)*
- No. 2, Best Business Hotel Brands in Asia-Pacific, Business Traveller Awards 2012 *(Business Traveller Asia, Hong Kong)*

The Peninsula Hong Kong

- No. 1 Hotel, 2012 World's Best in Business Travel, Best Business Hotel in the World *(Business Traveler, USA)*
- No. 1 Hotel, World's Best Business Hotels *(Top Hotels by City International, Travel + Leisure, USA)*
- One of the Finest Hotels in the World and One of the Finest Spas in the World *(Forbes Travel Guide, USA)*
- Best for Location Award, The Gold List 2012 *(Conde Nast Traveller, UK)*

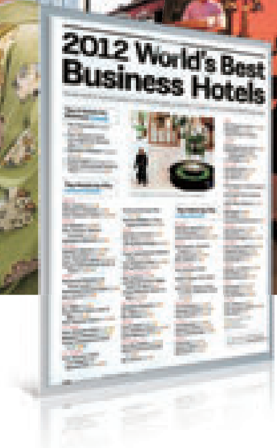
The Peninsula Shanghai

- No. 1 Hotel, World's Best Business Hotels 2012 *(Travel + Leisure, USA)*
- Forbes Five-Star Hotel, Forbes Five-Star Spa, Editor's Choice: Top Technology Hotel *(Forbes Travel Guide 2012, USA)*
- The Best Hotel in Shanghai 2012 *(DestinAsia, Hong Kong)*
- The Best Business Hotel in Shanghai 2012 *(Business Traveller, China)*

The Peninsula Beijing

- Best in the World, 2012 Readers' Choice Awards *(Conde Nast Traveler, USA)*
- 2012 World's Best Business Hotels, Readers' Choice Awards *(Travel + Leisure, USA)*
- Best Business Hotel of the Year 2012, Gold List *(National Geographic, USA)*
- Best Hotel Spa of the Year 2012, Gold List *(National Geographic, USA)*

The Peninsula Tokyo: No. 2 Hotel, Top Hotels in Asia, The World's Best Hotels 2012 (Institutional Investor, UK)



The Peninsula Chicago: No. 1 Hotel in Illinois, 500 Best Awards (Travel + Leisure, USA)

The Peninsula New York

- No. 1 Hotel in New York, The Readers' Choice Awards: Best Hotels in the World 2012 *(Conde Nast Traveler, USA)*
- No. 1 Best Business Hotel in New York, The Readers' Choice Awards 2012 *(Conde Nast Traveler, USA)*
- No. 1 Hotel in New York City, Best in Stay Awards *(Top 10 Domestic Stays 2012, Orbitz)*
- No. 1 Hotel Spa in America, The Readers' Choice Awards 2012 *(Conde Nast Traveler, USA)*

The Peninsula Chicago

- No. 1 Hotel in Illinois, 500 Best Awards *(Travel + Leisure, USA)*
- No. 2 Hotel in the Midwest region *(Conde Nast Traveler, USA)*
- No. 3 Hotel in Top Large City Hotels in the Continental US, World's Best Awards *(Travel + Leisure, USA)*
- Best Catered Event produced by a Hotel Banquet Department, Peninsula Chicago's 10^{th} anniversary party (June 2011) *(Special Event Magazine, USA)*

The Peninsula Beverly Hills

- Best Hotel in the United States, 9^{th} Annual GT Tested Reader Survey *(Global Traveler, USA)*
- No. 1 Hotel in Southern California, 2012 Readers' Award *(Conde Nast Traveler, USA)*
- AAA Five Diamond for the 19^{th} consecutive year and Forbes Five-Star Award *(19^{th} consecutive year)*
- No. 5 in Top 100 Hotels in USA and No. 4 in Top Hotels in America, The World's Best Hotel Awards 2012 *(Institutional Investor, UK)*

The Peninsula Tokyo

- No. 1 Hotel, Top Hotels in Japan and South Korea, 2012 Readers' Choice Awards *(Conde Nast Traveler, USA)*
- No. 2 Hotel, Top Hotels in Asia, The World's Best Hotels 2012 *(Institutional Investor, UK)*
- No. 2 Hotel, 2012 World's Best Service Hotels Asia – City Hotels *(Travel + Leisure, USA)*
- No. 2 Hotel, 500 World's Best Hotels 2012 – Japan *(Travel + Leisure, USA)*

Awards & Accolades

The Peninsula Manila: Salon de Ning – Best Bar, Best Kept Restaurant Secrets (The Philippines)

Peninsula Merchandising: Naturally Peninsula Chocolate Flavours – Best Chocolate Book, Gourmand World Cookbook Awards

The Peninsula Bangkok

- No. 1 Hotel, Top City Hotels in Asia, 2012 World's Best Awards *(Travel + Leisure, USA)*
- No. 1 Hotel, Top 5 City Hotels in Asia, 2012 World's Best Service Awards *(Travel + Leisure, USA)*
- No. 2 Hotel, Top 15 Hotels in Thailand, 2012 Readers' Choice Awards *(Conde Nast Traveler, USA)*
- No. 3 Hotel, Readers' Spa Awards 2012 in Asia and The Indian Subcontinent *(Conde Nast Traveler, USA)*

The Peninsula Manila

- No. 2 Hotel, Best Business Hotel in Manila, World Travel Awards Philippines' Leading Hotel 2012 *(Business Traveller Asia, Hong Kong)*
- Salon de Ning – Best Bar, Best Kept Restaurant Secrets *(The Philippines)*

Thai Country Club

- Second Runner-up, Best Clubhouse in Asia Pacific *(Asian Golf Monthly Awards 2012, Thailand)*
- Second Runner-up, Best Course in Thailand *(Asian Golf Monthly Awards 2012, Thailand)*
- One of Asia's 10 Most Elite Golf Courses *(Forbes Travel Guide, USA)*

Quail Lodge & Golf Club

- Edgars Restaurant, Diners Choice Award *(Monterey County, 2012)*

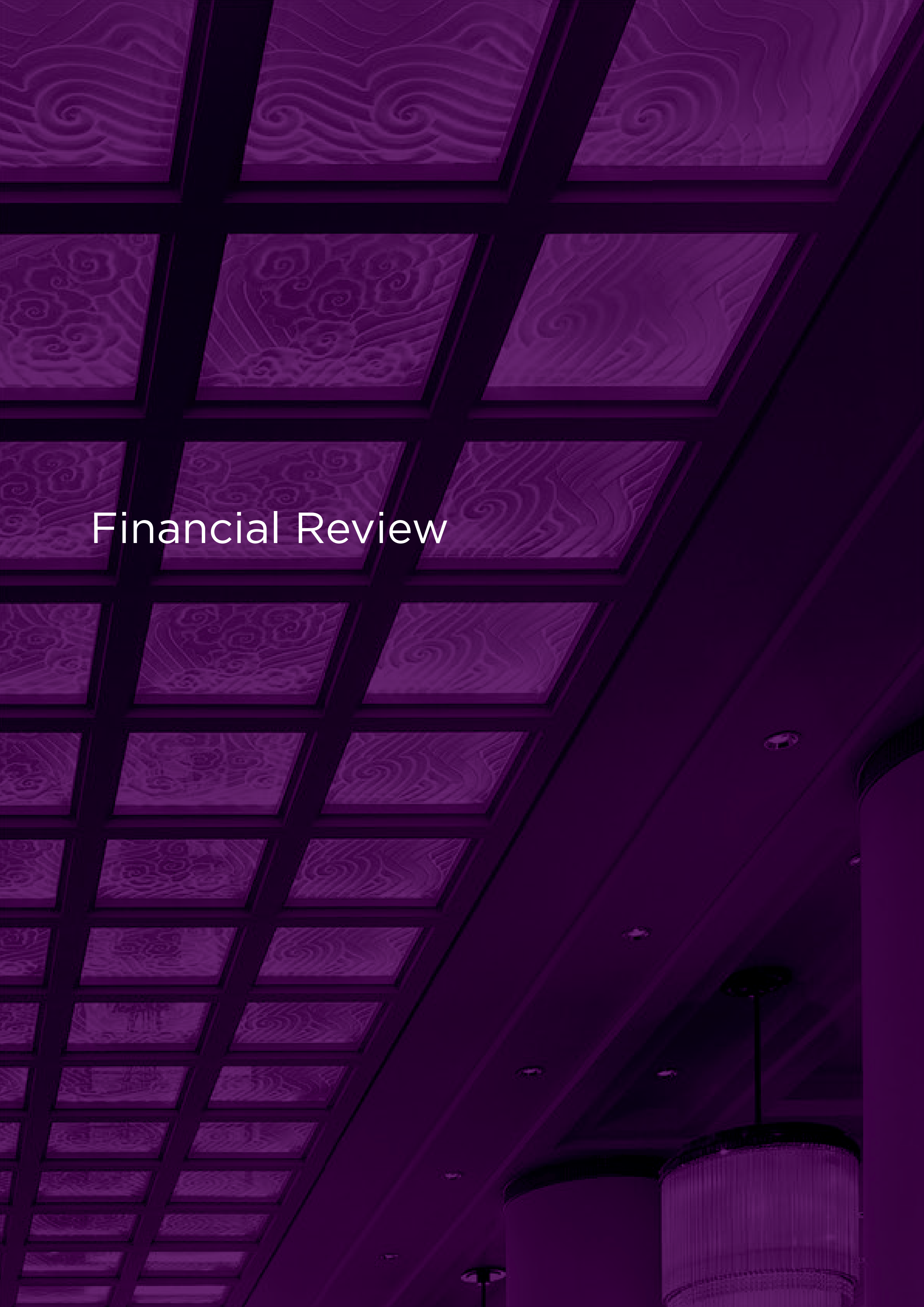
The Landmark

- The Best Management in Caring of Staff Benefits in District 1, Trade Union of District 1, Ho Chi Minh City

Peninsula Merchandising

- Naturally Peninsula Chocolate Flavours – Best Chocolate Book, Gourmand World Cookbook Awards

Financial Review



1 Earnings before interest, taxation, depreciation and amortisation ("EBITDA")

Impacted by the renovation works in The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay Complex. The Group results reflect a 1 % fall in EBITDA to HK$1,201 million in 2012. The EBITDA margin was 23%.

2 Purchase of fixed assets

The Group has a 5-year capital expenditure plan that is reviewed annually. This includes planned replacement of fully depreciated FF&E, purchase of new items, introduction of new facilities and major renovations. The spending of HK$875 million in 2012 can be analysed as follows:

	HK$m
Guestrooms renovation project and upgrade of the F&B areas and Conference Centre at The Peninsula Hong Kong	336
Public area upgrade and reconfiguration of the de Ricou serviced apartment tower at The Repulse Bay Complex	220
Re-opening of Quail Lodge & Golf Club	65
Others	254
	875

Consolidated Statement of Financial Position at 1.1.2012

	HK$m
Net assets	
Fixed assets	32,482
Other long term investments	2,564
Deferred tax assets	86
Derivative financial instruments	18
Cash and bank balances	1,984
Other current assets	1,099
	38,233
Bank overdrafts	(14)
Bank borrowings	(4,305)
Derivative financial instruments	(140)
Deferred tax liabilities	(623)
Other liabilities	(1,413)
	31,738
Capital and reserves	
Share capital and premium	4,247
Retained profits	27,341
Hedging reserve	(98)
Other reserves	(35)
	31,455
Non-controlling interests	283
	31,738

Consolidated Income Statement for the year ended 31.12.2012

	HK$m
3 Turnover	5,178
Operating costs before depreciation and amortisation	(3,977)
EBITDA	1,201
Depreciation and amortisation	(384)
Operating profit	817
Net financing charges	(85)
Profit after net financing charges	732
Share of result of a jointly controlled entity	(125)
4 Increase in fair value of investment properties	1,073
5 Gain on disposal of unlisted equity instrument	46
Taxation	(170)
Non-controlling interests	(1)
Profit attributable to shareholders	1,555

Consolidated Retained Profits for the year ended 31.12.2012

	HK$m
Retained profits at 1.1.2012	27,341
Profit attributable to shareholders for the year	1,555
Dividends distributed during the year	(209)
Retained profits at 31.12.2012	28,687

Consolidated Statement of Cash Flows for the year ended 31.12.2012

		HK$m
1 EBITDA		1,201
Changes in working capital and other adjustments		(67)
Net tax paid		(169)
2 Purchase of fixed assets		(875)
5 Proceeds from disposal of an unlisted equity instrument		46
Repayment from a jointly controlled entity		181
Net financing charges and dividends paid		(171)
Net increase in bank borrowings		48
Net placement of interest-bearing bank deposits with maturity of more than three months		(487)
Net cash outflow for the year		(293)
Cash and bank balances	1,984	
Less: Bank deposits maturing more than 3 months	(7)	
Less: Bank overdrafts	(14)	
Cash and cash equivalents at 1.1.2012		1,963
Effect of changes in foreign exchange rates		12
Cash and cash equivalents at 31.12.2012*		1,682
* Representing:		
Cash and bank balances		2,185
Bank deposits maturing more than 3 months		(494)
Bank overdrafts		(9)
		1,682

Consolidated Statement of Financial Position at 31.12.2012

	HK$m
Net assets	
Fixed assets	34,123
Other long term investments	2,471
Deferred tax assets	46
Derivative financial instruments	7
Cash and bank balances	2,185
Other current assets	975
	39,807
Bank overdrafts	(9)
Bank borrowings	(4,165)
Derivative financial instruments	(88)
Deferred tax liabilities	(655)
Other liabilities	(1,457)
	33,433
Capital and reserves	
Share capital and premium	4,361
Retained profits	28,687
Hedging reserve	(72)
Other reserves	168
	33,144
Non-controlling interests	289
	33,433

3 Turnover

The Hotels Division contributed approximately 75% of the Group's total turnover. Despite the renovations of the guestrooms and The Verandah restaurant at The Peninsula Hong Kong which negatively impacted the business operation, the Hotels Division achieved a revenue growth of 3% in 2012. Revenue for the Commercial Properties Division was 1% lower mainly due to the closure of the de Ricou serviced apartment tower at The Repulse Bay for reconfiguration. For the Clubs and Services Division, the revenue growth of 12% was mainly due to the increased business achieved by Peninsula Merchandising. Detailed discussion of the operating performance of each Division is set out on pages 37 to 45.

4 Increase in fair value of investment properties

The Group states its investment properties at fair value and gain or loss arising from the change in fair value of investment properties is recognised in the income statement. The year end revaluation of the Group's investment properties has resulted in a non-operating gain of HK$1,073 million, principally attributable to The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong.

5 Gain on disposal of an unlisted equity instrument

During the year, the Group disposed of its 17% interest in Inncom International, Inc., an unlisted equity investment and recognised a non-operating gain of HK$46 million.

About This Section

In this section of the Annual Report, we summarise the basis of preparation of the Group's financial statements and set out other information (such as non-accounting performance indicators and off-balance sheet information) that are considered useful for users to assess the financial performance and financial position of the Group.

Target Readers

This section is written primarily for institutional investors, shareholders, bankers and other stakeholders who are interested in doing business with us.

Non-accounting performance indicators

In addition to accounting information, the Group also discloses non-accounting performance indicators to help readers understand the key drivers of our operating results.

Examples of key non-accounting performance indicators relevant to the Group's hotel business include:

Average Room Rate (HK$)

$$\frac{\text{Total rooms revenue}}{\text{Rooms occupied}}$$

Rooms Revenue per Available Room ("RevPAR") (HK$)

$$\frac{\text{Total rooms revenue}}{\text{Rooms available}}$$

Occupancy Rate

$$\frac{\text{Rooms occupied}}{\text{Rooms available}} \times 100\%$$

Financial Statements and their Key Components

The objective of the Financial Statements is to set out the historic financial performance and financial position of the Group. The key components of the Financial Statements are the income statement, the statement of financial position and the statement of cash flows, all of which are inter-related. The information presented in the income statement, the statement of financial position and the statement of cash flows is described separately in this Financial Review. The Group's summarised Financial Statements are set out in the Financial Review Summary on pages 32 and 33.

Basis of Preparation of the Financial Statements

The Group's Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations. HKFRS are issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") designed for general purpose financial statements. Whilst certain management judgements may be applied when preparing the Financial Statements, the Group is obliged to follow the framework of HKFRS and a set of prescriptive standards under the HKFRS to measure, recognise and record its transactions; and to present and disclose the resultant accounting effects in its Financial Statements without any departures.

During 2012, the HKICPA has issued several amendments ("Revised HKFRS"). The Group has adopted all Revised HKFRS which are effective for the year ended 31 December 2012 and the adoption of the same has not resulted in any significant impact on the Group's results of operations and financial position.

Non-accounting Performance Indicators and Operational Statistics

To enable users of the Financial Statements to assess the Group's operating performance in a more comprehensive manner, operating and non-accounting financial performance indicators are included in this Financial Review to supplement the information presented in the Financial Statements.
A summary of the key operational statistics of the Group's individual hotels and commercial properties is set out in the Ten Year Operating Summary on pages 143 to 145.

The Group's Adjusted Net Asset Value

For the purpose of financial statements presentation, the Group has selected the cost model instead of fair value model under HKFRS as its accounting policy to account for its hotels (other than shopping arcades and offices within the hotels) and golf courses. Under the cost model, hotels and golf courses are measured at depreciated cost less accumulated impairment losses, if any. The fair value model has not been selected in order to avoid the inclusion of unnecessary short term fair value movements in respect of hotels and golf courses in the income statement, which are considered irrelevant to the underlying economic performance of the hotel and golf course operations. However, in order to provide users of the Financial Statements with additional information on the value of the Group's net assets, the Directors have commissioned an independent third party fair market valuation of the Group's hotels and golf courses as at 31 December 2012, the details of which are set out on page 51. If these assets were to be stated at fair market value instead of at cost less depreciation and any provision for impairment, the Group's net assets attributable to shareholders would increase by HK$3,246 million or 10% from the reported net assets attributable to shareholders of HK$33,144 million.

In the light of the above, the Directors have provided the users of the Financial Statements with a calculation of the Group's adjusted net asset value as at 31 December 2012 on the basis set out below.

HK$m	**2012**		2011	
Net assets attributable to shareholders per audited statement of financial postion		**33,144**		31,455
Adjusting the value of hotels and golf courses to fair market value	**3,619**		3,641	
Less: Related deferred tax and non-controlling interests	**(373)**		(393)	
		3,246		3,248
Adjusted net assets attributable to shareholders		**36,390**		34,703
Audited net assets per share (HK$)		**22.07**		21.11
Adjusted net assets per share (HK$)		**24.23**		23.29

Adjusted NAV

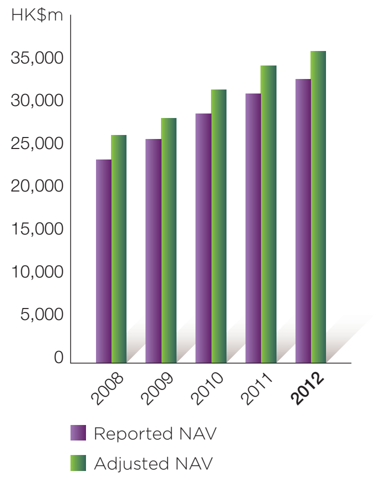
+4%

HK$24.23
for 2011 (HK$23.29)

The net asset value ("NAV") per book is not a fair representation of the Group's underlying value as its hotels and golf courses are stated at cost less depreciation rather than their fair value. In order to provide users of the Financial Statements with additional information on the Group's net assets, the Group presents adjusted NAV by adjusting its hotels and golf courses to fair market value based on the valuation conducted by independent third party valuers.

The following chart summarises the movement of the Group's adjusted NAV over the last five years.

NAV



Underlying EPS

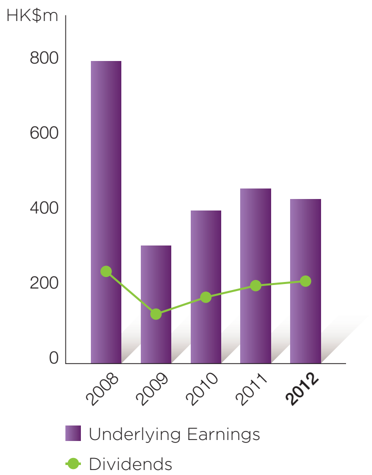
-6%

HK$0.29
for 2011 (HK$0.31)

In order to provide additional insight into the performance of its business operations, the Group presents underlying earnings by excluding non-operating and non-recurring items that are considered irrelevant to the underlying operating performance of the Group.

The following chart summarises the Group's underlying earnings for 2008–2012.

Underlying Earnings



Income statement analyses the Group's financial performance for the year, showing profitability and comparatives.

The Group's Underlying Earnings

The Group's operating results are mainly derived from the operation of hotels and letting of commercial properties. However, to comply with HKFRS, the Group is required to include non-operating and non-recurring items, such as any changes in fair value of investment properties and impairment provision adjustments for certain assets, in its income statement. As the Group continues to be managed with principal reference to its underlying operating cash flows and recurring earnings, the Directors have provided for the users of its Financial Statements calculations of the Group's underlying profit attributable to shareholders and underlying earnings per share, which are determined by excluding the post-tax effects of the property revaluation movements and other non-operating items, as set out below.

The decrease in the Group's underlying earnings was mainly due to the renovations at The Peninsula Hong Kong and the de Ricou serviced apartment tower at The Repulse Bay which started in January 2012 and February 2012 respectively. Further details of the financial impacts of the renovations of these two key assets on the Group's results are set out on pages 39 and 43.

HK$m	**2012**	2011	2012 vs 2011
Profit attributable to shareholders	**1,555**	2,259	(31%)
Increase in fair value of investment properties	**(1,073)**	(1,841)	
Provision for impairment losses	**–**	20	
Share of property revaluation loss of The Peninsula Shanghai, net of tax	**14**	–	
Gain on disposal of Inncom International, Inc., an unlisted equity investment	**(46)**	–	
Tax and non-controlling interests attributable to non-operating items	**(11)**	26	
Underlying profit attributable to shareholders	**439**	464	(5%)
Underlying earnings per share (HK$)	**0.29**	0.31	(6%)

Income Statement

The company is an investment holding company, whilst its subsidiary companies, associated companies and jointly controlled entity are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

The Group's summary results for the year ended are set out in the table on the next page and its consolidated income statement is set out on page 148.

A detailed discussion of the performance of the Group is set out on pages 37 to 50 of this Financial Review.

HK$m	2012	2011	2012 vs 2011
Turnover	**5,178**	5,009	3%
Operating costs	**(3,977)**	(3,798)	5%
EBITDA	**1,201**	1,211	(1%)
Depreciation	**(384)**	(377)	2%
Net financing charges	**(85)**	(88)	(3%)
Share of results of The Peninsula Shanghai	**(125)**	(85)	47%
Non-operating items	**1,119**	1,821	(39%)
Taxation	**(170)**	(203)	(16%)
Profit for the year	**1,556**	2,279	(32%)
Non-controlling interests	**(1)**	(20)	(95%)
Profit attributable to shareholders	**1,555**	2,259	(31%)

Turnover
HK$5,178m +3%

Hotels
HK$3,885m +3%

Commercial Properties
HK$733m -1%

Clubs & Services
HK$560m +12%

Turnover represents the gross amount invoiced for services, goods and facilities including management fees and rental income.

The turnover by activity of the Group for 2008-2012 are presented in the chart below.

Turnover

The Group's turnover in 2012 was HK$169 million or 3% above 2011.

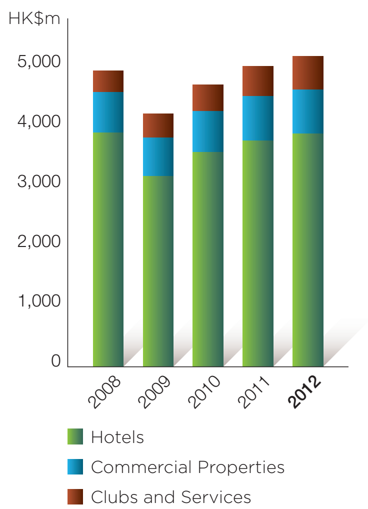
The Hotels Division is the main contributor to the Group's revenue, accounting for 75% of the total revenue. Despite the renovations of the guestrooms and The Verandah restaurant at The Peninsula Hong Kong which negatively impacted the hotel's business operation, the Hotels Division achieved a revenue growth of 3% in 2012.

For the Commercial Properties Division, although the residential leasing market in Hong Kong remained strong in 2012, the Division recorded a decline in revenue by 1% due to the closure of the de Ricou tower at The Repulse Bay for major renovation.

For the Clubs and Services Division, the 12% revenue growth was principally attributable to the increased business achieved by Peninsula Merchandising.

The table on the next page sets out the breakdown of consolidated revenues by business segment and by geographical segment.

Turnover by Activity



Consolidated revenue by business segment HK$m	**2012**		2011		2012 vs 2011
Hotels					
Rooms	**1,637**	**32%**	1,642	33%	(0%)
Food and beverage	**1,232**	**24%**	1,175	23%	5%
Commercial	**639**	**12%**	597	12%	7%
Others	**377**	**7%**	352	7%	7%
Total hotel revenue	**3,885**	**75%**	3,766	75%	3%
Commercial Properties	**733**	**14%**	743	15%	(1%)
Clubs and Services	**560**	**11%**	500	10%	12%
	5,178	**100%**	5,009	100%	3%

Consolidated revenue by geographical location HK$m	**2012**		2011		2012 vs 2011
Arising in					
Hong Kong	**2,224**	**43%**	2,314	46%	(4%)
Other Asia	**1,864**	**36%**	1,650	33%	13%
United States of America	**1,090**	**21%**	1,045	21%	4%
	5,178	**100%**	5,009	100%	3%

The portfolio of the Group's Hotels Division comprises The Peninsula hotels in Hong Kong, Shanghai, Beijing, New York, Chicago, Beverley Hills, Tokyo, Bangkok, Manila and Paris (under construction).

With the exception of The Peninsula Hong Kong, which was affected by the renovation, all Peninsula hotels achieved revenue growth over 2011.

Hotels Division

Revenue from our Hotels Division was negatively impacted by the guestroom renovation at The Peninsula Hong Kong. Nevertheless, the Hotels Division generated a total revenue of HK$3,885 million, representing an increase of HK$119 million (3%) over 2011, with revenue growth at all hotels except The Peninsula Hong Kong.

The RevPAR for all our hotels, apart from The Peninsula Shanghai, increased by up to 25% in 2012 as compared with 2011, with the biggest increases being in the Peninsula hotels in Tokyo, Hong Kong and Bangkok. The increased RevPAR resulted predominantly from higher occupancy apart from The Peninsula Hong Kong, where the increase was mostly due to the higher average room rate. In other locations, the growth in average room rate was limited due to keen competition in these markets.

Set out below is a breakdown of revenue by hotels:

HK$m	2012 Rooms	2012 F&B	2012 Commercial	2012 Others	2012 Total	2011 Rooms	2011 F&B	2011 Commercial	2011 Others	2011 Total	2012 vs 2011
Consolidated hotels											
The Peninsula Hong Kong	231	321	421	52	1,025	366	336	393	61	1,156	(11%)
The Peninsula Bejing	166	84	148	19	417	159	75	133	19	386	8%
The Peninsula New York	367	117	34	48	566	363	109	34	46	552	3%
The Peninsula Chicago	254	157	–	58	469	236	152	–	58	446	5%
The Peninsula Tokyo	344	348	31	91	814	275	323	31	70	699	16%
The Peninsula Bangkok	119	84	3	19	225	101	72	3	17	193	17%
The Peninsula Manila	156	121	2	23	302	142	108	3	20	273	11%
Management fees income	–	–	–	67	67	–	–	–	61	61	10%
	1,637	1,232	639	377	3,885	1,642	1,175	597	352	3,766	3%
Non-consolidated hotels											
The Peninsula Shanghai	184	173	103	32	492	188	160	83	30	461	7%
The Peninsula Beverly Hills	323	105	3	50	481	284	94	2	41	421	14%
	507	278	106	82	973	472	254	85	71	882	10%

The Peninsula Hong Kong: Total revenue was HK$131 million (11%) lower than 2011, being impacted by the renovation works which resulted in a significant portion of the room inventory being unavailable for sale during the year. The first phase of the renovation for 135 rooms commenced in January 2012 and was completed in September 2012. The second phase for the 165 rooms in the Original Building began in September 2012 and is scheduled for completion in mid 2013. In addition, The Verandah restaurant and The Bar were closed for renovation for two and a half months during the year, while a new Conference Centre and Wedding Salon have been added in place of offices on the 6th floor of the hotel.

The room rate for the renovated rooms has surpassed expectations, resulting in the hotel achieving a record average rate in the market. The hotel's RevPAR in 2012 was 22% higher than 2011 (based on the reduced room inventory), with higher occupancy and a 14% higher average room rate. Corporate business from the United States of America showed strong signs of recovery and the hotel's top three markets remained Japan, mainland China and the United States of America. Food and beverage business volumes were impacted by the partial closures of guestrooms and The Verandah for renovation; however, the average spending increased over 2011.

Rental income from the Peninsula Arcade increased by 8% over 2011. The Arcade continues to be fully let and there has been a 7% increase in the average rent. The high quality tenant mix was further enhanced by the refurbishment of prominent store fronts. Office revenue was 2% higher than 2011 despite the conversion of the 6th floor into a Conference Centre and Wedding Salon.

The Peninsula Hong Kong

Revenue HK$1,025m **-11%**

Occupancy +5pp

Average Room Rate +14%

RevPAR +22%

There was 11% ($131m) less Complex revenue as a result of 21% ($159m) less hotel revenue; but increased by 7% ($28m) commercial revenue.

Occupancy and RevPAR during renovation are based on the number rooms not being renovated, which amounted to 52% of the room inventory in 2012. The higher rate was mostly achieved from the renovated room product.

The Peninsula Beijing	
Revenue HK$417m	+8%
Occupancy	+4pp
Average Room Rate	-3%
RevPAR	+4%

The Peninsula Beijing: Total revenue was HK$31 million (8%) above 2011, with higher occupancy, food and beverage revenue and increased Arcade revenue. The competition amongst luxury hotels in Beijing remains intense resulting in limited opportunity for room rate growth. The hotel achieved improved occupancy from 49% in 2011 to 53% in 2012, though at a lower average room rate, resulting in RevPAR being 4% higher than 2011.

The Arcade remains fully let. The Arcade occupancy reflects an increase from 92% in 2011 to 99% in 2012 because there was preparation work for various tenant movements in the first half of 2011. One of the anchor tenants in the Arcade has completed the remodelling of its store into a three-storey flagship boutique. Meanwhile, another anchor tenant is also constructing a triplex store. The completion of these flagship stores will help to further enhance the pre-eminent status of The Peninsula Arcade in mainland China.

The Peninsula New York	
Revenue HK$566m	+3%
Occupancy	+2pp
Average Room Rate	-1%
RevPAR	+1%

The Peninsula New York: Total revenue was HK$14 million (3%) higher than 2011, with slightly higher revenue throughout the hotel. Room revenue was higher than 2011 due to higher occupancy, despite the lower average room rate. The reduction in Group business, especially from the Middle East, was replaced by transient growth, primarily from on-line travel agents, wholesalers and consortia. There was a noticeable return of business from the key feeder markets of France, Germany and the UK.

The hotel's two-year guestroom renovation programme was completed in September 2012 with the reintroduction of the Peninsula Suite. The new Sun Terrace offers guests an outdoor dining opportunity with Central Park views and is also well utilized for private events.

The Peninsula Chicago	
Revenue HK$469m	+5%
Occupancy	+3pp
Average Room Rate	+2%
RevPAR	+7%

The Peninsula Chicago: Total revenue was HK$23 million (5%) above 2011, with improved revenue across all areas. The hotel relies almost entirely on domestic business from within North America and it continued to be the leader in Chicago in terms of room rate. The hotel achieved the second highest RevPAR in its competitor set in 2012, with a 7% increase in RevPAR as compared with 2011.

The Avenues restaurant conversion into a junior ballroom was completed in November 2012. This has significantly improved the financial yield from this area and provides a welcome addition to the hotel's range of meeting venues.

The Peninsula Tokyo: Total revenue was HK$115 million (16%) higher than 2011, with significantly improved revenue in all areas, including a 25% increase in RevPAR. Whilst corporate business has returned to pre-earthquake occupancy levels, the long-haul leisure travel has taken longer to return. Official delegations to Japan from the Asia region as well as from the Middle East have had a positive impact on average rates. The territorial dispute between China and Japan continues to strain relations and hampers efforts to grow business from Greater China.

The hotel celebrated its 5th anniversary in September 2012 and benefited from the International Monetary Fund-World Bank meeting in October. Wedding business continues to be strong, with the 1,000th couple getting married in the hotel in September.

The Peninsula Tokyo	
Revenue HK$814m	+16%
Occupancy	+11pp
Average Room Rate	+5%
RevPAR	+25%

The Peninsula Bangkok: Total revenue was HK$32 million (17%) higher than 2011. The political situation has remained stable and business levels and tourist arrivals have shown significant improvement over 2011 with a record number of international arrivals in 2012. Nevertheless, room rates remain subdued in a competitive environment.

There has been a gradual strengthening in the market and it is expected that room rates will improve significantly in the coming year.

The Peninsula Bangkok	
Revenue HK$225m	+17%
Occupancy	+13pp
Average Room Rate	-8%
RevPAR	+17%

The Peninsula Manila: Total revenue was HK$29 million (11%) higher than 2011, which resulted in the hotel having another record year. The Philippines' economy was strong throughout 2012 and remained resilient in the face of continuing global economic uncertainty.

A stable government and an expanding middle class provided strong private and public consumption. International visitor arrivals also enjoyed a significant increase. Both rooms and food and beverage have focused on improving the volume of business, which has raised revenue levels throughout the hotel.

The Peninsula Manila	
Revenue HK$302m	+11%
Occupancy	+3pp
Average Room Rate	+5%
RevPAR	+9%

The operating performances of The Peninsula Shanghai and The Peninsula Beverly Hills are provided below, even though these operations are not consolidated as they are not subsidiaries of the Group.

The Peninsula Shanghai

Revenue HK$492m	+7%
Occupancy	+0pp
Average Room Rate	-3%
RevPAR	-2%

The Peninsula Shanghai: Total revenue was HK$31 million (7%) above 2011, as a result of increased revenue in food and beverage and the commercial areas comprising the Arcade, Bund 33 and The Peninsula Residences.

Despite intense competition in the city, the hotel was able to capture high yield domestic travellers which, in addition to giving further growth in the number of US and European visitors into the hotel, helped it to maintain its leadership position in terms of RevPAR. Catering business was also strong, with a 17% increase in revenue over 2011. The Rose Ballroom has become a very popular and desirable wedding venue. During the year, the hotel entered into exclusive partnerships with selected luxury brands in the Arcade to create unique customer experiences.

The Peninsula Beverly Hills

Revenue HK$481m	+14%
Occupancy	+5pp
Average Room Rate	+6%
RevPAR	+14%

The Peninsula Beverly Hills: Total revenue was HK$60 million (14%) above 2011, resulting in 2012 being an exceptional year for the hotel with the highest revenue, the highest number of days with full occupancy and the highest average room rate.

General business conditions in Los Angeles were excellent in 2012 due to healthy growth in international tourist arrivals, particularly from the Middle East and Australia and the easing of visa restrictions. Domestically, the luxury market continued to show signs of recovery.

The hotel completed its four signature Colour Suites during the year, with each suite featuring a dramatic yet tastefully styled colour palette in pink, white, blue and green. The hotel is building a new Deluxe Garden Suite. Food and beverage business was robust throughout the year.

The portfolio of the Group's Commercial Properties Division includes The Repulse Bay Complex, The Peak Tower, St. John's Building and The Landmark in Ho Chi Minh City, Vietnam.

Most properties within the Division remained fully occupied in 2012, although there was pressure from increased supply and/or reduced demand. The renovations at The Repulse Bay had a negative impact on this Division's revenue.

Commercial Properties Division

The total revenue from the Commercial Properties Division was HK$10 million (1%) below 2011 mainly due to the renovation of de Ricou apartments in The Repulse Bay Complex, despite increased revenue from the other apartments and from The Peak Tower.

Set out below is a breakdown of revenue by individual properties:

HK$m	2012 Residential properties	2012 Office	2012 Shopping Arcade	2012 Total	2011 Residential properties	2011 Office	2011 Shopping Arcade	2011 Total	2012 vs 2011
The Repulse Bay Complex, Hong Kong	378	–	140	518	400	–	138	538	(4%)
The Peak Tower, Hong Kong	–	–	131	131	–	–	121	121	8%
St. John's Building, Hong Kong	–	45	–	45	–	45	–	45	–
The Landmark, Ho Chi Minh City, Vietnam	12	22	5	39	10	26	3	39	–
	390	67	276	733	410	71	262	743	(1%)

The Repulse Bay Complex, Hong Kong: Total revenue was HK$20 million (4%) below 2011, due to the renovation of the de Ricou serviced apartments, where revenue was HK$38 million below 2011. The ongoing improvement work in the public areas has further enhanced the appeal of The Repulse Bay Complex as a premier residential property, with continued high occupancy and rental rates despite cautious sentiments in the market.

The Repulse Bay Complex, Hong Kong

Revenue HK$518m -4%

Occupancy +0pp

Average monthly yield per suquare foot +8%

The Peak Tower, Hong Kong: Total revenue was HK$10 million (8%) above 2011. There was higher rental revenue from retail tenants and more visitors to Sky Terrace 428 as compared with 2011. The retail spaces in the Tower remained fully let during 2011, with the majority of existing tenants renewing their leases upon expiry.

The Peak Tower, Hong Kong

Revenue HK$131m +8%

Occupancy -1pp

Average monthly yield per suquare foot +13%

Sky terrace visitors increased by 3% to just under 2 million visitors in 2012, with 4% more revenue. Revenue from the the Sky Terrace increased to HK$43 million in 2012.

St. John's Building, Hong Kong

Revenue HK$45m +0%

Occupancy -9pp

Average monthly yield per suquare foot +0%

St. John's Building, Hong Kong: Revenue was in line with 2011. Although rental rates were higher in 2012, there was less occupancy due to the vacant periods between tenants.

The Landmark, Ho Chi Minh City, Vietnam

Revenue HK$39m -0%

Occupancy -11pp (Office) +11pp (Residential)

Average monthly yield per suquare foot -17% (Office) +12% (Residential)

The Landmark, Ho Chi Minh City, Vietnam: Total revenue was in line with 2011, with higher residential occupancy though less office occupancy and stable rental rates. The competition amongst serviced apartment buildings and office space remains intense, with many new buildings opening up, which limits the opportunity for rate growth.

Clubs and Services businesses of the Group include management and consultancy services, wholesaling and retailing of merchandise, operating of the Peak tram, operation of golf clubs and provision of dry cleaning and laundry services.

The Division recorded encouraging growth in revenue in 2012.

Clubs and Services Division

Businesses within this Division achieved higher revenue as compared to 2011. The combined revenue was HK$60 million (12%) above 2011.

Set out below is a breakdown of revenue by individual operations:

HK$m	2012	2011	2012 vs 2011
Clubs and Consultancy Services	**154**	131	18%
Peninsula Merchandising	**126**	116	9%
Peak Tram	**114**	108	6%
Thai Country Club	**66**	60	10%
Quail Lodge & Golf Club	**56**	47	19%
Tai Pan Laundry	**44**	38	16%
	560	500	12%

Clubs and Consultancy Services: Management fees from the clubs that the Group manages were 8% higher than 2011, with positive growth in business levels. Revenue from the operation of the Cathay Pacific Airways' first and business class lounges, where the revenue is based on the number of passengers utilising the lounges, also increased in line with the growth in passenger volumes, which were 9% higher than 2011.

Under Peninsula Clubs & Consultancy, the Group manages the prestigious Hong Kong Club, The Hong Kong Bankers Club and Butterfield's in Hong Kong and operates Cathay Pacific Airway's first and business class lounges at the Hong Kong International Airport.

Peninsula Merchandising: Revenue was HK$10 million (9%) above 2011, with another record year for the sale of the division's signature mooncakes during the Mid Autumn Festival period, with revenue of HK$53 million in 2012.

The Peak Tram: Revenue was HK$6 million (6%) above 2011. The Peak Tram's patronage rose 2% as compared with 2011 to 5.9 million passengers, marking an all-time record.

Thai Country Club: Revenue was HK$6 million (10%) higher than 2011, with 8% more golf rounds and increased spend per round.

Quail Lodge & Golf Club: Revenue was HK$9 million (19%) above 2011 due to increased revenue from The Quail, A Motorsports Gathering event.

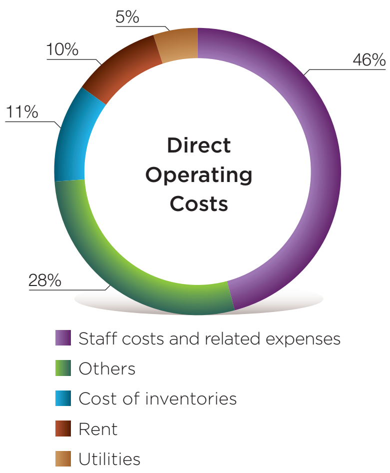
From September 2012, KemperSports Management is managing the golf clubhouse operations including golf, membership, food and beverage outlets, and banquet operations.

The Lodge remains closed and is currently undergoing renovation. The new design by Bob Barry Design Associates will reflect California Ranch and Spanish Colonial designs giving the hotel a fresh new look that is comfortable, appealing and distinctly Californian. The renovated lodge is expected to open at the end of March 2013.

Tai Pan Laundry: Total revenue in Tai Pan Laundry was HK$6 million (16%) higher than 2011, as a result of the increased business from airport lounges and one new hotel account.

Direct Operating Costs
HK$3,977m

+5%



Operating Costs

All business operations have exercised cost control measures to maintain or improve profit margins.

Excluding depreciation and amortisation, direct operating costs of the Group for the year amounted to HK$3,977 million, which was only 5% higher than 2011 despite pressure on the cost base from rising staffing levels and remuneration rates as well as other cost increases.

The majority of the increase was due to the increased staff costs and related expenses which accounted for 46% (2011: 45%) of the Group's direct operating costs. As business levels returned in 2012, the Group's operations gradually filled vacant positions to cope with staffing needs. The breakdown of the Group's full-time headcount as at 31 December is set out in the table on the next page.

At the end of 2012, the Group had 5,484 full-time employees for its direct operations around the world. Staff costs include HK$19 million which was invested in the learning and development programmes of our employees. Attracting the right talents and developing them are keys to ensure that we continue to provide the highest standard of luxury and quality to our customers. In 2012, the Group was able to keep its annual staff turnover rate at 19%, whilst that for our Hotels Division was 18%, which compares favourably with the industry average. The level of turnover has an impact on the costs of employee recruitment and training.

In addition, the Group managed to reduce staff injury and occupational disease rates significantly through a more robust health and safety management system and enhanced staff training and awareness programmes. This has a positive impact on the Group's staff insurance costs and productivity. For more information on how we manage employee health and safety, please refer to the Sustainability Review section.

The Group is cognizant of the importance of protecting our environment. In 2012, the average per unit cost for energy and water inflated by 4% and 8% respectively across the cities in which our operations are based. Our environmental programme for driving efficient use of energy and water not only helped the Group to reduce our impact on the environment but also enabled us to control the overall utility cost to a net increase of 3%. For example, by investing in the on-going re-lamping exercise and a new building automation system, The Peninsula hotels in New York and Chicago generated an overall savings of HK$1.4 million utility charges in 2012 despite the effects of increased business levels and inflation. Further details of our environmental programme are outlined in the Sustainability Review section.

Full time headcount at year end	2012			2011			
	Direct operations	Managed operations	Total	Direct operations	Managed operations	Total	2012 vs 2011
By division:							
Hotels	**4,354**	**1,258**	**5,612**	4,349	1,126	5,475	3%
Commercial Properties	**314**	**–**	**314**	323	–	323	(3%)
Clubs and Services	**816**	**427**	**1,243**	808	416	1,224	2%
	5,484	**1,685**	**7,169**	5,480	1,542	7,022	2%
By geographical location:							
Hong Kong	**1,778**	**427**	**2,205**	1,772	416	2,188	1%
Other Asia	**2,701**	**847**	**3,548**	2,742	723	3,465	2%
United States of America	**1,005**	**411**	**1,416**	966	403	1,369	3%
	5,484	**1,685**	**7,169**	5,480	1,542	7,022	2%

EBITDA and EBITDA Margin

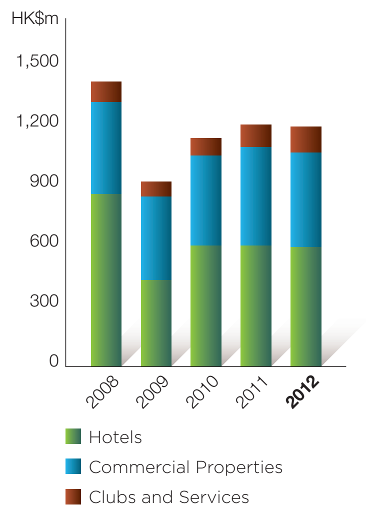
EBITDA (earnings before interest, taxation, depreciation and amortisation) decreased by 1% to HK$1,201 million.

The EBITDA margin of the Group remained flat in 2012 due to the impact of the renovations at The Peninsula Hong Kong and The Repulse Bay Complex which limited the revenue growth of the Hotels and Commercial Properties Divisions.

The table on the next page sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

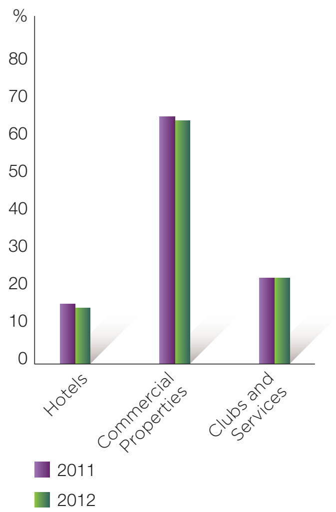
EBITDA	HK$1,201m	-1%
Hotels	HK$596m	-1%
Commerical Properties	HK$474m	-4%
Clubs and Services	HK$131m	+16%

EBITDA by Activity



EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Total
2012				
Hotels	**384**	**181**	**31**	**596**
Commercial Properties	**453**	**21**	**–**	**474**
Clubs and Services	**135**	**18**	**(22)**	**131**
	972	**220**	**9**	**1,201**
	81%	**18%**	**1%**	**100%**
2011				
Hotels	503	71	31	605
Commercial Properties	471	22	–	493
Clubs and Services	125	15	(27)	113
	1,099	108	4	1,211
	91%	9%	0%	100%
Change				
2012 vs 2011	(12%)	104%	125%	(1%)

EBITDA Margin



The EBITDA margin of the Hotels Division in 2012 was 1% lower than 2011 because of the impact of the renovation of The Peninsula Hong Kong, despite the gains in other locations. There was a 1% decrease in the EBITDA margin of the Commercial Properties Division due to the renovation of the de Ricou serviced apartment tower in The Repulse Bay Complex. The EBITDA margin of the Clubs and Services Division was stable.

The breakdown of EBITDA margins by business segment and geographical segment are set out below.

EBITDA margin	2012	2011
Hotels	**15%**	16%
Commercial Properties	**65%**	66%
Clubs and Services	**23%**	23%
Overall EBITDA margin	**23%**	24%
Arising in:		
Hong Kong	**44%**	47%
Other Asia	**12%**	7%
United States of America	**1%**	0%

Depreciation and amortisation

The depreciation and amortisation charge of HK$384 million (2011: HK$377 million) largely relates to the hotels. The Group has a 5-year capital expenditure plan that is reviewed annually. This includes planned replacement of fully depreciated furniture, fixtures and equipment, purchase of new items and major upgrade projects such as The Peninsula Hong Kong rooms enhancement project and reconfiguration of the de Ricou serviced apartment tower at The Repulse Bay Complex.

The Group has selected the cost model instead of the fair value model under the HKFRS to account for its hotels. Accordingly, the Group's hotels are subject to depreciation.

Non-operating items

During the year, the Group disposed of its interest in Inncom International, Inc., an unlisted equity investment, and recognised a non-operating gain of HK$46 million.

In 2011, the provision for impairment loss of HK$20 million was in relation to Quail Lodge Golf Club. Given the adverse operating environment faced by the club during 2011, the Directors considered its carrying amount should be written down by HK$20 million to its recoverable amount based on its fair value determined by an independent professional valuer with reference to the discounted cash flow valuation model of the assets.

The non-operating items are analysed below:

HK$m	2012	2011
Increase in fair value of investment properties	**1,073**	1,841
Gain on disposal of an unlisted equity instrument	**46**	–
Provision for impairment loss	**–**	(20)
	1,119	1,821

Non-operating items are gains or losses from sources unrelated to the normal operating activities of the business. These include gains or losses from investments and property revaluation.

The increase in fair value of investment properties for the year was principally attributable to the increase in the appraised market value for The Repulse Bay Complex and the shopping arcade at The Peninsula Hong Kong. Such increase was a reflection of the continued strong demand for luxury residential and high-end commercial properties in Hong Kong.

Share of result of a jointly controlled entity

The Group, through its jointly controlled entity, The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), owns a 50% interest in The Peninsula Shanghai Complex. The complex comprises a hotel, a shopping arcade and a hotel apartment tower of 39 units. In addition to operation of the hotel and leasing of the shopping arcade and apartments, PSW also sublet No. 1 Waitanyuan which is adjacent to the complex.

The Peninsula Shanghai remained the market leader in terms of RevPAR and generated an EBITDA of HK$68 million (2011: HK$68 million). However, due to the increase in borrowings to fund the payment of contractors' costs for the development of the hotel and apartments and the inclusion of a post-tax non-operating loss arising from property revaluation, the Group's share of loss increased to HK$125 million in 2012 (2011: HK$85 million).

The Group accounts for its jointly controlled entity under the equity method and recognises its share of the jointly controlled entity's post-acquisition post tax results, including non-operating items, in its consolidated Income Statement.

Set out below is an extract of the income statement of PSW:

HK$m	2012	2011	2012 vs 2011
Income	**492**	461	7%
Operating expenses	**(424)**	(393)	8%
EBITDA	**68**	68	–
Depreciation	**(102)**	(105)	(3%)
Net financing charges	**(188)**	(125)	50%
Loss before non-operating item	**(222)**	(162)	37%
Non-operating item, net of tax	**(28)**	(8)	250%
Loss for the year	**(250)**	(170)	47%

Statement of Financial Position

The Statement of Financial Position summarises the Group's assets and liabilities as at the end of the reporting period and how the net assets were funded.

According to the Group's accounting policies, hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, while investment properties are stated at fair value. In order to provide users of the Financial Statements with additional information on the current market value of our hotels and golf courses, the Directors have commissioned independent valuers to perform a fair valuation of these properties (except for The Peninsula Beverly Hills which is 20% owned by the Group) as at 31 December 2012.

The Consolidated Statement of Financial Position of the Group as at 31 December 2012 is presented on page 150 and the following is a summary of its key components.

Fixed assets

The Group has interests in and manages nine operating hotels in Asia and the USA and is developing a hotel in Paris, in which the Group has a 20% interest.

In addition to hotel properties, the Group owns residential apartments, office towers and shopping arcades for rental purposes.

A summary of the Group's hotel, investment and other properties showing both the book value and the market value as at 31 December 2012 is set out in the table on the next page.

		100% value	
	Group's Interest	Market Value (HK$m)	Book Value (HK$m)
Hotels			
The Peninsula Hong Kong	100%	11,276	9,407
The Peninsula Beijing	76.6%*	1,896	1,413
The Peninsula New York	100%	1,710	1,186
The Peninsula Chicago	100%	1,313	1,152
The Peninsula Tokyo	100%	1,468	1,059
The Peninsula Bangkok	75%	852	848
The Peninsula Manila	77.4%	307	291
		18,822	15,356
Investment properties			
The Repulse Bay Complex	100%	15,577	15,577
The Peak Tower	100%	1,234	1,234
St. John's Building	100%	861	861
The Landmark	70%	88	88
		17,760	17,760
Other properties			
Thai Country Club golf course	75%	262	257
Quail Lodge resort, golf course and vacant land	100%	168	159
Vacant land near Bangkok	75%	340	340
Others	100%	173	105
		943	861
Total market / book value		37,525	33,977
Hotel and investment property held by a jointly controlled entity			
The Peninsula Shanghai Complex	50%	6,747	6,468

* Despite its 76.6% legal interest in The Peninsula Beijing, the Group owns 100% economic interest in the hotel with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

According to the Group's accounting policy, its investment in jointly controlled entity is accounted for under the equity method and is initially stated at cost, adjusted for the Group's share of post-tax results.

Interest in a jointly controlled entity

The balance of HK$1,229 million as at 31 December 2012 (2011: HK$1,340 million) represented the Group's 50% indirect interest in The Peninsula Shanghai Waitan Hotel Company Limited, an enterprise incorporated in the People's Republic of China which owns 100% of The Peninsula Shanghai Complex. The decrease in balance was mainly due to the Group's share of loss amounting to HK$125 million (2011: HK$85 million) for the year, which included a post-tax non-operating loss arising from property revaluation.

Similar to the accounting treatment of interest in a jointly controlled entity, the Group accounts for its associates under the equity method.

Interest in associates

The balance of HK$572 million as at 31 December 2012 (2011: HK$562 million) represented the Group's 20% equity interest in and 20% share of the shareholder's loan to Al Maha Majestic S.à r.l., a company incorporated in Luxembourg which indirectly owns a 100% interest in a property in Paris to be redeveloped into The Peninsula Paris.

The Groups states its investment in hotel management contracts at cost less accumulated amortisation and impairment losses.

Investment in hotel management contracts

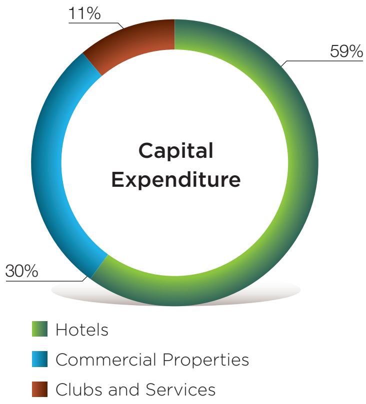
As at 31 December 2012, investment in hotel management contracts amounted to HK$670 million (2011: HK$662 million). The balance included an attributed consideration of EUR57.7 million in respect of the right acquired to manage The Peninsula Paris to be developed jointly by the Group and its associate, Al Maha Majestic S.à r.l.. The increase in the balance was mainly due to exchange rate adjustment on retranslating the Euro currency at the year end.

Statement of Cash Flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2012 is set out on page 153 and the table below summarises the key cash inflows and outflows.

HK$m	Year ended 31 December 2012	2011
EBITDA	**1,201**	1,211
Changes in working capital and other adjustments	**(67)**	(65)
Net tax paid	**(169)**	(146)
Purchase of fixed assets	**(875)**	(312)
Payment for the acquisition of additional interest in a subsidiary	**–**	(578)
Proceeds for disposal of an equity instrument	**46**	–
Repayment from / (loans to) an associate and a jointly controlled entity	**181**	(580)
Net financing charges and dividends paid	**(171)**	(144)
Net increase / (decrease) in bank borrowings	**48**	(88)
Net (placement) / withdrawal of interest-bearing bank deposits with maturity of more than three months	**(487)**	990
Net cash (outflow) / inflow for the year	**(293)**	288
Cash and cash equivalents at 1 January	**1,963**	1,644
Effect of changes in foreign exchange rates	**12**	31
Cash and cash equivalents at 31 December	**1,682**	1,963

The Statement of Cash Flows provides information about the Group's change in financial position, reconciles the Group's reported income to operating cash flows and analyses how cash generated from operations was applied in investing and financing activities during the year.



Capital expenditure incurred by the Group on upgrading its properties during 2012 amounted to HK$875 million (2011: HK$312 million) and the breakdown of this sum is as follows:

HK$m	2012	2011
Hotels		
The Peninsula Hong Kong (including guestroom renovation)	336	36
Others	183	178
Commercial Properties		
The Repulse Bay Complex (including de Ricou service apartment tower reconfiguration)	220	56
Others	42	26
Clubs and Services	94	16
	875	312

After accounting for investing and financing activities and excluding bank deposits maturing after more than three months amounting to HK$494 million (2011: HK$7 million), cash and cash equivalents as at 31 December 2012 amounted to HK$1,682 million (2011: HK$1,963 million).

Off Balance Sheet Information

The following transactions and events are not reflected in the Group's income statement, statement of financial position and statement of cash flows but are considered relevant to the users of the Financial Statements.

Capital commitments

Capital commitments represent the amounts of funds planned to be spent on capital expenditure in the near future.

The Group is committed to enhancing the asset value of its hotel and investment properties and improving the service quality of these assets. As at 31 December 2012, the Group's capital commitments amounted to HK$1,520 million (2011: HK$1,818 million) and the breakdown is set out on the next page.

HK$m	2012 Contracted for	2012 Authorised but not contracted for	2012 Total	2011 Contracted for	2011 Authorised but not contracted for	2011 Total
Capital expenditure						
The Peninsula Hong Kong	**173**	**143**	**316**	236	328	564
The Repulse Bay Complex	**225**	**208**	**433**	88	623	711
Others	**53**	**718**	**771**	36	507	543
	451	**1,069**	**1,520**	360	1,458	1,818
The Group's share of capital commitments of						
– A jointly controlled entity	**3**	**19**	**22**	–	13	13
– Associates	**227**	**160**	**387**	195	215	410

Contingent liabilities

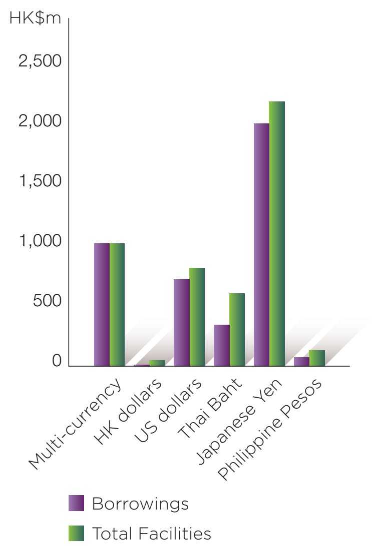
Contingent liabilities as at 31 December 2012 for the Group and the Company are analysed in the table below. The Directors consider that the below contingent liabilities are unlikely to materialise. Therefore, no provision was made in the Financial Statements.

HK$m	Group 2012	Group 2011	Company 2012	Company 2011
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**4,239**	4,393
Other guarantees	**1**	1	**1**	1
	1	1	**4,240**	4,394

Contingent liabilities are potential obligations that may or may not be incurred by the Group depending on the outcome of a future event such as a lawsuit. Contingent liabilities are not booked in the Group's Statement of Financial Position as it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably.

Non-adjusting post reporting events are those not related to any situations that existed on the balance sheet date. Rather, they provide evidence of conditions that arose after the balance sheet date which should be accounted for in the next financial period.

Banking Facilities and Borrowings (by Currency)



The long term financial obligations of the Group's entities are normally arranged in currencies in which they have substantial positive operational cash flows, thereby establishing natural currency hedges.

Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend of 10 HK cents per share in respect of the year ended 31 December 2012, which will be payable on 20 May 2013. The final dividend is subject to the approval by shareholders at the forthcoming Annual General Meeting to be held on 3 May 2013 and no provision has been made in the Financial Statements.

Treasury Management

Borrowings

In 2012, gross borrowings decreased to HK$4,174 million (2011: HK$4,319 million).

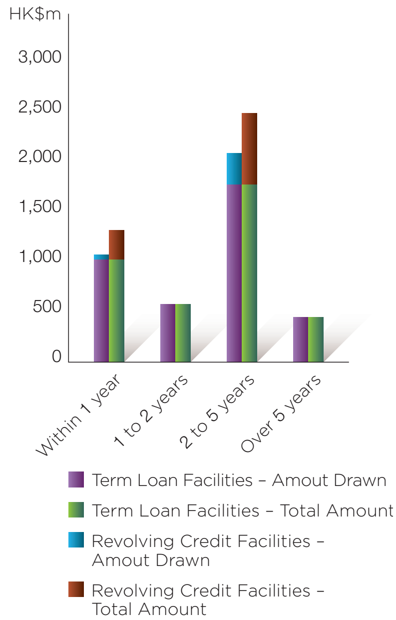
In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company. During the year, The Peninsula Shanghai Waitan Hotel Company Limited entered into a 15-year RMB2.5 billion term loan agreement with Agricultural Bank of China to refinance its maturing facilities and to provide additional financing.

The consolidated and non-consolidated borrowings as at 31 December 2012 are summarised as follows:

HK$m	2012 Hong Kong	2012 Other Asia	2012 United States of America	2012 Europe	2012 Total	2011 Total
Consolidated gross borrowings	1,031	2,427	716	–	4,174	4,319
Non-consolidated gross borrowings attributable to the Group*:						
The Peninsula Shanghai (50%)	–	1,425	–	–	1,425	1,176
The Peninsula Beverly Hills (20%)	–	–	218	–	218	218
The Peninsula Paris (20%)	–	–	–	215	215	42
Non-consolidated borrowings	–	1,425	218	215	1,858	1,436
Consolidated and non-consolidated gross borrowings	1,031	3,852	934	215	6,032	5,755

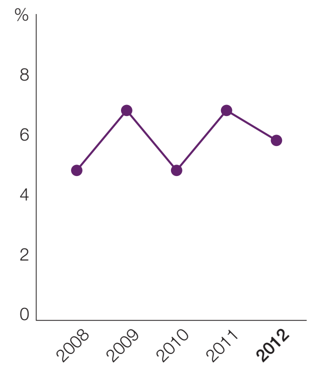
* Represented HSH's attributable share of borrowings.

Banking Facilities and Borrowings (by type and maturity)



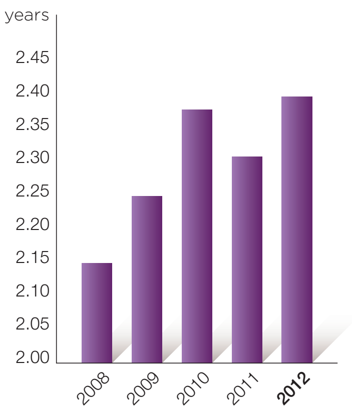
Consolidated net debt decreased to HK$1,989 million as compared to HK$2,335 million in 2011 taking into account cash of HK$2,185 million (2011: HK$1,984 million). The increase in cash was mainly due to partial repayment of an entrustment loan of HK$373 million (RMB 300 million) from The Peninsula Shanghai which is 50% owned. Hence, gearing decreased from 7% to 6%.

Gearing

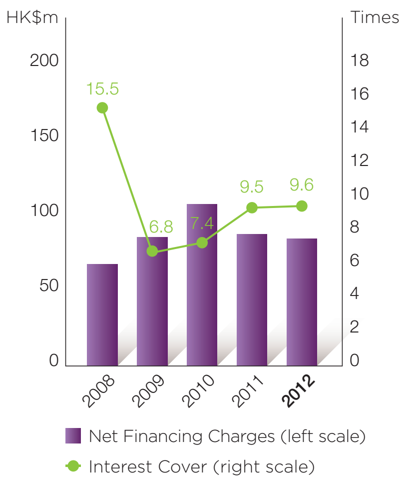


Also, in August 2012, the Group through its wholly owned subsidiary, HSH Financial Services Limited, entered into a six-year JPY5 billion fixed rate term loan agreement with Development Bank of Japan Inc.. This is to prepay part of its existing debts maturing in 2014 and to extend the maturity profile of its borrowings to 2018. The average debt maturity of the Group borrowings has increased from 2.3 years to 2.4 years.

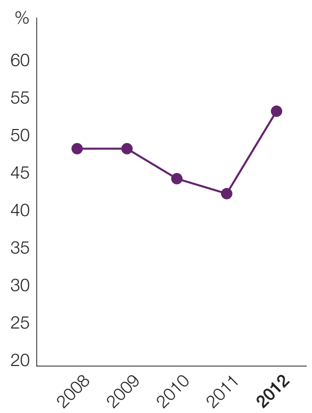
Average Debt Maturity

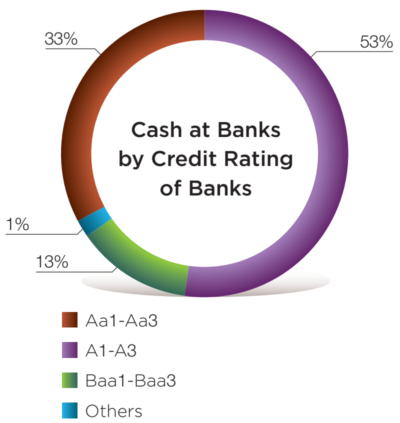


Net Financing Charges and Interest Cover



Long Term Fixed-to-Total Borrowings (Adjusted for the hedging effect)





Interest rate risk

Financing charges on borrowings in 2012 amounted to HK$141 million (2011: HK$137 million). After netting off interest income of HK$56 million (2011: HK$49 million), a net charge of HK$85 million (2011: HK$88 million) was recognised in the income statement.

The weighted average gross interest rate for the year increased slightly to 3.2% (2011: 3.1%) after accounting for all hedging activities and interest cover (operating profit divided by net financing charges) increased to 9.6 times (2011: 9.5 times) in 2012.

The Group seeks to minimise net financing charges by investing its surplus cash in low-risk high-yield structured deposits. The Group also makes use of interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk.

As at 31 December 2012, the Group's fixed to floating interest rate ratio was at 54% (2011: 43%).

The Group's interest rate risk management policy focuses on reducing the Group's exposure to changes in interest rates.

In addition to raising funds directly on a fixed rate basis, the Group may use interest rate swaps or cross currency interest rate swaps in managing its long term interest rate exposure.

Credit risk

As at 31 December 2012, over 90% of cash at banks and 100% of the derivatives were placed with financial institutions with credit ratings of at least an investment grade.

The Group manages its exposure to non-performance of counterparties by transacting with counterparties which have a credit rating of at least an investment grade when depositing surplus funds. However, in developing countries, it may be necessary to deal with banks of lower credit ratings.

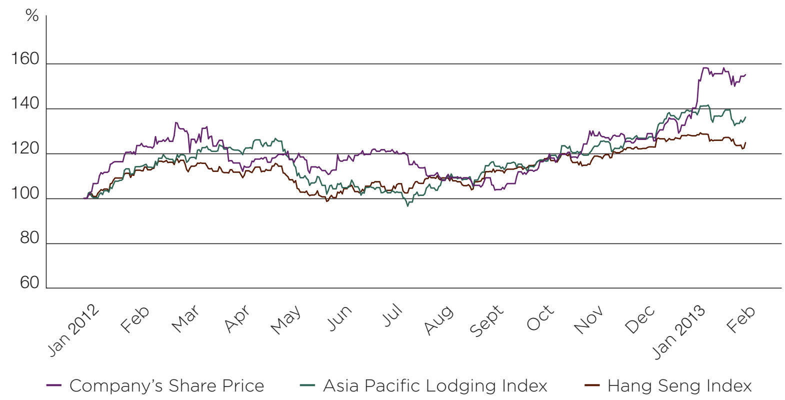
Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grades, even in developing countries, because of the longer term effect.

Share Information

The Company's share price closed on 13 March 2013 at HK$13.50, giving a market capitalisation of HK$20.3 billion (US$2.6 billion). This reflects a discount of 39% to net assets attributable to shareholders of the Company, or a discount of 44% to the adjusted net assets (see page 35).

The average closing price during 2012 was HK$10.16, with the highest price of HK$11.92 achieved on 29 February 2012 and the lowest price of HK$8.63 recorded on 3 January 2012.

Share Price and Indices

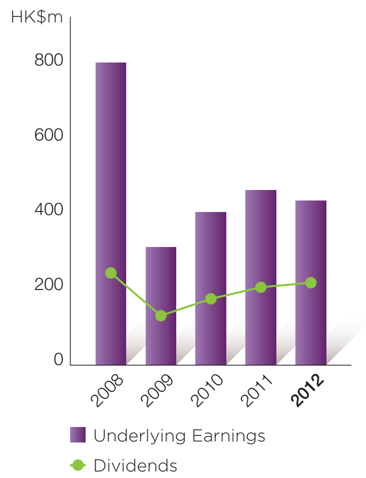


Dividends

In addition to capital appreciation (in the form of our share price performance over time), the Company seeks to provide its shareholders with investment return through the payment of dividends. Over the past five years, the Company's dividend payout rates have been approximately 40% of underlying earnings.

As the operating results remain flat, the Board has recommended a final dividend payable on 20 May 2013 of 10 HK cents per share. Together with the 2012 interim dividend of 4 HK cents per share paid on 28 September 2012, the total dividend in respect of the 2012 financial year will be 14 HK cents per share.

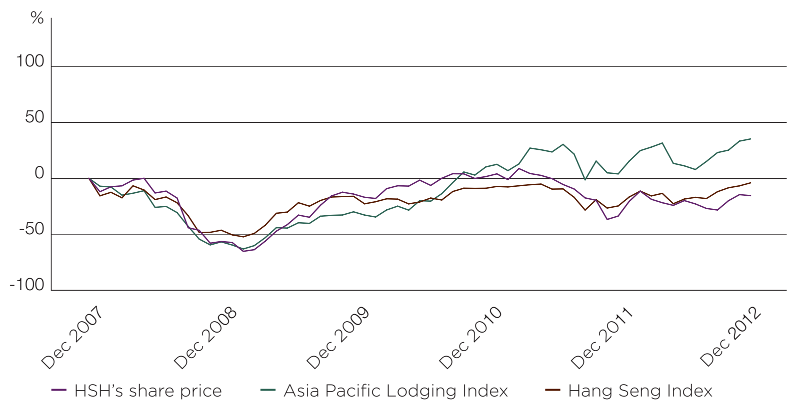
Underlying Earnings



Total Shareholder Return

Total shareholder return ("TSR") is calculated based on the capital gains and dividends of the stock. HSH had a TSR of 27.51% for 2012. During the period 2007 to 2012, the Company provided an annualised TSR of -3.31%, versus -0.83% and 6.21% for the Hang Seng Index and the Asia Pacific Lodging Index respectively.

Returns of Company's Shares and Indices



Sustainability Review

The Journey So Far...

The HSH sustainability journey started in late 2007 when our Chief Executive Officer convened a Group Corporate Responsibility Committee (CRC) and challenged the executive team to find better and the most sustainable ways to continue providing the highest standard of luxury and quality to our customers.

Over the past five years, we have learned to use resources in a more environmentally conscious way. In 2012, we used 5.8% less energy and 6.1% less water than the baseline of 2006-2008 average consumption in spite of our business growth and we have become increasingly conscious of our impact on the world's bio-diversity. In line with our efforts in responsible sourcing, we have stopped serving shark fin at all our owned food outlets around the world since the beginning of 2012 and launched a commitment to procure all our paper products only from responsibly managed forests by 2017. During the year, we also embarked on a structured process to engage our key stakeholder groups on sustainability issues, and continued to build on our long-standing commitment to support the development of the communities in which we operate.

We understand that sustainability demands both a systems perspective and a cultural approach. In 2012, we revamped our sustainability management system to better support our efforts to integrate sustainable practices and principles across our businesses. As part of a new and wider internal engagement programme, we convened a special forum with the Group's management team to assess key future trends that will impact our sustainable development. This forum also marked our first step in exploring a shared long term direction for sustainable business at HSH.

We believe that sustainability work is characterised by long term commitment and many small steps that can positively impact our planet, our community, our business and our families. We will continue to enhance our efforts in driving continuous improvement and in bringing this commitment to sustainability to all parts of our business.

About this Section

In this section of the Annual Report, we focus on specific environmental and social issues that contribute to the sustainable development of HSH and are of interest to our stakeholders.

Reporting Scope

This section focuses on HSH's businesses in the Hotels Division and Commercial Properties Division, as well as other businesses including the Thai Country Club, Quail Lodge & Golf Club and Tai Pan Laundry in the Clubs and Services Division where HSH has operational control. It covers 94%[1] of the Group's business portfolio.

The reporting scope of waste management and community engagement performance in the 2011 report only covered the Hotels Division and The Repulse Bay. This has now been expanded to align with the complete reporting scope detailed above. HSH employees working for Peninsula Merchandising Limited and Peninsula Clubs & Consultancy Services (PCCS) are included in the workforce statistics. However, facilities managed by PCCS or Peninsula Boutiques operating outside Peninsula hotels are not included in the environmental data as HSH does not own these facilities nor has sole control of their policies. The Peninsula Paris and the de Ricou tower of The Repulse Bay are not included in the report as they are still under construction or refurbishment.

Reporting Content

The content reported in this section covers the calendar year of 2012, and is guided by the most significant and relevant sustainability issues identified by the Group's Corporate Responsibility Committee and through a materiality process involving both external and internal stakeholders. These issues are grouped under six topics, including people, health and safety, the environment, responsible sourcing, the community, and the overall management framework. The Sustainability Data Statements section supplements the discussion in this section with detailed performance data. (See pages 215 to 221.)

In line with our commitment to transparency and accountability, we report not only our achievements, but also areas where we need to improve. We welcome feedback from readers and contact details can be found on page 227 of this report.

Reporting Standards and Assurance

We have used the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) G3.1 in the development of this report. GRI references can be found on pages 220-221. The report meets GRI Application Level B+ as checked by GRI.

KPMG were commissioned to conduct assurance of this report in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) and to provide an independent limited assurance opinion on whether the reported information complies with GRI G3.1 as detailed on pages 220-221. The report from KPMG is set out on page 222.

1. Based on the Group's annual revenue in 2012.

Strengthening the Foundation to Look Further

It takes the commitment of each staff member to make a difference within HSH's sustainability journey.

We believe that the HSH sustainability journey would be made more focused by regular measurement of our progress. We started by tracking our environmental performance and have since expanded our reporting to other sustainability disciplines. To further strengthen how we govern the environmental and social impact of our operations, we have taken additional steps in 2012 to improve our sustainability management system and process.

Increasing Understanding of Our Impact

As we continued to improve our understanding of the impact we have on society and the environment, we recognised a need to revisit our entire sustainability reporting system and process so as to assess our impact more accurately.

We reconsidered the metrics that we should use and the data points that need to be tracked. The new reporting templates for workforce issues, waste management and community involvement were launched during the year. We will commence implementation of new health and safety, responsible sourcing and carbon reporting templates in 2013. We also extended the reporting requirements to additional Group operations, particularly in the areas of community involvement and waste management. More than 94% of the Group's businesses are now covered by the reporting system.

A new Corporate Responsibility Quarterly Report, covering all Group operations' performance in each of the focused areas, was introduced during the year to provide regular updates to the CRC. This allows the

CRC to identify any issues earlier than was previously feasible. It has also re-established the discipline of tracking and driving our performance on a quarterly basis within our sustainability management system.

We believe that the revamped and more robust sustainability reporting system will enable a solid foundation to be built for informing management decisions and driving continuous improvement in our sustainability performance.

Integrating Sustainability into Business Processes

In 2012, we introduced the Corporate Responsibility and Sustainability (CRS) Budget Planner to help incorporate CRS initiatives planning in the annual budgetary process. Group operations were requested to itemise their projected spends in each of the core areas of our CRS programme. This process encourages Group operations to think ahead in terms of their sustainability action plan and allows the Company to allocate appropriate resources for improving our sustainability performance. It also helps to identify gaps and needs where more support from Group level may be required, ensuring that material issues will be given proper attention.

During the year, we also embarked on developing a Group Risk Register to further strengthen how we assess and manage key strategic and operational risks that the Group faces, including sustainability and

How we govern and manage

The Group's Corporate Responsibility Committee (CRC) provides a formal governance structure to address the wider aspects of HSH's environmental, social and ethical responsibilities. Chaired by our Chief Executive Officer, the Committee meets at least three times a year to review Group operations' sustainability performance and to discuss policies and plans for embedding sustainable practices and principles across all operations. The reporting structure and composition of the Committee is outlined on page 119 in the Governance Report.

Our Sustainability Vision and Policy Statement[2] guides our approach to managing sustainability risks and opportunities and has laid out six focus areas, namely: corporate governance and ethics, employees, environment, health and safety, supply chain, and community engagement. Each focus area is championed by a CRC member whose role is to develop policy and advance work in the area with Group operations.

The Chief Executive Officer is accountable for HSH's overall corporate responsibility and sustainability performance. He is supported by the Senior Manager, Corporate Responsibility and Sustainability, who is responsible for setting the direction of the Group's policy and strategy on corporate responsibility and sustainability, managing stakeholder relationships on environmental and social issues, and supporting the Champions.

Policies and procedural manuals have been put in place to support the effort of the Champions.

- Our Energy Conservation Manual provides guidance on best energy management practices, while the HSH Sustainable Design Standards looks at environmentally responsible practices for new development projects and major renovation work.
- The Group Human Resources Manual and Code of Conduct detail the Group's approach to human resources management and ensure consistent practices across the Group, providing the foundation for attracting, engaging and developing our talent.
- Central to our health and safety management framework is the Operational Risk Manual, which specifies standards from occupational health and safety management system to fire risk, crisis management and security standards.
- The HSH Supply Chain Code of Conduct and policies on responsible sourcing outlines the Group's corporate responsibility commitments as well as our expectations of suppliers and contractors on environmental, social and ethical practices.

Most Group operations have also formed corporate responsibility committees at their level to coordinate actions and review progress for integrating sustainable practices in their day-to-day operations. These committees are often supported by specific working groups on health and safety, the environment and community engagement.

In addition, by joining sustainability advocacy groups, we are able to keep ourselves informed of the latest developments on sustainability issues and to learn from other industry peers while sharing our own experience. Internationally, we are a member of the International Tourism Partnership (www.internationaltourismpartnership.org) and Forum for The Future (www.forumforthefuture.org). In Hong Kong where the Group is headquartered, we are a member of WWF Hong Kong (www.wwf.org.hk) and Hong Kong Council of Social Services (www.hkcss.org.hk).

2. To review HSH's Sustainability Vision and Policy Statement, please refer to www.hshgroup.com/cr

How we did in 2012

- ➡ Developed a roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues.
- ☑ Developed a shared understanding amongst the Group's management team on key global trends that may affect our business in the medium to long term.
- ➡ Developed a Group Risk Register.

☑ achieved ➡ on plan

supply chain risks. The Group Risk Register will progressively be rolled out across Group operations over the next two years. For more information on how we manage risk, please refer to the Governance section on pages 125 to 130.

These new management processes have been implemented to enhance our governance on environmental, social and economic risks, and underpin our commitment to integrating sustainable practices and principles across our businesses with balance and focus.

Helping Employees to Embrace Sustainability Practices

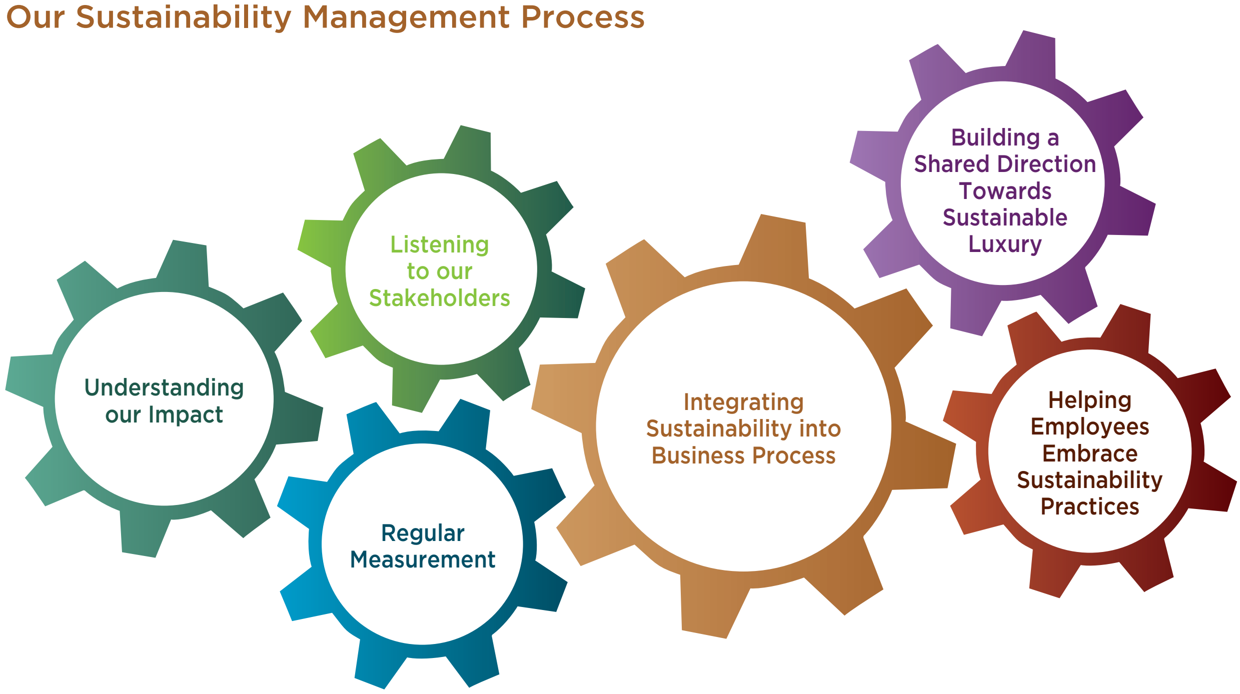
It is the responsibility of HSH to ensure all employees are trained to make appropriate decisions and to be accountable for our sustainability performance as the commitment of our people is fundamental to the success of our corporate responsibility programme.

Group operations use various means, such as notice boards, wall displays and video channels at staff canteens to communicate with employees. Many operations have also set up green teams and caring committees to brainstorm ideas and coordinate initiatives to educate and engage employees on caring for the environment and the community. For example, the green team at The Peninsula Bangkok organised an Energy Week using interactive boards to help employees understand the energy demands of various forms of lighting, while The Peninsula Tokyo posts its daily energy consumption and targets to remind employees to consume energy wisely. At HSH Head Office, a bazaar offering products from social enterprises was organised to introduce the concept of social enterprise and to give our staff an opportunity to enjoy the fun of shopping whilst supporting worthy social and environmental causes. The many fundraising and charity drives we organised among our employees throughout the year also helped to remind us of the needs in our communities.

Across our operations, 17,049 hours of health and safety training were provided to employees in 2012. Our food and beverage teams received ongoing training in food safety and hygiene, a priority issue for our stakeholders. All Peninsula Hotels' housekeeping staff undergo training in setting heating and air conditioning in order to conserve energy when rooms are not occupied. These training sessions aim to ensure that our employees remember to constantly take sustainability concerns into consideration in their day-to-day duties.

Each of our employees contributes to managing one or more of the priority issues we report on. It takes the commitment of each member of staff to make a difference within HSH's sustainability journey. We will continue to work on building a wider and deeper understanding among all employees until this commitment to sustainability takes roots in and reaches all areas of our business.

Our Sustainability Management Process



Building a Shared Direction Towards Sustainable Luxury

From the Chief Executive Officer chairing the Corporate Responsibility Committee through to the direction set by General Managers of Group operations, we recognise how important it is that our leaders inspire their teams to address sustainability issues with intent and purpose.

Reflecting on our sustainability journey over the past five years, we are pleased with the management framework that we have established and the progress we have made. However, we are highly aware that we are only at the beginning of this journey. We acknowledge the need to enhance the degree to which sustainable practices and principles are integrated into our day-to-day business decision-making. We also recognise the importance of making sustainability a corporate value that we live and breathe. As suggested by our stakeholders, we could also be more proactive in exploring ways to add value to our business by making sustainability concerns an element within the luxury aspiration we offer.

In order to embark on the next phase of our journey, we understand the importance of developing a shared understanding among the Group's management team of key macro trends that may affect our business in the medium to long term and to create a shared direction for sustainable business at HSH. As such, we convened a special forum engaging our management team members around the world to specifically discuss macro trends that have been shaping our society and our business, and assess how these trends may impact the Group. This innovation exercise was extremely thought-provoking as it looked at the ways through which other businesses have turned sustainability challenges into opportunities, and it has inspired us to begin creatively exploring how increased sustainability awareness can influence our business strategy.

Working together as a management team on sustainability issues in a focused way has strengthened the foundations of our programme. It also allowed us to begin working towards an overall shared vision for sustainable business at HSH. We believe that establishing a vision and defining longer term goals will offer a clearer direction to follow and will strengthen our staff's engagement with our sustainability programme.

We do not yet have a detailed roadmap, but our ambition to set a new vision of sustainable luxury is a compass for our journey. Establishing the direction to achieve this new vision will be a focus of our work over the next two years.

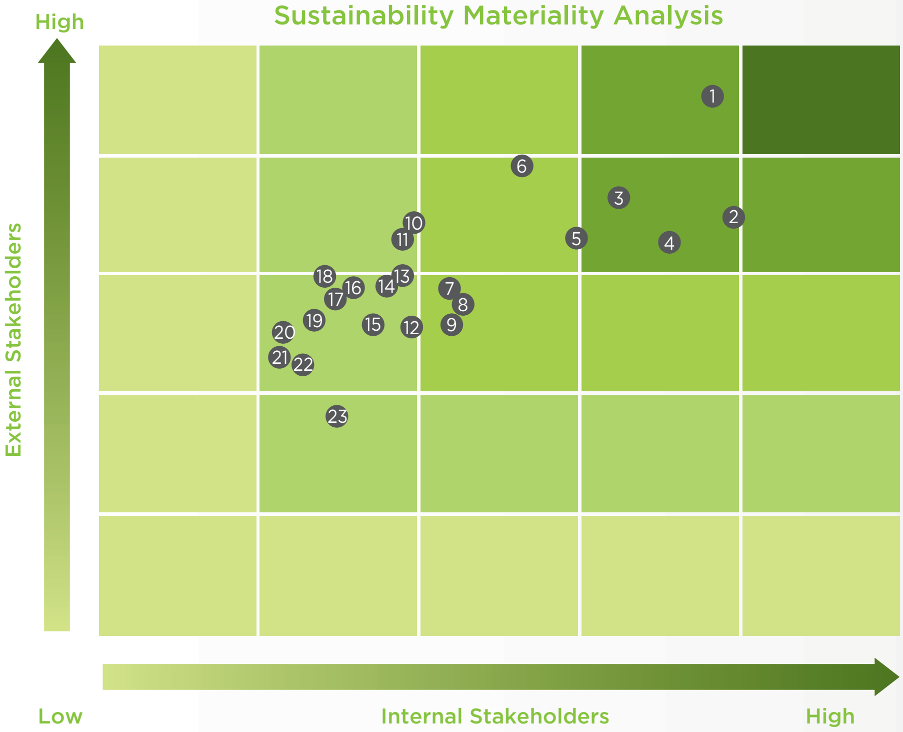
The perspectives of external stakeholders will serve to both advise and challenge us, while keeping us accountable.

Listening to Our Stakeholders

We believe that the perspectives and ideas of stakeholders outside the Company are of great value to us. It will serve to both advise and challenge us, while keeping us accountable.

In 2012, we commissioned an independent consultancy, Two Tomorrows, to conduct a pilot stakeholder engagement programme through an online survey followed by targeted phone interviews for further in-depth analysis. The Group's management team, as well as external stakeholders from 12 major stakeholder groups in Asia, Europe and the U.S., were invited to provide their feedback on the sustainability issues of highest concern to them and on our disclosure of sustainability work. Just as it is important to build a shared understanding among our senior managers on our priority sustainability issues, it is also important that we have an understanding of the views of our external stakeholders.

Developing our materiality matrix



In our materiality matrix, material issues are defined as the issues of highest concern to the Company and to external stakeholders. These are defined through the processes of risk assessment and stakeholder engagement. For the Company, priorities are set based on the likelihood and potential impact of issues affecting business continuity and development. For external stakeholders, prioritisation is given to the importance of the issues to society and their relevance to HSH.

The Matrix has combined the perspectives of external and internal stakeholders and provides a mapping of material sustainability issues to HSH.

1. Food Safety & Hygiene
2. Bribery & Corruption
3. Corporate Governance & Ethical Standard
4. Data Privacy & Security
5. Human Rights & Labour Practices
6. Health & Safety of Employees and Guests
7. Local Employment & Skills Development
8. Diversity & Equal Opportunities
9. Human Trafficking & Sex Tourism
10. Water
11. Waste Management
12. Community Development
13. Biodiversity
14. Stakeholder Engagement
15. Local Air Pollution
16. Responsible Sourcing
17. Climate Change
18. Environmentally Conscious Building Construction & Renovation
19. Contribution to Local Economic Development
20. Health and Nutrition
21. Sustainable Packaging
22. Heritage Preservation
23. Wealth Gap

More to do, but we are in the right area

Findings of the pilot stakeholder engagement programme confirmed that HSH understands its range of sustainability issues. Stakeholders considered HSH to have strong governance and a strong sustainability programme. Stakeholders in particular commended HSH on its shark fin ban as demonstrating real leadership in defining environmentally responsible luxury and setting examples for the industry. They also commended HSH's sustainability reporting which was considered to be well structured and easy to understand. Key issues raised by the stakeholders were presented to the Group's management team and fed back to the external stakeholders who took part in the exercise. These are also highlighted in the discussions throughout this section.

Issues related to health and safety and corporate governance were ranked among the highest priorities. The Group policies and programmes that we undertook during the year, such as the new data privacy training, mandatory indoor air quality assessment policy and pursuing HACCP[3] certification to strengthen our commitment to food safety and hygiene, go further to address those issues that our stakeholders perceived to be the most material.

While the overall assessment of our action and disclosure on sustainability was positive, stakeholders suggested that HSH consider:

- Setting longer-term sustainability vision and goals to provide context and direction to our sustainability programme.
- Making our community programme more strategic and better coordinated across the Group.
- Communicating more about our procurement policy and how we have been managing the environmental and ethical standards of our supply chain.

These suggestions are in line with what we considered as material to our business and will serve as valuable reference when prioritising our sustainability work and reporting. This was just a start. We will continue to develop our approach to engaging with stakeholders on wider sustainability issues during 2013, with a view to creating a process that is manageable, meaningful and which adds genuine value in advancing our sustainability commitment.

Moving in the Right Direction

Our effort in building shared understanding both internally and with our external stakeholders, as well as establishing a framework of robust systems and processes to give us greater clarity on our impacts, have laid a solid foundation for us to look further ahead and to move towards our ambition of setting a new vision of sustainable luxury.

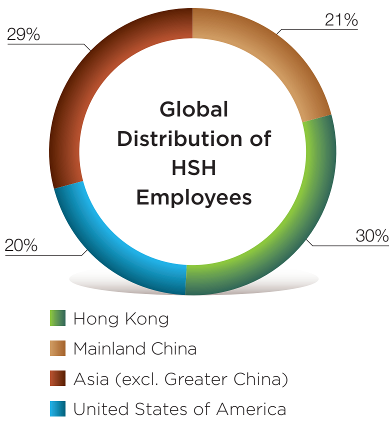
Stakeholders commended HSH on its shark fin ban as demonstrating real leadership in defining environmentally responsible luxury

Our commitment 2013

- ☐ To develop a longer-term sustainable business vision and define the associated goals.
- ☐ To continue to work on building a longer-term roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues.
- ☐ To develop a new Group employee engagement programme on sustainability issues.
- ☐ To continue the rollout of the revamped sustainability management system.
- ☐ To assess the implications of new international and local sustainability disclosure requirements at HSH.

3. HACCP stands for Hazard Analysis & Critical Control Points, an international food safety and hygiene management standard.

Investing in Our People



What Makes HSH Special

The Group employs more than 8,000 people around the world and maintains a unique family culture that runs deep throughout our 146-year history. Our people are at the very heart of our business and our brand. We put considerable effort into ensuring our products reflect the highest standard of quality and luxury. What makes us special to our customers are our people and their passion, dedication and creativity to going above and beyond in order to create special memories for our customers. This defines the excellence that HSH represents.

We place great value and pride in being an employer of choice. Our five-year human resources plan helps to ensure that HSH remains committed to being a genuine and caring employer and that our human resources strategy is attuned to the ever-changing environment within which our businesses operate. Launched in 2008, the plan set out our commitments in the four building blocks of our human resources strategies, which include building, attracting, engaging and developing our people.

Building an Enabling Platform

The Group Human Resources Manual details HSH's approach to human resources management. In order to ensure consistent implementation of the manual across Group operations, HR reviews were conducted within five operations in 2012. The review process helps the Group to understand how successfully our operations are implementing the policies and guidelines outlined in the manual and to identify areas requiring particular support and attention going forward.

Each review comprehensively assessed an operation's compliance in 10 core areas set out in the manual, resulting in a corrective action plan with short (six months), medium (12 months) and longer term (18 months) targets to address key development priorities. The five reviews in 2012 also highlighted a number of development areas at the Group level, including more focus on skills training and employee retention strategies. We will update the manual (originally issued in 2010) in response to the evolving needs of our employees and findings from operational reviews.

In 2012, we took an in-depth look at the processes for managing payroll, time and attendance in all HSH's Hong Kong businesses. The purpose of the review was to establish a set of standardised policies and procedures in these human resources functions for all of our Hong Kong operations, and to create a blueprint for developing a new human resources and payroll system in 2013.

Reinforcing an ethical culture

Maintaining strong corporate governance and ethical standards was among the highest concerns for HSH and its stakeholders. Our Code of Conduct and Equal Opportunities ('Code of Conduct') sets out our steadfast commitment to conducting business activities in an ethical manner and to providing an environment that welcomes diversity and promotes equal opportunities. The Code of Conduct outlines the standards of behaviour that we expect from each and every employee on a range of ethical issues, including anti-bribery and corruption, fair competition and equal opportunities. It broadly acknowledges and recognises the principles outlined in the United Nations' Universal Declaration of Human Rights, including among others denouncing all forms of child exploitation, forced or bonded labour. We also recognise the basic right of workers in forming and joining trade unions to protect their interests. At HSH, 13% of our employees are covered by collective bargaining agreements.

We are committed to conducting our business in keeping with the standards outlined in the Code of Conduct. In 2012, out of the Group's workforce of over 8,000 employees, 10 grievances of discrimination were lodged, investigated and dealt with in accordance with the Group's policy, and there were no breaches of anti-corruption practices reported. To safeguard our reputation and the success of our business, it is vital that all employees understand their responsibilities to act ethically. Hence, it is a mandatory requirement for all employees to undertake the Code of Conduct training programme covering a module on anti-corruption and bribery and another on equal opportunities which is an important aspect of human rights issues relevant to our operation. All new hires completed the modules over the year which accounted for 21% of the total workforce[4].

Building a Global Competency Framework to help strengthen the basis for all HR processes

During the year, we laid the groundwork for building a global competency framework, which will further strengthen the foundation of various human resources functions. This framework will help us to further understand and define the behaviours that drive success across different job levels. It will also enable us to more clearly articulate the link between our company goals and the desired qualities and behaviours, which in turn will introduce more transparency in respect of recruitment, development and succession planning decisions. The process for building this global competency framework was rolled out in January 2013 and will remain a focus of our work over the next two years.

4. In 2012, 31% of the total workforce undertook anti-corruption training and 28% undertook equal opportunities training. About 10% of the participants were existing employees who were not able to attend the training modules in 2011. This involved a total of 1,235.5 hours of anti-corruption training and another 1,127.5 hours of equal opportunities training.

How we did in 2012

- ✓ Conducted five operational HR reviews in accordance with the Group HR Manual.
- ✓ Conducted phase 2 of the Group employee engagement survey.
- ○ Built a competency framework for the Group.
- ✓ Rolled out a revised management bonus plan for the Group.
- ➡ Rolled out the third module of Code of Conduct online and classroom training on guest data privacy.
- ✓ Designed a Finance for Business Managers Programme for all Executive Committees in the operations.

✓ achieved ➡ on plan ○ behind plan

We take our obligation to customer data privacy seriously. We implemented a Data Privacy Manual in 2012 to raise awareness of privacy risks among our employees and to provide guidance on possible data privacy issues and precautionary steps. A new learning module on safeguarding customer data privacy was introduced as part of the Code of Conduct training programme. More than 380 managers across our global operations attended the classroom training, and a bespoke e-learning platform was rolled out to more than a thousand employees in end 2012.

Attracting the Right Talents

We seek to attract and retain the right talents to meet our operational needs and strengthen the HSH team. Our commitments to building a caring and respectful workplace, offering competitive compensation and benefits, and providing equal opportunities for recruitment and development of all employees, irrespective of gender or ethnicity, are crucial components in growing a happy and engaging workforce.

Offering competitive rewards

We conduct benchmarking exercises regularly to ensure we are offering competitive compensation and benefits to attract new talents and retain good performers. In 2012, we renewed the management bonus plan to better reflect our philosophy of rewarding for performance. The new plan focuses more on an employee's performance, allowing high performers to be more competitively rewarded.

We also ensure that our employees are given regular and fair performance reviews to assess their work over the year and potential for career development. In 2012, 90.8% of the Group's full-time employees received performance reviews.

Supporting employee wellness and work-life balance

In reviewing the processes for managing payroll, rostering, as well as compensation and benefits for all of our Hong Kong operations, we also looked into areas where we could better support our employees' wellness and work-life balance. We formalised the policies to extend the annual medical examination benefits to all permanent employees in our Hong Kong operations in end 2012. Our Hong Kong operations would implement the policies over the next 18 months. We will also introduce a three-day paternity leave and a four-week adoption leave as well as offering full remuneration for maternity leave. All of these benefits to support our employees in these special moments in their lives are beyond the statutory requirements in Hong Kong. Separately, a new nursing room was set up during the renovation of the Group's Head Office facility to support the needs of new mothers at work. These initiatives help to ensure that, whilst building the HSH family, we also support our employees in building theirs.

In 2012, 194 employees within the Group took parental leave. All the men and 88% of women returned to work, and among those who took parental leave in 2011, 95% were still working with us a year on. We actively endeavour to help our employees to balance their work and family commitments.

A loyal partnership

We treasure long-term relationships with our employees as their experience and deep understanding of our corporate values make them best placed to provide the exceptional level of customer service that our brand is known for. The annual turnover rate of the Group was 19.2%, while that for our Hotels Division alone was 18.3%, which was well below the industry average[5].

Check out the Sustainability Data Statements section

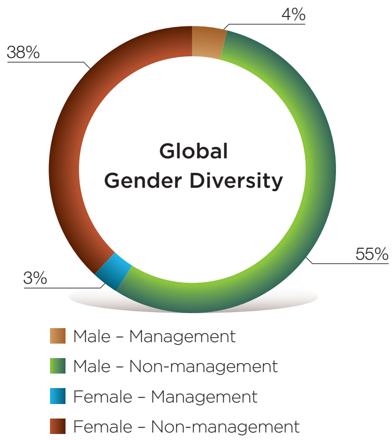
Embracing diversity in our workforce

With operations spanning three continents, the Group has a workforce that comes from diverse roots. Individual operations such as The Peninsula New York have employees from more than 50 nationalities under one roof. Diversity is a valuable asset in our workforce and it offers employees the opportunity to learn from one and other and allows us to effectively connect with our customers from all corners of the world.

The Group is committed to providing an inclusive workplace that promotes equal opportunities. Our recruitment process and professional development opportunities should not be limited by gender, age, nationality, religion, sexual orientation or disability. Many of our operations employed people with disabilities in their workforces to perform duties that can effectively utilise the abilities of these employees. However, our hotel operations in Shanghai, Beijing and Bangkok will be paying a total of HK$480,102 to their respective local government agencies to compensate for not meeting the required quota for employing people with disabilities in 2012. The Group Management Committee has directed all operations to ensure the required employment quotas are met in 2013.

An inclusive workplace

The Peninsula Tokyo team includes a number of employees with mild mental disabilities. They are fully-fledged members of the Peninsula family and are well cared for by fellow colleagues. They are engaged in a variety of duties that can tap into their abilities. Some play an important role in segregating our paper waste and recycling partially-used bathroom amenities, which enable the hotel to achieve over 80% of waste diversion rate.



Note:

The gender split of our workforce: 40% of our full time workforce are female while the ratio of female in our part time workforce are 50%. Of our employees on permanent employment, 41% are female, while 47% of those on our fixed term/temporary contract are female. In Asia, 40% of the employees are female while in the U.S. the ratio is 44%.

5. Reference on average turnover rate of the hospitality industry is made from Walker and Miller (2010) www.ijbssnet.com/journals/Vol_2_No_23_Special_Issue_December_2011/9.pdf

Walk in My Shoes

My first job ever was washing dishes in a restaurant. So working in stewarding took me back to my roots. I forgot how physical the job was and how intense the kitchen can be. It was a very gratifying experience for me and I think the staff enjoyed having the opportunity for me to work side by side with them.

Maria Razumich-Zec
Regional Vice President
USA East Coast

Razumich-Zec (in the middle) surrounded by the stewarding team at The Peninsula Chicago.

Engaging Staff to Build Commitment and Community

From town hall meetings for updating employees on priority business issues to less formal gatherings that encourage employees to express their concerns and expectations, Group operations use many different forums to ensure their teams are informed and are heard. In the case of any significant operational changes that would substantially affect our employees, we keep them informed well in advance, typically with a minimum notice period of two to 12 weeks and this is specified in collective agreements where they apply.

The extended Executive Committee members of The Peninsula Chicago and The Peninsula Manila had the opportunity to choose a department and spend a day working alongside frontline staff. This "Walk in My Shoes" programme helped to strengthen relationships and deepen the understanding between the management team and the frontline staff and between departments.

At the Group level, a redesigned intranet platform "Sphere" was launched in Spring 2012. It provides a better-structured and more dynamic platform to engage our employees around the world, enabling them to keep abreast of the happenings across the Group and to access information more efficiently. In addition to "Sphere", the Group reaches out to its global workforce through webcasts by the Chief Executive Officer, newsletters and corporate videos.

Listening to our employees

This year, we undertook the second phase of our global employee engagement survey to hear from employees of another seven Group operations how they feel about HSH. The first phase covering five operations was conducted in 2011. We were pleased to achieve an even higher participation rate than the first phase. More than 2,400 employees participated, representing 91% of the workforce in these seven operations.

Findings of the survey were broadly in line with that of the first phase. They showed that our employees are proud to be associated with HSH and to advocate the HSH brand. The results also stated that employee recognition and two-way communication are areas for development. The seven operations will develop their action plans to respond to feedback.

Developing Our People

We understand that we are only as good as our employees who help to shape the experiences of thousands of customers every day. Investing in our people is perhaps the most important investment for the sustainable development of our business.

In the past five years, we continued to grow our learning and development programmes in terms of both depth and reach to address the learning needs of all employees within the Group. Our annual learning and development plan covers a range of programmes to support our employees in their daily work as well as their longer-term professional development. The Executive Development Programme supports the Group's succession planning while the new Finance for Business Managers programme was rolled out during the year to enhance the capacity of the management teams across our operations in managing financial processes. In 2012, we invested more than HK$19.1 million on training and development programmes for employees across the Group, including the development of a Luxury Programme to be implemented in 2013 to refresh and reinforce all of our frontline staff's commitment to creating and delivering a genuine luxury experience for our customers.

In 2012 our Global Cross Exposure Programme gave more than 80 employees from senior managers to frontline staff members the opportunity to learn best practices from another operation within the Group, broadening their horizons and skillsets. During the year, we also conducted a pilot cross exposure programme with our sister company CLP to exchange best practices in human resources, finance and corporate governance functions.

Our commitment 2013

- ☐ To develop a human resources manual and toolkit for hotel pre-opening.
- ☐ To enhance our support for employee wellness and work-life balance.
- ☐ To launch a new module of the Executive Development programme targeting the next generation of leaders.
- ☐ To expand the Peninsula Scholarship programme.

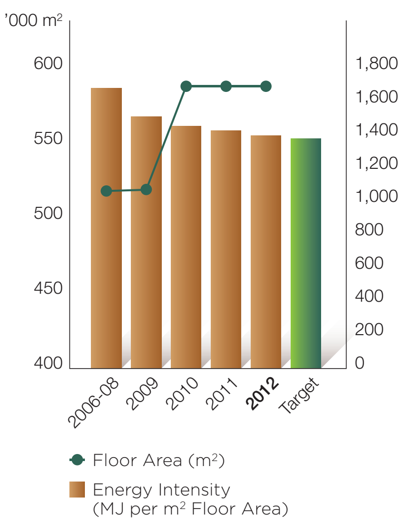
Just a training programme?

Across the HSH Group, we truly recognise the value of training and nowhere is this more true than at The Peninsula Bangkok where training is deeply embedded into the culture of the hotel. The Peninsula Bangkok tapped into the Thai love of fun in designing engaging campaigns that deliver tangible results for improving service standards and health and safety performance. 60% of the employees at The Peninsula Bangkok are generally between 26 and 30 years old. In 2000, the hotel embarked on an extensive and fun "Train the Trainers" programme, leveraging on the experience and knowledge of longer-serving employees throughout the company to coach the less experienced. All the volunteer trainers went through a structured three-day programme to understand the value of training, how to identify training needs, as well as basic coaching and presentation skills. The trainers, with support of the hotel's learning and development team, could creatively design their training programmes to address the needs they had identified. With motivation and recognition, the hotel has developed a troop of trainers achieving a ratio of one trainer for every 10 employees. During 2012, a total of 212 trainers delivered over 27,000 man hours of training. With an average of 36 hours of training per employee during the year, it is clear how much value the staff place on training. This motivating initiative not only underpins the service standards of the hotel but has also manifested in great camaraderie among The Peninsula Bangkok family.

over 27,000 man hours of training

Environmentally Responsible Luxury

Group Energy Intensity



Note:

The increase in floor area in 2010 reflects the addition of The Peninsula Shanghai.

17%

lower energy intensity

What HSH Means for The Environment

HSH's core business is in developing, owning and managing a portfolio of prestigious hotels and premium properties. We are conscious that the building sector accounts for a significant part of the world's greenhouse gas emissions and energy use annually. This makes managing our energy consumption, and hence our carbon footprints, a clear priority in our operations. Our energy management programme is part of our precautionary approach for managing the commercial and environmental risks to the Company and for meeting our corporate responsibility.

Our key impacts on the local environment are associated with how we manage the water we use and the waste that we generate in our business operations. They are also issues of keen interest to our stakeholders. Additionally, as a business with a global supply chain, we are responsible for managing the indirect environmental impact associated with the consumables and materials that we purchase to support our operations and development projects.

We endeavour to do our best in understanding and managing the adverse environmental impacts of our business activities. However, we are also steadfastly committed to providing the highest standard of luxury products and services to our customers. To meet both objectives is not without challenge. However, this challenge has created a space for innovation – for us to find the most sustainable way possible to deliver luxury and quality to our customers, and to explore how we may increasingly make sustainability part of the appeal of our luxury offering.

Continuous Improvement on Energy And Carbon Performance

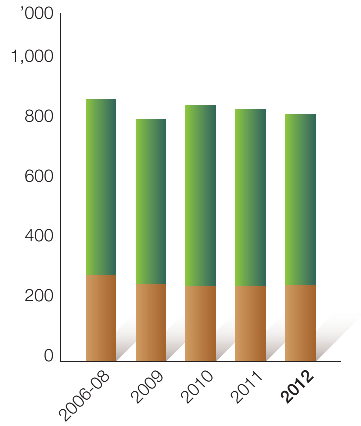
Along with the commitment to deliver the highest standard of luxury and quality, we have managed to continuously improve our energy performance and carbon footprints since we began our environmental programme in 2008. In 2012, the Group consumed a total of 822,779 GJ of energy, down 2.1% on 2011. Despite our business growth over the years, including the addition of The Peninsula Shanghai to the Group, our absolute energy consumption has reduced by 5.8% when compared to the baseline of 2006-2008 average consumption. Energy intensity was 17% lower than the baseline, close to reaching our ambitious target of reducing energy intensity by 18% by the end of 2012. We are resolute on continuing the efforts and meeting the 18% reduction target in the coming year.

In 2012, our energy consumption generated a total of 115,858 tonnes of CO_2 equivalent, 1,925 tonnes less than the previous year while our Group carbon intensity was 1.5% lower. In our Hotels Division, carbon intensity was 148.8 $kgCO_2e$ per occupied room per day[6].

6%
lower absolute energy consumption

The improvements in our energy and carbon performance were achieved mainly through our environmental engineering projects. For example, in 2012, The Peninsula New York installed a new building automation system which helps to save an estimated 2,599,368 MJ of energy annually, equivalent to the carbon emissions from annual electricity-related CO_2 emissions from 26 U.S. homes[7]. At The Peninsula Bangkok, by improving its laundry equipment, the hotel now saves an estimated 1,239,564 MJ each year. The energy we saved over the past four years amounted to 84,001 GJ, which is enough energy to power more than 1,000 homes in Hong Kong for three years[8]. These projects, with an investment of HK$95.7 million, would also generate an estimated saving of HK$24.0 million on our recurring annual operational cost and an overall return on investment of 25%.

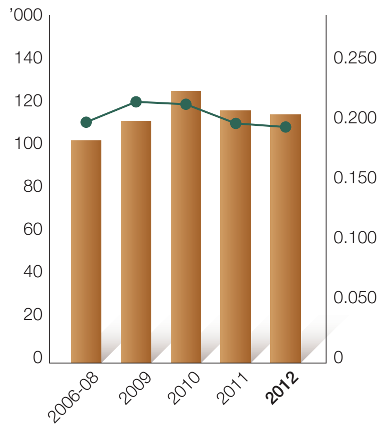
Group Energy Use



Note:

Direct energy is the energy we use in our operations such as gas for heating. Indirect energy is energy consumed to provide the energy we use, for example the fuel burned in power stations to generate our electricity. In 2012, the split of our direct energy consumption by sources were: 56.8% gas, 32.8% diesel oil, vehicle fuel 10.1% and 0.3% fuel oil, whilst our indirect energy consumption were mainly from electricity (90%) and steam (10%).

Group Carbon Emissions and Intensity



Check out the Sustainability Data Statements section

6. Based on the carbon accounting methodology of Hotel Carbon Measurement Initiative developed by International Tourism Partnership and World Travel and Tourism Council (www.tourismpartnership.org/ www.wttc.org)
7. Reference made from www.epa.gov/cleanenergy/energy-resources/calculator.html#results
8. According to Energy Efficiency Office, Electrical & Mechanical Services Department, HKSARG www.emsd.gov.hk/emsd/ e_download/pee/HKEEUD2012.pdf, 55,501TJ energy was used in residential sector in 2010. Housing Authority, HKSARG recorded 2,359,000 households www.housingauthority.gov.hk/en/common/pdf/about-us/publications-and-statistics/HIF.pdf .

How we did in 2012

- Cut energy intensity by a further 3% against 2006-08 baseline.
- Enhanced the engineering teams' capacity on carbon management.
- Reduced Hotels Division's water intensity by another 2%.
- Enhanced the robustness of waste management data so as to improve on waste diversion and reduction.
- Improved awareness of the sustainable design standards and guidelines throughout the Group and encouraged its adoption in new development and major renovation projects.
- Promote the use of sustainable building materials in new development and renovation projects.

achieved on plan

behind plan objective missed

We are committed to challenging ourselves in making continuous improvement. While our engineering teams will continue to be on the lookout for more energy efficient systems and possible applications of alternative energy, building the awareness and commitment of each of our employees is an increasingly important area of our environmental strategy. Environmental improvement comes not just from policies and programmes, investment in machinery or audits and accolades. It also counts on the people in the organisation to make it happen. We aim to further reduce our energy intensity in 2013 and work on expanding our internal engagement programme to inspire more employees to take individual action.

Obvious benefits

An ongoing re-lamping exercise has resulted in saving 15,655 GJ energy over the past three years (2010 to 2012) across the Group, the equivalent of burning more than 1,601 tonnes of coal for electricity production by a thermal power station[9].

At The Peninsula Hong Kong, we invested in LED lamp replacements in guest room corridors, leading to energy savings of 711,687 MJ and a 40% return on investment. At The Peninsula Tokyo, we replaced halogen lamps in the guestrooms with LED lamps, facilitating an annual energy saving of 33,713 MJ. It also boasted a payback period of 1.5 years.

Although the re-lamping exercise can be a very effective and financially efficient measure for energy reduction, it has been one that we undertook with great caution, as we devote a great deal of attention to lighting quality, especially in the front-of-house areas of our hotels. Lighting is a core component for creating a luxurious environment for our guests and enhancing the character of our hotels. Extensive trials of new lighting options are often conducted in back-of-house areas before being introduced into guest areas.

Cool investment

The heating and cooling systems consume the most energy in a building. In 2012, we invested HK$41.4m in upgrading eight chillers across our operations in Hong Kong, Bangkok, Manila and Vietnam. These upgrades will allow us to make energy savings of around 13.5 million MJ and an estimated saving of HK$52.7m on energy costs annually.

Older chillers in the air-conditioning systems of our hotels and properties are also the main sources of our ODS emissions. The replacement of these eight units has helped to move us closer to our target of replacing all ozone-depleting refrigerants in use by the Group by the end of 2015. Our ODS emissions in 2012 were 71 kg CFC-11 equivalent compared to 92 kg in 2011.

Ozone-depleting substances (ODS) have a detrimental effect on the ozone layer, damaging the planet's protection against excessive levels of solar radiation. The Montreal Protocol regulates the phase-out of CFCs, halons, and other ozone-depleting chemicals internationally.

When it comes to considering new capital investment, such as a chiller, we take a long-term view to evaluate its whole life cycle cost, instead of merely upfront capital costs. Although most of these chiller replacements were planned capital investment of fully depreciated equipment, they presented an opportunity for us to look at more environmentally efficient options. These replacements have enabled us to reduce our energy consumption, emission of ozone-depleting substances as well as ongoing utility costs. Along with factors, such as cost, quality and functionality, environmental impact has increasingly become an integral part in our investment decision-making process.

An Ongoing Focus on Water

Water is an ongoing area of focus as we develop our sustainability strategy. In 15 years, nearly half of the world's population will be living in water-stressed areas[10], including some of the communities within which we operate. Vastly undervalued, water is vital for life, crucial to our operations, and essential for food and energy production.

Over

920,000

bathtubs saved

Finding the right balance

The use of variable frequency drives (VFDs) helps to optimise energy load to the demand of our ventilation systems and pumps. From 2009 to 2012, these generated some 17,476 GJ of annual energy savings across the Group. In 2012, The Peninsula New York invested US$360,000 (HK$2,808,000) in VFD installation, yielding an estimated 13,251 GJ energy savings and a US$144,000 (HK$1,123,000) saving of energy cost annually. The financial savings will pay back the investment in two and a half years, giving a return on investment of 40%.

Optimise energy load on demand to generate enviromental and financial savings

9. http://science.howstuffworks.com/environmental/energy/question481.htm

10. Managing Water For All: An OECD Perspective on Pricing and Financing – Key Messages for Policy Makers © OECD 2009, www.oecd.org/env/42350563.pdf

Treating water wisely

When The Peninsula Bangkok was built 17 years ago, local rules and regulations meant that it had to have its own sewage treatment facility and the effluent water had to meet the highest standards before being discharged into the river. Since 2006, the hotel started to look into how it can put this treated grey water to better use.

The water recycling effort at The Penisula Bangkok enabled the hotel to save 15,000 cubic metres of water every month

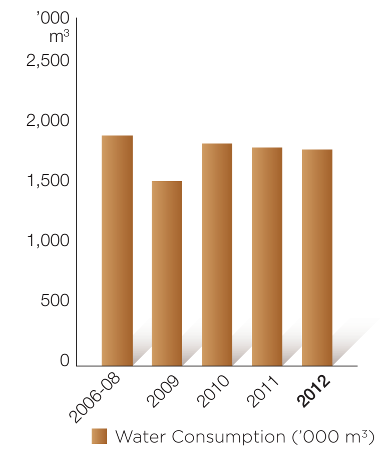
The engineering team began to divert the treated water for floor cleaning, watering plants and replenishing the ponds in the gardens. Our engineers took this challenge further and by treating the sewage effluent water with a system of filtration, disinfection and reverse osmosis, it became clean enough to use in the cooling tower of the hotel's chiller system. This water recycling effort enabled the hotel to since save a monthly 15,000 cubic metres of water that it would otherwise have had to purchase from its municipal water supply company. After water has been extracted from the sewage sludge, the residue product is further treated and used as fertiliser in the hotel's gardens and elsewhere. As a result of this effort, the hotel bought less water and made its own fertilizer, thus both keeping costs down and being efficient with precious resources.

Every drop counts

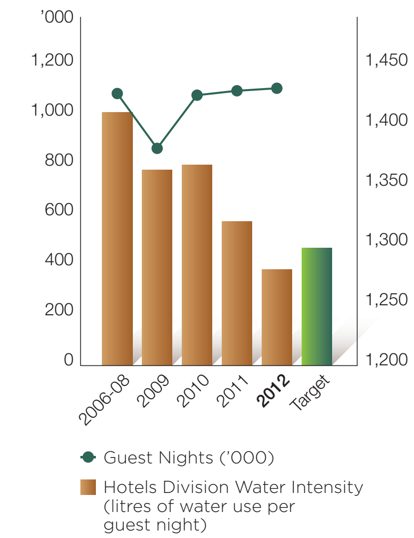
At The Peninsula Shanghai, we have found a way to save about 150m^3 of water each time we clean our water tank. Instead of allowing the water left at the bottom of the tank to be discharged to the sewage system, we changed our practice by pumping it out and divert it for landscaping use. We have also expanded the use of water meters for kitchen areas to more accurately monitor our water use and drive savings.

The Peninsula Shanghai has found a way to save about 150m^3 of water each time they clean the water tank

Group Water Consumption



Hotels Division Water Intensity



We continue to reduce our water use. Across the Group, we used 1.80 million m^3 of water, down 1% on 2011. Our water savings initiatives since we began our environmental programme in 2008 have saved 184,908 m^3 of water (equivalent to 924,540 bathtubs[11]). The water intensity of our hotels in 2012 was 1,280 litres per guest night, a 9.3% reduction on the 2006-2008 baseline, achieving our Hotels Division's water intensity reduction target of 8%.

In 2012, 6.8% (121,873 m^3) of our total water consumption was recycled, compared to 5.2% (94,770 m^3) in 2011. In addition, The Peak Complex in Hong Kong reused water collected by The Peak Tram reservoir to a greater extent for garden irrigation and in tramway track construction work, saving an estimated 18,250m^3 of water annually.

We are sensitive to the risks of operating in water-stressed areas such as Beijing, Shanghai[12] and California. In 2012, our hotels in Beijing and Shanghai saw a year-on-year reduction of 15% and 4.9% respectively in their water intensity. Their annual water consumption was reduced by 7.1% and 5.1% respectively when compared to 2011. The Peninsula Beverly Hills has also reduced its water intensity and consumption by 6.8% and 7.5% respectively, since 2011.

Managing Waste Responsibly

We recognise that if waste is not properly managed, it can lead to a host of environmental, social and health issues in the community. The amount of waste we generate is reflective of how well and how wisely we manage our resources. We understand that measuring quantities of different waste streams is important and a pre-requisite for developing targeted waste reduction plan and for assessing alternative disposal methods other than landfilling. Hence, we took an in-depth look at revamping our waste reporting system and extending the reporting requirements to more Group operations during the year.

As detailed in our 2011 report, waste disposal methods vary across our operations, largely due to available solutions and infrastructure in the communities where we operate. Despite the difference in arrangements, our goals remain the same – to reduce the waste we generate and divert as much waste as possible from landfilling.

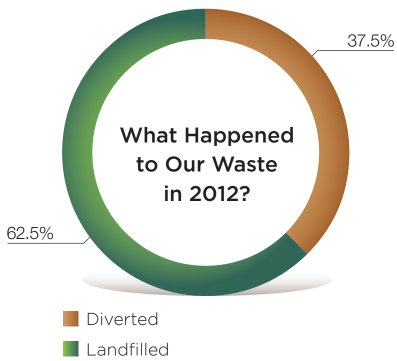
In 2012, some 3,696 tonnes of wet waste and 2,574 tonnes of dry waste were generated from our operations around the world[13]. Of this 36.2% of food waste (including used cooking oil) and 39.3% of dry waste were diverted from landfill for reuse and recycling. When compared to 2011, the overall diversion rate has improved by 23 percentage points, meaning 2,350 tonnes of waste was recycled – the weight of over 522 elephants[14]!

The Peninsula Tokyo continued to lead in its waste reduction and diversion effort within the Group. The hotel generated 395,134 kg of waste, a 3.1% reduction from the previous year, while recycling an impressive 83.1% of it.

The revamping of the waste reporting system enabled us to gather an overview of Group operations' management of hazardous waste. In 2012, we recorded the disposal of 11,027 kg of hazardous waste[15], mainly associated with fluorescent tubes, paints, solvents and dry cleaning chemicals. The disposal of our hazardous wastes is regulated by local authorities and handled by specialist contractors.

Our challenge

The HSH Sustainable Design Standards was introduced in late 2010 to provide guidance on environmentally responsible practices for new development projects and major renovation work, taking into account our commitment to quality. We are keenly aware that building design has vital implications on ongoing energy and water efficiency as well as operating cost. We feel we have not made as much progress in applying the standards as we aspired to. Hence, we will commit to conducting a thorough review of the Sustainable Design Standards in 2013 with a view to improving the guidance on how its principles can be incorporated in our future projects.



Check out the Sustainability Data Statements section

11. Reference made from Chinawaterrisk.org
12. Reference made from Chinawaterrisk.org
13. The 2012 figures excluded The Peak Complex as accurate waste data was not available. 2011 data only included 10 of our 16 properties: all nine Peninsula Hotels and The Repulse Bay.
14. According to an online database of animal natural history and classification of the University of Michigan (http://animaldiversity.ummz.umich.edu/site/index.html), the average size of an adult African elephant is around 4,500kg.
15. Hazardous waste is defined by local legislations.

From granite to green: Impressive change at The Repulse Bay

It was thinking of life back in his homeland of Denmark that set General Manager Palle Ledet Jensen on the path to solving how to manage the gardens at The Repulse Bay in a more sustainable way.

With residents and visitors alike admiring the wonderful landscape at the property, maintaining the gardens is an important job. With more than half of the 150 weddings hosted at The Repulse Bay taking place outdoors, it is also an important commercial consideration.

The soil in Hong Kong mainly consists of de-composed granite. Any turf that was laid down at The Repulse Bay had so little humus or rich soil for its roots to reach into that it would quickly deteriorate. All that could be done was to replace the entire 1,100 square metres of turf twice a year, which did nothing to contribute to the health of the soil. Not only did the old turf end up in Hong Kong's increasingly full landfill sites, but the process also required three weeks of clearing and removing with all the associated noise and truck journeys that entailed. That was when Jensen's memory of life back home in Denmark inspired a thought that has revolutionised how the lawns are now maintained at The Repulse Bay.

Organic fertiliser used as soil conditioner is the answer. It is used all over Denmark and in many countries to help improve soil quality and help nourish plants. Jensen could see no reason why in theory it could not work in Hong Kong, so he and his team researched options from around the world. There were a number of requirements that had to be met. Any fertiliser had to be free of micro-organisms, fungi and bacteria. It could not have any weed seeds in it and it had to be odourless. In the end, after an exhaustive search looking at options from around the world, it was in fact a Danish product that ticked all the boxes. The fertiliser is pasteurised using the high level of heat produced by composting it in a tight chamber. As well as being safe and bug-free, the end product also has a high nutrient content, with five to six times the nitrates and potassium of typical artificial fertilisers, not to mention the many vital micro nutrients that such products do not contain.

By switching to this soil conditioner, Jensen and his team had to replace only 30 square metres of lawn in the summer and less than 100 square metres in January 2013. The Flame trees are healthier and the wildlife is more abundant, as the improved soil conditions attract butterflies, earthworms, and birdlife. There is far less disruption to tenants and far fewer trucks now need to visit the site. No gardening waste is now landfilled and what little turf is removed is simply chopped up and used for further soil conditioning of the lawns. The gardens can now be enjoyed by both residents and wedding guests for a longer period of the year.

It just goes to show what creative thinking combined with diligent research and analysis can achieve. And sometimes a little walk down memory lane doesn't hurt either.

"It has been good for customers and tenants – and so good for the business; but it is the lush, dew-fresh green colour that really strikes you."

Palle Jensen,
General Manager
The Repulse Bay

We are committed to finding ways to use resources efficiently, to minimise any adverse environmental impact, and to still continue to exceed customers' expectations.

Turning waste into resources

Almost all Group operations recycle glass, wastepaper, plastic bottles and aluminium cans. In 2012, our hotels in the U.S. donated 6,956 kg of used soap bars and bottled amenities for distribution to impoverished countries through the Clean The World programme, helping these deprived communities in combatting hygiene-related illnesses. We also started to engage our Asia hotels in developing a regional programme to donate partially-used guestroom soap bars for good causes. The initiative will progressively be rolled out across our Asia operations and we will report our progress in 2013.

Food waste and used cooking oil are the major types of wet waste generated in our operations. All Group operations work with local partners to recycle used cooking oil into bio-fuel. The Peninsula Manila went a step further and since June 2010 has used the converted waste cooking oil generated from its kitchen to power one of its delivery vans.

The Group's hotels in Chicago and Manila arranged for their food waste to be composted for farm use. Urban Hong Kong offers limited space for food composting, so In an effort to divert food waste from landfilling, The Peninsula Hong Kong invested in a second food bio-digester in 2012 in order to turn all its food waste into wastewater.

Looking Forward

From energy and water management to waste reduction, core to our strategy is building a strong metrics system to track progress and keep us focused on our goals. We are pleased with the progress we made on this journey to robust environmental management and practices and strive to deliver continuous improvement through discipline, creativity and applying the right technology.

We are committed to finding ways to use resources efficiently, to minimise any adverse environmental impact, and to still continue to exceed customers' expectations. We do this to be accountable to our shareholders, our customers and the communities in which we operate.

A delicious change

reduce food waste by half, to

11,000kg

At The Peninsula Tokyo, we took over the management of the staff canteen from our previous vendor and started to serve the excess food items and uncut fruit from our restaurant outlets in the canteen. This enabled the hotel to reduce food waste by half, to 11,000kg, while improving the food offerings for our employees. The initiative also allows a saving of JPY4 million (HK$388,000) per year on garbage disposal alone.

Our commitment 2013

- [ ] To achieve an overall 18% energy intensity reduction against the 2006-08 baseline.
- [ ] To further reduce water intensity of our Hotels Division.
- [ ] To conduct a pilot building re-commissioning project.
- [ ] To continue to improve the robustness of monitoring waste management performance.
- [ ] To continue to enhance the engineering teams' capacity on carbon management.
- [ ] To review the Sustainable Design Standards.

Putting Health and Safety First

Our Operational Risk Manual details a holistic approach to driving health and safety as a workplace practice, as a service standard and as a culture.

A Clear Priority

We take our health and safety obligations very seriously. Making sure our hotels and properties are safe for our customers, employees and other stakeholders are of utmost importance to HSH and its stakeholders.

Building capacity

Our Operational Risk Manual details a holistic approach to driving health and safety as a workplace practice, as a service standard and as a culture. Group operations have been progressively adapting the manual to suit their respective operations since it was launched in 2009. Although our operations have yet to achieve full implementation of all the policies and procedures outlined in the manual, the process has been useful in highlighting different risks and development areas.

The commitment to health and safety is contractual, cultural and takes into account local competencies. Hence, in 2012, we continued to bolster employee trainings to reinforce a safety culture and to re-organise and strengthen our safety management team. Following the introduction of two Regional Director roles in Asia and the U.S., a new Health and Safety Director dedicated to the Commercial Properties Division was appointed in 2012. These roles have been created to help support Group operations in improving the implementation of their safety management systems and to facilitate synergies and best practices sharing across operations.

Delivering improvement through increased understanding

In 2012, we conducted 17,049 hours of health and safety training across our operations, which represent a 53% increase from the 11,147 hours of training delivered in 2011. Fire safety was the predominant training topic, but 2012 also saw a large increase in training relating to safety induction, manual handling, confined space safety and general occupational health management, such as supervision and hygiene. For example, at the Tai Pan Laundry, around a quarter of the safety training hours logged focused on occupational safety related to the use of washing machines, dryers, tunnel washers and flatwork irons. The Peninsula Bangkok ran a Safety Week to supplement its ongoing safety training, using videos, corridor displays and poster competitions to plant the seeds of a safety culture in every employee.

During the year, we recorded 596 injury incidents and started to undertake more root cause analysis to understand the causes of injuries in order to devise more targeted measures and training to prevent such incidents from happening again. We have also been reviewing and revamping the reporting system for health and safety issues in an effort to improve the accuracy and consistency in tracking incidents of injury and occupational disease across Group operations. A new reporting template will be introduced in 2013. We will also look into investing in appropriate software systems to support our effort in driving continuous improvement in our health and safety performance.

Safeguarding Food Safety

Our commitment to food safety and hygiene is core to our dedication in pursuing gastronomic excellence. This is also an area of key importance to our stakeholders. It was rated the number one priority corporate responsibility issues for HSH in our recent materiality research.

Our food and beverage operations strictly adhere to local food safety standards. It is vital that we continue to uphold a strong culture of food safety and to meet the expectations of our stakeholders. We have decided to introduce Hazard Analysis and Critical Control Points (HACCP)[16] certification as a Group standard that all our food and beverage operations should pursue, beyond just meeting their local regulatory food safety requirements. HACCP is an internationally recognised food safety and hygiene standard for commercial kitchens.

How we did in 2012

- Improved the recording of health and safety training and incident data so as to enhance the management of health and safety issues. (behind plan)
- Hotels Division to fully implement the Operational Risk Manual. (behind plan)
- All catering operations to review compliance with HACCP or equivalent standards as guidance on food safety. (on plan)
- Reviewed the Indoor Air Quality assessment findings and implemented recommendations to improve our IAQ standard. (achieved)

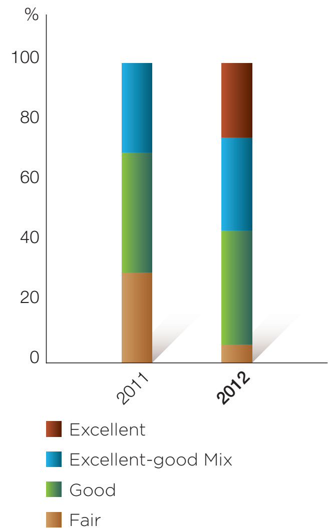
achieved | on plan | behind plan

16. Hazard Analysis & Critical Control Points (HACCP) is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

94%

properties were rated good to excellent in IAQ assessment

Indoor Air Quality Assessment Result



An important step during 2012 was the introduction of a new Group Indoor Air Quality Policy to strengthen our measures in safeguarding indoor air quality.

The Peninsula Beijing has been HACCP certified since 2011 after a thorough review of all aspects of its catering operations and rigorous employee training in the past two years. The team worked closely with suppliers during the two-year process and most of the hotel's fresh produce is now sourced from HACCP approved suppliers. The Beijing team shared their learning from the process on "Sphere" for other operations to take reference from.

The Peninsula Hong Kong and The Peninsula Manila have also made head starts on assessing their gaps for complying with HACCP, while all Group operations will conduct a HACCP gap analysis supported by the Group in 2013.

Healthy Indoor Air Quality

Making sure every breath taken on our premises is a safe breath is our bottom line for managing indoor air quality (IAQ). The quality of indoor air can vary due to airborne bacteria, suspended particles and volatile organic compounds (VOCs) from solvents. Air pollution in some of the cities where we operate has been worsening, presenting increasing challenge for us to manage our indoor air quality. Poor indoor air quality increases the risk of respiratory problems. We constantly monitor the air quality in our hotels and properties and carefully manage indoor environments through cautious control of heating and cooling, as well as ventilation systems, well-timed maintenance work, and the use of less hazardous paint and cleaning products.

An important step during 2012 was the introduction of a new Group Indoor Air Quality Policy to strengthen our measures in safeguarding indoor air quality. Whilst IAQ assessment is not a regulatory requirement in any of the locations where we currently operate, the new policy directs all of our hotels and properties operations to assess their IAQ standard annually based on a framework with 7 mandatory and 5 optional parameters, including levels of carbon dioxide, VOCs, dust, bacteria, air movement and others.

During 2011, IAQ audits were undertaken at 10 properties and in 2012 this increased to 16, i.e. all operations in our environmental reporting system. From arcades to guest rooms, spas to bars, and restaurants to car parks, our sampling approach reached all corners of our buildings. Most were rated ‘good’ or ‘excellent’. No major concerns were noted, with some improvement areas in ensuring air is not over-cooled, cleaning filters in air-conditioning systems more frequently, and improving fresh air intake to counteract the build-up of carbon dioxide levels.

Our commitment 2013

- [ ] To roll out a new health and safety reporting template to improve the monitoring of Group operations’ performance on training and reducing incidents.
- [ ] All catering operations to complete their gap analysis on compliance with HACCP as a Group standard.
- [ ] Hotels Division to continue to implement the Operational Risk Manual.

Responsible Supply Chain

Our Group Paper Policy sets forth HSH's commitment to support forest conservation. It is our goal that all paper products used in our operations will be from certified sustainable sources by 2017.

Understanding Our Impact

As a business with a global supply chain, we are aware that our procurement decisions have a direct impact on the environment and the communities where our products originate. We strive to ensure that our sourcing activities do not encourage practices that have adverse effects on biodiversity or the local community. Working with our suppliers on responsible sourcing practices – from food items and paper products to building materials and furniture, fixture and equipment – is an ongoing priority.

Our Group sustainability guidelines for responsible procurement outline the recommended principles and practices of sourcing both locally and sustainably. We have been developing a framework for tracking our performance on sustainable sourcing. Designing a system for collecting robust and meaningful procurement data on such diverse categories of products and raw materials across our global operations is a challenge, but one which we are determined to undertake. We have planned to roll out a new reporting template to measure our performance in this area on an ongoing basis in the coming year. This will help us gain a better understanding of the sustainability impacts of our purchasing decisions and guide our efforts in embedding sustainability considerations into our sourcing practices.

Forests Matter

In 2012, we launched a new Group Paper Policy which sets forth HSH's commitment to support conservation of forest and forest biodiversity. 12 to 15 million hectares of forest are lost each year – the equivalent of 36 football fields per minute[17]. We recognise that forests not only play a key role in maintaining the world's ecosystem and keeping global warming in check, but also provide habitats to diverse species and offer important source of livelihood for many human settlements. However, uncontrolled deforestation has been a pressing environmental issue that jeopardises human livelihoods, threatens species, and intensifies global warming.

Around 40% of the world's commercially harvested timber is used for paper production. HSH's day-to-day business operations involve more than 100 types of paper products in addition to corporate publications and promotional collateral. To ensure that our operational needs are not met at the expense of exploiting the world's forest resources and to mitigate potential reputational risks associated with the supply chain of our paper product, we introduced a new policy which prescribes Forest Stewardship Council (FSC) as the preferred Group paper procurement standard[18]. It mandates all Group companies to purchase paper product from sustainable and transparent sources and to reduce the consumption of paper.

All HSH companies are required to progressively implement the policy and it is our goal that all paper products used in all of our operations will be from certified sustainable sources in five years, i.e. by 2017. Nonetheless, we have already made progress during the year, with about 35% of our paper product being FSC-certified, representing a 13% increase from the previous year.

Responsibly Reliable

We view sourcing our food from reliable and sustainable sources as part of the luxury gastronomic experience that we offer to our guests. From certified organic vegetables, free-range poultry, and seafood certified by the Marine Stewardship Council[19], our chefs are always on the lookout for quality produce from local and sustainable sources. We continue to make steady progress in switching to more responsible sources of the produce that we use in our food offerings.

Since the beginning of 2012, we implemented the Group Shark Fin Policy and stopped serving shark fin at all of our owned food outlets, except for honouring banquet bookings involving shark fin soup made prior to the announcement of the policy. This decision was extremely well received around the world and was strongly supported by our guests. During the year, we also signed the WWF "No Shark Fin Corporate Pledge" as a public support for shark conservation.

For The Peninsula Chicago, nearly 80% of its paper needs are currently met by FSC-certified stock.

Sustainable luxury in a box

The Peninsula Merchandising develops and sells a range of Peninsula-branded food products, gift items and award-winning cookbooks worldwide. As part of the Peninsula Merchandising's brand rejuvenation programme, it has set itself the goal to switch all of its paper packaging materials to FSC-certified sources. Its flagship boutique at The Peninsula Hong Kong re-opened with a new look in November and with all packaging certified to be from well-managed forests.

17. 16 January 2013, WWF (www.panda.org).
18. FSC (ic.fsc.org) is internationally recognised as the most comprehensive certification scheme on forest management.
19. www.msc.org

Working collaboratively to make a difference

The Peninsula Beverley Hills continued to increase its sourcing of sustainable seafood from Kanaloa Seafood, a supplier certified to ISO 14001 for its environmental management system. It has also started to state the sustainable sources of its seafood on the hotel's menus as a means of further raising awareness among its guests.

The chefs and procurement team at The Peninsula Chicago have been working closely with suppliers to increase the supply of sustainable seafood. Taking both the Monterey Bay Aquarium Seafood Watch as well as the Marine Stewardship Council as reference tools, the hotel has succeeded in purchasing 60% of its seafood from sustainable sources. The team has set itself an ambitious target to see The Peninsula Chicago reaching 90% sustainably sourced seafood.

We have also undertaken additonal research in order to gain a better understanding on the challenge of sustainable seafood sourcing. We seek to avoid serving any critically endangered species listed on the IUCN Red List of Threatened Species, and only serve seafood that is considered sustainable[20]. Our intention is genuine, but we acknowledge that delivering on it is not an easy challenge. The expectations of our guests and other business considerations are important factors that we are mindful of. The task is even more complex as our operations span different countries. However, we are committed to work on developing our broader sustainable seafood strategy in an effort to contribute to preserving the marine eco-system for the world's future generations.

20. Reference is made from credible sustainable seafood guides, such as WWF Sustainable Seafood Guides (www.panda.org) and Seafood Watch by Monterey Bay Aquarium (seafoodwatch.org).

Ensuring Responsible Sourcing Become Standard Practice

We work with a diverse range of suppliers around the world to source raw materials and products to support our operations. Supplier relationships are an important part of our reputation and brand. We seek to buy at competitive rates, but not at the expense of labour standards, human rights or the environment.

To explain how we expect our suppliers to live up to our corporate responsibility commitments, we introduced an HSH Supply Chain Code of Conduct in late 2009 to help articulate our expectations of suppliers and contractors on environmental, social and ethical practices. The code has been communicated to our major suppliers who were requested to assess their compliance with the code using self-assessment questionnaires in 2010. Based on the reports provided by our suppliers, we believe that they share our sustainability vision and are themselves conducting their businesses in line with our commitments.

In the past two years, Group operations have been progressively incorporating compliance with the code as a requirement in our procurement contracts. This requirement is now part of the compliance requirement to the Group's Purchasing and Tendering Procedures Manual. We have planned in 2013 to design a toolkit to empower our procurement teams to communicate the code more clearly and review the level of compliance of our suppliers.

Supplier relationships are an important part of our reputation and brand. We seek to buy at competitive rates, but not at the expense of labour standards, human rights or the environment.

How we did in 2012

- Improved the framework for tracking our performance on sustainable sourcing practices. (on plan)
- Reduced the environmental impact of our paper procurement requirements and promote sustainable use of forest resources. (achieved)

achieved | on plan

Our commitment 2013

- To implement a new reporting template for the Group to measure our performance on responsible sourcing practices.
- To incorporate the requirement of complying with HSH Supply Chain Code of Conduct into the day-to-day procurement practices.
- To introduce a best practice of conducting regular supplier visits to assess compliance with the HSH Supply Chain Code of Conduct.
- Explore ways to promote sustainable seafood consumption.

Engaging with The Community

Supported
450
non-profit organisations with cash contributions and in-kind sponsorships

400,000
hours of training and work exposure programmes

A Long-Standing Commitment

Caring for the community is a core value that has long been embraced by the Company and HSH employees. We seek to support the development of the communities in which we operate by the way we conduct our business, tapping into the resources we have, as well as engaging the talents of our people and our community partners.

This long-standing commitment to supporting the development of our communities stretches back to 146 years ago when HSH was founded in 1866. In Hong Kong, where the company was founded, The Peninsula Hong Kong, The Repulse Bay and The Peak Tramways represent iconic features of the city's history and heritage. We recognise that the success of our business is rooted in the success of the community around us. They provide the resources, infrastructure and markets that support our businesses, hence, where we can contribute, we should and we do.

A Developing Strategy

In the past, we focused our community engagement efforts on making a contribution to the welfare of children and the elderly, as well as the education of the underprivileged. In 2012, we took time to review the direction and framework of our community engagement work, with a view to responding to the needs of our community in a more strategic, relevant and focused way.

In reflecting on the ways we can contribute, it has become clear that we can do better in leveraging on our touch-points with the communities to contribute, and be more proactive in integrating our aspirations for supporting the development of our communities with our core operations. It may be through employment opportunities, Leveraging on our touch-points with the communities to contribute in a lasting way.

Check out the Sustainability Data Statements section

through our sourcing practices or through acting as an ambassador for the areas around our operations.

As reflected in the materiality research, our stakeholders shared with us the aspiration to bring our community efforts to a more strategic level. In 2012, we assessed the key developmental challenges that are common to the communities of which we are a part. We believe that we can generate more long-lasting benefits for the causes we identify by aligning our efforts across regions or globally across the Group. We will continue to consult and explore with our community partners the best ways for us to contribute to the needs of our community and will develop our roadmap in the coming year.

Raising Funds and Awareness for Good Causes

In 2012, we supported around 450 non-profit organisations across the communities in which we operate, with cash contributions of more than HK$2.8 million, and additional support in the form of venue and in-kind sponsorships. In 2012, the majority of Group operations' charitable donations were channelled through local community partners to support healthcare, the welfare of children and the elderly, and a wide range of social initiatives. At Group level, The Peninsula Hotels in Asia and North America continued to raise funds and awareness for breast cancer throughout October and for the Make-A-Wish Foundation during the year-end holiday season. For both campaigns, we leveraged on the celebrated afternoon tea served at each Peninsula Hotel and many other products, such as our cocktails and spa programmes, as means to raise funds for these worthy causes and to entice guests to enjoy our services and products.

Breast cancer, the most common cancer found in women in both developed and developing countries, is the principal cause of death among women globally. Through the "Peninsula in Pink" initiative, every Peninsula hotel consolidated its resources to offer a series of signature pink-themed promotions, including the sale of a specially-designed pink ribbon pin with a percentage of the proceeds going directly to support breast cancer

took a group of elderly people on a memorable helicopter flying experience

Some of the ways in which employees volunteered their time...

The Peninsula Hong Kong, in partnership with its long-term community partner St. James' Settlement, took a group of elderly people on a memorable helicopter flying experience.

The Peninsula Manila underwater team spent a Saturday on the reef of Anilao to clean up garbage and to promote environmental awareness.

Every year The Peninsula Beverly Hills' Food & Beverage team invites children from the Children's Hospital Los Angeles and the Chaka Khan Foundation to have a fun-filled day of decorating gingerbread houses and cookies.

organisations in its respective destination. "Peninsula In Pink" also incorporated many breast cancer walks, runs and other activities, with the aim of further raising employee awareness about breast cancer.

The partnership with the Make-A-Wish Foundation has become a tradition for the Hotels Division. Every December, all Peninsula Hotels invite their guests to buy an ornament to hang on the hotel Christmas tree, with proceeds benefiting the Make-A-Wish Foundation. The Foundation promotes happiness and a brief respite for children around the world with life-threatening illnesses by granting them their most heartfelt wishes. In addition, some of our hotels were involved in granting the very special wishes of the children. The Peninsula Manila helped a little Make-A-Wish girl who wanted to be a fashion designer to put on a show, while the Peninsula Chicago rolled out the red carpet to welcome another child who wished to be a princess for a day and prepared her family's suite with purple balloons, Christmas presents, princess essentials and even a Christmas tree. Everyone involved had a magical time in making these Make-A-Wish children's wishes come true, creating these extraordinary moments for them just as our employees do for our guests.

Connecting to the Community in an Endearing Way

Employee volunteering is an integral part of our community engagement strategy. It provides new ways for our employees and the company to connect with their local communities and also enables them to acquire skills and motivation whilst giving something back to society. In 2012, close to 600 staff members across the Group volunteered their time and talents through our employee volunteering programmes, contributing some 7,300 hours to serve the community. The development of children and youth, the physically disabled and the welfare of the underprivileged have been the most important focus within our wide range of community engagement work. In 2012, close to 50% of our employee volunteering programmes were devoted to these areas.

In the past five years of our corporate responsibility journey, employee volunteering has gained considerable momentum across Group operations. Many

Group operations now have a Caring Committee, which includes representatives from different departments, to plan and coordinate the community programmes and activities that employees support. The committee empowers and encourages staff members to step forward to engage their fellow colleagues in various worthwhile initiatives. Our leadership and management team also set examples by participating in the many volunteering programmes. Another characteristic of our approach that has helped grow the momentum of our community work is making these meaningful programmes a whole lot of fun to be part of.

Leveraging on Our Operation as Development Platform

The Group works with hotel schools around the world to help develop new talent for the hospitality industry. We provide work placement opportunities for students and individuals with an interest in hospitality, so that they can experience the internal workings of the industry. In 2012, 1,000 individuals benefited from close to 400,000 hours of training and work exposure programmes with Group operations. These programmes supported their studies while inspiring them to pursue a career in hospitality.

The Peninsula Beijing's Provincial Trainee Programme benefited 125 students studying hospitality management in China with one-month to eight-month internship opportunities in 2012.

Hospitality is a gateway sector into working life for many people. For the young, the old, new immigrants and others who society may have marginalised, our hotels and properties operations can provide valuable opportunities for them to gain access to training, develop new skills and be empowered to seek future employment opportunities. The Peninsula Chicago, by providing training and work experience opportunities, has been engaged in supporting refugees and new immigrants to integrate into the Chicago community for more than 10 years. The Peninsula Tokyo supports the National Re-training School for Elderly People to help the elderly be re-trained and find work in the hospitality industry. In the past five years, the hotel hired more than a dozen elderly students for positions in housekeeping, engineering and other front-of-house operations.

As we develop our approach for more strategic community engagement programmes, it has become clear to us that we can be more proactive in leveraging on our operations as a platform to develop and engage with marginalised groups in the community. Our previous experience has proved to be rewarding for everyone involved. Participants can gain new skills and experience to earn a living, while we guarantee that our programmes are addressing genuine needs in our communities. Not only are the participants empowered to seek livelihood opportunities, these programmes also help our operations to develop potential new employees.

Not to forget the teachers

The Peninsula Tokyo led the way in hosting a Teachers' Day where more than 50 teachers from 36 universities and hotel schools, whose alumni work at the hotel, were invited to spend an afternoon with us to learn more about our work and our values. The teachers appreciated this valuable opportunity to observe the busy action at back-of-house and to gain more insight into how a hotel operates in real life to support their teaching. The programme also enabled The Peninsula Tokyo to grow its relationship with the schools and universities, and provided a great reunion opportunity for the teachers and their students who are working with us.

gain more insight into how a hotel operates in real life to support their teaching

Continue to grow Hope for Japan

In commemoration of the one-year anniversary of the Great East Japan earthquake, The Peninsula Tokyo launched a scholarship programme specifically to benefit students from the devastated Tohoku region who aspire to pursue a career in the hospitality industry. The scholarship is offered to one student every two years, covering full tuition and dormitory expenses, with a part-time work opportunity at The Peninsula Tokyo during school education and a full-time position with the hotel after graduation.

scholarship programme specifically to benefit students from the devastated Tohoku region

"It was a really fun day out. I had no idea what to expect, but I came away realising that people who have suffered mental illness are just like you and me. I think it's great that there are these enterprises that give them the opportunity to earn a living and get back on their feet."

LeeAnn Brown
Director of PenKey
The Peninsula Hotels

In 2012, The Peninsula Chicago offered some beautiful bags hand-weaved by women in Guatemala as a special gift to share the Christmas spirit of caring and giving with its key supporters and contacts.

Supporting Social Enterprise

Another strategic focus that we will explore further in the coming years is based on partnerships with social enterprises. A hybrid of business and non-profit organisations, social enterprises are founded to address specific social or environmental causes and strive to achieve their missions through entrepreneurial ventures. Social enterprise generates income through business operations and reinvests its profit to support its social or environmental cause.

As a company, we purchase a diverse range of commodities and raw materials to support our day-to-day operations. We feel that we can more proactively look into opportunities of sourcing from social enterprises to address our business needs whilst simultaneously supporting the development of the community.

Getting to Know Social Enterprise

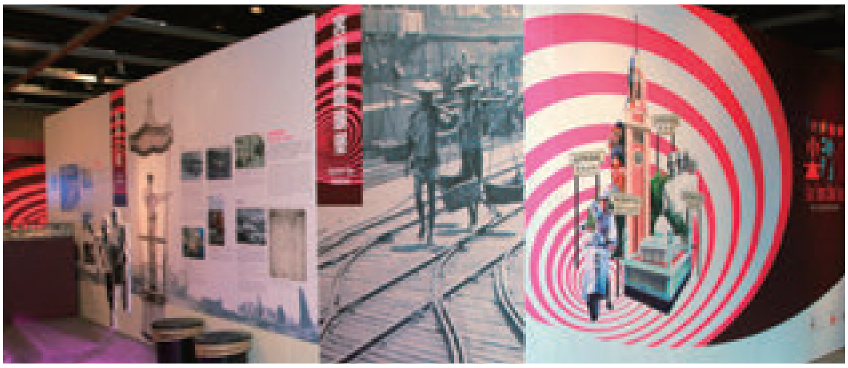
In 2012, at the Group's headquarters in Hong Kong, we started to work with the Hong Kong Council of Social Services, which represents more than 400 non-profit organisations in Hong Kong and engages in policy research, social services and third sector development, to explore how we may support the development of social enterprises. We organised a series of programmes to introduce the concept and products of social enterprise to our employees, specifically the procurement teams, across our major operations in Hong Kong. In addition to a small bazaar at the HSH Head Office featuring products from a range of social enterprises from Hong Kong and other parts of Asia, we took a group of employees from various operations in Hong Kong on an exclusive programme to experience the inner workings of local social enterprises. The participants also had the opportunity to learn how to make very popular local egg tarts at the Caritas La Vie Bakery Workshop together with its ex-mentally ill apprentices.

Getting the Words Out for Social Enterprises

The Peninsula Chicago sells a selection of beautiful bags handmade by women in Guatemala at its boutique. These talented weavers are part of an artisan led co-operative which offers them a fair living wage and directs the profits towards helping women in impoverished communities around the world. In Hong Kong, The Peninsula Hong Kong and The Repulse Bay sponsored prizes for a Social Travel Journal Competition to help raise public awareness of social enterprises and the causes behind them.

Be a Champion of Our Community

Our hotels and properties are often the ambassadors that welcome the world to the local communities in which we operate. We take pride in being part of these communities and are keen to support initiatives that promote the areas where we are based, which is good for both our business and the wider neighbourhood.



Celebrating our Home

The Peninsula Hong Kong coordinated a joint effort with the Hong Kong Heritage Project and the Government of the Hong Kong SAR in presenting an exhibition about the Tsim Sha Tsui district, home to the hotel for the past 84 years. Using photographs, toy brick models and oral histories, the "Our Tsim Sha Tsui – Past, Present and Future" exhibition attracted 50,000 visitors to share the heritage and the energy of the district and to envision the future through art pieces created by a group of students.

Sharing Peninsula Moments of Kindness

In the winter of 2012, we introduced an exciting initiative that took the city of Chicago by surprise. Dressed in winter Page outfits, staff members of The Peninsula Chicago dispersed throughout the city of Chicago, spreading holiday cheer with simple acts of kindness from holding doors, passing out umbrellas to even hailing cabs. All the employees that participated in the programme were excited to be a part of spreading good cheer to the visitors and residents of Chicago – extending our dedication in delighting guests with innovative initiatives beyond the hotel.

Embracing the Passion for Music

People love music in the Philippines. This was the first thought when The Peninsula Manila team was pondering on new and fun way that the hotel could be used as a platform for nurturing young talent in the community. Working alongside music industry professionals as well as qualified stylists, the hotel organised the Sing@Ning singing talent contest where the prizes included PHP 100,000 in cash, sponsored training at the city's renowned performing arts schools and a three-month contract to perform at The Peninsula Manila's popular Salon de Ning nightclub. The competition attracted 200 entries from college students with an ambition to pursue a career in the entertainment industry. With 22 contestants given live auditions and eliminations every two weeks at Salon de Ning, the contest captured the public's imagination and created much excitement across the nation.

Looking Forward

There are many different ways that we can further connect with and contribute to the communities where we operate. We will endeavour to explore more of these different community development tools as we renew our engagement strategy and framework in the coming year.

How we did in 2012

- Reviewed the Group's community investment and engagement strategies – the longer-term roadmap, strategic focus and framework
- Explored new community development initiatives that align with the Group's focus areas and challenges common to the communities where we operate.

on plan

Our commitment 2013

- ☐ To roll out a renewed HSH Group community investment and engagement strategy and framework.
- ☐ To roll out new Group community development initiatives that strategically align with the needs of our business and our communities.
- ☐ To continue to actively engage with the local communities where we operate.

Progress and Targets

Focus Areas	Strategy and Engagement	Employer of Choice	Environmentally Responsible Luxury	Putting Health and Safety First	Responsible Supply Chain	Engaging with the Community
Medium-term Focus	Develop a longer-term sustainable business vision and define the associated goals Build a longer-term roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues Expand staff engagement programme to raise awareness and inspire actions to integrate sustainable practices in our day-to-day work	Build a competency framework for the Group	Phase out the use of ozone depleting substances by 2015 Enhance the engineering teams' capacity on carbon management	Hotels Division to continue to implement the Operational Risk Manual	All paper products to be from certified sustainable sources by 2017	Continue to actively engage with the local communities where we operate
2013 Targets	Develop a new Group employee engagement programme on sustainability issues Continue the rollout of the revamped sustainability management system Assess the implications of new international and local sustainability disclosure requirements at HSH	Develop a human resources manual and toolkit for hotel pre-opening Enhance our support for employee wellness and work-life balance Launch a new module of the Executive Development programme targeting the next generation of leaders Expand the Peninsula Scholarship programme	Achieve an overall 18% energy intensity reduction against the 2006-2008 baseline Conduct a pilot building re-commissioning project Further reduce water intensity of our Hotels Division Continue to improve the robustness of monitoring waste management performance Review the Sustainable Design Standards	Roll out a new health and safety reporting template to improve the monitoring of Group operations' performance on training and reducing incidents All catering operations to complete their gap analysis on compliance with HACCP as a Group standard	Implement a new reporting template for the Group to measure our performance on responsible sourcing practices Incorporate the requirement of complying with HSH Supply Chain Code of Conduct into the day-to-day procurement practices Introduce a best practice of conducting regular supplier visits to assess compliance with the HSH Supply Chain Code of Conduct Explore ways to promote sustainable seafood consumption	Roll out a renewed HSH Group community investment and engagement strategy and framework Roll out new Group community development initiatives that strategically align with the needs of our business and our communities.
Progress against 2012 Targets	Developed a shared understanding amongst the Group's management team on key global trends that may affect our business in the medium to long term Developed a Group Risk Register	Conducted five operational HR reviews in accordance with the Group HR Manual Conducted phase 2 of the Group employee engagement survey Rolled out a revised management bonus plan for the Group Designed a Finance for Business Managers Programme for all Executive Committees in the operations Rolled out the third module of Code of Conduct online and classroom training on guest data privacy Built a competency framework for the Group	Cut energy intensity by a further 3% against the 2006-2008 baseline Enhanced the engineering teams' capacity on carbon management Reduced Hotels Division's water intensity by another 2% Enhanced the robustness of waste management data so as to improve on waste diversion and reduction Improved awareness of the sustainable design standards and guidelines throughout the Group and encouraged its adoption in new development and major renovation projects.	Improved the recording of health and safety training and incident data so as to enhance the management of health and safety issues Hotels Division to fully implement the Operational Risk Manual All catering operations to review compliance with HACCP or equivalent standards as guidance on food safety Reviewed the Indoor Air Quality assessment findings and implemented recommendations to improve our IAQ standard	Improved the framework for tracking our performance on sustainable sourcing practices. Reduced the environmental impact of our paper procurement requirements and promote sustainable use of forest resources Promote the use of sustainable building materials in new development and renovation projects	Reviewed the Group's community investment and engagement strategies – the longer-term roadmap, strategic focus and framework Explored new community development initiatives that align with the Group's focus areas and challenges common to the communities where we operate.

achieved   on plan   behind plan   objective missed

Governance

Chairman's Overview

HSH is committed to good corporate governance, which is central to the achievement of long term goals, for the benefit of our shareholders and other stakeholders.

Dear Shareholders,

HSH is committed to good corporate governance, which is central to the achievement of long term goals, for the benefit of our shareholders and other stakeholders. For our governance programme to be effective, controls are integrated across all operations and based on the principles of integrity, equity and transparency. Governance is an evolving concept, and we strive to continuously review our practices and actively seek to make improvements in this area.

Corporate governance practices are led by our Board and implemented by senior management and key functional management throughout the Group. Biographical details of our Board members and these individuals are set out on pages 100 to 103.

Our Corporate Governance Report is set out on pages 104 to 124. The Company is reporting against the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules which, came into effect on 1 April 2012. Our Report also sets out our approach to corporate governance, how it has applied the main principles and whether it has complied with the relevant provisions. It also shows the structure of our Board and Board Committees, the roles that they play and how they operate. We also describe our management structure and demonstrate how good governance is an integral part of our everyday business.

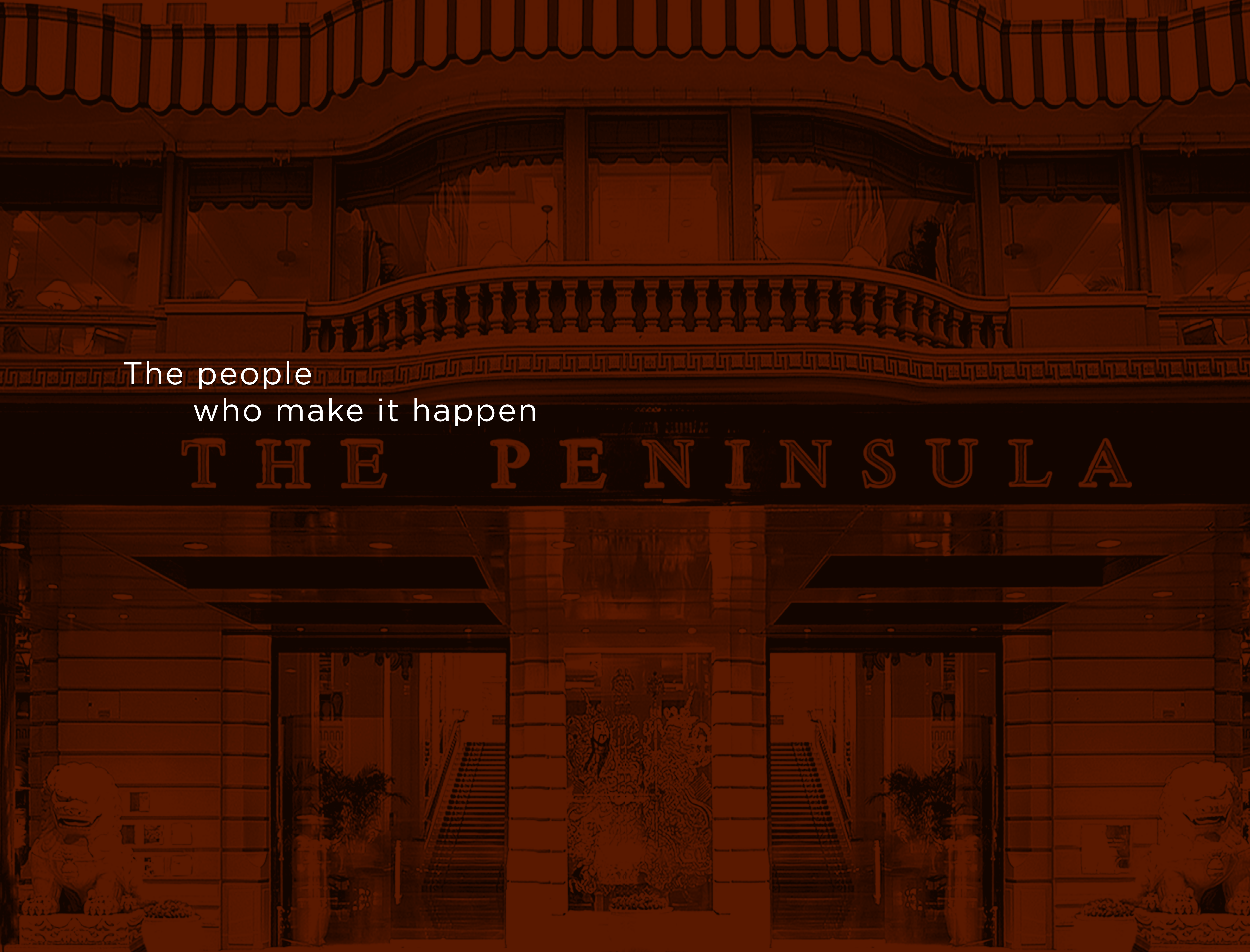
As Chairman, promoting high standards of corporate governance is central to my role. We regularly review our governance practices and in 2012, among other improvements described in our Report, I would like to highlight that we have set up a Group Risk Committee to oversee risks across the Group and have a more structured approach to address risks identified, track risk mitigation and reporting as required. We have also introduced a Risk Management Report for the first time in our Annual Report which is set out on pages 125 to 130.

Our newly set up Nomination Committee, which I chair, is responsible for reviewing and making recommendations to the Board on the appointments of Directors. This Committee has reviewed the structure of the Board and noted the benefits of diversity in Board members. In June 2012 Mr. Robert Ng stepped down from the Board and on 22 January 2013, we announced the appointment of Dr. Rosanna Wong as a new Independent Non-Executive Director with effect from 1 February 2013, who brings with her a wealth of experience. Dr. Wong is also the first female Director of HSH.

Overall, I am pleased with the progress we have made this year in the governance area. However, we shall continue to strive to make further improvements in these areas.

The Hon. Sir Michael Kadoorie
13 March 2013

The people who make it happen



(front row, from left to right) William E. Mocatta; Ian D. Boyce;
The Hon. Sir Michael Kadoorie; Ronald J. McAulay
(back row, from left to right) Peter C. Borer; Dr. Rosanna Y.M. Wong; John A.H. Leigh;
Patrick B. Paul; Dr. the Hon. Sir David K.P. Li; Clement K.M. Kwok; Dr. William K.L. Fung;
Robert W. Miller; Pierre R. Boppe; Nicholas T.J. Colfer; Neil J. Galloway

Non-executive Chairman

The Hon. Sir Michael Kadoorie

GBS, LL.D. (Hon), DSc (Hon), Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres

Aged 71. Appointed a Director in 1964 and elected Chairman in 1985, Sir Michael is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He is the brother-in-law of a fellow Director, Mr. Ronald James McAulay, and is a Director of several subsidiaries of the Company. He is also Chairman of CLP Holdings Limited, an Independent Non-Executive Director of Hutchison Whampoa Limited, an Alternate Director of Hong Kong Aircraft Engineering Company Limited, a Director of Sir Elly Kadoorie & Sons Limited, as well as holding a number of other directorships. In addition, Sir Michael acts as a trustee of a number of notable local charitable organisations. (N, E)

Non-executive Deputy Chairman

Ian Duncan Boyce

Aged 68. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Boyce was appointed to the Board in 1999 and elected Deputy Chairman in May 2002. Mr. Boyce is also Chairman of two subsidiaries of the Company. Based in Hong Kong since 1984, Mr. Boyce was formerly Managing Director of Schroders Asia and had held executive positions with the S.G. Warburg Group. He is Non-Executive Chairman of Schroder Investment Management (Hong Kong) Limited, a Director of CLP Holdings Limited and Tai Ping Carpets International Limited, and Chairman of Sir Elly Kadoorie & Sons Limited, overseeing a number of the Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (A, R, E, F)

Executive Directors

Chief Executive Officer

Clement King Man Kwok

Aged 53. A Bachelor of Science in Economics from the London School of Economics and a Member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, Mr. Kwok joined the Group in February 2002 as Managing Director and Chief Executive Officer, and is a Director of most of the Group's entities. His career began with Price Waterhouse and Barclays de Zoete Wedd in the United Kingdom, following which he returned to Hong Kong in 1986 to work with Schroders Asia. Since 1996 and prior to joining the Group, Mr. Kwok served as Finance Director of MTR Corporation. He is an Independent Non-Executive Director of Swire Pacific Limited, a fellow of The Hong Kong Management Association, a Council Member of the World Travel & Tourism Council, a Non-Official Member of the Harbourfront Commission, and serves on the Board of the Faculty of Business and Economics of The University of Hong Kong. (E, F)

Chief Financial Officer

Neil John Galloway

Aged 44. With a Bachelor of Laws Degree (with Honours) from the University of Edinburgh, Mr. Galloway joined the Group as Finance Director and Chief Financial Officer in September 2008. He is a Director of most of the Group's entities. His career began with Midland Montagu (subsequently HSBC Investment Bank) in 1990 in London with subsequent postings in France, the Philippines and Hong Kong. Mr. Galloway joined ABN AMRO Bank in 2000, where he held a range of senior positions in Hong Kong and the United Kingdom specialising in the telecom, media and technology sectors, and latterly heading the Asian mergers and acquisitions and equity capital markets business. (F)

Chief Operating Officer

Peter Camille Borer

Aged 59. Appointed to the Board as an Executive Director in April 2004, Mr. Borer is a graduate of the Ecole Hoteliere Lausanne, Switzerland and is now a member of the International Advisory Board of the school. He joined the Group in 1981 and was appointed General Manager of The Peninsula Hong Kong in 1994, taking on additional regional responsibility in 1999, culminating in his appointment as Chief Operating Officer, The Peninsula Hotels, in April 2004. Mr. Borer is also a Director of most of the Group's entities.

Non-Executive Directors

Ronald James McAulay

Aged 77. A graduate of the University of Glasgow, a Member of the Institute of Chartered Accountants of Scotland and brother-in-law of The Hon. Sir Michael Kadoorie, Mr. McAulay was appointed to the Board in 1972 and is a substantial shareholder of the Company by virtue of the Securities and Futures Ordinance. He also serves on the Board of CLP Holdings Limited, Sir Elly Kadoorie & Sons Limited and several other companies. Mr. McAulay is an Honorary Trustee of the Tate Foundation in London, a trustee of the Victoria and Albert Museum in London and various other charitable organisations.

William Elkin Mocatta

Aged 60. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Mocatta was appointed to the Board in 1985 and served as Deputy Chairman from 1993 until May 2002. He is also a Director of several subsidiaries of the Company. Mr. Mocatta is an Executive Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He holds other non-executive positions including Vice Chairman of CLP Holdings Limited and Chairman of CLP Power Hong Kong Limited. He is also an Alternate Director for The Hon. Sir Michael Kadoorie in Hutchison Whampoa Limited.

John Andrew Harry Leigh

Aged 59. Mr. Leigh was previously in private practice as a solicitor in Hong Kong and the United Kingdom. He was appointed to the Board in May 2006. He serves on the Boards of CLP Holdings Limited and Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. (E, F)

Nicholas Timothy James Colfer

Aged 53. A Master of Arts and with over 30 years of experience in corporate management in the Asia Pacific region, principally in real estate, manufacturing and distribution, Mr. Colfer was appointed to the Board in May 2006. He is Chairman of Tai Ping Carpets International Limited and Director of Sir Elly Kadoorie & Sons Limited, overseeing a number of Kadoorie family interests in Hong Kong and overseas and, as such, is associated with the major shareholders of the Company. He also serves on several other corporate Boards in Hong Kong.

Independent Non-executive Directors

Dr. the Hon. Sir David Kwok Po Li

GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc (Imperial), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), Hon. DLitt (Macquarie), FCA, FCPA, FCPA (Aust), FCIB, FHKIB, FBCS, CITP, FCIArb, JP; Officier de l'Ordre de la Couronne; Grand Officer of the Order of the Star of Italian Solidarity; The Order of the Rising Sun, Gold Rays with Neck Ribbon; Commandeur dans l'Ordre National de la Légion d'Honneur.

Aged 74. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. He is also a member of the Board of Directors of a number of listed companies in Hong Kong and overseas, including: Non-Independent Non-Executive Director of AFFIN Holdings Berhad; Director of CaixaBank, S.A.; and Independent Non-Executive Director of China Overseas Land & Investment Limited, Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was formerly an Independent Non-Executive Director of COSCO Pacific Limited before retiring in May 2012, and a member of the Legislative Council of Hong Kong until choosing not to run for re-election in September 2012. Sir David is the Chairman of The Chinese Banks' Association Limited. He is also a member of the Banking Advisory Committee and the Council of the Treasury Markets Association. (N)

Robert Warren Miller

Aged 79. A Bachelor of Science in Hotel Administration from Cornell University and a Presidential Councillor and Trustee Emeritus of the University, Mr. Miller was appointed to the Board in July 2001. A resident of Hong Kong since 1960, he is the founder of the DFS Group, Duty Free Shoppers Limited and Chairman of the Search Group, a private international investment group. (R)

Patrick Blackwell Paul

CBE

Aged 65. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr. Paul was appointed to the Board in February 2004. He began his career with Price Waterhouse in London in 1969. A resident of Hong Kong since 1980, he was Chairman and senior partner of PricewaterhouseCoopers in Hong Kong from 1994 until 2001. He is an Independent Non-Executive Director of Johnson Electric Holdings Limited and Pacific Basin Shipping Limited. He is also the Chairman of the Supervisory Board of the British Chamber of Commerce in Hong Kong. (A, R)

Pierre Roger Boppe

Chevalier dans l'Ordre National de la Légion d'Honneur

Aged 65. A Master of Science from both the Swiss Federal Institute of Technology and Stanford University, Mr. Boppe has held various executive positions with the international quality control company SGS and from 1996 until January 2002, he was Managing Director and Chief Executive Officer of the Group. Upon his return to Europe, Mr. Boppe continues to be active in the hotel and travel industries and is also involved in microfinance. He was re-designated from a Non-Executive Director to an Independent Non-Executive Director in June 2009.

Dr. William Kwok Lun Fung

SBS, OBE, JP

Age 64. Appointed to the Board in January 2011, Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and also holds an MBA degree from the Harvard Graduate School of Business. He was conferred with Honorary Doctorate degrees of Business Administration by The Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. Dr. Fung is the Group Chairman of Li & Fung Limited and also serves as a Non-Executive Director of other Li & Fung Group companies including Convenience Retail Asia Limited and Trinity Limited. He is a Director of the Fung Global Institute, an independent and non-profit think-tank. Dr. Fung is an Independent Non-Executive Director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited, and an Independent Director of Singapore Airlines Limited. He is a past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and Hong Kong Committee for the Pacific Economic Cooperation Council. (A, N)

Dr. Rosanna Yick Ming Wong

DBE, JP

Aged 60. Appointed to the Board in February 2013, Dr. Wong holds a Doctor of Philosophy degree in Sociology from University of California, Davis and has been awarded Honorary Doctorates from The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The University of Hong Kong, The Hong Kong Institute of Education and The University of Toronto. She is a member of the National Committee of the Chinese People's Political Consultative Conference and also a member of the Commission on Poverty of the Hong Kong Special Administrative Region. She is the Executive Director of The Hong Kong Federation of Youth Groups, a Non-Executive Director of The Hongkong and Shanghai Banking Corporation Limited and an Independent Non-Executive Director of Cheung Kong (Holdings) Limited and Hutchison Telecommunications Hong Kong Holdings Limited. In addition, Dr. Wong is the Non-Executive Chairman of the Hongkong Bank Foundation's Advisory Committee, Chairman of World Vision Hong Kong and a Global Advisor to Mars, Incorporated. She is a Court Member of The Hong Kong University of Science and Technology, a member of The Hong Kong University of Science and Technology Business School Advisory Council, and an elected Member of the Council and an ex-officio Member of the Court of The University of Hong Kong.

A – Audit Committee Member
N – Nomination Committee Member
R – Remuneration Committee Member
E – Executive Committee Member
F – Finance Committee Member

Senior Management

Group Management Committee

The Group Management Committee is tasked with making key decisions for the Group's management and operations, under official delegation of authority from the Board. The Committee comprises eight senior executives who represent the hotel and non-hotel operations. In addition to Chief Executive Officer (1) **Clement K.M. Kwok**, Chief Financial Officer (2) **Neil J. Galloway** and Chief Operating Officer (3) **Peter C. Borer**, the following are members of the Group Management Committee:

(4) **Rainy Chan**
Aged 48. Ms. Chan joined The Peninsula Hong Kong in 1994 and, after a series of internal promotions, was appointed General Manager of The Peninsula Bangkok from 2004 to 2007. In 2007 she was appointed General Manager of The Peninsula Hong Kong, in addition to which she was promoted to the position of Area Vice-President – Hong Kong and Thailand in 2010. Ms. Chan joined the Group Management Committee in 2011.

(5) **Christobelle Liao**
Aged 44. Ms. Liao is a qualified solicitor in Hong Kong and the United Kingdom. After a number of years in legal practice, she joined the Group as Company Secretary and Corporate Counsel in 2002. Ms. Liao joined the Group Management Committee in 2011.

(6) **Maria Razumich-Zec**
Aged 55. Mrs. Razumich-Zec joined the Group as General Manager of The Peninsula Chicago in 2002 and was promoted to the position of Regional Vice-President – USA East Coast in 2007, with regional responsibilities covering The Peninsula Hotels in Chicago and New York. She joined the Group Management Committee in 2007.

(7) **Martyn Sawyer**
Aged 55. Group General Manager, Properties and Clubs since 1999, Mr. Sawyer holds regional responsibility for the Group's non-hotel properties and operations including The Repulse Bay Complex and The Peak Complex in Hong Kong, as well as management of properties and clubs in Hong Kong, Vietnam and Thailand. He has been with the Group since 1985. He joined the Group Management Committee in 2002.

(8) **Sindy Tsui**
Aged 44. Ms. Tsui was appointed General Manager, Human Resources in 2007. With many years of experience in human resources management in the hospitality industry, she is responsible for the Group's strategy on human resources, talent development and training. She joined the Group Management Committee in 2011.

Key Functions

The following are members of key functions in the Group. Names and titles are listed in alphabetical order:

(9) **David Batchelor**, Managing Director, The Peninsula Shanghai

(10) **Nicolas Beliard**, General Manager, The Peninsula Paris

(11) **Natalie Chan**, Senior Manager, Corporate Responsibility and Sustainability

(12) **Ming Chen**, Senior Manager, Business Development and Investor Relations

(13) **Robert Cheng**, Vice President, Marketing, The Peninsula Hotels

(14) **Alex Cho**, Assistant General Manager, Design

(15) **Joseph Chong**, General Manager, The Peninsula Shanghai

(16) **Jonathan Crook**, General Manager, The Peninsula New York

(17) **Sarah Cruse**, General Manager, Quail Lodge & Golf Club

(18) **Sian Griffiths**, Director of Communications, The Peninsula Hotels

(19) **Katja Henke**, General Manager, The Peninsula Bangkok

(20) **Ingvar Herland**, General Manager, Research & Technology

(21) **Shane Izaks**, General Manager, Information Technology

(22) **Palle Jensen**, General Manager, The Repulse Bay

(23) **Thomas Kwong**, China Adviser

(24) **Irene Lau**, Senior Manager, Corporate Affairs

(25) **Suan Beng Lee**, Treasurer

(26) **Martin Lew**, Assistant General Manager, Operational Financial Control

(27) **Douglas Lui**, General Manager, Audit & Risk Management

(28) **James Mercer**, Project Director, The Peninsula Paris

(29) **Offer Nissenbaum**, Managing Director, The Peninsula Beverly Hills

(30) **Joseph Sampermans**, General Manager, The Peninsula Beijing

(31) **Ernest Tang**, Assistant General Manager, Finance

(32) **Paul Tchen**, General Manager, Operations Planning and Support

(33) **Malcolm Thompson**, General Manager, The Peninsula Tokyo

(34) **May Tsang**, General Manager, The Peak Complex

(35) **Sonja Vodusek**, General Manager, The Peninsula Manila

(36) **P.T. Wong**, General Manager, Projects Group

(37) **Simon Yip**, Vice President, Sales, The Peninsula Hotels

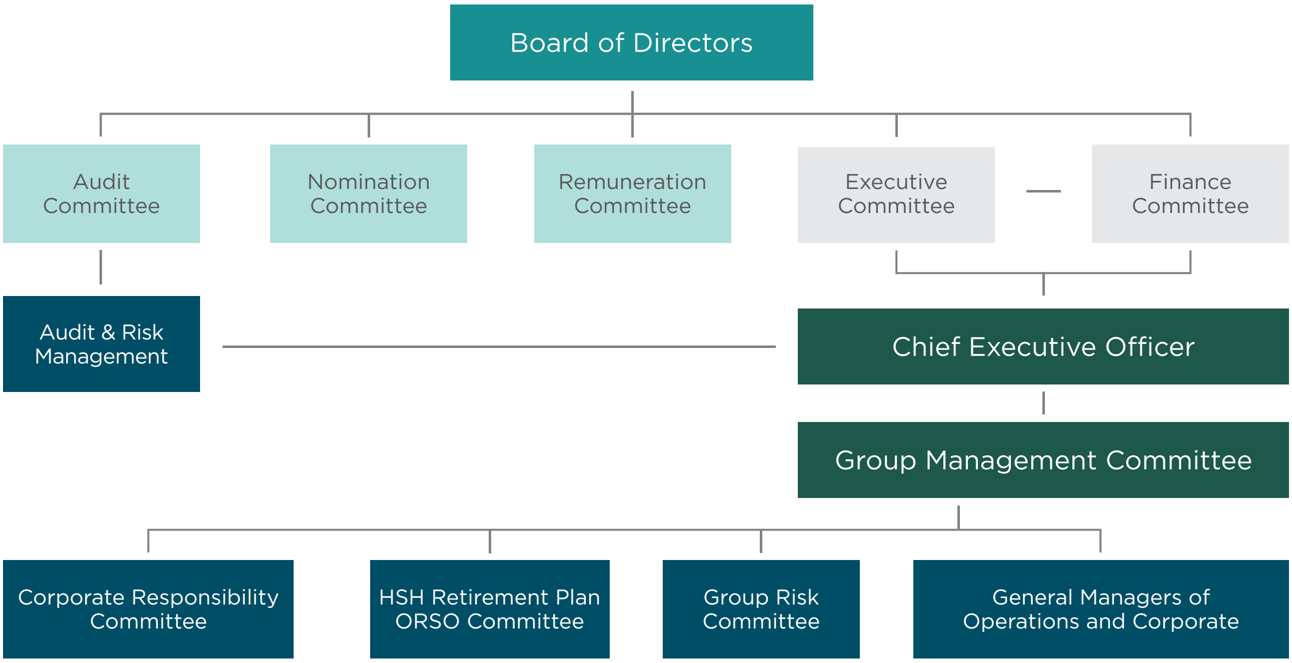
Corporate Governance Report

Our corporate governance is a process through which the Company protects the interests of its shareholders and stakeholders by upholding and ensuring integrity, transparency and accountability in all aspects of its business.

Introduction to Corporate Governance Framework

Our corporate governance is a process through which the Company protects the interests of its shareholders and stakeholders by upholding and ensuring integrity, transparency and accountability in all aspects of its business. While the Board takes the lead and ultimate responsibility, our corporate governance practices apply across all businesses of the Group. Our corporate governance framework is shown below:

Corporate Governance Structure



Meeting and Exceeding Compliance Requirements

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code", formerly known as "Code on Corporate Governance Practices"), which came into effect on 1 April 2012, is the standard against which we measure ourselves. Our Board recognises the principles underlying the CG Code, and the HSH Corporate Governance Code ("HSH Code") has applied all such principles.

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

- **Code provisions**, which are "comply or explain" provisions; or
- **Recommended best practices**, which are for guidance only, and issuers are encouraged to comply with or give considered reasons for deviation.

In respect of **code provisions**, throughout 2012, we complied with all provisions in the former CG Code (for the period before 1 April 2012) and the CG Code (for the period since 1 April 2012). We have exceeded the requirements set forth in the CG Code in a number of areas, as described throughout this Report.

In respect of **recommended best practices**, we complied with all of those contained in the CG Code except the following:

- **Publication of quarterly financial results** – The Board believes that the businesses of the Group are characterised by their long term and cyclical nature, while quarterly financial results reporting encourages a short term view on performance. Notwithstanding this, in order to keep our shareholders updated on the Group's periodic performance, we issue quarterly operating statistics setting out key operating information.
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have adopted the requirements of the code provision and disclosed the remuneration payable to senior management by band in the Remuneration Committee Report.
- **Board evaluation** – The Board has not conducted formal Board evaluation. The Non-Executive Chairman and the Non-Executive Directors, including the Independent Non-Executive Directors ("INED"s), however, have conducted an annual meeting to evaluate management effectiveness, as well as how the Board as a whole could better provide collective advice and guidance to help management and guide the strategic direction of the Company. Recommendations made at this meeting were communicated to the management for feedback and implementation.

2012 Developments in Corporate Governance Practices

Our corporate governance practices do not remain static and we review them regularly. In 2012, we improved our corporate governance practices as follows:

- ☑ We reviewed and updated the HSH Code and terms of reference of all Board committees in line with the changes adopted by the CG Code.
- ☑ We formed a Group Risk Committee to oversee risks across the Group and coordinate with all operations to address risks identified, track risk mitigation and report on examination of specific risks as required.
- ☑ A Group Risk Register was set up by the Group Risk Committee to methodically identify risks facing the Group and formulate action plans to mitigate risks.
- ☑ The Board resolved to adopt a more structured Board evaluation approach in 2013.
- ☑ The Group Data Privacy Manual was developed as an important component of our internal control system and implemented through extensive training at each operation.
- ☑ The Whistleblowing Policy of the Group which was originally limited to employees was expanded to additionally cover other stakeholders. This policy is posted on the Company's website.
- ☑ A Shareholder Communication Policy was adopted to establish a more effective communication mechanism through which our shareholders and stakeholders could communicate with the Company. This policy is posted on the Company's website.
- ☑ We facilitated and carried out in-house training for the Directors through various means and their training records are kept by the Company Secretary.
- ☑ A Nomination Committee was established to review the composition and appropriateness of the Board and the leadership and succession needs of the Company with a view to ensuring the long term success of the Group.
- ☑ Our Nomination Committee discussed diversity of the Board and set its goal to improve the gender diversity of the Board. Our first female INED was appointed to the Board with effect from 1 February 2013.
- ☑ We reviewed and updated our Company Management Authority Manual which forms the backbone of our control and approval process.

The Role of the Board

The names and biographical details of all the members (including details of their relevant experience, and financial, business, family or other material or relevant relationships among them) are set out on pages 100 and 101. This information is also posted on the Company's website.

The Board's role is to provide leadership of the Company and direction for management. It is collectively responsible and accountable to the Company's shareholders and stakeholders for the long term success of the Group. While the management is delegated to run the Group's day-to-day business (as more specifically described on page 119), the Board focuses on and reserves powers in the most significant matters of the Group, including:

- formulating long and short term strategic directions of the Group, including development strategy, major investments, acquisitions and disposal of major assets;
- preparing and approving financial statements, annual and interim reports, and making judgements that are fair and reasonable in the preparation of the Company's disclosure statements;

- approving the Group's annual budgets and forecasts;
- approving changes in accounting policies;
- approving changes to the Company's capital structure;
- setting dividend policy;
- authorising material borrowings and expenditures;
- approving the appointment of Directors for election and/or re-election in general meetings;
- performing corporate governance functions in accordance with the CG Code, including determining the Group's corporate governance policies, and reviewing and monitoring the corporate governance practices of the Group; and
- overseeing and reviewing the effectiveness of the risk management and internal control systems of the Group through review of reports from Audit Committee and the Group Management Committee.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2012, please refer the Directors' Report set out on page 142.

In 2012, the Board adopted its own terms of reference, formalising the corporate governance functions which were previously in practice.

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

The Hon. Sir Michael Kadoorie and Mr. Clement K.M. Kwok hold the positions of our Non-Executive Chairman and Chief Executive Officer respectively. There is a clear division of the responsibilities between the running of the Board, and the executives responsible for the running of the Company's business. The roles of the Chairman and the Chief Executive Officer and their division of responsibilities are established in our HSH Code.

Non-Executive Chairman – The Chairman leads the Board and is responsible for ensuring that both the Board and individual Directors perform their duties effectively and make active contributions to the Board's affairs. He fulfils this by facilitating and encouraging all Directors in particular INEDs and other Non-Executive Directors to voice their views and concerns openly. He also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. The Chairman is also in frequent contact with the Chief Executive Officer through various means including face-to-face meeting and telephone conversations on average once each week. During the year, the Chairman met with Non-Executive Directors without the presence of Executive Directors in order to review management performance.

Chief Executive Officer – The Chief Executive Officer leads the day-to-day management of the Group. He is responsible for effective implementation of the strategies and policies agreed by the Board, and leading the management to fulfil the objectives set by the Board. The Board has given the Chief Executive Officer broad authority to operate the business and he is accountable to and reports to the Board on the performances of the business. The Chief Executive Officer is supported by the Group Management Committee, which provides the Board with high quality information and recommendations to enable informed decisions on all areas of Company strategy.

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

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

Our Non-Executive Directors scrutinise the management's performance in achieving agreed corporate goals and objectives and monitor the Group's performance reporting. The role also serves to assure clarity and accuracy on the reporting of financial information and that controls and systems of risk management are effectively in place. They constructively challenge management in all areas, which is vital to the objectivity of the Board's deliberation and decision-making. Mr. Patrick B. Paul, an INED, leads the Audit Committee and Remuneration Committee with active involvement of other Non-Executive Directors. These Committees, together with the Non-Executive Directors in the Executive Committee and Finance Committee, give the Board and Board Committees the benefit of their skills, expertise, and varied backgrounds and qualifications.

In addition to their roles of Non-Executive Directors, our INEDs bring to the Board independent judgement on all types of issues and take a stance where potential conflicts of interest arise.

The Role of Executive Directors

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

The Role of Company Secretary

Our Company Secretary is the Secretary of the Board and our Governance Board Committees' meetings including Audit Committee, Nomination Committee and Remuneration Committee. The Company Secretary reports to the Chairman and the Chief Executive Officer on governance matters. She keeps the efficacy of the Company's and the Board's governance processes under review and also promotes improvements. She is responsible to the Board in respect of compliance with Board procedures. All our Directors have direct access to the advice and support of the Company Secretary on such matters.

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

Clear and Consistent Board Processes

The Board meets regularly to discharge its responsibilities. In 2012, it met five times and the dates of the meetings were determined and provided to the Directors in the fourth quarter of 2011. The Directors were notified of any changes to schedules at least 14 days prior to the pertinent meeting.

Prior to each Board meeting, as delegated by the Chairman, the Company Secretary draws up the agenda in consultation with the Directors and all Directors are invited to include items for such. Comprehensive Board papers are sent to all Directors seven days in advance of each Board meeting in order that they have sufficient time to review the affairs to be discussed.

During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable, in order for them to maintain effective control over the strategic, financial, operational, compliance and corporate governance issues of the Company. All Directors are entitled to unrestricted access to independent professional advice and senior management, and the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and for advising the Board on all legal and corporate matters.

Board decisions are voted on at Board meetings. The Company Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by each Director. Draft and final versions of minutes are sent to all Directors in a timely manner for their comment and record.

In case of a potential conflict of interest involving any Director in connection with a transaction or proposal including potential connected transactions, the Board proceeds in accordance with the HSH Code and the CG Code. In 2012, no potential conflict of interest was determined by the Board to be material.

Similar processes apply to our Board Committee meetings.

Board Committees

The Board has established five committees:

- Audit Committee – a committee report is set out on pages 131 and 132
- Nomination Committee – a committee report is set out on page 133
- Remuneration Committee – a committee report is set out on pages 134 to 137
- Executive Committee
- Finance Committee

The Audit, Nomination, and Remuneration Committees are governance committees, whereas the Executive and Finance Committees are strategic and finance committees. Each Committee reports its decisions and recommendations to the Board and seeks the Board's prior approval on specific reserved matters.

Board Committee Terms of Reference

Each Committee has its own terms of reference, which have been approved by the Board and are reviewed periodically to ensure that they comply with latest legal and regulatory requirements and reflect developments in best practices. The Nomination Committee was set up in March 2012 and the terms of reference were reviewed in detail during the year.

The terms of reference of each Board Committee can be found on the Company's website. The following is a summary of the terms of reference of each Board Committee:

Audit Committee	
Main Responsibilities	• To oversee the Group's financial reporting and audit processes with management and the internal and external auditors. • To review the Group's internal controls and how risk is managed on an on-going basis, as further set out in the "Internal Control" section and the "Risk Management Report". • To review arrangements by which employees and stakeholders may, in confidence, raise concerns about possible improprieties in financial reporting and other matters. • To monitor and review the effectiveness of the Group's audit and risk management functions and review annual audit plan and reports. • To oversee the scope of work of external auditor including approving fees paid to such in respect of non-audit work.
Members and Chairman	• At least three members with the majority being INEDs. • At least one member must have the appropriate qualifications or experience in financial reporting. • The Chairman of the Committee must be an INED.
Regular Attendees by Invitation	• Chief Executive Officer • Chief Financial Officer • Company Secretary (as meeting secretary) • General Manager, Audit & Risk Management • External auditor of the Company
Quorum	• Two members of the Committee.
Number of Meetings Per Year	• Four meetings a year and additionally as required.
Committee Report	• Set out on pages 131 and 132

Nomination Committee

Main Responsibilities	• To review the structure, size and composition of the Board. • To evaluate the balance and blend of skills, knowledge, experience and diversity of the Board. • To maintain under review the leadership and succession needs of the Group. • To review and make recommendations to the Board on the appointment and re-appointment of all Directors. • To assess the independence of INEDs.
Members and Chairman	• At least three members with the majority being INEDs. • The Chairman of the Committee must be the Chairman of the Board.
Attending by Invitation	• Company Secretary (as meeting secretary)
Quorum	• Two members of the Committee, one of whom must be the Chairman of the Board.
Number of Meetings Per Year	• At least once a year and additionally as required.
Committee Report	• Set out on page 133

Remuneration Committee

Main Responsibilities	• To approve the remuneration philosophy and policies of the Group and bonus schemes for senior staff. • To review and approve all remuneration packages for Executive Directors and senior management. • To review and recommend the fees of Non-Executive Directors to the Board and the fees for serving on Board Committee. • To ensure that no Director approves his or her own remuneration. • To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.
Members and Chairman	• At least three members with the majority being INEDs. • The Chairman of the Committee must be an INED.
Regular Attendees by Invitation	• Chief Executive Officer • Company Secretary (as meeting secretary) • General Manager, Human Resources
Quorum	• Two members of the Committee.
Number of Meetings Per Year	• At least twice a year and additionally as required.
Committee Report	• Set out on pages 134 to 137

Executive Committee

Main Responsibilities	• To develop and review strategic opportunities and significant investment proposals. • To evaluate the Group's competitive position and determining strategies to protect the brand, values and business principles of the Group. • To oversee the implementation of strategic plans and investment proposals. • To monitor the Group's financial and operational plans and forecasts, and deliver these plans and monitor performance. • To interact with Finance Committee and other relevant Board Committees on their submissions. • To perform the functions of a nomination committee before the Group's Nomination Committee was set up in March 2012.
Members and Chairman	• At least three members and consisting of Non-Executive Directors with the Chief Executive Officer. • Currently the Committee has four members: – The Hon. Sir Michael Kadoorie (Chairman, Non-Executive Chairman) – Mr. Ian D. Boyce (Member, Non-Executive Deputy Chairman) – Mr. John A.H. Leigh (Member, Non-Executive Director) – Mr. Clement K.M. Kwok (Member, Chief Executive Officer)
Regular Attendees by Invitation	• Relevant Non-Executive Directors • Chief Financial Officer • Chief Operating Officer • General Manager of operations or functional departments per relevance of the matters discussed and appropriateness
Quorum	• Two members of the Committee.
Number of Meetings Per Year	• Bi-monthly and additionally as required.

Finance Committee

Main Responsibilities	• To review all financial aspects and budgets of significant acquisitions, investments, assets disposals and new projects commitments of the Group. • To review and approve establishment of the financial and annual operational plans, budgets, forecasts and any revisions of the Group. • To review the Group's financial performances. • To review the establishment of corporate capital and operating contingencies and approve requests for drawing on contingencies within the approved budgets. • To endorse issuance and allotment of shares and share repurchases. • To review and approve treasury policies. • To review and approve granting of guarantees and indemnities.
Members and Chairman	• At least three members and consisting of Non-Executive Directors, the Chief Executive Officer and Chief Financial Officer • Currently the Committee has four members: – Mr. Ian D. Boyce (Chairman, Non-Executive Deputy Chairman) – Mr. John A.H. Leigh (Member, Non-Executive Director) – Mr. Clement K.M. Kwok (Member, Chief Executive Officer) – Mr. Neil J. Galloway (Member, Chief Financial Officer)
Regular Attendees by Invitation	• Relevant Non-Executive Director(s) • Company Secretary • Assistant General Manager, Finance • Treasurer • General Manager of Operations or functional departments per relevance of the matters discussed.
Quorum	• Two members of the Committee, one of whom must be a Non-Executive Director.
Number of Meetings Per Year	• At least on a monthly basis and additionally as required.

2012 Board and Committee Attendance

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2012 was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Non-Executive Directors					
The Hon. Sir Michael Kadoorie, Non-Executive Chairman	☐☑☑☑☑		☑		☑
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	☑☑☑☑☑	☑☑☑☑		☑☑	☑
Mr. Ronald J. McAulay	☐☐☑☑☑				☑
Mr. William E. Mocatta	☐☑☑☑☑				☑
Mr. John A.H. Leigh	☑☑☑☑☑				☑
Mr. Nicholas T.J. Colfer	☑☑☑☑☑				☑
Independent Non-Executive Directors					
Dr. the Hon. Sir David K.P. Li	☐☑☑☑☑		☑		☑
Mr. Robert C.S. Ng	☑☑*				☐
Mr. Robert W. Miller	☐☑☑☑☑			☑☑	☑
Mr. Patrick B. Paul	☑☑☑☑☑	☑☑☑☑		☑☑	☑
Mr. Pierre R. Boppe	☑☑☑☑☑				☑
Dr. William K.L. Fung	☐☐☑☑☑	☐☐☐☐	☑		☐
Executive Directors					
Mr. Clement K.M. Kwok, Chief Executive Officer	☑☑☑☑☑				☑
Mr. Neil J. Galloway, Chief Financial Officer	☑☑☑☑☑				☑
Mr. Peter C. Borer, Chief Operating Officer	☑☑☑☑☑				☑

* Mr. Robert Ng resigned as Director with effect from 19 June 2012.

The Composition of the Board

As of the date of this Report, our Board comprises 15 members. Twelve out of our 15 Directors are Non-Executives, among which six are INEDs, independent of management. As for the other six Non-Executive Directors, while they are not involved in the day-to-day business of the Company, they are not considered independent due to their association with the substantial shareholders. As announced on 19 June 2012, Mr. Robert C.S. Ng stepped down from the Board with immediate effect. On 1 February 2013, we appointed our first female INED and the current number of our INEDs remains at six, being 40% of the entire Board.

The Nomination Committee reviewed and the Board confirmed that the current structure, size and composition of the Board remained appropriate for it to perform its responsibilities.

Boardroom Diversity

The Board believes that diversity is important for effectiveness and has been following the debate around the Stock Exchange's Consultation Paper on Board Diversity regarding gender, age, culture, educational background and professional experience. While the Board does not think specific quotas on such criteria as gender are appropriate and believes that the opportunities should be made on merit, it does believe that a diverse mix of skills, experience, and knowledge background is important of which gender is a significant element.

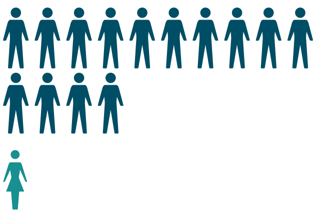
Since 1 February 2013, the Board has one female member on the Board out of 15 members. In making future appointments to the Board, consideration shall be given to diversity.

Looking beyond the Board, the Company also recognises the importance of diversity including gender diversity and the benefits this could bring to our Group. The Company has policies against discrimination and with regard to gender diversity specifically, women have an equal opportunity as men in developing their careers within our business.

Gender Diversity of management is set out below (categories of management defined on pages 100 to 103):

Gender Diversity

Board

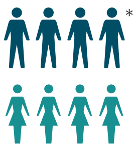


1 female out of 15 as at the date of this Report

7%

of Board

Senior Management



4 female out of 8 as at the date of this Report

50%

of Senior Management

Key Functions

8 female out of 29 as at the date of this Report

28%

of Key Functions

* inclusive of 3 Executive Directors

Director Induction, Familiarisation and Training

Induction

The Company provides a tailored induction programme for all Directors upon joining the Board. The programme provides a broad introduction to the Group's businesses. New Directors shall meet with the Executive Directors and some members of senior management, and visit the Group's major businesses in Hong Kong initially and overseas businesses at Board meetings held at overseas properties. Dr. Rosanna Wong has commenced a tailored induction programme facilitated by the Company Secretary since her appointment.

Familiarisation and Training

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

The Board also aims to hold one Board meeting per year at one of the Group's overseas assets and takes the opportunity to discuss business issues, risks and strategy with local management. The Board visited The Peninsula Beijing in October 2012. Board members toured the facilities and back-of-house of the hotel and held discussions with local management. Such overseas site visits assist Non-Executive Directors in familiarising themselves with, and gaining a greater insight into, the Group's businesses.

Our Directors participate in continuous training and development activities that keep them abreast of developments in all areas pertaining to the business of the Company and their performance of duties as Directors. The Company regularly organises training programmes and professional development activities at the end of Board meetings which cover topics such as new laws and regulations, corporate governance practices developments and Group business related topics.

During 2012, the Directors received a total of approximately 240 hours of training, which included attendance of training from external service providers, talks arranged by the Company, attending conferences or workshops and reading materials covering a wide range of topics, such as:

- New developments in laws
- Regulations on directors' duties and obligations
- Corporate responsibility and sustainability
- Directors' and officers' liability
- Latest technology trends in the hospitality industry
- Benefits and methodology of board evaluation

Records of training attended by the Directors are maintained by the Company Secretary. Training records of Directors and the Company Secretary for 2012 are as follows:

Directors	Type of Training		
	Internal/external seminars, conferences, workshops and/or forums	Visiting and meeting with operations	Reading materials provided by external parties or by the Company
Non-Executive Directors			
The Hon. Sir Michael Kadoorie, Non-Executive Chairman	☑	☑	☑
Mr. Ian D. Boyce, Non-Executive Deputy Chairman	☑	☑	☑
Mr. Ronald J. McAulay	☑	☑	☑
Mr. William E. Mocatta	☑	☑	☑
Mr. John A.H. Leigh	☑	☑	☑
Mr. Nicholas T.J. Colfer	☑	☑	☑
Independent Non-Executive Directors			
Dr. the Hon. Sir David K.P. Li	☑	☐	☑
Mr. Robert W. Miller	☑	☑	☑
Mr. Patrick B. Paul	☑	☑	☑
Mr. Pierre R. Boppe	☑	☑	☑
Dr. William K.L. Fung	☑	☐	☑
Executive Directors			
Mr. Clement K.M. Kwok, Chief Executive Officer	☑	☑	☑
Mr. Neil J. Galloway, Chief Financial Officer	☑	☑	☑
Mr. Peter C. Borer, Chief Operating Officer	☑	☑	☑
Company Secretary			
Ms. Christobelle Liao	☑	☑	☑

Appointment and Re-election of Directors

All Directors including Non-Executive Directors are subject to a term of re-election every three years. In May 2012, Mr. Neil J. Galloway, Mr. Ronald J. McAulay, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Dr. the Hon. Sir David K.P. Li retired and all were re-elected at the 2012 Annual General Meeting. In 2012, there was no new appointment of Directors. On 1 February 2013, Dr. Rosanna Y.M. Wong was appointed to the Board.

Details of the Directors who will retire and offer themselves for re-election in the 2013 Annual General Meeting are set out in the Directors' Report. All of these Directors, being eligible, have been confirmed by the Nomination Committee and recommended by the Board to stand for re-election at the 2013 Annual General Meeting. The election of each Director shall be subject to vote of shareholders by separate resolution.

Time Commitment of Directors

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2012.

Our letters of appointment for Non-Executive Directors and INEDs, as well as employment contracts for Executive Directors, contain guidelines on expected time commitments required for the affairs of the Company. Each individual confirms his or her understanding of such time commitment when the appointment is accepted. In addition, the Board regularly reviews the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

Independence of INEDs

The Company has received written confirmations of independence from each of its six INEDs. The Nomination Committee and the Board considered that all INEDs continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Three INEDs, being Dr. the Hon. Sir David K.P. Li, Mr. Robert W. Miller and Mr. Patrick B. Paul have served in this capacity for more than nine years. Notwithstanding their long service, given their extensive and diverse business and financial experience, the Nomination Committee and the Board are of the opinion that these three Directors continue to bring independent and objective perspectives to the Company's affairs and provide valuable insights and challenges to the management.

Directors' Dealings with Company Securities

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

All Directors have confirmed their full compliance with the required standards set out in the Model Code and the Securities Code in 2012. Details of the shareholding interests held by the Directors of the Company as at 31 December 2012 are set out on page 140.

Our Code for Dealing in the Company's Securities is extended to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the standards set out in the Code for Dealing in the Company's Securities by Specified Individuals. Brief particulars and shareholding interests of the senior management are set out on pages 103 and 140.

Directors' Disclosure on Conflict of Interest

All Directors are required to disclose to the Board the following sets of information in relation to their interests upon appointment and on an annual basis:

- the number and nature of offices they hold in public companies or organisations and other significant commitments (if any) and their time involvements;
- their interests as a Director or shareholder in other companies or organisations; and
- whether he or she (other than an INED) or any of his or her associates has an interest in any business which competes with the Company.

In 2012, all Directors have fulfilled these disclosure requirements.

Group Management

The day-to-day management of the Group's business is the responsibility of the Chief Executive Officer. In discharging his responsibilities, the Chief Executive Officer is assisted by the Group Management Committee ("GMC") comprising senior management covering major operations and functions. The GMC is in turn supported by three sub-committees, and the General Managers and heads of the operations and functional departments. For the GMC and its sub-committees, each has its own terms of reference or charter that set out their respective authorities and responsibilities.

Group Management Committee

Chairman and Members

- Chairman: Chief Executive Officer – Mr. Clement K.M. Kwok
- Members: Chief Financial Officer – Mr. Neil J. Galloway, Chief Operating Officer – Mr. Peter C. Borer, Area Vice-President – Hong Kong and Thailand – Ms. Rainy Chan, Company Secretary and Corporate Counsel – Ms. Christobelle Liao, Regional Vice-President – USA East Coast – Mrs. Maria Razumich-Zec, Group General Manager, Properties and Clubs – Mr. Martyn P. A. Sawyer and General Manager, Human Resources – Ms. Sindy Tsui.

Main Responsibilities

The GMC is the principal management decision-making body on all day-to-day business of the Group and operates under clear guidelines and delegated authorities approved by the Board. It is responsible for making recommendations to the Board and Board Committees on strategic and operating matters and making recommendations on matters reserved for the Board. Its main responsibilities are as follows:

- to review and monitor day-to-day operations and business affairs of the Group;
- to conduct business development; and
- to formulate strategic objectives and action plans covering corporate and financial structure, strategic investment plans, major investments and divestments, operational efficiency, marketing and branding, human resources and risk mitigation.

The GMC has three sub-committees consisting of the Company's Corporate Responsibility Committee, the HSH Retirement Plan ORSO (Occupational Retirement Schemes Ordinance) Committee and the Group Risk Committee which oversee areas related to sustainability, the operation of the HSH Retirement Plan and the Group's risk respectively.

Corporate Responsibility Committee

Chairman and Members

- Chairman: Chief Executive Officer – Mr. Clement K.M. Kwok
- Members: Senior Manager, Corporate Responsibility and Sustainability, and selected members of senior management, and operations and corporate General Managers covering engineering, projects, operational risks and safety, operations planning and support, human resources, legal and corporate affairs functions.

Main Responsibilities

- To propose and recommend policies, practices and measurements relating to the environment, labour practices, supply chain practices, social/community responsibility and ethical matters.
- To monitor and report to GMC on the effectiveness of the corporate responsibility policies and practices and seek improvements for them.
- To review and recommend annual plans with respect to the community, such as charitable and environmental donations and sponsorships.

HSH Retirement Plan ORSO Committee

Chairman and Members

- Chairman: Chief Financial Officer – Mr. Neil J. Galloway
- Members: Selected members of senior management, corporate General Manager and selected representative from operations

Main Responsibilities

- To regularly review and monitor performances of the funds in which the HSH Retirement Plan has made investments.
- To review and approve audited accounts of the HSH Retirement Plan.
- To discuss and approve matters in relation to the operation and administration of the HSH Retirement Plan.

Group Risk Committee

Chairman and Members

- Chairman: Chief Financial Officer – Mr. Neil J. Galloway
- Members: Selected members of senior management and corporate General Managers

Main Responsibilities

- To coordinate with operations to ensure that each of them address the risks identified, and track progress of mitigating plans and activities of key business risks and report on examinations of specific risks as required.
- To develop governing policy, procedures and instructions to the purpose, application, and completion for the Group Risk Register.
- To regularly review, assess and update Group risks and related contingency plans to the Audit Committee and circulate to the Board, with regular reports to the GMC.

Internal Control System and Effectiveness

Internal Control

The Board acknowledges that it is ultimately responsible for maintaining sound internal control systems and to assess their effectiveness on a regular basis.

Our risk management and internal control systems are designed to meet the Group's needs and manage the risks to which it is exposed, including the risk of failure to achieve business objectives. It should however be noted that such risks cannot be completely eliminated and that systems can only provide reasonable, but not absolute outcomes. The systems can never completely protect against such factors as unforeseeable events, fraud, and errors in judgement even after due consideration.

The Board confirms that there is a framework of ongoing processes in place for identifying, evaluating and managing significant risks faced by the Group. These processes are regularly reviewed by the Board and the Audit Committee as appropriate and have been in place during the year ended 31 December 2012 and up to the date of approval of this Annual Report.

The Board's view of the Group's key strategic and operating risks and how the company seeks to manage those risks are set out the Risk Management Report on pages 125 to 130.

Internal Control System

The Group's internal control systems comprise Group policies, procedures and practices covering a range of areas including the authorisation and approval of transactions, the application of financial reporting standards and the review of financial performance and significant judgements.

The Company Management Authority Manual ("CMAM"), which is applied by all Group operations, clearly sets out the responsibility and authority limits of the Board, Board Committees, management and operations and is supplemented by the HSH Corporate Governance Code. The two documents form the backbone of our internal control system and are regularly reviewed and supplemented by other policies and procedures manuals. In 2012, the CMAM was thoroughly reviewed and updated.

In addition, we rolled out the Group's Data Privacy Manual following the introduction of the Data Privacy Policy in 2011. The Manual sets the framework to standardise our practice in handling of personal data collected in the normal course of business. It also sets out the practical procedures which assist our employees in handling such data in accordance with the laws and regulations in jurisdictions that we operate under, as well as behavioural standards in handling data. On-site classroom training was given to all business operations except one small commercial property. More than 380 selected managers across these business operations attended training sessions. An interactive e-learning programme was also launched for all customer-facing staff at the end of 2012.

We commenced a revamp of the Group's Purchasing and Tendering Procedures in the fourth quarter of 2012 to further tighten internal controls. The review has been completed in the first quarter of 2013 for introduction across all operations of the Group.

In respect of handling of inside information, which is a critical part of the internal control system of a listed company in Hong Kong, we have applied relevant controls on employees who are subject in handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares. We regularly review such policies so as to ensure that the Company fulfils its continuous obligations in this area including making consistent and timely disclosure.

Operational Financial Control

The Operational Financial Control ("OFC") Department, together with the operating teams represents an important control. All aspects of operational financial activities are subject to its review. The Head of the OFC Department reports to the Chief Financial Officer and the Chief Operating Officer.

The OFC Department co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and completeness of all information. The Department reviews and, where necessary, challenges the financial operating results with a view to improving efficiency and profitability. It also initiates or approves changes to operational accounting practices or the monitoring and reporting systems. Guidance and support is provided when needed for Directors of Finance and Financial Controllers.

During 2012, the OFC Department undertook the following:

- Provided GMC with monthly reports on the financial performance and forecasts of each operation as well as their budgets, highlighting any areas of concern together with the actions being taken to address these.
- Continued mentoring of the operational finance teams in all aspects of financial management and control, with on-site visits as required.
- Organised quarterly conference calls for all operational Directors of Finance and Financial Controllers with appropriate members of the head office team to discuss issues of concern and relevance across the Group, including updates and revisions to the Company's policies and procedures and various compliance issues.
- Shared best practices, innovations and performance data throughout the Group, as well as control issues of concern.
- Developed Group standard operating procedures related to finance and accounting as required.
- Assisted with the selection and recruitment of operational Directors of Finance and Financial Controllers, as well as the initiation process for the recruited person, as required.
- Participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets.

Review of Effectiveness of Internal Controls

A key responsibility of the Board is to review, assess and confirm the adequacy and effectiveness of the Group's internal control systems. The Board has delegated part of this responsibility to the Audit Committee.

The Audit Committee receives and considers regular reports and presentations from management, finance functions in respect of reporting standards, and internal and external auditors. Any significant issues are highlighted and discussed. In assessing the effectiveness of the control systems, the Audit Committee considers the impact of any weaknesses, whether necessary actions are being taken promptly, and whether more extensive monitoring is needed. Amongst other matters, the Audit Committee reviews the performance of both internal and external auditors. The Audit Committee also considers observations by the external auditor in relation to internal financial functions.

The Group's internal audit function is performed by Audit & Risk Management ("ARM"), which plays an important part in the assessment of effectiveness of our system of internal control and the risks facing the Group. The internal audit is a group-wide function under the leadership of the General Manager, ARM who leads a team of five qualified professionals. The General Manager, ARM has a dual reporting line to the Chief Executive Officer and the Chairman of the Audit Committee. Internal audit reports on control effectiveness are submitted to the Audit Committee in line with the agreed audit plan. The Committee approves the annual audit plans and receives reports produced by them four times a year.

ARM conducts internal audit reviews of material controls and of compliance with policies and procedures at both operational and corporate levels. In particular, attention is paid to adherence to the principle of applying adequate checks and balances in the approval processes. Plans for corrective action and control improvement are identified with operations management to address any issues, non-compliance or deficiencies identified. ARM follows up the implementation of its recommendations and reports the statistics and outcome to the Audit Committee. During the year, ARM conducted 15 internal audit exercises throughout the entire Group representing a 15% increase from 2011.

Apart from internal audit, each month General Managers and Directors of Finance or Financial Controllers of the operations review their internal control practices and certify to the OFC Department their compliance with specified key controls. Every six months they submit general representative letters to the Chief Executive Officer and the Chief Financial Officer to confirm the compliance of their internal control systems and procedures and to reinforce personal responsibility for good corporate governance and controls at operational levels. Representation letters and qualifications are summarised and submitted to the Audit Committee for review.

The Audit Committee conducts bi-annual assessment on the operation and effectiveness of risk management and internal controls on behalf of the Board. The Committee reports to the Board which subsequently forms its view on such effectiveness. A report from the Audit Committee on its activities is set out on pages 131 and 132.

Based on the review of the Audit Committee report, the Board confirmed that throughout 2012, no material areas of concern which might affect the operational, financial reporting and compliance functions of the Company were identified. The Board confirmed that the existing internal control system remains effective and adequate.

Our Shareholders

HSH had 1,862 registered shareholders as at 31 December 2012. The actual number of investors interested in HSH shares is likely to be much greater, as shares are being held through nominees, investment funds and the Central Clearing and Settlement System ("CCASS") of Hong Kong.

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of shares held	% of issued share capital
500 or below	333	17.884	67,461	0.004
501 - 1,000	188	10.097	150,970	0.010
1,001 - 10,000	751	40.333	3,242,031	0.216
10,001 - 100,000	453	24.328	14,385,610	0.958
100,001 - 500,000	100	5.371	21,220,476	1.413
Above 500,000	37	1.987	1,463,127,843	97.399
Total	**1,862**	**100.000**	**1,502,194,391**	**100.000**

Note: as at 31 December 2012, 36.62% of all HSH issued shares were held through CCASS.

The Kadoorie Family (including interests associated with the Family but excluding interests held by charities associated with the Family) has a combined shareholding of 57.88%. The remaining HSH shares are mainly held by institutional and private investors, with a considerable number of those investors being Hong Kong residents.

From publicly available information and within the knowledge of the Directors, HSH has maintained sufficient public float of its share capital in the Hong Kong Stock Market throughout the financial year ended 31 December 2012 and has continued to maintain such a float as at 13 March 2013.

Engaging our Shareholders

The Company attaches great importance to promoting effective two-way communication with both individuals and institutional shareholders. We believe that continued engagement is key to building increased understanding between the Company and the shareholders of the views, opinions and concerns of each other.

We encourage our shareholders to participate in our Annual General Meeting ("AGM") and directly communicate with our Directors and senior management. Throughout the year, our Executive Directors also held meetings and attended investor conferences with institutional shareholders and financial analysts.

In order to engage shareholders more effectively, we also post webcasts of the meetings announcing the latest financial results on the Company's website, along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. In March 2012, the Board further adopted a Shareholder Communication Policy (posted on the Company's website) to specify the various communication channels which our shareholders and stakeholders have access to. For additional information, shareholders and investors can email enquiries to ir@hshgroup.com.

Shareholders' Rights to General Meetings

Shareholders holding not less than 1/20 of paid-up capital of the Company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and depositing the signed requisition at the registered office of the Company.

Our Company website sets out the procedures for shareholders to convene and present proposals at general meetings, including proposing a person for election as a Director, and to vote by poll at general meetings.

2012 Annual General Meeting

The 2012 AGM was held on 21 May 2012 at The Peninsula Hong Kong. There were 232 attendees in total, of which 120 were registered shareholders and 112 were proxies or corporate representatives.

Prior to the meeting, a circular containing the notice of the AGM was distributed to all shareholders more than 20 clear business days prior to the AGM, setting out details of each proposed resolution and other relevant information. All Directors (except Mr. Robert C.S. Ng and Dr. William K.L. Fung due to other commitments), including the Chairmen of the Audit and Remuneration Committees, were present at the 2012 AGM. KPMG, the Company's external auditor, was also present to answer questions from any shareholder relating to its audit of the Company's Financial Statements.

Procedures for conducting a poll were explained by the Chairman at the beginning of the AGM and Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, was appointed as scrutineer for voting by poll to ensure the voting was properly counted. Results were posted on both the Company's and the Hong Kong Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2012 AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters Being Voted Upon	% of Affirmative Votes
Receipt of the audited Financial Statements and the reports of the Directors and independent auditor for the year ended 31 December 2011	100%
Payment of final dividend of 10 HK cents per share for the year ended 31 December 2011	100%
Re-election of five retiring Directors: Mr. Neil J. Galloway, Mr. Ronald J. McAulay, Mr. John A.H. Leigh, Mr. Nicholas T.J. Colfer and Dr. the Hon. Sir David K.P. Li as Directors of the Company	Ranging from 91.23% to 99.98% in respect of each individual resolution
Re-appointment of KPMG as the auditor of the Company and authorisation of the Directors to fix their remuneration	99.98%
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	84.56%
Granting of the general mandate to Directors to repurchase the Company's shares	99.99%
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	84.66%

Other Information to Shareholders

The key dates in the corporate results and meetings calendar are posted on the Company's website in advance. Important dates for 2013 are as follows:

- AGM: Friday, 3 May 2013
- Interim Results Announcement: August 2013

Engaging our Stakeholders

We acknowledge that our businesses have environmental and social impact. We believe that good governance also involves listening to our stakeholders, from employees, customers, lenders, shareholders and investors, non-governmental organisations and others. This Annual Report, including our Sustainability Report, explains our approach to discharging our responsibilities on such impact. We encourage our stakeholders to give us feedback on our approach. Stakeholders can email comments and enquiries to cr@hshgroup.com.

By order of the Board

Christobelle Liao
Company Secretary

Group Risk Committee and Risk Management Report

Risk lies in every sector of our business and a sound and effective risk management system is crucial to the long term development of the Group.

Risk lies in every sector of our business and a sound and effective risk management system is crucial to the long term development of the Group.

In 2012, we enhanced our risk management approach by establishing the Group Risk Committee ("GRC") and introducing the Group Risk Register (the "Register") as a framework to enhance focus on existing and potential risks.

The GRC developed the Group Risk Committee Charter as its governing instrument. This document outlines the membership, meeting format and frequency, responsibilities for risk oversight and reporting, implementation of the Register, and the reporting line that applies to the Committee.

2012 Our Enhanced Management Approach

The GRC formulated the Register as a framework that allows the Audit Committee and GMC to have a better overview of the Group's major business risks and how management has sought to monitor and mitigate them. The Register, comprising the key risks identified, refined and calibrated by GRC, along with detailed action plans, was reviewed by the Audit Committee. The Register assesses risks in four categories: Financial, Operational, Strategic, and Compliance. Within each category the principal risks facing HSH that could have a material effect at the Group level are identified and each risk will be regularly evaluated based on its potential financial impact and likelihood of occurrence. For all key risks, existing controls are identified and assessed as well as the ability, benefit and cost to improve them.

The enhanced approach to risk management together with the Register have been introduced as a pilot programme at The Peninsula Hong Kong, The Peninsula Chicago and selected Head Office functions. Feedback and comments from these pilot operations and functions have been collected and reviewed by the GRC for fine tuning for further application across all other operations and applicable functions. The intent is to build up a comprehensive risk map across all operations during 2013. Efforts in building up a more formal, robust and considered system will continue with the aim of bridging gaps, reinforcing risk ownership, defining Group level risk criteria, and standardising risk language across the Group. A detailed description of the selected principal risks is set out on pages 128 to 130.

The GRC also introduced a group-wide incident reporting policy to improve transparency and oversight over operational risk and to better assess trends and areas of weaknesses. This removed inconsistencies of reporting by different operations through different channels and means in the past. The handling of the incidents and follow up actions are also monitored by GRC. There was no incident of a material nature which needed to be brought to the attention of the shareholders.

Group Risk Management Approach

We have developed a specific risk management approach to identify, assess and manage the risks set out in the Register from both strategic and operational points of view. We regularly review such approach and dedicate adequate resources in maintaining and improving the system for better protection of the interests of our shareholders and stakeholders.

Key risks, after being consolidated, refined and calibrated by the GRC, are reviewed by the Audit Committee and considered and agreed upon by our Board, with relevant detailed action plans in place.

We apply our risk management approach throughout the entire Group from senior management to staff at operational level with the functions of each being as follows:

- **Board:** carries the overall accountability for the risk management practice of the Group.
- **Audit Committee:** focuses on the robustness of the risk management process and oversees the Group's major risks.
- **ARM:** assists the Audit Committee by conducting internal reviews of the Group's operations, in particular, the review of material controls in the areas identified in the Register.
- **GMC:** oversees how our properties and functions have sought to monitor and mitigate the risks and the effectiveness of the Register.
- **GRC:** acts as a co-ordinator to ensure that each operation addresses those risks identified, tracks progress of mitigating plans and activities of key business risks and reports on examination of specific risks as required.
- **Business Units:** ensure compliance with the risk management policies and procedures set up by the Group and monitor and report risk profiles and implement actions.

Risk Mitigation Framework

Our risk mitigation framework is structured around the following key elements:

- **Plan:** Mitigation plans developed and owned by each operation and risk owner.
- **People:** Clear roles and accountability for risk owners, management and ARM.
- **Process:** New controls and mitigation built into operations and continually monitored and reviewed.

These elements form the core of our risk mitigation framework and allow us to continuously assess and address the changing risk universe within which we operate.

Risk Mitigation Framework

Plan

Risk Reviews:

Assessment of risks in a prescribed format ("Register").

Potential risks, which may have a material impact on the Group, are monitored and discussed at the GRC.

Top risks for each operation are scrutinised to ensure that mitigating measures are in place or in progress.

Policies & Procedures ("P&Ps"):

P&Ps help ensure that management's risk responses are carried out when HSH employees deal with specific risks.

P&Ps set out accountability for risks, roles and responsibilities and actions that are measurable and auditable.

People

Employee Training:

Face to face and online training to provide appropriate skills and knowledge.

Regular communication to raise awareness.

Management Oversight:

On-going oversight of operational activities to manage risk.

Appropriate delegation of authority, proper supervision of employees, and monitoring of outsourced activities.

ARM – Independent Assessment:

Evaluate the efficiency of risk reviews, policies, training, management oversight, incident reporting and insurance arrangements. External expertise is used for some technical assessments.

Process

Incident Reporting:

All major incidents identified are reported to the GRC.

Data derived from past, present, and potential events help determine the Group's risk considerations.

Insurance Arrangements:

Consider financial impact of risks and ensure that adequate insurance coverage is in place – in particular for property damage and third party and employee injuries.

Selected Principal Risks

Unforeseen natural disasters, macroeconomic and other factors could affect our business and reduce earnings

Risk Description	Risk Mitigation
So called "Acts of God", macroeconomic and other factors such as hurricanes, typhoons, floods, earthquakes, and other natural disasters, and man-made or man-contributed disasters, such as terrorist activity, war, threat of war, and contagious diseases such as H1N1 Flu, Avian Flu, and SARS, in locations where we own or manage significant properties, and areas of the world from which we draw a large number of customers, could cause a decline in the level of business and leisure travel and reduce the demand for lodging, which could adversely affect our revenues and reduce earnings.	• Comprehensive insurance coverage for properties and businesses • Properties designed and built to reduce inherent risks • Crisis Management Team established with qualified and experienced professionals (internal and external) • External specialist assessment to benchmark our processes and controls

Acquisitions and investments in businesses and properties may be unsuccessful

Risk Description	Risk Mitigation
We intend to consider strategic acquisitions of and investments in other properties or other assets. Furthermore, we may pursue these opportunities in partnership with third parties. Acquisitions or investments in properties or assets as well as these partnerships are subject to risks that could affect our business, including risks related to spending cash, incurring debt and creating additional expenses. In addition, any such acquisition, investment, or partnership would compete for significant resources from our management personnel that would otherwise be available for our regular business operations.	• Adequate due diligence process, including but not limited to: – employing services of qualified and experienced professionals (internal and external) – developing complete and detailed integration plans and business strategies

Inability to fund capital expenditure to maintain and renovate existing properties could reduce our profits

Risk Description	Risk Mitigation
Capital expenditure to develop, maintain and renovate our existing properties is critical to our business. If we are forced to spend larger amounts of cash from operating activities than anticipated to operate, maintain or renovate existing properties, our ability to invest in new business opportunities could be limited. In addition, we may need to postpone or cancel other planned renovations or developments to meet such cash demands, which could impact our ability to compete effectively.	• On-going regular maintenance of hardware standards • Continuous monitoring of furniture, fixture & equipment spend by operations and Head Office

Inability to retain and attract retail and commercial tenants could decrease our revenues

Risk Description	Risk Mitigation
We have invested capital and resources in developing retail and commercial space in our properties. If such initiatives are not well received by our retail or commercial tenants and their customers, they may not have the intended effect. In addition, commercial letting may become difficult, due to, among other things, decline in spend within the luxury industry, increased competition, or shifts of retail preferences leading to decrease in our arcade traffic. These could further trigger the decrease of overall competitiveness of our retail and commercial spaces concerned.	• Improvements in design of commercial space to allow flexible usage and conversion possibilities to accommodate tenants • Commitment to maintain high quality properties • Active engagement with current and future tenants • Diversification and maintenance of an appropriate mix of tenants

Failure to protect THE PENINSULA brand could reduce the value of our brand

Risk Description	Risk Mitigation
Our future success and our ability to manage future growth depend largely upon our ability to protect our reputation and brand to continue to attract guests, customers and tenants. Significant negative publicity could impact our business and reduce our ability to generate profits. In addition, some of our competitors may allocate greater financial and/or marketing resources than we do, which could allow them to improve their properties and marketing reach in ways that could also affect our ability to maintain and increase our market share.	• Significant effort into recruiting staff that fit our organisation, and to train and develop our staff for them to be able to provide the Peninsula experience • Crisis Management Team established by management with qualified and experienced professionals (internal and external)

Information technology system failures and obsolescence could harm our business

Risk Description	Risk Mitigation
We depend on advanced information technology to run our day to day operations, as well as our central reservation system. Our systems are vulnerable to damage and interruption from unforeseen circumstances such as fire, floods, power loss, telecommunications failures, computer viruses and break-ins. In addition, our information technology systems must be updated and replaced on a regular basis to avoid becoming outdated. If our systems fail or if we are unable to achieve the intended benefits of our new information technology systems which we invested in, we could become less competitive in the market and our business may be harmed.	• Written Standard Operating Procedures and Business Continuity Plan in place • Testing of manual procedures carried out during system downtime

Loss of key management could affect our business

Risk Description	Risk Mitigation
Our ability to maintain our competitive position is dependent on the experience and skills of our senior executives. Finding suitable replacements for our senior executive positions could be difficult. Losing the services of one or more of these senior executives could adversely affect and limit our ability to grow our businesses.	• Clear succession plans for key management positions

Significant staff shortages could restrict our ability to operate our properties efficiently

Risk Description	Risk Mitigation
Our properties around the world are staffed by thousands of trained employees. If we are unable to recruit, train, develop, and retain sufficient numbers of skilled employees, our ability to manage and service and business our properties adequately could be impaired, which could reduce guest, tenant and customer satisfaction. A shortage of skilled labour could also require higher replacement wages that increase our operating expenses.	• Regular employee engagement surveys and action plans • Training and development, career paths and property level succession plans, regular review of remuneration package

Failure to address health and safety issues could result in guest or employee injuries or illness

Risk Description	Risk Mitigation
Our operations, merchandise and the properties we own and manage are subject to extensive health and safety laws and regulations of various local and national governments. Failure to timely address health and safety issues or comply with these laws and regulations could expose us to costs and liabilities.	• Professionally certified premises and staff • Policies and procedures on handling food, waste, and any hazardous materials • Robust crisis management process, on-going risk assessment exercises, regular health consultations, etc.

Breach of data privacy could subject us to fines and costs

Risk Description	Risk Mitigation
Collection and usage of information relating to our guests, customers and employees for various business purposes, including marketing and promotional purposes, are governed by privacy laws and regulations in jurisdictions around the world. New privacy regulations could increase our operating costs, and impact our ability to market our products, properties and services to our guests. Failure to comply with applicable privacy regulations could also result in fines, and harm the value of our brand and impact our business.	• Implementation of Group-wide data privacy policy and manual and training • Assessment by data privacy teams across operations • Process for reporting and dealing with data breaches

Damage to reputation may be caused by negative comments on social media

Risk Description	Risk Mitigation
Negative comments made on social media, in the absence of a verification mechanism, including those by disgruntled staff and guests could damage our reputation. In addition, monitoring and management of social media could be costly and force us to divert our resources. Failure to maintain and protect our reputation from social media damage could tarnish our brand and impair our business.	• Implementation of Group-wide social media usage guidelines • Social media monitored by external service provider

On behalf of Group Risk Committee

Neil Galloway
Chairman of the Group Risk Committee

Audit Committee Report

The Audit Committee views the overall financial and operating controls for the Group during 2012 to be effective, sound and sufficient.

Role and Composition

The Audit Committee is empowered by the Board with the authority and duties in respect of financial reporting, internal control, risk management, and internal and external audit. The terms of reference of the Audit Committee are summarised on page 110 and posted on the websites of the Company and the Stock Exchange.

Our Audit Committee comprises three members.

Chairman: Mr. Patrick B. Paul, a Fellow of the Institute of Chartered Accountants in England and Wales (INED).

Members: Dr. William K.L. Fung (INED) and Mr. Ian D. Boyce (Non-Executive Director)

The Audit Committee met four times in 2012 and the Chief Executive Officer, Chief Financial Officer, the external auditor and the General Manager, Audit & Risk Management ("ARM") attended the meetings by invitation. The attendance record of the Audit Committee members of such meetings is shown on page 114 of this Report.

The Chairman of the Audit Committee also met separately with the General Manager, ARM and the Audit Committee met with external auditor without management being present during the year to discuss 2012 issues.

The Company Secretary is Secretary to the Audit Committee.

Main Activities in 2012

The Audit Committee conducted the following business in 2012:

- reviewed and endorsed the 2011 Annual Report for the year ended 31 December 2011 and the annual results announcement, and the 2012 Interim Report for the six months ended 30 June 2012 and the interim results announcement;
- considered audit plans and reports from the external auditor on its audit and its review of the accounts including accounting policies and areas of judgement and its comments on control matters;
- reviewed and approved external auditor's audit and non-audit fees for 2011 as described below, assessed the performance of the external auditors and endorsed the reappointment of KPMG as the Company's independent auditor for 2012;
- reviewed the new Hong Kong Financial Reporting Standards and approaches to the 2012 interim audit exercise;
- considered summaries of general representation letters from business operations before issuance of 2011 Annual Report and 2012 Interim Report;
- reviewed the adequacy and effectiveness of internal control and risk management systems;

- reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions;
- considered internal audit reports submitted by Audit & Risk Management;
- reviewed and approved internal audit plan for 2013;
- endorsed the Charter for the Group Risk Committee and the Group Risk Register;
- endorsed the incident reporting policy and practices the Group developed in 2012;
- reviewed connected transactions and related party transactions;
- reviewed proposed changes to corporate governance practices and endorsed the same for adoption by the Board;
- reviewed and approved the expanded whistleblowing policy of the Group to cover channels not only for employees but stakeholders to raise concerns in confidence about possible improprieties in matters related to the Group; and
- reviewed the procurement process of the Group's insurance program including selection of broker and insurers, and determination of coverage.

Based on the reports from General Managers, ARM, and the external auditor, the Audit Committee views the overall financial and operating controls for the Group during 2012 to be effective, sound and sufficient. Issues raised by the internal and external auditors during 2012 have been, or are being addressed, by management and the Audit Committee recommended to the Board that there are no issues required to be raised to shareholders.

In respect of this Annual Report, including the Corporate Governance Report, the Directors' Report and Financial Statements for the year ended 31 December 2012 and the annual results announcement, after review and discussion, in March 2013, the Audit Committee endorsed and recommended the same to the Board for approval.

Ensuring the Independence of our External Auditor

We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is taken very seriously and is reviewed annually. In 2012, apart from audit work, we also awarded non-audit work to our independent auditor including taxation services. The Audit Committee reviewed non-audit work performed by the external auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial years ended 31 December 2012 and 2011 is as follows:

Nature of Services	**2012 HK$m**	2011 HK$m
Audit Services	**9**	9
Non-Audit Services		
Taxation Services	**1**	1
Other Services	**–**	1

On behalf of the Audit Committee

Patrick B. Paul
Chairman of the Audit Committee

Nomination Committee Report

The Nomination Committee took on the mission of identifying a new INED with diversity in mind. The appointment of Dr. Rosanna Wong was an important milestone as we welcomed her as our first female Director in the history of the Company.

Role and Composition

The Nomination Committee is empowered by the Board with duties to review size, structure and composition of the Board. This includes the selection of new Directors for the purpose of maintaining an appropriate, adequate and balanced make-up of the Board that could effectively discharge its responsibilities. The terms of reference of the Nomination Committee are summarised on page 111 and posted on the websites of the Company and the Stock Exchange.

Our Nomination Committee comprises three members.

Chairman: The Hon. Sir Michael Kadoorie (Non-Executive Chairman)

Members: Dr. the Hon. Sir David K.P. Li (INED) and Dr. William K.L. Fung (INED)

The Nomination Committee met once in 2012 and the attendance record of members is shown on page 114 of this Report.

The Company Secretary is Secretary to the Nomination Committee.

Main Activities in 2012

The Nomination Committee conducted the following business in 2012:

- reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors and confirmed it to be appropriate;
- reviewed and adopted the terms of reference approved by the Board;
- reviewed the diversity of the Board; and
- identified Dr. Rosanna Y.M. Wong as an INED.

Board Diversity

It is acknowledged that until 2013, our Board lacked gender diversity. The Nomination Committee was delegated with the task of reviewing the Board diversity and followed the debate around the Stock Exchange's Consultation Paper on Board Diversity regarding gender, age, culture, educational background and professional experience. The Nomination Committee took on the mission of identifying a new INED with diversity in mind. The appointment of Dr. Rosanna Wong was an important milestone as we welcomed her as our first female Director in the history of the Company.

On behalf of the Nomination Committee

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee

Remuneration Committee Report

HSH Rewards Philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles.

Role and Composition

Our Remuneration Committee is empowered by the Board with the authority and duties in respect of the following:

- determine remuneration philosophies and policies;
- review and approve pay increase percentages;
- review and approve structure of bonus schemes for senior staff;
- determine remuneration packages for Executive Directors and senior management;
- review and recommend to the Board the Directors' fees of Non-Executive Directors and Board Committee fees of the Directors; and
- approve terms of letters of appointment of Non-Executive Directors.

The terms of reference of the Remuneration Committee are summarised on page 111 and posted on the websites of the Company and the Stock Exchange.

Our Remuneration Committee comprises three members.

Chairman: Mr. Patrick B. Paul (INED)

Members: Mr. Robert W. Miller (INED) and Mr. Ian D. Boyce (Non-Executive Director)

The Remuneration Committee met twice in 2012 and the Chief Executive Officer and General Manager, Human Resources attended the meetings by invitation. The attendance record of the Remuneration Committee members of such meetings is shown on page 114 of this Report.

The Company Secretary is Secretary to the Remuneration Committee.

Remuneration Philosophy for Executives

An HSH Rewards Philosophy has long been established and was approved by an earlier Remuneration Committee. This philosophy is to ensure that compensation and benefits programmes designed for the Group and its executives are done according to the framework of various guiding principles, including:

- linking pay to business results, market practice and non-financial goals;
- ensuring compensation and benefits programmes are legally compliant, locally relevant and globally consistent;
- providing a total remuneration package that rewards good performers competitively subject to periodical adjustments based on market movements and business performance; and
- promoting internal equity to ensure employees performing similar roles within the same market are rewarded fairly.

The Committee recognises that there is a competitive market for successful executive talent and believes that remuneration packages being offered must be set competitively with the market and at the right level to attract and retain the Company's executives.

All Executive Directors and senior management have service contracts, all terminable by notice. Review and approval of such contracts are within the scope of responsibility of this Committee. No individual is involved in the decision of his or her own remuneration. There are four components of remuneration paid to executives including Executive Directors and senior management.

Basic Compensation

Basic salaries are the primary element of remuneration and the general policy is to set them at the level required to retain and motivate employees, taking into account the scope and complexity of responsibilities, market pay levels in the defined markets, as well as individual performance and tenure of individual in a position. Basic compensation includes basic salary, housing and other allowances.

Bonuses and Incentives

The Committee believes that the provision of appropriate bonus and incentive awards for performance is vital to the continued growth to the business. Executive Directors' bonuses consist of contractual and discretionary components. Senior management participates in the HSH Management Bonus Plan which is a short term incentive scheme calculated by reference to financial and non-financial considerations as follows:

- Group's financial performance;
- individual performance;
- share price; and
- Group's quality measurement.

The Committee retains the discretion in the awarding of non-contractual annual bonuses.

Other Benefits

The benefits available to Executive Directors and senior management include, but are not limited to, health, life, disability and accidental insurance, club membership, and leave days.

Retirement Benefits

The Executive Directors and most of our senior management participate in the Company's retirement plan which is a scheme set up under the Occupational Retirement Scheme Ordinance of Hong Kong – The Hongkong and Shanghai Hotels, Limited 1994 Retirement Plan. The retirement contributions of the Company's plan for the Executive Directors, senior management and all other Hong Kong employees are made according to the plan's defined contribution level and vesting conditions. Employees are not required to pay contributions, although they may make voluntary contributions at their own discretion. Some senior management participate in a local plan instead of the Company's plan due to the local requirements.

Remuneration Practice for Non-Executives

Fees of Non-Executive Directors are fixed by shareholders at shareholders general meetings, while any additional fees of Non-Executive Directors for serving on Board Committees are fixed by the Board. The Remuneration Committee has the responsibility of reviewing Directors' fees and fees for serving on Board Committees and makes recommendations to Board. These fees are reviewed on an annual basis. No director approves his or her own remuneration.

In reviewing the fees, the Committee takes into account factors including estimated time required to discharge their duties, benchmarking against other Hong Kong listed companies of similar market capitalisation and business, and the overall value that the individuals bring to the Company.

Main Activities in 2012

The Remuneration Committee conducted the following business in 2012:

- reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees. The Committee endorsed the increase in the fee for the Chairman of the Remuneration Committee and the fees proposed for the Chairman and members of the Nomination Committee which were approved by the Board;
- reviewed and updated terms of letters of appointment for Non-Executive Directors and INEDs;

- reviewed and approved the proposed changes to methodology of the HSH Management Bonus Plan by increasing the importance of Group quality factors and performance of individuals and extending the eligibility of more management employees in the United States;
- approved the discretionary element of the annual bonuses for the Executive Directors;
- approved the group-wide 2013 general salary increase proposal taking into account various factors including market pay trend, inflationary forecast, labour market outlook and the Group financial performance. The Committee reviewed the rationale that supported the proposed increase rates for each operation and took into consideration its impact on staff motivation and the continued pressure on the Group's profit margins in 2012. Executive Directors and senior management were also eligible for the approved 2013 general salary increase; and
- approved the revised remuneration package of the Chief Operating Officer and one member of senior management.

2012 Remuneration of Directors and Senior Management

The below information is an integrated part of the Audited Financial Statements for the year ended 31 December 2012.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2012 for their service on the Company's Board and, where applicable, on its Board Committees are set out below:

Higher levels of fees were paid to the Chairmen of the Audit Committee and the Remuneration Committee indicated by "C". Executive Directors serving on the Board and Board Committees are not entitled to any Directors' fees.

HK$'000	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Total 2012	Total 2011
Non-Executive Directors							
The Hon. Sir Michael Kadoorie (1)	200	100	–	–	8	308	300
Mr. Ian D. Boyce	200	100	120	50	–	470	463
Mr. Ronald J. McAulay	200	–	–	–	–	200	200
Mr. William E. Mocatta	200	–	–	–	–	200	200
Mr. John A.H. Leigh	200	100	–	–	–	300	300
Mr. Nicholas T.J. Colfer	200	–	–	–	–	200	200
Independent Non-Executive Directors							
Dr. the Hon. Sir David K.P. Li (1)	250	–	–	–	8	258	231
Mr. Robert C.S. Ng (2)	117	–	–	–	–	117	231
Mr. Robert W. Miller	250	–	–	50	–	300	281
Mr. Patrick B. Paul (3)	250	–	175 (C)	58 (C)	–	483	428
Mr. Pierre R. Boppe	250	–	–	–	–	250	231
Dr. William K.L. Fung (1)	250	–	120	–	8	378	344
	2,567	300	415	158	24	3,464	3,409

(1) The Hon. Sir Michael Kadoorie, Dr. the Hon. Sir David K.P. Li and Dr. William K.L. Fung were appointed as members of the Nomination Committee with effect from 30 March 2012. The fees are applied on a pro rata basis for the financial year ended 31 December 2012.

(2) Mr. Robert C.S. Ng stepped down as a member of the Audit Committee and a Director with effect from 3 January 2011 and 19 June 2012 respectively.

(3) The fee for the Remuneration Committee Chairman increased to HK$60,000 per annum and is applied on a pro rata basis for the financial year ended 31 December 2012.

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2012 was as follows:

HK$'000	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	Total* 2012	Total* 2011
Executive Directors						
Mr. Clement K.M. Kwok	4,961	5,898	816	197	11,872	12,509
Mr. Neil J. Galloway	4,193	2,735	675	209	7,812	7,385
Mr. Peter C. Borer	3,599	2,685	573	131	6,988	7,137
	12,753	11,318	2,064	537	26,672	27,031

* In line with industry practice, the Group operates a scheme which encourages Directors and senior management to use the facilities of the Group to promote its business. For this purpose, discount cards are issued to the Directors. The remuneration disclosed does not include the amount of discounts offered to the Directors and senior management.

Senior Management – Remuneration

Remuneration for senior management (GMC members other than Executive Directors*) disclosed pursuant to the Listing Rules falls within the following bands:

	2012 Number	2011 Number
HK$3,000,001 – HK$4,000,000	2	3
HK$4,000,001 – HK$5,000,000	3	2

* The GMC, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2011: five) senior management who represent the various key functions and operations of the Company.

Individuals with Highest Emoluments

The five highest paid individuals in the Group included three Executive Directors, one member of senior management and one other. The emoluments of the two (2011: two) individuals with highest emoluments are within the following bands:

	2012 Number	2011 Number
HK$4,000,001 – HK$4,500,000	1	–
HK$4,500,001 – HK$5,000,000	1	2

The aggregate of the emoluments in respect of the remaining two (2011: two) individuals is as follows:

HK$'000	2012	2011
Basic compensation	6,067	5,256
Bonuses and incentives	1,051	444
Retirement benefits	566	499
Other benefits	1,507	3,480
	9,191	9,679

The Remuneration Committee remains committed to careful oversight of remuneration policies of the Company and to continued transparent disclosure on these matters.

On behalf of the Remuneration Committee

Patrick B. Paul
Chairman of the Remuneration Committee

Directors' Report

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2012.

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the ownership, development and management of prestigious hotel, commercial and residential properties in Asia, the United States of America and Europe, as well as the provision of transport, club management and other services.

Particulars of the principal subsidiaries of the Company are set out on pages 167 and 168.

Performance

A discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and details of the Group's principal activities are provided in the Financial Review on pages 34 to 59.

Ten Year Operating and Financial Summaries

Summaries of the Group's key operating and financial data for the last ten years are set out on pages 143 to 146.

Financial Statements

The profit of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 148 to 213.

Share Capital

On 29 June 2012, pursuant to the scrip dividend scheme, the Company issued and allotted 11,752,003 shares at an issue price of HK$9.74 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2011 final dividend in respect of the year ended 31 December 2011. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

Save as described above, there were no other changes in the share capital of the Company. Particulars of the share capital of the Company during the year are set out in note 25 to the Financial Statements.

Dividends

An interim dividend of 4 HK cents per share (2011: 4 HK cents per share) in respect of the year ending 31 December 2012 was paid during the year 2012. The Directors have recommended a final dividend of 10 HK cents per share (2011: 10 HK cents per share). Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 3 May 2013 at 12:00 noon, such dividend will be payable on 20 May 2013 to shareholders whose names appear on the register of members on 13 May 2013.

Fixed Assets

Movements in fixed assets during the year are set out in note 12 to the Financial Statements.

Capitalised Interest

The amount of interest capitalised by the Group in 2012 and 2011 was insignificant.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 26(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 26(c) to the Financial Statements.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Borrowings

Particulars of all borrowings are set out in note 24 to the Financial Statements.

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK$1,573,736 (2011: HK$4,162,707).

Major Customers and Suppliers

The diversity and nature of the Group's activities are such that the percentage of sales or purchases attributable to the Group's five largest customers or suppliers is significantly less than 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

Connected Transactions

The Board has reviewed all connected transactions of the Company which were undertaken in the normal course of business. All of these transactions were either exempted from any reporting requirements under the Listing Rules or waiver has been granted by the Stock Exchange as disclosed in the announcement of the Company dated 27 November 2012.

Material Related Party Transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 32 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 100 and 101. All the Directors held office throughout the year with the exception of Mr. Robert C.S. Ng who resigned on 19 June 2012. Dr. Rosanna Y.M. Wong was appointed to the Board as an Independent Non-Executive Director on 1 February 2013.

In accordance with the Articles of Association of the Company, The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Peter C. Borer and Mr. Patrick B. Paul will retire at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

Dr. Rosanna Y.M. Wong, having been appointed to the Board since the date of the previous Annual General Meeting, will retire at the forthcoming Annual General Meeting in accordance with the Articles of Association and being eligible, will offer herself for re-election.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Senior Management

Biographical details of senior management at the date of this Report are shown on page 103. All members of senior management held office throughout the year.

Interests of Directors and the Chief Executive Officer

As at 31 December 2012, the interests and short positions of each Director and the Chief Executive Officer of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules ("Model Code") to be notified to the Company and the Stock Exchange, were set out on the next page.

Long position in shares of the Company and its associated corporations

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
The Hon. Sir Michael Kadoorie	Note [(a)]	789,051,161	52.527
Mr. Ian D. Boyce	Beneficial Owner	222,810	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	668,448	0.044
Mr. Peter C. Borer	Beneficial Owner	334,924	0.022
Mr. Ronald J. McAulay	Note [(b)]	247,261,425	16.460
Mr. William E. Mocatta	Beneficial Owner	17,000	0.001
Mr. John A.H. Leigh	Note [(c)]	75,354,850	5.016
Dr. the Hon. Sir David K.P. Li	Beneficial Owner	1,000,000	0.067
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 789,051,161 shares in the Company. These shares were held in the following capacity:

(i) 171,906,575 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 313,648,997 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and

(iii) 303,495,589 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 789,051,161 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

(b) Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 247,261,425 shares in the Company. These shares were held in the following capacity:

(i) 171,906,575 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and

(ii) 75,354,850 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.

(c) Mr. John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 75,354,850 shares in the Company. These shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 75,354,850 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 75,354,850 shares.

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, Robert W. Miller, Patrick B. Paul and Dr. William K.L. Fung, who are Directors of the Company, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2012.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2012, none of the Directors and the Chief Executive Officer of the Company, or any of their spouses, or children under 18 years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, or its subsidiaries, or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of Senior Management

As at 31 December 2012, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director or the Chief Executive Officer of the Company, as at 31 December 2012, shareholders (other than Directors or the Chief Executive Officer of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company
(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Acorn Holdings Corporation	Beneficiary	171,906,575	11.444[(i)]
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	565,910,422	37. 672[(i)]
Guardian Limited	Beneficiary/Interest of controlled corporation	75,354,850	5.016[(v)]
Harneys Trustees Limited	Interests of controlled corporations	617,114,586	41.081[(iii)]
Lawrencium Holdings Limited	Beneficiary	303,465,589	20.201[(ii)]
Lawrencium Mikado Holdings Limited	Beneficiary	313,648,997	20.879[(ii)]
The Magna Foundation	Beneficiary	313,648,997	20.879[(ii)]
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	617,114,586	41.081[(ii)]
Mikado Investments (PTC) Limited	Interest of controlled corporation/ Trustee	313,648,997	20.879[(i)]
New Mikado Holding Inc.	Trustee	313,648,997	20.879[(i)]
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	80,354,850	5.349[(iv)]
Oak (Unit Trust) Holdings Limited	Trustee	75,354,850	5.016[(i)]
Oak HSH Limited	Beneficiary	75,354,850	5.016[(iv)]
Mr. Richard Parsons	Trustee	75,354,850	5.016[(v)]

Notes:

(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited and The Oak Private Trust Company Limited were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and the Chief Executive Officer".

(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and the Chief Executive Officer".

(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.

(iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited and another company were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and the Chief Executive Officer".

(v) Mr. Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 75,354,850 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr. Richard Parsons and was also duplicated within the interests attributed to Mr. John A.H. Leigh as disclosed in "Interests of Directors and the Chief Executive Officer".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Interest of controlled corporation	156,527,317	10.420
Aberdeen Asset Management Plc and its associates	Investment manager	106,593,749	7.096

Except as set out above, as at 31 December 2012, the Company had not been notified of any substantial shareholder (other than Directors or the Chief Executive Officer of the Company) who had interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 31 December 2012, the Company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of the SFO.

Directors' Interests in Contracts

No contract of significance to which the Company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2012 or at any time during the year.

Employee Retirement Benefits

Details of the Group's employee retirement benefits are shown in note 28 to the Financial Statements.

Corporate Governance Report

The Corporate Governance Report is set out on pages 104 to 124.

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

The Company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder, which is required to be disclosed in accordance with Rule 13.18 of the Listing Rules.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the Financial Statements for each financial period. These Financial Statements must present a true and fair view of the state of affairs of the Group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Group.

In preparing the Financial Statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis.

Auditor

The Financial Statements for the year have been audited by KPMG who will retire at the Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution to re-appoint KPMG as auditor and authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
Hong Kong, 13 March 2013

Ten Year Operating Summary

Hotels (in Hong Kong dollars)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
The Peninsula Hong Kong*#										
Occupancy rate	**79%**	74%	70%	57%	71%	77%	80%	79%	69%	57%
Average room rate (HK$)	**5,133**	4,503	4,197	4,176	4,504	4,151	3,551	3,160	2,925	2,571
RevPAR (HK$)	**4,072**	3,347	2,926	2,401	3,219	3,182	2,851	2,498	2,020	1,466
The Peninsula Shanghai*										
(opened Oct 2009)										
Occupancy rate	**59%**	59%	63%	42%						
Average room rate (HK$)	**3,603**	3,704	3,254	2,540						
RevPAR (HK$)	**2,140**	2,185	2,045	1,065						
The Peninsula Beijing*										
Occupancy rate	**53%**	49%	46%	34%	50%	63%	67%	66%	58%	49%
Average room rate (HK$)	**1,643**	1,693	1,621	1,557	2,433	1,914	1,651	1,402	1,160	971
RevPAR (HK$)	**864**	827	747	526	1,224	1,206	1,102	927	677	476
The Peninsula New York										
Occupancy rate	**73%**	71%	67%	62%	64%	75%	74%	75%	76%	67%
Average room rate (HK$)	**5,769**	5,841	5,570	5,317	6,338	6,326	5,458	4,902	4,137	3,900
RevPAR (HK$)	**4,200**	4,159	3,727	3,317	4,048	4,771	4,066	3,655	3,145	2,613
The Peninsula Chicago										
Occupancy rate	**68%**	65%	59%	54%	65%	72%	72%	71%	72%	64%
Average room rate (HK$)	**3,002**	2,946	2,965	2,987	3,670	3,641	3,398	2,947	2,490	2,437
RevPAR (HK$)	**2,044**	1,905	1,762	1,623	2,395	2,638	2,449	2,087	1,781	1,560
The Peninsula Beverly Hills										
Occupancy rate	**79%**	74%	72%	61%	80%	85%	83%	83%	84%	81%
Average room rate (HK$)	**5,782**	5,478	5,147	5,032	5,364	5,017	4,523	4,091	3,634	3,250
RevPAR (HK$)	**4,575**	4,027	3,699	3,072	4,275	4,242	3,772	3,395	3,046	2,633
The Peninsula Tokyo*										
(opened September 2007)										
Occupancy rate	**65%**	54%	65%	60%	63%	57%				
Average room rate (HK$)	**4,643**	4,409	4,247	3,942	4,135	4,238				
RevPAR (HK$)	**2,995**	2,388	2,774	2,363	2,618	2,427				
The Peninsula Bangkok										
Occupancy rate	**64%**	51%	49%	48%	65%	70%	71%	72%	77%	66%
Average room rate (HK$)	**1,360**	1,480	1,398	1,502	1,714	1,708	1,424	1,293	1,155	1,056
RevPAR (HK$)	**877**	748	688	725	1,119	1,201	1,010	935	893	697
The Peninsula Manila										
Occupancy rate	**73%**	70%	69%	57%	55%	75%	66%	78%	69%	62%
Average room rate (HK$)	**1,190**	1,133	1,036	974	1,133	1,005	737	630	606	562
RevPAR (HK$)	**866**	792	719	555	626	752	484	493	420	349

Notes:

Occupancy rates are based on the total number of rooms at each hotel.

Starting from 2012, the Average Room Rate and RevPAR will now be presented including service charge. This has been changed to comply with the 10th Edition of the *Uniform System of Accounts for the Lodging Industry* and the practice in Hong Kong as recommended by the Hong Kong Hotels' Association and the Hotel Controllers and Accountants Association of Hong Kong

* The average room rates and RevPAR include undistributed service charge, which is levied in Hong Kong and Tokyo at the rate of 10%, in mainland China at 15%.

\# The Peninsula Hong Kong had its first phase of renovation for 135 rooms from January to September 2012. The second phase for the 165 rooms in the original building began in September 2012 and is scheduled for completion in mid 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.

Ten Year Operating Summary

Hotels (in local currency)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
The Peninsula Hong Kong*#										
Occupancy rate	**79%**	74%	70%	57%	71%	77%	80%	79%	69%	57%
Average room rate (HK$)	**5,133**	4,503	4,197	4,176	4,504	4,151	3,551	3,160	2,925	2,571
RevPAR (HK$)	**4,072**	3,347	2,926	2,401	3,219	3,182	2,851	2,498	2,020	1,466
The Peninsula Shanghai*										
(opened Oct 2009)										
Occupancy rate	**59%**	59%	63%	42%						
Average room rate (RMB)	**2,931**	3,070	2,821	2,239						
RevPAR (RMB)	**1,741**	1,812	1,772	938						
The Peninsula Beijing*										
Occupancy rate	**53%**	49%	46%	34%	50%	63%	67%	66%	58%	49%
Average room rate (RMB)	**1,337**	1,403	1,405	1,372	2,165	1,853	1,692	1,475	1,232	1,032
RevPAR (RMB)	**703**	686	647	463	1,089	1,167	1,129	975	719	506
The Peninsula New York										
Occupancy rate	**73%**	71%	67%	62%	64%	75%	74%	75%	76%	67%
Average room rate (US$)	**740**	749	714	682	813	811	700	628	530	500
RevPAR (US$)	**538**	533	478	425	519	612	521	469	403	335
The Peninsula Chicago										
Occupancy rate	**68%**	65%	59%	54%	65%	72%	72%	71%	72%	64%
Average room rate (US$)	**385**	378	380	383	471	467	436	378	319	312
RevPAR (US$)	**262**	244	226	208	307	338	314	268	228	200
The Peninsula Beverly Hills										
Occupancy rate	**79%**	74%	72%	61%	80%	85%	83%	83%	84%	81%
Average room rate (US$)	**741**	702	660	645	688	643	580	525	466	417
RevPAR (US$)	**586**	516	474	394	548	544	484	435	390	338
The Peninsula Tokyo*										
(opened September 2007)										
Occupancy rate	**65%**	54%	65%	60%	63%	57%				
Average room rate (JPY)	**47,868**	44,978	47,501	47,715	54,537	63,571				
RevPAR (JPY)	**30,875**	24,364	31,028	28,595	34,531	36,401				
The Peninsula Bangkok										
Occupancy rate	**64%**	51%	49%	48%	65%	70%	71%	72%	77%	66%
Average room rate (THB)	**5,447**	5,825	5,675	6,657	7,336	7,051	6,915	6,717	5,977	5,622
RevPAR (THB)	**3,512**	2,943	2,793	3,216	4,788	4,958	4,903	4,857	4,621	3,710
The Peninsula Manila										
Occupancy rate	**73%**	70%	69%	57%	55%	75%	66%	78%	69%	62%
Average room rate (PHP)	**6,471**	6,300	5,925	6,000	6,494	5,831	4,858	4,452	4,316	3,925
RevPAR (PHP)	**4,707**	4,405	4,114	3,415	3,586	4,362	3,192	3,480	2,991	2,433

Notes:

Occupancy rates are based on the total number of rooms at each hotel.

Starting from 2012, the Average Room Rate and RevPAR will now be presented including service charge. This has been changed to comply with the 10th Edition of the *Uniform System of Accounts for the Lodging Industry* and the practice in Hong Kong as recommended by the Hong Kong Hotels' Association and the Hotel Controllers and Accountants Association of Hong Kong.

* The average room rates and RevPAR include undistributed service charge, which is levied in Hong Kong and Tokyo at the rate of 10%, in mainland China at 15%.

\# The Peninsula Hong Kong had its first phase of renovation for 135 rooms from January to September 2012. The second phase for the 165 rooms in the original building began in September 2012 and is scheduled for completion in mid 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.

Commercial Properties, Clubs and Services (in Hong Kong dollars)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
The Repulse Bay Apartments										
Occupancy rate	**92%**	91%	92%	88%	94%	92%	91%	82%	77%	74%
Average monthly yield per average square foot (HK$)	**41**	38	36	37	39	35	33	27	25	25
The Landmark, Vietnam										
Occupancy rate – Residential	**92%**	81%	85%	93%	99%	99%	97%	94%	95%	94%
Average monthly yield per average square foot (HK$)	**19**	17	18	21	21	18	17	16	16	15
Occupancy rate – Office	**86%**	97%	98%	98%	100%	100%	99%	95%	98%	100%
Average monthly yield per average square foot (HK$)	**20**	24	26	32	26	22	19	17	16	16
St. John's Building										
Occupancy rate	**91%**	100%	97%	93%	99%	99%	99%	90%	87%	78%
Average monthly yield per average square foot (HK$)	**44**	44	37	35	33	25	21	15	15	14
The Peak Tower										
Occupancy rate	**99%**	100%	100%	99%	100%	100%	72%	31%	100%	100%
Average monthly yield per average square foot (HK$)	**95**	84	72	60	60	56	29	6	28	23
Peak Tram										
Patronage ('000)	**5,918**	5,777	5,385	4,862	5,006	4,939	4,430	3,923	4,107	3,092
Average fare (HK$)	**19**	19	17	16	16	16	15	14	14	14
Full Time Headcount (31 December)										
Hotels	**5,612**	5,475	5,444	5,489	5,239	5,138	4,601	4,334	4,814	4,748
Commercial Properties	**314**	323	331	339	339	329	316	307	297	306
Clubs and Services	**1,243**	1,224	1,180	998	1,056	1,027	1,004	981	955	946
Total headcount	**7,169**	7,022	6,955	6,826	6,634	6,494	5,921	5,622	6,066	6,000

Notes:

Occupancy rates are based on the total number of rooms or space available at each operation.

Ten Year Financial Summary

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Consolidated Income Statement (HK$m)										
Turnover	**5,178**	5,009	4,707	4,218	4,938	4,542	3,717	3,276	3,120	2,517
EBITDA	**1,201**	1,211	1,143	924	1,425	1,510	1,275	1,092	992	726
EBITDA margin %	**23%**	24%	24%	22%	29%	33%	34%	33%	32%	29%
Operating profit	**817**	834	794	586	1,051	1,175	1,024	850	749	616
Profit/(loss) attributable to shareholders	**1,555**	2,259	3,008	2,660	(27)	4,002	2,350	2,830	3,218	351
Underlying profit attributable to shareholders*	**439**	464	408	323	808	906	787	638	381	285
Dividends	**210**	208	177	132	246	259	228	199	168	112
Earnings/(loss) per share (HK$)	**1.04**	1.52	2.04	1.82	(0.02)	2.79	1.65	2.01	2.30	0.29
Underlying earnings per share (HK$)*	**0.29**	0.31	0.28	0.22	0.56	0.63	0.55	0.45	0.27	0.24
Dividends per share (HK cents)	**14¢**	14¢	12¢	9¢	17¢	18¢	16¢	14¢	12¢	8¢
Dividend cover (times)**	**2.1x**	2.2x	2.3x	2.4x	3.3x	3.5x	3.5x	3.2x	2.3x	2.5x
Interest cover (times)	**9.6x**	9.5x	7.4x	6.8x	15.5x	13.5x	8.6x	5.2x	3.1x	2.5x
Consolidated Statement of Financial Position (HK$m)										
Fixed assets	**34,123**	32,482	30,690	28,339	26,368	26,895	22,951	20,561	20,058	19,068
Other assets	**3,499**	3,767	3,239	2,698	1,243	1,210	1,211	1,110	741	771
Cash and bank balances	**2,185**	1,984	2,658	1,835	1,995	1,414	447	301	262	217
Total assets	**39,807**	38,233	36,587	32,872	29,606	29,519	24,609	21,972	21,061	20,056
Interest-bearing borrowings	**(4,174)**	(4,319)	(4,332)	(3,825)	(3,193)	(2,869)	(2,523)	(2,614)	(4,536)	(4,906)
Derivative financial instruments	**(88)**	(140)	(200)	(206)	(281)	(215)	(214)	(209)	–	–
Other liabilities	**(2,112)**	(2,036)	(1,971)	(1,786)	(1,741)	(1,830)	(1,684)	(1,376)	(1,568)	(1,130)
Net assets	**33,433**	31,738	30,084	27,055	24,391	24,605	20,188	17,773	14,957	14,020
Non-controlling interests	**(289)**	(283)	(981)	(908)	(934)	(891)	(783)	(710)	(614)	(579)
Net assets attributable to shareholders	**33,144**	31,455	29,103	26,147	23,457	23,714	19,405	17,063	14,343	13,441
Net assets per share (HK$)	**$22.07**	$21.11	$19.66	$17.79	$16.18	$16.45	$13.59	$12.04	$10.23	$9.59
Net debt to EBITDA (times)	**1.7x**	1.9x	1.5x	2.2x	0.8x	1.0x	1.6x	2.1x	4.3x	6.5x
Net debt to equity	**6%**	7%	6%	8%	5%	6%	11%	14%	30%	35%
Gearing	**6%**	7%	5%	7%	5%	6%	10%	12%	23%	26%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities	**964**	999	1,019	761	1,208	1,481	1,164	1,058	992	627
Capital expenditure on fixed assets	**(875)**	(312)	(276)	(269)	(417)	(808)	(631)	(344)	(227)	(432)
Cash and cash equivalents	**1,682**	1,963	1,644	1,380	1,979	1,398	433	285	243	203
Share Information										
Highest share price (HK$)	**$11.92**	$14.74	$14.90	$11.98	$14.50	$15.46	$13.50	$9.65	$7.50	$5.60
Lowest share price (HK$)	**$8.63**	$8.10	$10.32	$4.26	$5.13	$10.90	$8.00	$6.40	$4.15	$2.78
Year end closing share price (HK$)	**$10.82**	$8.61	$13.32	$11.36	$5.86	$13.70	$13.14	$8.50	$6.95	$4.53

* Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating items.

** Dividend cover is calculated based on underlying profit attributable to shareholders over dividends.

Financial Statements

Consolidated Income Statement (HK$m)

	Note	Year ended 31 December 2012	2011
Turnover	2	**5,178**	5,009
Cost of inventories		**(427)**	(418)
Staff costs and related expenses		**(1,842)**	(1,728)
Rent and utilities		**(607)**	(592)
Other operating expenses		**(1,101)**	(1,060)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,201**	1,211
Depreciation and amortisation		**(384)**	(377)
Operating profit		**817**	834
Interest income		**56**	49
Financing charges	4	**(141)**	(137)
Net financing charges		**(85)**	(88)
Profit after net financing charges	3	**732**	746
Share of result of a jointly controlled entity	15	**(125)**	(85)
Increase in fair value of investment properties	12(b)	**1,073**	1,841
Gain on disposal of an unlisted equity instrument	16(b)	**46**	–
Provision for impairment loss	12(a)	**–**	(20)
Profit before taxation		**1,726**	2,482
Taxation			
Current tax	5	**(106)**	(165)
Deferred tax	5	**(64)**	(38)
Profit for the year		**1,556**	2,279
Profit attributable to:			
Shareholders of the Company		**1,555**	2,259
Non-controlling interests		**1**	20
Profit for the year		**1,556**	2,279
Earnings per share, basic and diluted (HK$)	9	**1.04**	1.52

Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 10.

The notes on pages 154 to 213 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2012	2011
Profit for the year		**1,556**	2,279
Other comprehensive income for the year, net of tax:	8		
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**179**	(30)
– financial statements of a jointly controlled entity		**13**	51
– loans to an associate		**10**	(20)
– investment in hotel management contracts		**11**	(19)
		213	(18)
Cash flow hedges:			
– effective portion of changes in fair values		**(18)**	(27)
– transfer from equity to profit or loss		**44**	54
		239	9
Total comprehensive income for the year		**1,795**	2,288
Total comprehensive income attributable to:			
Shareholders of the Company		**1,784**	2,260
Non-controlling interests		**11**	28
Total comprehensive income for the year		**1,795**	2,288

The notes on pages 154 to 213 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	At 31 December 2012	2011
Non-current assets			
Fixed assets			
Properties, plant and equipment		**6,015**	5,679
Investment properties		**28,108**	26,803
	12	**34,123**	32,482
Interest in associates	14	**572**	562
Interest in a jointly controlled entity	15	**1,229**	1,340
Interest in unlisted equity instruments	16	**–**	–
Investment in hotel management contracts	17	**670**	662
Derivative financial instruments	18(a)	**–**	7
Deferred tax assets	19(b)	**46**	86
		36,640	35,139
Current assets			
Inventories	20	**96**	99
Trade and other receivables	21	**568**	508
Amount due from a jointly controlled entity	32(e)	**311**	492
Derivative financial instruments	18(a)	**7**	11
Cash at banks and in hand	22	**2,185**	1,984
		3,167	3,094
Current liabilities			
Trade and other payables	23	**(1,113)**	(1,063)
Interest-bearing borrowings	24	**(1,078)**	(1,090)
Derivative financial instruments	18(a)	**(52)**	(63)
Current taxation	19(a)	**(34)**	(72)
		(2,277)	(2,288)
Net current assets		**890**	806
Total assets less current liabilities		**37,530**	35,945
Non-current liabilities			
Interest-bearing borrowings	24	**(3,096)**	(3,229)
Trade and other payables	23	**(285)**	(254)
Net defined benefit retirement obligations	28(a)	**(25)**	(24)
Derivative financial instruments	18(a)	**(36)**	(77)
Deferred tax liabilities	19(b)	**(655)**	(623)
		(4,097)	(4,207)
Net assets		**33,433**	31,738
Capital and reserves			
Share capital	25	**751**	745
Reserves		**32,393**	30,710
Total equity attributable to shareholders of the Company		**33,144**	31,455
Non-controlling interests		**289**	283
Total equity		**33,433**	31,738

Approved by the Board of Directors on 13 March 2013 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Neil J. Galloway, Directors

The notes on pages 154 to 213 form part of these Financial Statements.

Parent Company Statement of Financial Position (HK$m)

	Note	At 31 December 2012	2011
Non-current assets			
Investment in subsidiaries	13	–	–
Derivative financial instruments	18(b)	–	40
		–	40
Current assets			
Trade and other receivables	21	11,800	11,785
Derivative financial instruments	18(b)	43	58
Cash at banks and in hand		379	286
		12,222	12,129
Current liabilities			
Trade and other payables	23	(71)	(46)
Derivative financial instruments	18(b)	(36)	(47)
Current taxation	19(a)	–	(2)
		(107)	(95)
Net current assets		12,115	12,034
Non-current liabilities			
Deferred tax liabilities	19(b)	(1)	(3)
Derivative financial instruments	18(b)	–	(33)
		(1)	(36)
Net assets		12,114	12,038
Capital and reserves			
Share capital	25	751	745
Reserves	26(a)	11,363	11,293
Total equity		12,114	12,038

Approved by the Board of Directors on 13 March 2013 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Neil J. Galloway, Directors

The notes on pages 154 to 213 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
		Year ended 31 December – Attributable to shareholders of the Company								
At 1 January 2011		740	3,373	13	(125)	(22)	25,124	29,103	981	30,084
Changes in equity for 2011:										
Profit for the year		–	–	–	–	–	2,259	2,259	20	2,279
Other comprehensive income	8	–	–	–	27	(26)	–	1	8	9
Total comprehensive income for the year		–	–	–	27	(26)	2,259	2,260	28	2,288
Dividends approved in respect of the previous year										
– by means of cash		–	–	–	–	–	(17)	(17)	–	(17)
– by means of scrip	25	4	97	–	–	–	(101)	–	–	–
Dividends approved in respect of the current year										
– by means of cash		–	–	–	–	–	(26)	(26)	–	(26)
– by means of scrip	25	1	32	–	–	–	(33)	–	–	–
Acquisition of non-controlling interest in a subsidiary		–	–	–	–	–	135	135	(713)	(578)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	(13)	(13)
Balance at 31 December 2011		745	3,502	13	(98)	(48)	27,341	31,455	283	31,738
Changes in equity for 2012:										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,555**	**1,555**	**1**	**1,556**
Other comprehensive income	8	**–**	**–**	**–**	**26**	**203**	**–**	**229**	**10**	**239**
Total comprehensive income for the year		**–**	**–**	**–**	**26**	**203**	**1,555**	**1,784**	**11**	**1,795**
Dividends approved in respect of the previous year										
– by means of cash		**–**	**–**	**–**	**–**	**–**	**(35)**	**(35)**	**–**	**(35)**
– by means of scrip	25	**6**	**108**	**–**	**–**	**–**	**(114)**	**–**	**–**	**–**
Dividends approved in respect of the current year		**–**	**–**	**–**	**–**	**–**	**(60)**	**(60)**	**–**	**(60)**
Dividend paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at 31 December 2012		**751**	**3,610**	**13**	**(72)**	**155**	**28,687**	**33,144**	**289**	**33,433**

The notes on pages 154 to 213 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2012	2011
Operating activities			
Profit after net financing charges		**732**	746
Adjustments for:			
Depreciation	12(a)	**381**	374
Amortisation of hotel management contract	17	**3**	3
Interest income	3	**(56)**	(49)
Financing charges	4	**141**	137
Loss on disposal of fixed assets		**1**	1
Operating profit before changes in working capital		**1,202**	1,212
Decrease in inventories		**2**	7
Increase in trade and other receivables		**(62)**	(51)
Decrease in trade and other payables		**(9)**	(23)
Cash generated from operations		**1,133**	1,145
Net tax paid:			
Hong Kong Profits Tax paid		**(117)**	(106)
Overseas tax paid		**(52)**	(40)
Net cash generated from operating activities		**964**	999
Investing activities			
Payment for the purchase of fixed assets		**(875)**	(312)
Payment for the acquisition of additional interest in a subsidiary		**–**	(578)
Loans to an associate		**–**	(88)
Repayment from/(loan to) a jointly controlled entity	32(e)	**181**	(492)
Proceeds from sale of fixed assets		**1**	1
Proceeds from disposal of an unlisted equity instrument	16(b)	**46**	–
Net cash used in investing activities		**(647)**	(1,469)
Financing activities			
Drawdown of term loans		**1,495**	593
Repayment of term loans		**(533)**	(196)
Net decrease in revolving loans		**(914)**	(485)
Net (placement)/withdrawal of interest-bearing bank deposits with maturity of more than three months		**(487)**	990
Interest paid and other financing charges		**(127)**	(139)
Interest received		**56**	51
Dividends paid to shareholders of the Company		**(95)**	(43)
Dividends paid to holders of non-controlling interests		**(5)**	(13)
Net cash (used in)/generated from financing activities		**(610)**	758
Net (decrease)/increase in cash and cash equivalents		**(293)**	288
Cash and cash equivalents at 1 January		**1,963**	1,644
Effect of changes in foreign exchange rates		**12**	31
Cash and cash equivalents at 31 December	22	**1,682**	1,963

The notes on pages 154 to 213 form part of these Financial Statements.

Notes to the Financial Statements

1. Statement of compliance

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group and the Company is set out in note 35 on pages 202 to 212.

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group and the Company. Note 36 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting years.

2. Turnover (HK$m)

The Company is an investment holding company; its subsidiary companies, associated companies and jointly controlled entity are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

Turnover represents the gross amount invoiced for services, goods and facilities including management fees and rental income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
Hotels (note 11(a))		
Rooms	1,637	1,642
Food and beverage	1,232	1,175
Commercial	639	597
Others	377	352
	3,885	3,766
Commercial Properties (note 11(a))	733	743
Clubs and Services (note 11(a))	560	500
	5,178	5,009

3. Profit after net financing charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

	2012	2011
Amortisation of hotel management contract	3	3
Depreciation	381	374
Auditor's remuneration:		
audit services	9	9
tax and other services	1	2
Foreign exchange gains	–	(1)
Minimum operating lease charges for properties, including contingent rent of HK$15 million (2011: HK$15 million) (note 32(b))	280	281
Interest income	(56)	(49)
Rentals receivable from investment properties less direct outgoings of HK$20 million (2011: HK$19 million)	(1,099)	(1,067)

4. Financing charges (HK$m)

	2012	2011
Interest on bank borrowings wholly repayable within five years	75	61
Other borrowing costs	16	13
Total interest expenses on financial liabilities carried at amortised cost	91	74
Derivative financial instruments:		
– cash flow hedges, transfer from equity	50	62
– at fair value through profit or loss	–	1
	141	137

5. Income tax in the consolidated income statement (HK$m)

(a) Taxation in the consolidated income statement represents:

	2012	2011
Current tax – Hong Kong profits tax		
Net Provision for the year	63	116
Current tax – Overseas		
Net Provision for the year	43	49
	106	165
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	24	14
Increase in net deferred tax liabilities relating to other temporary differences	40	24
	64	38
Total	170	203

The provision for Hong Kong profits tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2012	2011
Profit before taxation	1,726	2,482
Notional tax at the domestic income tax rate of 16.5% (2011: 16.5%)	285	410
Tax effect of non-deductible expenses	58	62
Tax effect of non-taxable income	(80)	(61)
Tax effect of share of loss of a jointly controlled entity	31	21
Tax effect of fair value gain on Hong Kong investment properties	(174)	(298)
Tax effect of utilisation of previously unrecognised tax losses	4	(3)
Tax effect of tax losses not recognised	34	91
Effect of different tax rates of subsidiaries operating in other jurisdictions	17	(11)
Over-provision in respect of prior years	(1)	(5)
Others	(4)	(3)
Actual tax expense	170	203

6. Emoluments of key management personnel (HK$m)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. It comprises the Group Management Committee and the Non-executive Directors of the Group. Members of the Group Management Committee include the Executive Directors and five (2011: five) senior management. The total remuneration of the key management personnel is shown below:

	2012	2011
Directors' fees	3,464	3,409
Basic compensation	28,633	27,012
Bonuses and incentives	14,395	14,892
Retirement benefits	3,504	3,314
Other benefits	1,124	977
	51,120	49,604

Further details of the remuneration of the Directors (on a named basis) and senior management, and remuneration paid to the five highest paid individuals by bands are disclosed in the "2012 Remuneration of Directors and Senior Management" section of the Remuneration Committee Report on pages 136 and 137, which forms an integral part of these Financial Statements.

7. Profit attributable to shareholders of the Company (HK$m)

The consolidated profit attributable to shareholders of the Company includes a profit of HK$180 million (2011: HK$252 million) which has been dealt with in the Financial Statements of the Company.

8. Other comprehensive income (HK$m)

Tax effects relating to each component of other comprehensive income

	2012			2011		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– financial statements of overseas subsidiaries	179	–	179	(30)	–	(30)
– financial statements of a jointly controlled entity	13	–	13	51	–	51
– loans to an associate	10	–	10	(20)	–	(20)
– investment in hotel management contracts	11	–	11	(19)	–	(19)
	213	–	213	(18)	–	(18)
Cash flow hedges:						
– effective portion of changes in fair values	(19)	1	(18)	(30)	3	(27)
– transfer from equity to profit or loss	50	(6)	44	62	(8)	54
Other comprehensive income	244	(5)	239	14	(5)	9

9. Earnings per share

(a) Earnings per share – basic

	2012	2011
Profit attributable to shareholders of the Company (HK$m)	**1,555**	2,259
Weighted average number of shares in issue (million shares)	**1,496**	1,484
Earnings per share (HK$)	**1.04**	1.52

	2012 (million shares)	*2011 (million shares)*
Issued shares at 1 January	***1,490***	*1,480*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2011 final dividend	***6***	*4*
Weighted average number of shares at 31 December	***1,496***	*1,484*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2012 and 2011 and hence the diluted earnings per share is the same as the basic earnings per share.

10. Dividends (HK$m)

(a) Dividends payable to shareholders of the Company attributable to the year

	2012	2011
Interim dividend declared and paid of 4 HK cents per share (2011: 4 HK cents per share)	**60**	59
Final dividend proposed after the end of reporting period of 10 HK cents per share (2011: 10 HK cents per share)	**150**	149
	210	208

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
Final dividend in respect of the previous financial year, approved and paid during the year, of 10 HK cents per share (2011: 8 HK cents per share)	**149**	118

11. Segment reporting (HK$m)

In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the leasing of commercial and office premises (other than those in hotel properties) and residential apartments, as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

(a) Segment results and assets (HK$m)

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses directly incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other expenses, including head office expenses not directly attributable to the reportable segments, are allocated to the segments by reference to the respective segments' earnings before interest, taxation, depreciation and amortisation (EBITDA). Interest income and expenses, results of associates and jointly controlled entities, taxes and any non-operating items are not allocated to the various segments.

The measure used for reporting segment results is EBITDA. In addition to receiving information concerning EBITDA, management is provided with segment information concerning depreciation and amortisation.

Segment assets include all tangible and intangible assets and current assets held directly by the respective segments with the exception of interests in associates, interest in and amount due from a jointly controlled entity, derivative financial instruments, deferred tax assets, as well as cash at bank and in hand. Corporate level assets are allocated to the segments by reference to the respective total segments' assets.

11. Segment reporting (HK$m) continued

(a) Segment results and assets (HK$m) continued

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	Year ended 31 December							
	2012	2011	2012	2011	2012	2011	2012	2011
Reportable segment revenue*	3,885	3,766	733	743	560	500	5,178	5,009
Reportable segment earnings before interest, taxation, depreciation and amortisation (EBITDA)	596	605	474	493	131	113	1,201	1,211
Depreciation and amortisation	(355)	(349)	(7)	(7)	(22)	(21)	(384)	(377)
Segment operating profit	241	256	467	486	109	92	817	834
Reportable segments assets	16,635	15,908	17,899	17,056	923	787	35,457	33,751

* *Analysis of segment revenue*

	2012	*2011*
Hotels		
- Rooms	*1,637*	*1,642*
- Food and beverage	*1,232*	*1,175*
- Commercial	*639*	*597*
- Others	*377*	*352*
	3,885	*3,766*
Commercial properties		
Rental revenue from:		
- Residential properties	*390*	*410*
- Offices	*67*	*71*
- Shopping arcades	*276*	*262*
	733	*743*
Clubs and Services		
- Clubs and consultancy services	*154*	*131*
- The Peak Tram operation	*114*	*108*
- Others	*292*	*261*
	560	*500*
	5,178	*5,009*

11. Segment reporting (HK$m) continued

(b) Reconciliations of reportable segment profit or loss and assets (HK$m)

Profit

Reconciliation of segment operating profit to the profit before taxation in the consolidated income statement is not presented, since the segment operating profit is the same as the operating profit presented in the consolidated income statement.

Assets

	Note	2012	2011
Reportable segments' assets		35,457	33,751
Interest in associates	14	572	562
Interest in a jointly controlled entity	15	1,229	1,340
Derivative financial instruments	18(a)	7	18
Deferred tax assets	19(b)	46	86
Amount due from a jointly controlled entity	32(e)	311	492
Cash at banks and in hand		2,185	1,984
Consolidated total assets		39,807	38,233

(c) Geographical information (HK$m)

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's total specified non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, the location of the operation to which they are allocated in the case of intangible assets and the location of operations in the case of interests in associates, jointly controlled entity and unlisted equity instruments and investment in hotel management contracts.

	Revenue from external customers		Specified non-current assets	
	2012	2011	2012	2011
Hong Kong	2,224	2,314	27,289	25,597
Mainland China	417	386	2,642	2,793
United States of America	1,090	1,045	2,575	2,463
Japan	814	699	1,059	1,242
Thailand	292	253	1,454	1,421
The Philippines	302	273	291	295
Vietnam	39	39	89	92
France	–	–	1,195	1,143
	5,178	5,009	36,594	35,046

12. Fixed assets (HK$m)

(a) Movements of fixed assets

	Group						
	Freehold land	Hotel and other buildings held for own use	Plant, machinery and other fixed assets	Sub-total	Investment properties	Interests in leasehold land held under finance leases	Total fixed assets
Cost or valuation:							
At 1 January 2011	995	7,081	4,008	12,084	24,840	1	36,925
Exchange adjustments	(39)	(47)	22	(64)	12	–	(52)
Additions	–	53	172	225	110	–	335
Disposals	–	(3)	(28)	(31)	–	–	(31)
Fair value adjustment	–	–	–	–	1,841	–	1,841
At 31 December 2011	956	7,084	4,174	12,214	26,803	1	39,018
Representing:							
Cost	956	7,084	4,174	12,214	–	1	12,215
Valuation – 2011	–	–	–	–	26,803	–	26,803
	956	7,084	4,174	12,214	26,803	1	39,018
At 1 January 2012	**956**	**7,084**	**4,174**	**12,214**	**26,803**	**1**	**39,018**
Exchange adjustments	**22**	**8**	**(35)**	**(5)**	**15**	**–**	**10**
Additions	**32**	**128**	**518**	**678**	**307**	**–**	**985**
Disposals	**–**	**(114)**	**(390)**	**(504)**	**(1)**	**–**	**(505)**
Transfer	**–**	**89**	**–**	**89**	**(89)**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**1,073**	**–**	**1,073**
At 31 December 2012	**1,010**	**7,195**	**4,267**	**12,472**	**28,108**	**1**	**40,581**
Representing:							
Cost	**1,010**	**7,195**	**4,267**	**12,472**	**–**	**1**	**12,473**
Valuation – 2012	**–**	**–**	**–**	**–**	**28,108**	**–**	**28,108**
	1,010	**7,195**	**4,267**	**12,472**	**28,108**	**1**	**40,581**
Accumulated depreciation and impairment losses:							
At 1 January 2011	386	3,160	2,688	6,234	–	1	6,235
Exchange adjustments	(20)	(53)	9	(64)	–	–	(64)
Charge for the year	–	140	234	374	–	–	374
Impairment loss	–	13	7	20	–	–	20
Written back on disposals	–	(2)	(27)	(29)	–	–	(29)
At 31 December 2011	366	3,258	2,911	6,535	–	1	6,536
At 1 January 2012	**366**	**3,258**	**2,911**	**6,535**	**–**	**1**	**6,536**
Exchange adjustments	**11**	**45**	**(12)**	**44**	**–**	**–**	**44**
Charge for the year	**–**	**150**	**231**	**381**	**–**	**–**	**381**
Written back on disposals	**–**	**(114)**	**(389)**	**(503)**	**–**	**–**	**(503)**
At 31 December 2012	**377**	**3,339**	**2,741**	**6,457**	**–**	**1**	**6,458**
Net book value:							
At 31 December 2012	**633**	**3,856**	**1,526**	**6,015**	**28,108**	**–**	**34,123**
At 31 December 2011	590	3,826	1,263	5,679	26,803	–	32,482

12. Fixed assets (HK$m) continued

(a) Movements of fixed assets continued

The Group assessed the recoverable amounts of its fixed assets (other than investment properties) at the end of the reporting date in accordance with the accounting policy as disclosed in note 35(j). No provision for or reversal of impairment is required as at 31 December 2012.

Impairment loss (2011)

The Directors considered that Quail Lodge Golf Club was further impaired as at 31 December 2011 due to the adverse operating environment. On that basis, its carrying amount was written down by HK$20 million to its recoverable amount based on its fair value determined by an independent professional valuer by making reference to the discounted cash flow valuation model of the property, applying a discount rate of 15% and a growth rate of 3% on 10-year cash flow projections.

(b) All investment properties of the Group were revalued as at 31 December 2012 on an open market value basis, mainly calculated by reference to net rental income and allowing for reversionary income potential. The changes in fair value of the investment properties during the year were accounted for in the consolidated income statement. The valuations were carried out by valuers independent of the Group and who have staff with recent experience in the location and category of the property being valued. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
Other Asia*		
Retail shops, offices, residential apartments and vacant land	Savills Valuation and Professional Services Limited	Members of the Hong Kong Institute of Surveyors
	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Retail shops and vacant land	HVS	Members of the Appraisal Institute, United States of America

* *Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.*

12. Fixed assets (HK$m) continued

(c) The analysis of net book value of properties is as follows:

		2012	2011
Hong Kong	– Long term leases	25,404	24,145
	– Medium term leases	1,262	1,188
Thailand	– Freehold	1,331	1,298
Vietnam	– Medium term leases	88	92
Other Asia	– Medium term leases	2,283	2,424
USA	– Long term leases	1,041	969
	– Freehold	1,157	1,103
France	– Freehold	31	–
		32,597	31,219
Representing:			
Land and buildings carried at fair value (investment properties)		28,108	26,803
Land and buildings carried at cost		4,489	4,416
		32,597	31,219

(d) Fixed assets leased under operating leases

The Group leases its investment properties under operating leases. The leases typically run for an initial period of one to five years, with or without options to renew the leases after that date at which time all terms are renegotiated. Contingent rentals earned from these leases in 2012 amounted to HK$36 million (2011: HK$29 million). All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties. Future minimum rentals receivable under non-cancellable operating leases of these properties are disclosed in note 30(b).

(e) Assets under development

Included within properties, plant and equipment are assets under development amounting to HK$201 million (2011: HK$57 million), which were not subject to depreciation.

12. Fixed assets (HK$m) continued

(f) Hotel and investment properties, all held through subsidiaries, are as follows:

	Usage
Held in Hong Kong:	
Long term leases (over 50 years):	
The Peninsula Hong Kong, Salisbury Road	Hotel and commercial rentals
The Peninsula Office Tower, 18 Middle Road	Office
The Repulse Bay, 109 Repulse Bay Road	Residential and commercial rentals
Repulse Bay Apartments, 101 Repulse Bay Road	Residential
Repulse Bay Garage, 60 Repulse Bay Road	Commercial rentals
St. John's Building, 33 Garden Road	Office
Medium term lease (between 10 and 50 years):	
The Peak Tower, 128 Peak Road	Commercial rentals
Held in Mainland China:	
Medium term lease (between 10 and 50 years):	
The Peninsula Beijing, 8 Goldfish Lane, Wangfujing, Beijing	Hotel and commercial rentals
Held in Japan:	
Medium term lease (between 10 and 50 years):	
The Peninsula Tokyo, 1-8-1 Yurakucho, Chiyoda-ku, Tokyo	Hotel and commercial rentals
Held in Thailand:	
Freehold:	
The Peninsula Bangkok, 333 Charoennakorn Road, Klongsan, Bangkok 10600	Hotel
Thai Country Club, Bangna-Trad, Chachoengsao	Golf club
Land plots, Bangpakong District, Chachoengsao	Undetermined
Held in The Philippines:	
Medium term lease (between 10 and 50 years):	
The Peninsula Manila, Corner of Ayala and Makati Avenues, 1226 Makati City, Metro Manila	Hotel and commercial rentals
Held in Vietnam:	
Medium term lease (between 10 and 50 years):	
The Landmark, 5B Ton Duc Thang Street, District 1, Ho Chi Minh City	Residential and commercial rentals
Held in the United States of America:	
Freehold:	
Quail Lodge Golf Club	Golf club
Quail Lodge Resort * 8205 Valley Greens Drive, Carmel, California	Hotel
Vacant land, near Quail Lodge	Undetermined
The Peninsula Chicago, 108 East Superior Street (at North Michigan Avenue), Chicago, Illinois	Hotel
Long term lease (over 50 years):	
The Peninsula New York, 700 Fifth Avenue at 55th Street, New York	Hotel and commercial rentals

* *Quail Lodge Resort will re-open in 2013.*

12. Fixed assets (HK$m) continued

(f) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
Held in France:	
Freehold:	
21 Rue de Longchamp, Paris 75016	Residential

(g) To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 31 December 2012. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$5,794 million (2011: HK$5,489 million), was HK$9,274 million (2011: HK$9,038 million) as at 31 December 2012. It is important to note that the surplus of HK$3,480 million (2011: HK$3,549 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in the consolidated Financial Statements but are provided for additional information only. The valuations were carried out by valuers independent of the Group, details of which are as follows:

Description of hotels and golf courses	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong and other Asia		
Hotels and golf course	HVS	Members of the Singapore Institute of Surveyors and Valuers
United States of America		
Hotels and golf course	HVS	Members of the Appraisal Institute, United States of America

13. Investment in subsidiaries

	Company	
	2012	2011
Unlisted shares, at cost (HK$)	93,780	93,780

13. Investment in subsidiaries continued

The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Hotel Limited	Hong Kong	2 shares of HK$1 each	100%*	Hotel investment
The Repulse Bay Apartments Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Repulse Bay Company, Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
The Peak Tower Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peak Tramways Company, Limited	Hong Kong	450,000 shares of HK$10 each	100%*	Tramway operation
St. John's Building Limited	Hong Kong	2 shares of HK$1 each	100%*	Property investment
Peninsula Merchandising Limited	Hong Kong	2 shares of HK$1 each	100%*	Wholesaling and retailing of merchandise
Tai Pan Laundry & Dry Cleaning Services, Limited	Hong Kong	5,000,000 shares of HK$1 each	100%*	Laundry and dry cleaning services
HSH Financial Services Limited	Hong Kong	1 share of HK$1	100%	Lending and borrowing of funds
Peninsula Clubs and Consultancy Services Limited	Hong Kong	1,000,000 shares of HK$1 each	100%*	Club management
HSH Management Services Limited	Hong Kong	10,000 shares of HK$10 each	100%*	Management and marketing services
Peninsula New York Hotel LLC	United States of America	Contributed capital of US$323,500,000	100%*	Hotel investment
Peninsula Chicago LLC	United States of America	Contributed capital of US$57,038,089	100%*	Hotel investment
Quail Lodge, Inc.	United States of America	10,652 shares of US$100 each	100%*	Golf club and property investment

13. Investment in subsidiaries continued

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
Peninsula of Tokyo Limited	Japan	200 shares of JPY50,000 each	100%*	Hotel investment
The Palace Hotel Co., Ltd.	People's Republic of China	Registered capital of US$161,921,686	76.6%**	Hotel investment
Manila Peninsula Hotel, Inc.	The Philippines	111,840,386 shares of Pesos 10 each	77.36%*	Hotel investment
Siam Chaophraya Holdings Company Limited	Thailand	250,000 ordinary shares of THB2,000 each	75%*	Hotel investment
Town and Country Sport Club Company Limited	Thailand	1,250,000 ordinary shares of THB100 each$^{\Delta}$	75%*	Golf club and property investment
International Burotel Company Limited	Vietnam	Registered capital of US$6,866,667	70%*	Property investment
Peninsula International (Lux) Limited S. à r.l.	Luxembourg/ France	12,500 shares of EUR1 each	100%*	Investment holding
Peninsula Paris Hotel Management SARL	France	2 shares of EUR1 each	100%*	Hotel management

* *Indirectly held.*

** *The Palace Hotel Co., Ltd. ("TPH") is a sino-foreign co-operative joint venture. During the year ended 31 December 2011, the Group increased its legal interest in the registered capital of TPH from 42.13% to 76.6%.*

The acquisition of additional interest in TPH has no impact on the Group's turnover or profit and loss for the year as the Group has been controlling the board as well as the financial and operating policies of TPH and thus treating it as a subsidiary since 2002.

Δ *5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.*

14. Interest in associates (HK$m)

	Group	
	2012	2011
Loans to an associate*	572	562

* The loans to an associate are denominated in Euros, unsecured, interest-bearing at rates related to the rates published by the French tax authorities and are carried at their estimated recoverable amounts. EUR13 million (HK$133.3 million) (2011: EUR13 million (HK$130.9 million)) of the loans is repayable in or before November 2014 while the remaining balance of the loans is repayable on 25 April 2017.

(a) Details of the principal unlisted associates are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
Al Maha Majestic S.à r.l. ("Al Maha")	Incorporated	Luxembourg/ France	EUR 12,500	20%	Investment holding
Majestic EURL ("Majestic")	Incorporated	France	EUR 80,000,000	20%	Hotel investment and investment holding

* The Group's effective interest is held indirectly by the Company. Al Maha holds a 100% direct interest in Majestic.

(b) The associates' attributable revenue for the year ended 31 December 2012 was HK$nil (2011: HK$nil) and the attributable results for the year ended 31 December 2012 are considered to be HK$nil (2011: HK$nil). The attributable assets of the associates as at 31 December 2012 were HK$857 million (2011: HK$647 million) and the attributable liabilities as at 31 December 2012 were HK$857 million (2011: HK$647 million). The associates' attributable accumulated results as at 31 December 2012 were not significant (2011: not significant).

(c) Majestic has pledged its properties under development as security for a loan facility amounting to HK$2,256 million (EUR220 million). As at 31 December 2012, the loan drawn down amounted to HK$1,120 million (EUR109 million) (2011: HK$265 million (EUR26 million)). The net carrying amount of these pledged assets amounted to HK$4,144 million (EUR404 million) (2011: HK$3,102 million (EUR308 million)).

15. Interest in a jointly controlled entity (HK$m)

	Group	
	2012	2011
Share of exchange reserve	178	165
Share of retained profits	593	717
Share of net assets	771	882
Loan to a jointly controlled entity (note 15(b))	458	458
	1,229	1,340

15. Interest in a jointly controlled entity (HK$m) continued

(a) Details of the jointly controlled entity are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
The Peninsula Shanghai (BVI) Limited ("TPS")	Incorporated	British Virgin Islands	US$1,000	50%	Investment holding

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited ("EGL"), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of The Peninsula Shanghai hotel, Peninsula hotel apartments, a retail arcade and ancillary facilities. At 31 December 2012, the paid up capital of EGL and PSW amounted to HK$1 (2011: HK$1) and US$117,500,000 (2011: US$117,500,000) respectively.*

(b) The loan to the jointly controlled entity is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. The entire loan was contributed as capital of PSW described in note 15(a) above.

(c) Set out below is a summary of the financial information on the jointly controlled entity, of which the Group has a 50% share:

	Group	
	2012	2011
Non-current assets	**6,469**	6,510
Current assets	**227**	103
Current liabilities	**(789)**	(3,226)
Non-current liabilities	**(4,366)**	(1,623)
Net assets	**1,541**	1,764
Income	**492**	461
Operating expenses	**(424)**	(393)
EBITDA	**68**	68
Depreciation	**(102)**	(105)
Net financing charges	**(188)**	(125)
Loss before non-operating item	**(222)**	(162)
Non-operating item, net of tax*	**(28)**	(8)
Loss for the year	**(250)**	(170)

* *Being decrease in fair value of investment properties, net of tax.*

(d) During 2012, PSW entered into a 15-year RMB2,500 million term loan agreement with an independent financial institution to refinance its maturing facilities which amounted to RMB1,600 million. As at 31 December 2012, the loan drawn down amounted to RMB2,292 million (2011: RMB1,600 million). The loan is secured by PSW's properties inclusive of the land use rights. The net carrying amount of these pledged assets amounted to HK$6,469 million (RMB5,201 million) (2011: HK$6,510 million (RMB5,292 million)).

16. Interest in unlisted equity instruments (HK$m)

(a) Available for sale unlisted equity instruments include:

	Ownership interest held indirectly	Place of establishment
The Belvedere Hotel Partnership	20%	United States of America

The Belvedere Hotel Partnership ("BHP") holds a 100% interest in The Peninsula Beverly Hills ("PBH"). The Group considers it is not in a position to exercise significant influence over this investment.

BHP has pledged its hotel property and other assets to an independent financial institution as security for BHP's loan facility, amounting to US$140 million (HK$1,092 million) (2011: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$75 million (HK$581 million) (2011: US$73 million (HK$569 million)).

Pursuant to the restated joint venture agreement dated 6 April 2010, the Group has committed to advance up to US$6 million to fund PBH's renovation. This advance is unsecured, bears interest with reference to its bank borrowing rates and has no fixed date of repayment. The balance of this advance outstanding as at 31 December 2012 amounted to HK$33 million (2011: HK$44 million) and is included in trade and other receivables.

(b) The Group had a 17.29% interest in Inncom International, Inc., which was held as an unlisted equity investment with a carrying amount of HK$nil at 31 December 2011. During 2012, the Group disposed of this investment and recognised a non-operating gain of HK$46 million.

17. Investment in hotel management contracts (HK$m)

	Group	
	2012	2011
Cost		
At 1 January	764	783
Exchange adjustments	11	(19)
At 31 December	775	764
Accumulated amortisation		
At 1 January	(102)	(99)
Amortisation for the year	(3)	(3)
At 31 December	(105)	(102)
Net book value	670	662

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated income statement.

Investment in hotel management contracts represents the cost attributable to securing the Group's long term management contracts in respect of The Peninsula Beverly Hills and The Peninsula Paris ("PPR"). The management contract for PPR will be amortised from the date of commencement of hotel operation.

18. Derivative financial instruments (HK$m)

(a) Group

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	–	(74)	–	(107)
Cross currency interest rate swaps	–	(4)	–	(8)
	–	(78)	–	(115)
At fair value through profit or loss:				
Interest rate swaps	7	(10)	18	(25)
Total	7	(88)	18	(140)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	(38)	–	(42)
Cross currency interest rate swaps	–	(4)	–	(5)
	–	(42)	–	(47)
At fair value through profit or loss:				
Interest rate swaps	7	(10)	11	(16)
	7	(52)	11	(63)
Portion to be recovered/(settled) after one year	–	(36)	7	(77)

(b) Company

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	7	–	18	–
At fair value through profit or loss:				
Interest rate swaps	36	(36)	80	(80)
Total	43	(36)	98	(80)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	7	–	11	–
At fair value through profit or loss:				
Interest rate swaps	36	(36)	47	(47)
	43	(36)	58	(47)
Portion to be recovered/(settled) after one year	–	–	40	(33)

19. Income tax in the statement of financial position (HK$m)

(a) Current taxation in the statement of financial position represents:

	Group		Company	
	2012	2011	2012	2011
Provision for Hong Kong Profits Tax for the year	65	123	5	9
Provisional profits tax paid	(69)	(79)	(6)	(7)
	(4)	44	(1)	2
Balance of Hong Kong Profits Tax provision relating to prior years	(6)	–	–	–
Provision for overseas taxes	19	28	–	–
	9	72	(1)	2
Represented by:				
Tax recoverable (note 21)	(25)	–	(1)	–
Current tax payable (included in current liabilities)	34	72	–	2
	9	72	(1)	2

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities of the Group recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Group					
	Revaluation of investment properties	Tax allowances in excess of the related depreciation	Provisions and others	Tax losses	Cash flow hedges	Total
Deferred tax arising from:						
At 1 January 2011	155	664	(25)	(282)	(19)	493
Charged to profit or loss	14	16	2	4	2	38
Charged/(credited) to reserves	(1)	2	–	–	5	6
At 31 December 2011 and at 1 January 2012	168	682	(23)	(278)	(12)	537
Charged/(credited) to profit or loss	24	(40)	1	78	1	64
Charged/(credited) to reserves	(1)	5	–	(1)	5	8
At 31 December 2012	191	647	(22)	(201)	(6)	609

19. Income tax in the statement of financial position (HK$m) continued

(b) Deferred tax assets and liabilities recognised continued

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	Group	
	2012	2011
Deferred tax assets	**(46)**	(86)
Deferred tax liabilities	**655**	623
	609	537

	Company	
	2012	2011
Deferred tax liabilities arising from cash flow hedges	**1**	3

The Group has not recognised the following potential deferred tax assets:

	Group	
	2012	2011
Future benefit of tax losses	**782**	671

In accordance with the accounting policy set out in note 35(q), the Group has not recognised deferred tax assets in respect of certain accumulated tax losses of HK$2,061 million (2011: HK$1,813 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Details of the expiry date of unused tax losses are as follows:

	Group	
	2012	2011
Within one year	**62**	20
After one year but within five years	**542**	858
After five years but within 20 years	**1,412**	901
Without expiry date	**45**	34
	2,061	1,813

In accordance with the accounting policy set out in note 35(q), the Group has not recognised deferred tax liabilities totalling HK$24 million (2011: HK$29 million) in respect of undistributed profits of certain subsidiaries amounting to HK$243 million (2011: HK$290 million), as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

20. Inventories (HK$m)

	Group	
	2012	2011
Food and beverage and others	96	99

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$427 million (2011: HK$418 million).

21. Trade and other receivables (HK$m)

	Group		Company	
	2012	2011	2012	2011
Loans and other receivables due from subsidiaries	–	–	13,577	13,565
Provision for impairment	–	–	(1,786)	(1,786)
	–	–	11,791	11,779
Trade debtors (ageing analysis is shown below)	223	202	–	–
Loans and receivables	223	202	11,791	11,779
Rental deposits, payments in advance and other receivables	320	306	8	6
Tax recoverable (note 19(a))	25	–	1	–
	568	508	11,800	11,785

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,600 million (2011: HK$2,476 million), which bears interest at market rates.

The amount of the Group's and the Company's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$127 million (2011: HK$139 million) and HK$9,121 million (2011: HK$9,897 million) respectively. All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Directors consider that the carrying amount of all trade and other receivables approximates their fair value.

The ageing analysis of trade debtors is as follows:

	Group	
	2012	2011
Current	191	177
Less than one month past due	21	18
One to three months past due	9	6
More than three months but less than 12 months past due	2	1
Amounts past due	32	25
	223	202

Trade debtors are normally due within 30 days from the date of billing. The Group's credit policy is set out in note 29(d).

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

22. Cash at banks and in hand (HK$m)

	Group		Company	
	2012	2011	2012	2011
Interest-bearing bank deposits	2,075	1,882	378	285
Cash at banks and in hand	110	102	1	1
Total cash at banks and in hand	2,185	1,984	379	286
Less: Bank deposits with maturity of more than three months	(494)	(7)	(90)	–
Bank overdrafts (note 24)	(9)	(14)	–	–
Cash and cash equivalents in the consolidated statement of cash flows	1,682	1,963	289	286

Cash at banks and in hand at the end of the reporting period include deposits with banks of HK$688 million (2011: HK$416 million) held by overseas subsidiaries which are subject to prevailing regulatory and foreign exchange restrictions.

23. Trade and other payables (HK$m)

	Group		Company	
	2012	2011	2012	2011
Trade creditors (ageing analysis is shown below)	144	148	–	–
Interest payable	7	4	–	–
Accruals for fixed assets	141	50	–	–
Tenants' deposits	331	324	–	–
Guest deposits	104	116	–	–
Golf membership deposits	107	107	–	–
Other payables	564	568	21	21
Other payables to subsidiaries	–	–	50	25
Financial liabilities measured at amortised cost	1,398	1,317	71	46
Less: Non-current portion of trade and other payables	(285)	(254)	–	–
Current portion of trade and other payables	1,113	1,063	71	46

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$387 million (2011: HK$341 million). All the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The director considers that, the carrying amounts of all trade and other payables approximate their fair value.

The ageing analysis of trade creditors is as follows:

	Group	
	2012	2011
Less than three months	141	145
Three to six months	3	3
	144	148

24. Interest-bearing borrowings (HK$m)

	Group	
	2012	2011
Total facilities available:		
Term loans and revolving credits	4,543	4,605
Uncommitted facilities, including bank overdrafts	298	296
	4,841	4,901
Utilised at 31 December:		
Term loans and revolving credits	4,144	4,335
Uncommitted facilities, including bank overdrafts	53	14
	4,197	4,349
Less: Unamortised financing charges	(23)	(30)
	4,174	4,319
Represented by:		
Short-term bank loans, repayable within one year or on demand	1,069	1,076
Bank overdrafts, repayable on demand (note 22)	9	14
	1,078	1,090
Long-term bank loans, repayable:		
Between one and two years	578	1,072
Between two and five years	2,090	2,187
Over five years	451	–
	3,119	3,259
Less: Unamortised financing charges	(23)	(30)
Non-current portion of long-term bank loans	3,096	3,229
Total interest-bearing borrowings	4,174	4,319

All of the non-current interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans is not expected to be settled within one year and all borrowings are unsecured.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(c). As at 31 December 2012 and 2011, none of the covenants relating to drawn down facilities had been breached.

25. Share capital

	2012	2011
Number of shares of HK$0.50 each (million)		
Authorised	**1,800**	1,800
Issued		
At 1 January	**1,490**	1,480
New shares issued under scrip dividend scheme (note)	**12**	10
At 31 December	**1,502**	1,490
Nominal value of shares (HK$m)		
Authorised	**900**	900
Issued		
At 1 January	**745**	740
New shares issued under scrip dividend scheme (note)	**6**	5
At 31 December	**751**	745

All ordinary shares issued during the year rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note

During the year, the Company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

			Increase in	
	Number of shares million	*Scrip price HK$*	*share capital HK$m*	*share premium HK$m*
2012				
2011 final scrip dividend	***11.8***	***9.74***	***6***	***108***
2011				
2010 final scrip dividend	*7.7*	*13.20*	*4*	*97*
2011 interim scrip dividend	*3.1*	*10.88*	*1*	*32*
	10.8		*5*	*129*

26. Reserves (HK$m)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) Company

	Share premium	Capital redemption reserve	Capital reserve	Hedging reserve	Retained profits	Total
At 1 January 2011	3,373	13	4,975	30	2,714	11,105
Profit for the year	–	–	–	–	252	252
Other comprehensive income	–	–	–	(16)	–	(16)
Total comprehensive income for the year	–	–	–	(16)	252	236
Dividends approved in respect of the previous year						
– by means of cash	–	–	–	–	(17)	(17)
– by means of scrip	97	–	–	–	(101)	(4)
Dividends approved in respect of the current year						
– by means of cash	–	–	–	–	(26)	(26)
– by means of scrip	32	–	–	–	(33)	(1)
At 31 December 2011	3,502	13	4,975	14	2,789	11,293
At 1 January 2012	**3,502**	**13**	**4,975**	**14**	**2,789**	**11,293**
Profit for the year	**–**	**–**	**–**	**–**	**180**	**180**
Other comprehensive income	**–**	**–**	**–**	**(9)**	**–**	**(9)**
Total comprehensive income for the year	**–**	**–**	**–**	**(9)**	**180**	**171**
Dividends approved in respect of the previous year						
– by means of cash	**–**	**–**	**–**	**–**	**(35)**	**(35)**
– by means of scrip	**108**	**–**	**–**	**–**	**(114)**	**(6)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**–**	**(60)**	**(60)**
At 31 December 2012	**3,610**	**13**	**4,975**	**5**	**2,760**	**11,363**

26. Reserves (HK$m) continued

(b) Nature and purpose of reserves

Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

Capital reserve

The Company's capital reserve represents the profit recognised on the intra-group transfer of properties as a result of the corporate restructuring in 1991.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges in note 35(e).

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 35(t).

(c) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was HK$2,760 million (2011: HK$2,789 million). After the end of the reporting period, the Directors proposed a final dividend of 10 HK cents per share (2011: 10 HK cents per share), amounting to HK$150 million (2011: HK$149 million). This dividend has not been recognised as a liability at the end of the reporting period.

(d) Capital management

The Group takes a long term view of its business and consequently the planning of the use of capital. The Group's primary objectives when managing its capital are to safeguard the Group's ability to continue as a going concern, to secure access to finance at a reasonable cost relative to risk and to provide an appropriate return to shareholders. In so doing, it seeks to achieve an appropriate balance between shareholders' equity and external debt by taking into account the cost of capital and the efficiency of using the capital.

The Group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

26. Reserves (HK$m) continued

(d) Capital management continued

In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing loans and borrowings less cash at bank and in hand) to the total of net borrowings and equity attributable to shareholders of the Company. The Group's share of net borrowings and equities of the non-consolidated entities (such as the associates, jointly controlled entity and unlisted equity instruments), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2012 and 2011 are as follows:

(HK$m)	2012	2011
Interest-bearing borrowings	4,174	4,319
Less: Cash at banks and in hand	(2,185)	(1,984)
Net borrowings per the statement of financial position	1,989	2,335
Share of net borrowings of non-consolidated entities	1,751	1,401
Net borrowings adjusted for non-consolidated entities	3,740	3,736
Equity attributable to shareholders of the Company per the statement of financial position	33,144	31,455
Equity plus net borrowings per the statement of financial position	35,133	33,790
Equity plus net borrowings adjusted for non-consolidated entities	36,884	35,191
Gearing ratio based on the Financial Statements	6%	7%
Gearing ratio adjusted for non-consolidated entities	10%	11%

During 2012, the Group continued to operate within its long term treasury management guidelines. Operating and investment decisions are made by making reference to long term cash flow forecasts to ensure that the guidelines are followed.

The Group is subject to covenants imposed by the lenders of the interest-bearing borrowings based on the Group's borrowings and other indebtedness, as well as the amount of equity attributable to shareholders of the Company. The Group complied with the imposed loan covenants on capital requirements for the years ended 31 December 2012 and 2011. Except for the above, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Loan to an officer

Loan to an officer of a subsidiary of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Loans made by a third party under guarantee given by the Company

Name of borrower	Mr. Martyn P. A. Sawyer
Position	Group General Manager, Properties and Clubs
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2011	HK$1,005,000
at 31 December 2011 and 1 January 2012	HK$965,000
at 31 December 2012	HK$925,000
Amount paid or liability incurred under the guarantee	HK$nil (2011: HK$nil)

The guarantee is given without recourse to the officer. The Directors do not consider it probable that the Company will be called upon under the guarantee. The guarantee will be outstanding until the loan granted to the officer by the bank is repaid and the loan has a remaining term until 2014.

28. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 628 employees (2011: 629 employees) of the Group. Such plans are administered by independent trustees with the assets, if any, held separately from those of the Group.

Quail Lodge, Inc. ("QLI"), a US subsidiary of the Company, has retirement compensation agreements with certain employees which provide, among other things, that during the employees' lifetime after retirement, QLI will pay such employees retirement compensation equal to 30% of their average salaries in their final three years of employment.

QLI has not funded the above retirement compensation arrangement and the liability in respect of its obligations is fully recognised in its Financial Statements at each year end date, based on independent actuarial valuation prepared by qualified staff of Bartel Associates, LLC, who are members of the American Academy of Actuaries, using the projected unit credit method as at 31 December 2012.

Manila Peninsula Hotel, Inc. ("MPHI"), a Philippine subsidiary of the Company, operates a non-contributory defined benefit retirement plan which covers all its employees. The plan is administered by an independent trustee with the assets held separately from those of MPHI.

The above plan is funded by contributions from MPHI in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The latest independent actuarial valuation of the plan was prepared by qualified staff of Actuarial Advisers, Inc., who are members of the Actuarial Society of the Philippines, using the projected unit credit method as at 31 December 2012. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 76% (2011: 74%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2012.

28. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

The amounts recognised in the Group's statement of financial position are as follows (HK$m):

	Group	
	2012	2011
Present value of wholly or partly funded obligations	52	48
Fair value of plan assets	(33)	(29)
	19	19
Unrecognised actuarial gains	6	5
	25	24

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$5 million (2012: HK$4 million) in contributions to defined benefit retirement plans in 2013.

Plan assets consist of the following (HK$m):

	Group	
	2012	2011
Stocks	25	22
Mutual funds	8	7
	33	29

Movements in the present value of the defined benefit obligations (HK$m):

	Group	
	2012	2011
At 1 January	48	46
Exchange adjustments	3	(1)
Benefits paid by the plans	(4)	(2)
Current service cost	4	3
Interest cost	3	3
Actuarial gain	(2)	(1)
At 31 December	52	48

28. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Movements in plan assets (HK$m):

	Group	
	2012	2011
At 1 January	29	25
Exchange adjustments	2	–
Group's contributions paid to the plans	4	4
Benefits paid by the plans	(3)	(1)
Actuarial expected return on plan assets	2	1
Actuarial loss	(1)	–
At 31 December	33	29

Expense recognised as staff costs in the consolidated income statement is as follows (HK$m):

	Group	
	2012	2011
Current service cost	4	3
Interest cost	3	3
Actuarial expected return on plan assets	(2)	(1)
	5	5

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$2 million (2011: HK$1 million).

The principal actuarial assumptions used as at 31 December 2012 are as follows:

	Group	
	2012	2011
Discount rate	3.5% to 6.5%	3.5% to 7%
Expected rate of return on plan assets	4.5%	7%
Future salary increases	4%	4% to 5%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns without adjustments.

28. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Historical information (HK$m):

	Group				
	2012	2011	2010	2009	2008
Present value of defined benefit obligations	52	48	46	42	36
Fair value of plan assets	(33)	(29)	(25)	(19)	(15)
Deficit in the plan	19	19	21	23	21
Experience adjustments arising on plan liabilities	(2)	(1)	(2)	1	1
Experience adjustments arising on plan assets	(1)	–	2	1	2

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,370 employees (2011: 1,357 employees), most of whom are in Hong Kong. The defined contribution retirement plan is formally established under an independent trust with the assets of the funds held separately from those of the Group by an independent trustee. The plan is registered under the Occupational Retirement Schemes Ordinance in Hong Kong and is exempted under the Mandatory Provident Fund Schemes (Exemption) Regulation. Employees covered by this plan are not required to make contributions and funds contributed by employers are fully vested with their employees immediately. The average contribution rate against employees' relevant income for the year was 13% (2011: 13%).

In addition, the Group participates in the Mandatory Provident Fund Scheme ("the MPF Scheme") under the Mandatory Provident Fund Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, which is operated by an independent service provider to cover 483 employees (2011: 463 employees) in Hong Kong who are not covered by the above defined contribution retirement plan. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Contributions at a fixed rate of 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 per employee, are made to the Scheme by both the employer and the employee and vest immediately.

The Group also operates several defined contribution retirement plans, including union pension schemes for its overseas subsidiaries covering 2,234 employees (2011: 2,194 employees) in other Asian countries and the United States of America, in accordance with the respective applicable labour regulations.

Total contributions to all of the above defined contribution retirement plans made by the Group amounted to HK$92 million (2011: HK$83 million) and was charged to the income statement during the year.

29. Financial risk management and fair values

The Group is exposed to foreign exchange, interest rate, liquidity and credit risks in its normal course of business. The Group's exposure to these risks, as well as various techniques and derivative financial instruments used to manage these risks, are described below.

(a) Foreign exchange risk

The Group manages its foreign exchange exposure with a view to protecting its net assets and profitability against adverse fluctuations in exchange rates. The Company reports its results in Hong Kong dollars. In the light of the Hong Kong dollar peg, the Group does not hedge United States dollar exposures and it aims to preserve its value in Hong Kong dollar and/or United States dollar terms.

Foreign exchange risk may arise in sale and purchase transactions which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Japanese Yen, Thai Baht, Renminbi, Philippine Pesos and Euro.

Forecast transactions

In respect of committed future transactions and highly probable forecast transactions, the Group usually hedges most of the estimated foreign currency transaction exposures if the foreign exchange risk of these exposures is considered to be significant. The Group mainly uses forward exchange contracts to hedge this type of foreign exchange risk and classifies these contracts as cash flow hedges.

At 31 December 2012 and 2011, there were no outstanding forward exchange contracts.

Recognised assets and liabilities

The Group has foreign currency monetary assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. Exchange differences arising on settling or translating these foreign currency monetary items at rates different from those at dates of transactions giving rise to these monetary items are recognised in the income statement.

The Group usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mainly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge this type of foreign exchange risk and classifies these derivative financial instruments as cash flow hedges or at fair value through profit or loss, depending on whether the future foreign currency cash flows are fixed or not.

Changes in the fair value of these cash flow hedges or derivative financial instruments at fair value through profit or loss are recognised in the hedging reserve or the income statement respectively.

29. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Recognised assets and liabilities continued

All of the Group's borrowings are denominated in the functional currency of the operations to which they relate or, in case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, it is not expected that there will be any significant currency risk associated with the Group's borrowings.

Net investment in foreign subsidiaries

At 31 December 2012 and 2011, the Group did not hedge any net investment in foreign subsidiaries.

Exposure to foreign exchange risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The amounts of the exposure are shown in original currency. Differences resulting from the translation of the Financial Statements of the foreign operations into the Group's presentation currency and exposures arising from inter-company balances which are denominated in a foreign currency and is considered to be in the nature of investment in the subsidiary, jointly controlled entity and associates are excluded.

	Group			
	2012		2011	
(million)	United States Dollars	Philippine Pesos	United States Dollars	Philippine Pesos
Trade and other receivables	**36**	**–**	28	–
Cash at banks and in hand	**13**	**4**	7	6
Trade and other payables	**(17)**	**–**	(10)	–
Derivative financial instruments	**(1)**	**–**	(3)	–
Interest-bearing borrowings	**(42)**	**–**	(48)	–
Gross exposure arising from recognised assets and liabilities	**(11)**	**4**	(26)	6
Notional amount of derivative financial instruments				
– held as cash flow hedges	**42**	**–**	42	–
Net exposure arising from recognised assets and liabilities	**31**	**4**	16	6

29. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk continued

	Company			
	2012		2011	
(million)	United States Dollars	Philippine Pesos	United States Dollars	Philippine Pesos
Trade and other receivables	24	–	19	–
Trade and other payables	(8)	–	(4)	–
Cash at banks and in hand	8	4	4	6
Overall net exposure	24	4	19	6

Based on the sensitivity analysis performed as at 31 December 2012, it was estimated that an increase/decrease of 10% in foreign exchange rate in respect of financial instruments denominated in currency other than the functional currencies, with all other variables held constant, would not have significant impact on the Group's post-tax profits and other components of equity.

(b) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. All of the Group's borrowings bear floating interest rates that are reset on a regular basis as market interest rates change and hence expose the Group to cash flow interest rate risk. As the borrowing costs are subject to market fluctuations in interest rates, the Group adopts a policy to fix interest rates of 40% to 70% of the exposure, with a long term target of 50%, mainly by way of interest rate swaps, cross currency interest rate swaps or other derivative financial instruments.

Following the disposal of The Kowloon Hotel in 2005, the Group applied the sale proceeds towards reducing bank borrowings and re-adjusting the loan interest hedging ratio, rendering some outstanding interest rate swaps ineffective at the Group level. The Company entered into new interest rate swaps to offset the financial effect of the ineffective interest rate swaps and classified these new swaps as cash flow hedges against intra-group borrowings. However, at the Group level, these pairs of offsetting interest rate swaps are classified as fair value through profit or loss and changes in their fair values are recognised in the consolidated income statement as the intra-group borrowings are eliminated upon consolidation. At 31 December 2012, these pairs of swaps had a total notional principal of HK$595 million (2011: HK$595 million) maturing over the next one year (2011: two years) with a total fair value of HK$(3) million (2011: HK$(7) million).

At 31 December 2012, the Group and the Company had interest rate swaps and cross currency interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$1,803 million (2011: HK$1,843 million) maturing over the next five years (2011: six years) and HK$298 million (2011: HK$298 million) maturing over the next one year (2011: two years) respectively. Changes in fair value of these swaps accounted for as cash flow hedges are recognised in the hedging reserve. The Group locked in the following ranges of fixed rates by the swaps at 31 December 2012:

	31 December 2012	31 December 2011
Hong Kong Dollars	2.1% to 4.9%	2.1% to 4.9%
United States Dollars	0.6% to 4.7%	0.7% to 5.8%
Japanese Yen	1.5% to 2.1%	1.5% to 2.1%

29. Financial risk management and fair values continued

(b) Interest rate risk continued

The net fair value of all the interest rate swaps and cross currency interest rate swaps entered into by the Group and the Company at 31 December 2012 was as follows (HK$m):

	Group		Company	
	2012	2011	2012	2011
Cash flow hedges (note 18)	(78)	(115)	7	18
At fair value through profit or loss (note 18)	(3)	(7)	–	–
	(81)	(122)	7	18

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of interest rate swaps and cross currency interest rate swaps designated as cash flow hedging instruments.

	Group			
	2012		2011	
	Effective interest rate	HK$m	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	4.2%	2,256	4.3%	1,845
Floating rate borrowings:				
Bank loans	2.5%	1,918	2.1%	2,474
Total interest-bearing borrowings		4,174		4,319
Fixed rate borrowings as a percentage of total borrowings		54%		43%

29. Financial risk management and fair values continued

(b) Interest rate risk continued

On the other hand, at 31 December 2012 and 2011, the Group and the Company had short term bank deposits. Since these deposits are placed for short term liquidity purposes, the Group and the Company have no intention to lock in their interest rates for long term. In addition, the Company/Group grants interest-bearing loans to subsidiaries/a jointly controlled entity, which are subject to interest rate risk. The interest rate profile of these bank deposits and intra-group loans at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments is summarised as follows:

	Group				Company			
	2012		2011		2012		2011	
	Effective interest rate	HK$m	Effective interest rate	HK$m	Effective interest rate	HK$m	Effective interest rate	HK$m
Fixed rate instruments:								
Loans to subsidiaries		**–**		–	**4.8%**	**298**	4.8%	298
Amount due from a jointly controlled entity	**4.8%**	**311**	5.5%	492		**–**		–
Floating rate instruments:								
Bank deposits	**1.4%**	**2,075**	1.9%	1,882	**1.0%**	**378**	1.7%	284
Loans to subsidiaries		**–**		–	**0.1%**	**2,302**	0.2%	2,178
Total interest-bearing financial assets		**2,386**		2,374		**2,978**		2,760

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the interest rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. As at 31 December 2012 and 2011, the effects were attributable to changes in interest income and expense relating to floating rate financial instruments and gains or losses resulting from changes in the fair value of derivative financial instruments.

29. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis continued

	Group					
	2012			2011		
	Increase/(decrease) in			Increase/(decrease) in		
	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
Renminbi	100	5	–	100	3	–
	(100)	(5)	–	(100)	(3)	–
Thai Baht	100	(3)	–	100	(2)	–
	(100)	3	–	(100)	2	–
Japanese Yen	50	(3)	3	50	(5)	19
	(50)	3	(3)	(50)	5	(19)
Philippine Pesos	200	(1)	–	200	(1)	–
	(200)	1	–	(200)	1	–
HK Dollars	100	9	3	100	10	7
	(100)	(9)	(3)	(100)	(10)	(7)
US Dollars	100	(1)	7	100	(1)	12
	(100)	1	(7)	(100)	1	(12)

29. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis continued

	Company					
	2012			2011		
	Increase/(decrease) in			Increase/(decrease) in		
	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)	Interest rates (basis points)	Profit after tax and retained profits (HK$m)	Other components of equity (HK$m)
HK Dollars	100	22	(1)	100	20	(3)
	(100)	(22)	1	(100)	(20)	3
US Dollars	100	1	–	100	1	(1)
	(100)	(1)	–	(100)	(1)	1

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise, assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group and which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of exposure to cash flow interest rate risk arising from the floating rate non-derivative financial instruments (which include bank borrowings and deposits) held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such changes in interest rates. The analysis has been performed on the same basis for 2011.

(c) Liquidity risk

Borrowings and cash management, including short term investment of surplus cash, are arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that it maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to meet its obligations and commitments in the short and longer term.

At 31 December 2012, total available borrowing facilities amounted to HK$4,841 million (2011: HK$4,901 million), of which HK$4,197 million (2011: HK$4,349 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$399 million (2011: HK$270 million).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

29. Financial risk management and fair values continued

(c) Liquidity risk continued

	Group											
	2012						2011					
	Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)					
(HK$m)	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Trade creditors	144	144	144	–	–	–	148	148	148	–	–	–
Interest payable	7	7	7	–	–	–	4	4	4	–	–	–
Accruals for fixed assets	141	141	141	–	–	–	50	50	50	–	–	–
Tenants' deposits	331	331	153	45	113	20	324	324	177	52	80	15
Guest deposits	104	104	104	–	–	–	116	116	116	–	–	–
Golf membership deposits	107	107	–	–	–	107	107	107	–	–	–	107
Other payables	564	564	564	–	–	–	568	568	568	–	–	–
Interest-bearing borrowings	4,174	4,384	1,147	630	2,150	457	4,319	4,528	1,154	1,124	2,250	–
Interest rate swaps^ (net settled)	84	90	48	12	21	9	132	152	60	47	36	9
	5,656	5,872	2,308	687	2,284	593	5,768	5,997	2,277	1,223	2,366	131
Derivatives settled gross:												
Cross currency interest rate swaps held as cash flow hedging instruments:	4						8					
- outflow		333	333	–	–	–		344	12	332	–	–
- inflow		(329)	(329)	–	–	–		(335)	(6)	(329)	–	–
	4	4	4	–	–	–	8	9	6	3	–	–
	5,660	5,876	2,312	687	2,284	593	5,776	6,006	2,283	1,226	2,366	131
Financial guarantee issued												
- maximum amount guaranteed (note 31)	–	1	1	–	–	–	–	1	1	–	–	–

^ *In 2005, the Group entered into interest rate swaps to offset the financial effect of some interest rate swaps which were rendered ineffective, subsequent to the repayment of bank borrowings after the disposal of The Kowloon Hotel (note 29(b)). These interest rate swaps with carrying value of HK$7 million (2011: HK$18 million) have been classified as derivative financial assets and have not been included above.*

29. Financial risk management and fair values continued

(c) Liquidity risk continued

	Company											
	2012						2011					
	Contractual undiscounted cash outflow/(inflow)						Contractual undiscounted cash outflow/(inflow)					
(HK$m)	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Statement of financial position carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Other payables	21	21	21	–	–	–	21	21	21	–	–	–
Other payables to subsidiaries	50	50	50	–	–	–	25	25	25	–	–	–
Interest rate swaps (net settled)*	36	37	37	–	–	–	80	82	48	34	–	–
	107	108	108	–	–	–	126	128	94	34	–	–
Financial guarantee issued:												
– maximum amount guaranteed (note 31)	–	4,189	4,189	–	–	–	–	4,336	4,336	–	–	–

* *The Company in prior years entered into these interest rate swaps on a back-to-back basis for the benefit of its subsidiaries. Accordingly, derivative financial liabilities arising from them are fully offset by corresponding derivative financial assets (not included above) as a result of the back-to-back arrangement (see note 18(b)).*

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. Of the HK$51 million (2011: HK$58 million) guaranteed (note 31), HK$49 million (2011: HK$56 million) represented the fair value of the derivative financial instruments. The notional value of these derivative financial instruments amounted to HK$928 million (2011: HK$921 million) as at 31 December 2012.

(d) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables and derivative financial instruments and is monitored on an ongoing basis.

To minimise credit exposure for bank deposits and derivative financial instruments, the Group transacts with financial institutions with good credit ratings and diversifies its exposure to various financial institutions in accordance with Group guidelines. All bank deposits are subject to a single counterparty exposure limit and a composite counterparty exposure limit. The credit ratings of the financial institutions are closely monitored throughout the lives of the transactions.

At 31 December 2012, cash at banks amounted to HK$2,185 million (2011: HK$1,984 million), of which HK$1,778 million (2011: HK$1,663 million) was placed as time deposits with financial institutions with credit ratings of no less than BBB (issued by Standard & Poor's Rating Services ("S&P")) or Baa2 (issued by Moody's Investors Services, Inc.("Moody's")) and there was no significant concentration risk to any single counterparty.

For derivative financial instruments, the credit ratings of the financial institutions were no less than A+ (S&P) or A1 (Moody's).

29. Financial risk management and fair values continued

(d) Credit risk continued

The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. Credit evaluations are performed for all significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limits are set for customers based on their credit worthiness and past history. Trade receivables are normally due within 30 days from the date of billing. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Other than this, as such, the Group normally does not obtain collateral from its customers. The ageing of trade debtors at 31 December 2012 is summarised in note 21.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer rather than the industry or country in which the customers operate; therefore, it is considered that there is no concentration of credit risk as the Group has no significant exposure to individual customers given the large number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including the derivative financial instruments, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantee given by the Group as set out in note 31, the Group does not provide any other guarantee which would expose the Group or the Company to any material credit risk.

(e) Fair values (HK$m)

(i) Financial instruments carried at fair value

HKFRS 7, *Financial Instruments: Disclosures*, requires the disclosure of the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy as defined in HKFRS 7, with the fair value of each financial instrument categorised in its entirety, based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

All derivative financial instruments carried at fair value are categorised as falling under level 2 of the fair value hierarchy.

29. Financial risk management and fair values continued

(e) Fair values (HK$m) continued

(ii) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 31 December 2012, except that interests in unlisted equity instruments are stated at cost less impairment losses (see note 35(d) as the fair value of the equity instruments cannot be reliably measured). Some of the loans to subsidiaries are at floating interest rates and the carrying amount of these loans approximate their fair value. Other loans to subsidiaries and advances to the jointly controlled entity are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair values. The Group has no intention of disposing these loans.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivative financial instruments

Forward foreign exchange contracts and foreign exchange swaps are either marked to market using listed market prices, or by discounting the contractual forward price and deducting the current spot rate. The fair values of interest rate swaps and cross currency interest rate swaps are the estimated amount that the Group or Company would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates, foreign exchange rates and the current creditworthiness of the swap counterparties.

When discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

The Group used the following discount rates for determining fair value of derivative financial instruments.

	31 December 2012	31 December 2011
Hong Kong Dollar	**0.2% – 0.7%**	0.2% – 0.9%
United States Dollar	**0.2% – 0.4%**	0.2% – 1.1%
Japanese Yen	**0.1% – 0.6%**	0.1% – 1.0%

30. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2012 not provided for in the Financial Statements were as follows:

	2012			2011		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital expenditure						
The Peninsula Hong Kong	173	143	316	236	328	564
The Repulse Bay Complex	225	208	433	88	623	711
Others	53	718	771	36	507	543
	451	1,069	1,520	360	1,458	1,818
The Group's share of capital commitments of						
– a jointly controlled entity	3	19	22	–	13	13
– associates	227	160	387	195	215	410

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are (receivable)/payable as follows:

	Group			
	Receivable		Payable	
	2012	2011	2012	2011
Within one year	(914)	(812)	176	198
After one year but within five years	(1,338)	(1,203)	658	698
After five years	(103)	(63)	7,872	8,502
	(2,355)	(2,078)	8,706	9,398

30. Commitments (HK$m) continued

Following the completion of the restructuring of The Palace Hotel Co., Ltd. ("TPH") on 13 December 2002, the Group is committed to making an annual payment of a minimum of RMB8 million to China Everbright Group Limited ("CEG") up to and including 11 November 2033 (the "Annual Payment"). The Annual Payment is a deemed lease payment and is included as a payment under non-cancellable operating leases of the Group (note 32(f)).

The Peninsula Manila, the hotel owned by Manila Peninsula Hotel, Inc. ("MPHI"), is situated on a piece of land which belongs to Ayala Hotel, Inc. ("Ayala"). The hotel land lease was negotiated in 1975 by the management of MPHI at the time with Ayala in the ordinary and usual course of business based on normal commercial terms and on an arm's length basis (the "Land Lease"). The initial term of the Land Lease was from 31 December 1975 to 31 December 2001 and has been renewed until 31 December 2027 on the same terms and conditions. Pursuant to the terms and conditions, MPHI is committed to paying Ayala annual rental at 5% of its gross income on a quarterly basis.

The Peninsula New York leases a piece of land on which its hotel is situated from a third party under a 99-year lease, commencing in 1979. The present annual lease payment amounts to US$5 million and the lease payment is subject to a pre-determined inflation adjustment every 25 years.

The Group entered into a 50-year lease with respect to The Peninsula Tokyo, commencing in 2007. The minimum annual rental amounts to JPY1,181 million, which will be adjusted based on an inflation index every 10 years. In addition to the minimum annual rental, the lease is subject to contingent rental calculated based on the operating results of the hotel.

Other than above, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease upon expiry when all items are renegotiated. None of the leases include contingent rental.

31. Contingent liabilities (HK$m)

Contingent liabilities at 31 December are analysed as follows:

	Group		Company	
	2012	2011	**2012**	2011
Guarantees issued for subsidiaries				
-in respect of bank borrowings	**–**	–	**4,188**	4,335
-in respect of other banking facilities	**–**	–	**51**	58
Other guarantees	**1**	1	**1**	1
	1	1	**4,240**	4,394

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries, as their fair value cannot be reliably measured using observable market data and their transaction price was HK$nil.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2012 and 2011.

32. Material related party transactions

Other than the senior management remuneration and the guarantee given in respect of a loan to an officer as disclosed in note 6 and note 27 respectively, as well as loans to an associate and a jointly controlled entity as disclosed in note 14 and note 15 respectively, material related party transactions are set out as follows. Note 32(a), (b) and (g) also constitute connected transactions or continuing connected transaction as defined in chapter 14A of the Listing Rules, however they are either exempted from any reporting requirements under the Listing Rules or waiver has been granted by the Hong Kong Stock Exchange.

(a) Under a three-year tenancy agreement which commenced on 1 April 2010, a wholly owned subsidiary of the Company, HSH Management Services Limited, leased the 7th and 8th floors of St. George's Building, 2 Ice House Street, Central, Hong Kong at a market rent of HK$1,221,090 per month plus service charges of HK$140,895 per month from Kadoorie Estates Limited ("KEL"), which is the manager of the registered owner which is controlled by one of the substantial shareholders of the Company. The amount of service charges was further revised to HK$172,831 per month from 1 January 2012 to 31 December 2012. The amount of rent and service charges paid to KEL during the 2012 amounted to HK$16.7 million (2011: HK$16.5 million).

(b) The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. ("MPHI" – previously a 40% associate of the Company). MPHI became a subsidiary of the Company on 3 March 2005 following the completion of an offer made to shareholders as announced on 29 October 2004. The Peninsula Manila is situated on a piece of land owned by Ayala Hotels, Inc. ("Ayala"), an associate of a director of MPHI. Ayala is entitled to receive contingent rental from MPHI based on 5% of the gross income of MPHI pursuant to a land lease contract dated 2 January 1975 with an initial term from 31 December 1975 to 31 December 2001 and as extended to 31 December 2027. The amount of rent paid to Ayala under the lease during 2012 amounted to HK$15.0 million (2011: HK$14.9 million).

(c) On 20 January 2009, a wholly owned subsidiary of the Company, Peninsula International (Lux) Limited S.à r.l. ("LUX"), invested a total of EUR44.3 million (HK$453 million) to acquire a 20% equity interest and 20% of the related shareholder's loan in Al Maha Majestic S.à r.l. ("Al Maha"), which holds a 100% equity interest in Majestic EURL ("Majestic") which in turn owns a property in Paris to be redeveloped into a Peninsula hotel. Following the completion of the acquisition, Al Maha and Majestic became associates of the Group.

During 2011, additional shareholder's loans of EUR8.3 million were advanced by LUX to Al Maha. These loans were made pro rata to the Group's shareholding in Al Maha to fund the progress payments for redevelopment costs incurred by Majestic. As at 31 December 2012, the balance of shareholder's loans amounted to EUR55.8 million (HK$572.3 million) (2011: EUR55.8 million (HK$561.8 million)). All the shareholder's loans are unsecured and bear interest at rates related to the rates published by the French tax authorities. Of the balance of EUR55.8 million, EUR42.8 million is repayable in April 2017 and the remaining balance is repayable in November 2014.

(d) Unsecured and interest free shareholder's loans amounting to US$58.8 million (HK$458 million) (2011: US$58.8 million (HK$458 million)) were granted by Peninsula International Investment Holdings Limited ("PIIHL"), a wholly owned subsidiary of the Company, to The Peninsula Shanghai (BVI) Limited ("TPS"), a 50% jointly controlled entity of the Group. The loans were provided in proportion to PIIHL's shareholding in TPS and are unsecured, interest free and have no fixed terms of repayment. TPS owns a 100% interest in Evermore Gain Limited ("EGL") which in turn holds a 100% interest in The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), a foreign owned enterprise incorporated in the People's Republic of China, engaged in the operation of The Peninsula Shanghai Complex.

32. Material related party transactions continued

As at 31 December 2012, shareholder's loans amounting to US$58.8 million (HK$458 million) (2011: US$58.8 million (HK$458 million)) were contributed as capital of PSW through EGL.

Under various agreements with PSW, HSH Management Services Limited ("HMS"), a wholly owned subsidiary of the Company, agreed to provide PSW with technical and design advisory, consultancy, management and marketing services with fees being determined based on normal market terms. The gross amount of fees earned by HMS during 2012 amounted to approximately HK$30.9 million (2011: HK$29.4 million).

In addition, Peninsula Intellectual Property Limited ("PIPL"), a wholly owned subsidiary of the Company, has also entered into a service mark licence agreement with PSW. Total service mark licence fees earned by PIPL during 2012 amounted to HK$4.6 million (2011: HK$4.5 million).

(e) Pursuant to a tripartite entrustment loan agreement dated 12 December 2011 entered into among The Palace Hotel Co., Ltd. ("TPH"), a sino-foreign co-operative joint venture established in the People's Republic of China, which holds a 100% interest in The Peninsula Beijing, PSW and a PRC branch of an international bank (the "agent bank"), entrustment loans were on-lent by TPH to PSW via the agent bank starting from 15 December 2011. As at 31 December 2012, the balance of entrustment loans amounted to RMB250 million (HK$310.9 million) (2011: RMB400 million (HK$492.0 million)). The loans are repayable on 13 June 2013 and bear an annual interest of 4.8%, which was fixed by reference to the deposit rate published by The People's Bank of China on the day on which the draw down was made plus a margin of 200 basis points.

(f) The Company announced on 6 December 2000 that Kam Lung Investments Limited ("KLI"), a wholly owned subsidiary of the Company, entered into various agreements with the then independent third parties, including China Everbright Group Ltd. ("CEG"), to carry out the restructuring of TPH. Upon completion of the restructuring under the terms of the agreement as announced, CEG was entitled to appoint two representatives as Directors of TPH's Board consisting of nine members and to receive a priority payment of a minimum of RMB8 million up to and including 11 November 2033 ("Annual Payment"). Completion of the restructuring took place on 13 December 2002 and the Annual Payment became payable. The Annual Payment in an amount of RMB8 million (HK$9.9 million) was recorded in 2012 (2011: RMB8 million (HK$9.7 million)).

(g) On 27 November 2012, Peninsula Merchandising Limited ("PML"), a wholly owned subsidiary of the Company, entered into a non-exclusive distribution agreement with DFS Group Limited ("DFS") to supply merchandise to DFS during 28 November 2012 to 31 December 2014 on normal commercial terms. DFS is 38.75% held by an Independent Non-Executive Director of the Company indirectly and is therefore a related party of the Company. During 2012, the gross amount of merchandise sold by PML to DFS amounted to HK$3.1 million.

33. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 10.

34. Key sources of estimation uncertainty

Notes 28(a) and 29 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential. The assumptions adopted in the property valuation are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Estimated useful lives of properties, plant and equipment

The Group estimates the useful lives of its properties, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes as well as environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets.

(c) Asset impairment

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 35(j). The factors that the Group considers important in identifying indications of impairment and in assessing the impairment include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant negative industry or economic trends.

(d) Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

35. Significant accounting policies

(a) Basis of preparation of the Financial Statements

The consolidated Financial Statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the Financial Statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

i) investment properties (see note 35(g)); and

ii) derivative financial instruments (see note 35(e))

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of Financial Statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that may have a significant effect on the Financial Statements and major sources of estimation uncertainty are discussed in note 34.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

35. Significant accounting policies continued

(b) Subsidiaries and non-controlling interests continued

An investment in a subsidiary is consolidated into the consolidated Financial Statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 35(c)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 35(j)), unless the investment is classified as held for sale.

(c) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

35. Significant accounting policies continued

(c) Associates and jointly controlled entities continued

An investment in an associate or a jointly controlled entity is accounted for in the consolidated Financial Statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 35(j)). Any acquisition-date excess over costs, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associates or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(d) Equity instruments

The Group's long term investments which are equity in nature (other than investments in subsidiaries, associates and jointly controlled entities) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as interests in equity instruments and recognised in the statement of financial position at cost less provision for impairment losses (see note 35(j)).

Interests in equity instruments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify as cash flow hedges.

35. Significant accounting policies continued

(e) Derivative financial instruments continued

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged transaction affects profit or loss. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(f) Properties, plant and equipment

Hotel and other properties held for own use (including buildings held for own use which are situated on leasehold land classified as held under operating leases) and plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 35(j)).

The cost of self-constructed items of properties, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 35(u)).

Depreciation is calculated to write off the carrying values of items of properties, plant and equipment, less their estimated residual values, if any, on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease

• hotel buildings	75 to 150 years
• other buildings	50 years
• golf courses	100 years
• external wall finishes, windows, roofing and glazing works	10 to 40 years
• major plant and machinery	15 to 25 years
• furniture, fixtures and equipment	3 to 20 years
• operating equipment	3 to 5 years
• motor vehicles	5 to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

35. Significant accounting policies continued

(f) Properties, plant and equipment continued

Where parts of an item of properties, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 35(i)) to earn rental income and/or for capital appreciation. These include land held for currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 35(s).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 35(i)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 35(i).

(h) Investments in hotel management contracts

Payments for acquiring hotel management contracts are capitalised and are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 35(j)).

Amortisation of investments in hotel management contracts is charged to profit or loss on a straight-line basis over the terms of the relevant agreements.

(i) Leased assets

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 35(g)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

35. Significant accounting policies continued

(i) Leased assets continued

Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of financial assets

Investments in equity securities (other than investment in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If any such evidence exists, an impairment loss is determined and recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (see note 35(c)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 35(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 35(j)(ii).

- For unquoted equity instruments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity instruments carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. An impairment loss for trade and other receivables carried at amortised cost is calculated as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

35. Significant accounting policies continued

(j) Impairment of assets continued

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the non-financial assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

In respect of assets other than goodwill, an impairment loss is reversed to profit or loss if the recoverable amount of an asset, or the cash-generating unit to which it belongs, exceeds its carrying amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

– Interim financial reporting and impairment

  Impairment losses recognised in an interim period in respect of goodwill and unquoted equity instruments carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Inventories

Land lots for sale and other inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

(l) Trade debtors and other receivables

Trade debtors and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate less allowance for impairment of doubtful debts (see note 35(j)), except where they are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, they are stated at cost less allowance for impairment of doubtful debts (see note 35(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

35. Significant accounting policies continued

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 35(r), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Termination benefits

Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

35. Significant accounting policies continued

(q) Income tax continued

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 35(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Current tax balances and deferred tax balances and movements therein, are presented separately from each other and are not offset.

(r) Provisions, contingent liabilities and financial guarantees issued

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Group issues a financial guarantee, where material the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

35. Significant accounting policies continued

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group or Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Hotel and golf club operations

Revenue is recognised on a basis that reflects the timing, nature and value when the relevant services are provided.

Sale of land lots

Revenue is recognised upon the transfer of legal title of the land lots. Deposits and instalments received on land lots sold prior to the date of revenue recognition are included in the statement of financial position under trade and other payables.

Sale of goods and wholesaling

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership of the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair values and are denominated in foreign currencies, are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

35. Significant accounting policies continued

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(v) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- vi) The entity is controlled or jointly controlled by a person identified in (1).
- vii) The entity identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments and the amounts of each segment item reported in the Financial Statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

36. Changes in accounting policies

The HKICPA has issued several amendments to HKFRS that are first effective for the current accounting period of the Group. Of these, "Amendments to HKFRS 7, Financial instruments: Disclosure – Transfers of financial assets" are the only development relevant to the Group's Financial Statements.

The amendments to HKFRS 7 require certain disclosures to be included in the Financial Statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous years or the current year which require disclosure in the current accounting year under the amendments.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these Financial Statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10, Consolidated financial statements	1 January 2013
HKFRS 11, Joint arrangements	1 January 2013
HKFRS 12, Disclosure of interests in other entities	1 January 2013
HKFRS 13, Fair value measurement	1 January 2013
HKAS 27, Separate financial statements (2011)	1 January 2013
HKAS 28, Investments in associates and joint ventures	1 January 2013
Revised HKAS 19, Employee benefits	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Disclosure – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

Independent Auditor's Report

Independent auditor's report to the shareholders of
The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司

(incorporated in Hong Kong with limited liability)

We have audited the Consolidated Financial Statements of The Hongkong and Shanghai Hotels, Limited (the "Company") and the subsidiaries (together "the Group") set out on pages 148 to 213, which comprise the consolidated and Company statements of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We have conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Consolidated Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2013

Sustainability Data Statements

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and bench-marking our corporate responsibility performance, our reporting follows Global Reporting Initiative's (GRI) disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance.

1. Sustainability Performance Highlights[1]

			2012	2011	2010	2009	2006-08 baseline
Economic	Revenue	HK$m	**5,234**	5,058	4,731	4,233	–
	Operating costs	HK$m	**2,053**	1,986	1,847	1,698	–
	Employee wage and benefits	HK$m	**1,842**	1,728	1,639	1,512	–
	Capital expenditure	HK$m	**1,049**	335	261	281	–
	Payments to providers of capital	HK$m	**231**	195	171	192	–
	Tax payments to governments[2]	HK$m	**437**	422	376	396	–
	Total floor area	'000 m^2	**588**	588	588	518	518
	Total number of guest nights	'000	**1,110**	1,090	1,082	870	1,089
People	Headcount		**8,006**	7,759	7,730	7,415	–
	Turnover	%	**19.2%**	19.5%	19.4%	11.7%	–
	Headcount by Gender	% Female	**41%**	41%	40%	41%	–
	Average training spend[3]	HK$	**2,645**	–	–	–	–
Health and Safety	Safety						
	Injury rate[4]	reported incidents per 200k hrs	**7.6**	9.5	–	–	–
	Fatality	reported incidents	**0**	0	–	–	–
	Health and safety training	'000 hours	**17**	11	–	–	–
Environment	Greenhouse gas emissions	'000 tCO_2e	**116**	118	127	113	104
	Group carbon intensity	tCO_2e per m^2	**0.197**	0.200	0.216	0.218	0.201
	Total energy use	'000 GJ	**823**	840	856	808	873
	Energy intensity	Mj per m^2	**1,398**	1,428	1,455	1,512	1,684
	Energy saved through reduction initiatives	GJ	**35,711**	44,750[5]		3,540	–
	Emissions of ozone depleting substances	kg CFC-11e	**71**	92	146	167	–
	Direct water consumption	'000 m^3	**1,804**	1,820	1,854	1,539	1,921
	Water intensity						
	Hotels Division	litres per guest night	**1,280**	1,320	1,367	1,363	1,411
	Commercial Properties Division	litres per m^2	**1,888**	1,988	1,773	1,557	1,712
	Water recycled	'000 m^3	**122**	95	142	129	–
	Waste generated[6]	tonnes	**6,270**	4,712	–	–	–
	Waste recycled[6]	tonnes	**2,350**	685	–	–	–
Community	Monetary Donations						
	Company donations[7]	HK$ '000	**1,537**	4,163	617	1,689	–
	Employee/Customer donations	HK$ '000	**1,306**	290	642	97	–
	Community Outreach						
	Service hours	hours	**7,332**	6,192	3,788	2,084	–
	Employee volunteers		**591**	942	2,420	1,004	–
	Internships & Retraining scheme						
	Training hours	'000 hours	**392**	540	305	87	–
	Participants		**1,069**	1,210	693	393	–

Footnotes:

1. Please refer to Reporting Scope on page 61 for the scope of businesses covered in the reporting of employee, health and safety and environmental performance. The 2006-08 baseline are used for benchmarking environmental performance. Collection of health and safety data based on GRI's guidelines began in 2011.
2. Inclusive of corporate income tax, property and real estate tax, and payroll tax.
3. Average training spend is based on total annual training spend per full-time equivalent.
4. Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. Variations in local interpretation of injury definition may affect the completeness of the data reported. Occupational disease rate is not reported here because accurate information is not available.
5. 44,750 GJ represented energy saved over 2010 and 2011 through reduction initiatives implemented.
6. The reporting scope of waste management data has expanded from 2011 to cover 6 more operations so as to align with the scope of other environmental areas. Result reported exclude The Peak Complex as accurate waste data are not available.Group diversion rate in 2012 was 37.5%. If we confine the scope to that of 2011, total waste generated and recycled in 2012 would be 5,888 tonnes and 2,282 tonnes and the overall diversion rate would be 38%.
7. Donations reported have not included HSH's yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Sustainability Data Statements

2. Profile of Our Workforce

		2012 Hotels[1]	2012 Commercial Properties, Clubs & Services[2]	2012 Total	2011 Hotels	2011 Commercial Properties, Clubs & Services	2011 Total	2010 Hotels	2010 Commercial Properties, Clubs & Services	2010 Total	2009 Hotels	2009 Commercial Properties, Clubs & Services	2009 Total
Workforce Demographics	Total Headcount[3]	6,158	1,848	8,006	6,039	1,720	7,759	6,064	1,666	7,730	5,827	1,588	7,415
	by Employment Types												
	Full-time	5,612	1,557	7,169	5,475	1,547	7,022	5,444	1,511	6,955	5,334	1,499	6,833
	Part-time & Casual	546	291	837	564	173	737	620	155	775	493	89	582
	by Type of Contracts												
	Permanent or At Will contract[4]	6,018	1,649	7,667	3,062	1,453	4,515	3,043	1,429	4,472	2,956	1,389	4,345
	Fixed term or temporary contracts	140	199	339	2,752	210	2,962	3,026	221	3,247	2,691	173	2,864
	by Geographical Locations												
	Asia	4,703	1,693	6,396	4,575	1,543	6,118	4,633	1,493	6,126	4,481	1,451	5,932
	United States of America	1,455	155	1,610	1,464	177	1,641	1,431	173	1,604	1,346	137	1,483
	by Gender												
	Male	58.3%	61.3%	59.0%	58.4%	62.7%	59.4%	58.7%	63.6%	59.8%	58.4%	62.7%	59.4%
	Female	41.7%	38.7%	41.0%	41.6%	37.3%	40.6%	41.3%	36.4%	40.2%	41.6%	37.3%	40.6%
	by Management Role												
	Management	7.5%	5.6%	7.1%	7.4%	6.1%	7.1%	6.4%	6.1%	6.4%	11.03%	9%	10.5%
	Non-management	92.5%	94.4%	92.9%	92.6%	93.9%	92.9%	93.6%	93.9%	93.6%	88.97%	89%	89.4%
	Employees under Collective Bargaining	13.9%	9.6%	12.9%	13.0%	12.5%	12.9%	12.0%	12.4%	12.1%	10.9%	9.9%	10.7%
Turnover	Total Turnover Rate[5]	18.3%	21.1%	19.2%	17.6%	26.1%	19.5%	18.1%	24.0%	19.4%	13.0%	11.0%	11.7%
	by Geographical Locations												
	Asia	20.3%	21.6%	20.6%	18.73%	24.69%	20.3%	19.8%	20.4%	20.0%	11.3%	10.7%	11.0%
	United States of America	11.7%	11.5%	11.7%	13.86%	50.59%	16.1%	12.6%	81.3%	17.2%	14.9%	75.0%	15.8%
	by Gender												
	Male	18.5%	18.9%	18.6%	10.14%	13.77%	10.9%	17.6%	23.8%	19.0%	n/a	n/a	n/a
	Female	17.8%	28.0%	19.9%	7.45%	12.35%	8.5%	18.9%	24.5%	20.0%	n/a	n/a	n/a
	by Age Group												
	Under 30 years old	35.6%	41.8%	36.6%	10.10%	8.53%	9.76%	10.2%	8.7%	9.9%	n/a	n/a	n/a
	30 to 50 years old	11.3%	18.8%	12.9%	6.59%	13.77%	8.17%	6.6%	10.4%	7.4%	n/a	n/a	n/a
	Over 50 years old	7.8%	15.4%	10.5%	0.89%	3.81%	1.54%	1.3%	1.4%	2.1%	n/a	n/a	n/a
New Hires	by Geographical Locations												
	Asia	1,026	343	1,369									
	United States of America	230	117	347									
	by Gender												
	Male	703	258	961									
	Female	553	202	755									
	by Age Group												
	Under 30 years old	835	174	1,009									
	30 to 50 years old	397	200	597									
	Over 50 years old	24	86	110									
Parental Leave	Took Parental Leave												
	Male	61	10	71									
	Female	110	13	123									
	Retuned to Work After Taking Parental Leave												
	Male	100%	100%	100%									
	Female	87%	91%	88%									
	Returned and Still Employed After 12 Months												
	Male	98%	86%	97%									
	Female	95%	89%	95%									
Training	Average training spend[6]	HK$ 2,974	HK$ 1,197	HK$ 2,645									
	Employees Receiving Regular Performance Reviews[7]	89.2%	96.9%	90.8%	99.8%	90.5%	97.8%	99.7%	99.9%	99.8%			

Footnote:

1. Data reported under the Hotels Division covers the Group's hotel operations and head office operations in Hong Kong, Beijing, Bangkok, Shanghai and the US.
2. Data reported covers the Group's commercial properties as well as all other clubs and services operations.
3. Headcount data covers the entire workforce including full-time and part-time employees working on permanent, fixed term and at will contracts, and non-contracted employees, but does not include daily contingent casual labour.
4. All employees are employed "at will" at U.S. hotels, which means an employee may resign or be terminated from employment at any time for any or no reason, with or without notice. By 2011, they were grouped as part of fixed term employment, but they are now incorporated into the permanent employment.
5. Based on GRI's disclosure requirement, the turnover rate refers to full-time employees only. 2009 Turnover calculation methodology differs from subsqeuent data, as actual total figures were not available.
6. Average training spend is based on total annual training spend per full-time equivalent.
7. Data reflects the percentage of full-time employees receiving peformance reviews. If total workforce, including part-time and casual employees, is accounted for, the percentrage will be 81.3%, with 83.6% of all male and 78.1% of all female employees.

3. Our Environmental and Community Performance

			2012			2011			2010			2009			2006-2008		
			Hotels	Commercia Properties, Clubs & Services[1]	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
Environment	Greenhouse gas emissions[2]	'000 tCO_2e	**96**	**20**	**116**	95	22	118	104	23	127	91	22	113	84	21	104
	Scope 1 emission	'000 tCO_2e	**16**	**6**	**22**	13	6	19	16	6	22	14	6	20	12	5	16
	Scope 2 emission	'000 tCO_2e	**80**	**14**	**94**	82	16	98	88	17	104	76	16	92	71	16	87
	Carbon intensity	tCO_2e per m^2	**0.214**	**0.142**	**0.197**	0.213	0.160	0.200	0.232	0.164	0.216	0.241	0.157	0.218	0.220	0.147	0.201
	Total energy use	'000 GJ	**682**	**141**	**823**	692	148	840	714	142	856	662	146	808	720	153	873
	Direct energy use	'000 GJ	**182**	**73**	**255**	183	69	251	189	61	251	189	67	256	217	69	287
	Indirect energy use	'000 GJ	**500**	**69**	**568**	510	79	589	524	81	605	473	79	552	502	84	586
	Energy intensity	MJ per m^2	**1,524**	**1,000**	**1,398**	1,547	1,048	1,428	1,623	1,064	1,455	1,684	1,047	1,512	1,899	1,097	1,684
	Direct water consumption	'000 m^3	**1,420**	**384**	**1,804**	1,438	382	1,820	1,479	375	1,854	1,186	354	1,539	1,537	385	1,921
	Water intensity (Hotels Division)	litres per guest night	**1,280**	**–**	**–**	1,320	–	–	1,367	–	–	1,363	–	–	1,411	–	–
	Water intensity[3] (Commercial Properties Division)	litres per m^2	**–**	**1,888**	**–**	–	1,988	–	–	1,773	–	–	1,557	–	–	1,712	–
	Water recycled	'000 m^3	**122**	**–**	**122**	95	–	95	142	–	142	129	–	129	–	–	–
	Waste generated[4]	tonnes	**5,888**	**382**	**6,270**	4,597	115	4,712	–	–	–	–	–	–	–	–	–
	Waste recycled[4]	tonnes	**2,279**	**70**	**2,350**	681	4	685	–	–	–	–	–	–	–	–	–
	Emission of ozone depleters	kg CFC-11e	**55.5**	**15.5**	**71.0**	68.3	23.7	92.0	115.9	30.1	145.9	151.8	15.6	167.4	–	–	–
Community	Monetary donations	HK$ '000	**2,514**	**329**	**2,843**	4,355	98	4,453	1,004	255	1,259	1,635	151	1,786			
	Company donations[5]	HK$ '000	**1,493**	**44**	**1,537**	4,065	98	4,163	389	228	617	1,538	151	1,689			
	Donations by employees and customers	HK$ '000	**1,021**	**285**	**1,306**	290	0	290	615	27	642	97	0	97			
	Community outreach																
	Service hours	hours	**6,248**	**1,084**	**7,332**	6,192	0	6,192	3,608	180	3,788	1,548	536	2,084			
	Employee volunteers		**508**	**83**	**591**	942	0	942	2,307	113	2,420	937	67	1,004			
	Number of beneficiaries		**977**	**2,868**	**3,845**	–	–	–	–	–	–	–	–	–			
	Internship and retraining scheme																
	Training hours	'000 hours	**382**	**10**	**392**	540	0	540	290	15	305	85	2	87			
	Number of participants		**504**	**565**	**1,069**	1,210	0	1,210	679	14	693	389	4	393			

Footnotes:

1. Inclusive of The Repulse Bay Complex, The Peak Complex, St. John's Building, The Landmark, Thai Country Club, Quail Lodge & Golf Club and Tai Pan Laundry.
2. Carbon emission generated from Hong Kong Towngas includes both scope 1 (combustion) and scope 2 (generation and transportation) as required under Hong Kong Carbon Accounting guidelines. For other countries, the extraction, generation and transportation process are considered as scope 3 under GHG Protocol and other international standards, and are therefore excluded.
3. Water intensity of Tai Pan Laundry (8.37 litres per kilogram washed in 2012, down from 14.8 in 2011) is excluded as its intensity is measured on different metrics from that of properties and clubs. The increase of water intensity of the Commercial Properties Division in 2011 was mainly due to the rise in municipal water use at Thai Country Club as a result of the declining quality of well water. The use of local well water was not recorded in the water consumption and intensity in previous years.
4. The reporting scope of waste management data has expanded from 2011 to cover 6 more operations so as to align with the scope of other environmental areas. Result reported exclude The Peak Complex as accurate waste data are not available. Group diversion rate in 2012 was 37.5%. If we confine the scope to that of 2011, total waste generated and recycled in 2012 would be 5,888 tonnes and 2,282 tonnes and the overall diversion rate would be 38%.
5. Donations reported have not included HSH's yearly contribution to the Hong Kong Heritage Project which is an archive project for preserving valuable historical records of the Kadoorie family and its businesses.

Sustainability Data Statements

GRI Index

To facilitate stakeholders in understanding and bench-marking our corporate responsibility performance, our reporting follows the Global Reporting Initiative G3.1 disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance. GRI guidelines help companies in selecting material content and key performance indicators. For more on GRI, please see www.globalreporting.org.

● Fully reported ● Partially reported

Index according to GRI (G3.1 Core Indicators)		Reported	Page(s)
1.	**Vision and Strategy**		
1.1	Statement from the CEO or Chairman	● Fully	7, 20
1.2	Description of key impacts, risks, and opportunities	● Partially	20, 64, 66-67, 125-130
2.	**Organisational Profile**		
2.1-2.6	Name, HQ location, ownership, legal form, structure, countries of operation, primary brands and services	● Fully	2-3, 143-145
2.7	Markets	● Fully	2-3
2.8	Scale of the company	● Fully	2-3
2.9	Significant changes during report period	● Fully	9-10, 14, 18, 61
2.10	Awards received in the report period	● Fully	28-29
3.	**Reporting Parameters**		
3.1-3.5	Reporting period, reporting cycle, contact point, content selection process	● Fully	61, 66-67, 124, 227
3.6-3.8	Boundary of the report, any specific limitations	● Fully	61
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	● Fully	No significant divergence from GRI Protocols. For additional information see the footnotes in the data tables.
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	● Fully	Occupational disease rate has not been reported in 2012 because accurate information is not available; in addition, the 2012 safety disclosure does not cover lost time injuries.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied	● Fully	All employees are employed "at will" at U.S. hotels. By 2011 they were grouped as part of fixed term employment, but they are now incorporated into the permanent employment data. Waste and Community data have been expanded to cover the complete reporting scope of this report. For additional information, please see footnotes in the data tables on pages 215-219 and the Reporting Scope on page 61.
3.12	Table identifying the location of Standard Disclosures	● Fully	220-221
3.13	Policy and current practice with regard to seeking external assurance for the report	● Fully	61, 222
4.	**Management, Obligations and Commitment**		**The policies and procedural manuals for each sustainability areas and the overall governance framework are outlined on page 63. More detailed discussions can also be found at the beginning of each respective section and in the 2011 Sustainability Report.**
4.1	Governance Structure.	● Fully	104, 119
4.2	Independence of the Supervisory Board Chairman	● Fully	107
4.3	Governance body and/or independent members of management	● Fully	106-108, 117-118, 139
4.4	Mechanisms to provide recommendations to highest governance body.	● Fully	66-67, 72, 104, 119
4.5	Linking compensation of senior governance body/ managers with sustainability performance.	● Fully	134-137 We currently do not link compensation of senior managers specifically to sustainability performance. Compensation is linked with a senior manager's overall performance which includes sustainability performance along with other aspects such as operational and management performances.
4.6, 4.7	Processes to avoid conflicts of interest and for determining composition, qualifications, diversity and expertise of the highest governance body and its committees.	● Fully	111, 115, 117-118, 133, 139
4.8, 4.12	Internal statements of sustainability mission, values, codes of conduct, and principles and the status of their implementation. External charters, principles, or other initiatives to which the organisation subscribes.	● Fully	61, 63, 69, 87-88

Index according to GRI (G3.1 Core Indicators)		Reported	Page(s)
4.9	Procedures of the highest governance body for overseeing the identification and management of sustainability performance, including relevant risks, and compliance with international standards/codes.	●	63-67, 119
4.10	Processes for evaluating the highest governance body's own sustainability performance.	●	63, 119
4.11	Explanation of whether/how the precautionary approach or principle is addressed.	●	63, 66-67, 74, 82-86
4.13	Memberships of strategic nature with associations or advocacy bodies	●	63, 87, 90
4.14-4.17	Selection of stakeholders, stakeholders engaged, approaches to stakeholder dialogue (type/frequency), statements on key concerns raised by stakeholders	●	66-67
5.	**Performance Indicators**		
5.1	**Economics**		
EC1	Economic value generated and distributed	●	32-59, 215
EC3	Defined benefit plan coverage	●	183-185
EC4	Significant financial assistance received from government	●	No significant financial assistance received from government
5.2	**Environment**		
EN3	Direct energy consumption by primary energy source	●	75
EN4	Indirect energy consumption by primary source	●	75
EN5	Energy saved due to energy efficiency improvements	●	75, 215
EN6	Energy efficiency initiatives/renewable energy based products, and resulting energy reductions achieved	●	75-77, 81
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●	75-77
EN10	Percentage/total volume of water recycled & reused	●	77-78
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	●	215, 218-219
EN16	Total direct/indirect GhGs emissions by weight	●	75, 215,218-219
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	●	75-76, 87
EN19	Emissions to ozone-depleting substances by weight	●	77, 215, 218-219
EN22	Total weight of waste by type and disposal method	●	79-81, 215, 218-219
EN23	Total number and volume of significant spills.	●	No significant spills recorded in 2012
EN26	Initiatives to mitigate environmental impacts of products and services	●	74-81, 87-89
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	No fines or non-monetary sanctions for non-compliance with environmental laws and regulations recorded in 2012.
5.3	**Social and Wider Society Performance**		
LA1	Workforce by employment type and region	●	68, 216-217
LA2	Total number and rate of new employee hires and turnover by age group, gender, and region.	●	70-71, 216-217
LA4	Percentage of employees covered by collective bargaining agreements	●	69, 216-217
LA7	Injuries, absentee rates and work-related fatalities	●	83, 215
LA12	Percentage of employees receiving regular performance and career development reviews	●	70, 216-217
LA15	Return to work and retention rates after parental leave, by gender	●	71, 216-217
HR3	Employee training on aspects of human rights	●	69
HR4	Incidents of discrimination and actions taken	●	69
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	●	No incidents of violations involving rights of indigenous people were recorded
SO3	Percentage of employees trained in corruption prevention	●	69
SO4	Actions taken in response to incidents of corruption	●	69
SO8	Monetary value of fines and number of non-monetary sanctions for non-compliance with laws and regulations	●	Except as stated on page 71, there was no non-compliance with laws that resulted in significant fines or sanctions identified.
PR4	Total number of incidents of non-compliance with regulations/voluntary codes on product and service information and labelling, by type of outcomes.	●	No incidents of non-compliance recorded.
PR8	Total number of substantiated complaints on breaches of customer privacy and losses of customer data.	●	No incidents of substantiated complaints regarding breaches of customer privacy and losses of customer data.

Independent Assurance Report

Independent Assurance Report to
The Hongkong and Shanghai Hotels, Limited

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited to provide assurance on the Sustainability Review and Data Statements 2012 (further referred to as "The Report") for the year ended 31 December 2012.

Responsibilities of the Directors of The Hongkong and Shanghai Hotels, Limited

The Directors of The Hongkong and Shanghai Hotels, Limited ("HSH") are responsible for the preparation of The Report for the year ended 31 December 2012, for determining the content and statements contained therein, and for establishing sustainability reporting guidelines and maintaining appropriate records from which the reported sustainability information is derived.

Responsibilities of the independent assurance provider

Our responsibility is to express our conclusions to HSH on the findings of our work referred to below and to examine the presentation of the sustainability information for consistency with our findings. Our independent limited assurance report is made solely to HSH in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Board of Directors of HSH those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than HSH for our work, for this independent limited assurance report, or for the conclusions we have reached.

Scope of work

Our engagement was designed to provide the readers of The Report with limited assurance on whether the information in The Report is in all material respects fairly stated in accordance with the reporting criteria described below. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

Basis of our work

We conducted our work in accordance with ISAE 3000[1], with a team of specialists in auditing sustainability information and with experience in similar engagements. This standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain limited assurance about whether the information presented is free from material misstatement.

HSH uses the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3.1), as detailed in the Reporting Standards and Assurance of the Sustainability Review. It is important to view the performance data in the context of this explanatory information.

Work performed

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary to provide sufficient evidence for us to give limited assurance over the scope of work outlined above.

Our work included the following procedures using a range of evidence-gathering activities which are further explained below:

- An evaluation of the results of HSH's stakeholder consultation processes and their methodology for determining the material issues for key stakeholder groups;
- Media analysis and an internet search for references to HSH during the reporting period;
- Conducting interviews across the business concerning sustainability strategy and policies for materials issues and their implementation;
- Conducting interviews with management and other personnel at HSH to obtain an understanding of the information collection process;
- Examining and testing of the systems and processes in place to generate, aggregate and report the sustainability performance information. We also tested the reliability of underlying sustainability information at the local operations selected for a site visit;
- Visits to a risk-based selection of two local operations;
- Checking the GRI Index on pages 220 to 221 to ensure consistency with the GRI application level of B+; and
- Reading the information presented in The Report to determine whether it is in line with our overall knowledge of the sustainability performance of HSH.

Conclusion

Based on the work performed described above, nothing has come to our attention that causes us to believe that The Report of HSH for the year ended 31 December 2012, is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3.1) as described on pages 220 to 221 of the Report.

KPMG

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2013

1. International Standard on Assurance Engagements 3000: Assurance engagements other than audits or reviews of historical information, issued by the International Auditing and Assurance Standards Board.

GRI Accreditation Statement

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **The Hongkong and Shanghai Hotels, Limited** has presented its report "Sustainability Report 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 20 February 2013

B+
GRI REPORT
GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because The Hongkong and Shanghai Hotels, Limited has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 19 February 2013. GRI explicitly excludes the statement being applied to any later changes to such material.*

Glossary

Terms	
Average room rate	This reveals the average rate charged per occupied room, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms occupied}}$
Adjusted net assets	The figure provides an adjusted value assessment of the Group's assets based on current market valuation
Biofuel	Fuel whose energy is derived from biological sources eg biomass or biogases
Back-of-house	Staff-only areas, usually in a hotel
Carbon dioxide equivalent (CO_2e)	The 'CO_2e' measures how much global warming a given type and amount of greenhouse gas may cause, using the equivalent amount or concentration of carbon dioxide (CO_2) as the reference
Carbon intensity	Amount of carbon dioxide released per unit of energy produced (usually CO_2 per Mega Joules of energy)
Carbon footprint	The total set of greenhouse gas (GHG) emissions caused by an organization, not always expressed in spatial terms
Compact Fluorescent Lamps (CFLs)	Compact Fluorescent Lamps are low energy lights, using around a third to a fifth less energy with a longer life
Corporate Responsibility	A systematic approach whereby a business monitors and ensures its compliance with the law, ethical standards, and international standards relating to the environment, consumers, employees, communities, and other stakeholders
Sustainable Development	Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Source: 'Our Common Future', 1987, World Commission on Environment and Development.
Diversion rate	Waste diversion is the process of diverting waste from landfill through recycling, reuse or other means, expressed as a percentage of total waste arising in an organisation, for example.
EBITDA	The figure reflects the profitability of the operations of the Group before interest, tax, depreciation and amortisation
Front-of-house	In sight of guests/customers, staff at front-of-house are visible representatives of the company
Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$

Terms	
Global Reporting Initiative (GRI)	A non-profit organisation that produces one of the world's most prevalent standards for sustainability reporting
Greenhouse Gas (GHG) Emissions	Also referred to as GHG. Emissions of gasses (e.g. carbon dioxide, methane) which have the potential to cause earth warming.
HACCP	Hazard Analysis and Critical Control Points (HACCP) is an internationally recognised food safety and hygiene standard for commercial kitchens.
Health & Safety	Responsibility to protect the health and welfare of stakeholders, namely employees, customers, contractors and suppliers
Indoor Air Quality (IAQ)	Refers to the air quality within and around buildings and structures, especially as it relates to the health and comfort of building occupants
Interest cover	The ratio reflects the ability of the Group to meet its financing costs expressed as a multiple of its operating profit
IUCN Red List	The world's most comprehensive inventory of the global conservation status of biological species (www.iucnredlist.org)
Light-emitting diode (LED)	A semiconductor light source, better than incandescent light sources: lower energy consumption, longer lifetime, improved robustness, smaller size, and faster switching
LEED	Leadership in Energy and Environmental Design: a rating for the design, construction and operation of green buildings
Life cycle	The stages of a product's life from-cradle-to-grave (i.e. from raw material extraction through materials processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling).
Injury Rate	Represents the number of injuries per 100 equivalent employees per year. It is calculated as the Total Injuries multiplied by 200,000 and then divided by total hours worked. The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year.
Marine Stewardship Council (MSC)	An independent non-profit organisation with an ecolabel and fishery certification programme that is internationally recognised. (www.msc.org)
Occupancy percentage	This reveals the extent of rooms being occupied, calculated based on the following formula: $\frac{\text{Rooms occupied}}{\text{Rooms available}} \times 100\%$

Glossary

Terms	
Ozone-depleting substance (ODS)	Any substance with an ozone depletion potential (ODP) greater than 0 that can deplete the stratospheric ozone layer. Most ozone-depleting substances are controlled under the Montreal Protocol and its amendments, and include CFCs, HCFCs, halons, and methyl bromide. CFC-11 is a measure used to compare various substances based on their relative ozone depletion potential.
PP	Percentage points
RevPAR	The figure reflects the revenue generating ability of the Group's hotels from available rooms, calculated based on the following formula: $\frac{\text{Total rooms revenue}}{\text{Rooms available}}$
Safety management systems	Management system designed to manage health and safety, environmental and general risk of a companies' operations
Stakeholders	Group or individuals that are affected by or can affect a company's activities
Sustainable building	Also known as "Green Building". A building which is environmentally responsible and resource-efficient throughout its life-cycle
Sustainable luxury	Luxury products or services which maintain a level of responsibility to both the environment and society.
Sustainable procurement	Considering sustainability in procurement decisions, alongside other factors such as price and quality
Underlying profit attributable to shareholders	The figure reflects the profitability of the Group arising from its operations by excluding non-operating and non-recurring items
Variable Frequency Drive (VFD)	Energy saving devices that match motor speed to output requirement, so only the energy that is needed is produced.
Volatile Organic Compound (VOC)	Substances that are typically gas at room temperatures and can cause health issues if inhaled. Paints for example can emit VOCs
Water footprint	Total volume of freshwater used to produce the goods and services consumed by an individual, community or business
Water stress	In general terms, a country or region is said to experience water stress when annual water supplies drop below 1,700 cubic metres per person per year

Information for Investors

BOARD OF DIRECTORS

The Hon. Sir Michael Kadoorie [NE]
Non-Executive Chairman

Ian Duncan Boyce [AREF]
Non-Executive Deputy Chairman

Executive Directors

Clement King Man Kwok [EF]
Managing Director & Chief Executive Officer

Neil John Galloway [F]
Chief Financial Officer

Peter Camille Borer
Chief Operating Officer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh [EF]
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. the Hon. Sir David Kwok Po Li [N]
Robert Warren Miller [R]
Patrick Blackwell Paul [AR]
Pierre Roger Boppe
Dr. William Kwok Lun Fung [AN]
Dr. Rosanna Yick Ming Wong

Company Secretary

Christobelle Yi Ching Liao

Auditor

KPMG
Certified Public Accountants, Hong Kong

A - Audit Committee Member
N - Nomination Committee Member
R - Remuneration Committee Member
E - Executive Committee Member
F - Finance Committee Member

Shareholders' calendar

For entitlement to attend and vote at the Annual General Meeting
Last day to register: 29 April 2013 4:30pm
Closure of register of members: 30 April 2013 to 3 May 2013 (both days inclusive)

Annual General Meeting: 3 May 2013

For entitlement to receive the final dividend
Last day to register: 8 May 2013 4:30pm
Closure of register of members: 9 May 2013 to 13 May 2013 (both days inclusive)

Final dividend: 10 HK cents per share
Payable: 20 May 2013

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The Peak:
www.thepeak.com.hk

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www.thelandmarkvietnam.com

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Concept and design by YELLOW CREATIVE (HK) LIMITED

Wall artworks on the front cover and on pages 6 and 8 were by William Furniss, who created these pieces for the newly renovated Peninsula Hong Kong.

Photos on front cover, content page, pages 6, 8, 74, 80, 82, 85, 87, 94, Board of Directors at the gatefold and in the feature stories section were by Graham Uden.

www.hshgroup.com

The Hongkong and Shanghai Hotels, Limited

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