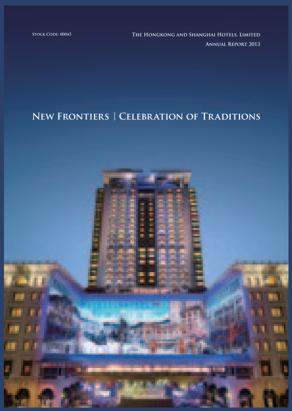
Stock Code: 00045

The Hongkong and Shanghai Hotels, Limited

Annual Report 2013

New Frontiers | Celebration of Traditions

NEW FRONTIERS | CELEBRATION OF TRADITIONS



2013 was a year of new frontiers and celebration of traditions for The Hongkong and Shanghai Hotels, Limited and is the theme for this year's Annual Report. The Group reported exciting growth in its asset portfolio with acquisitions in London, Paris and Yangon. The Company also celebrated significant milestones including the 85th Anniversary of The Peninsula Hong Kong, 25th Anniversary of The Peninsula New York, 15th Anniversary of The Peninsula Bangkok, and the 125th Anniversary of the Peak Tram.

Contents

Company at a Glance

Hotels

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 tourism and leisure, club management and other services.

HSH businesses are grouped under three divisions: hotels, commercial properties and clubs and services.

The Peninsula Hong Kong

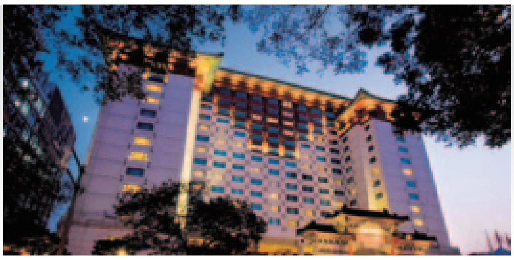
Established: 1928
Rooms: 300
Ownership: 100%

The Peninsula Shanghai

Established: 2009
Rooms: 235
Ownership: 50%

The Peninsula Beijing

Established: 1989
Rooms: 525
Ownership: 76.6%*



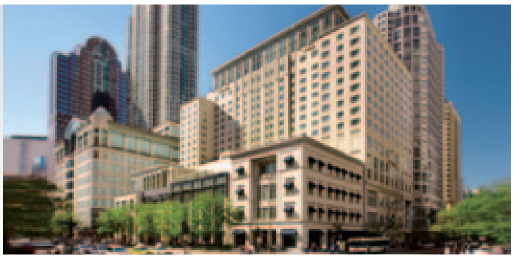
USA

The Peninsula New York

Acquired: 1988
Rooms: 239
Ownership: 100%

The Peninsula Chicago

Established: 2001
Rooms: 339
Ownership: 100%



The Peninsula Beverly Hills

Established: 1991
Rooms: 194
Ownership: 20%

* *The Group owns 100% economic interest of the Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operating joint venture period.*

The Peninsula Tokyo

Established: 2007

Rooms: 314

Ownership: 100%

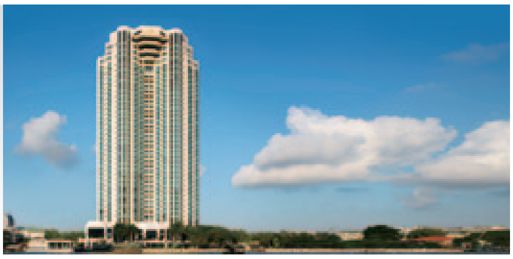
Asia

The Peninsula Bangkok

Established: 1998

Rooms: 370

Ownership: 75%



The Peninsula Manila

Established: 1976

Rooms: 497

Ownership: 77.4%

The Peninsula Paris

Opening in 2014

Rooms: 200

Ownership: 20%

Europe

GRI G4 Material Disclosure: G4-17

Commercial Properties

Residential

The Repulse Bay, Hong Kong

Established: 1976 & 1989
GFA: 995,546 sq. ft.
Ownership: 100%

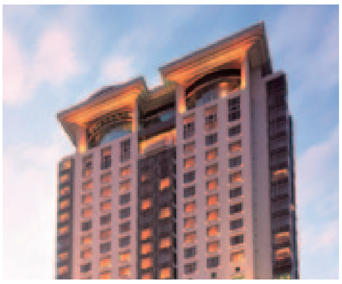
The Landmark, Ho Chi Minh City, Vietnam

Established: 1994
GFA: 69,750 sq. ft.
Ownership: 70%**

Office

The Peninsula Office Tower, Hong Kong

Established: 1994
GFA: 77,071 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: 106,153 sq. ft.
Ownership: 70%**

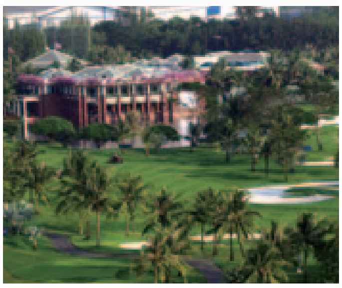
Clubs & Services

Peak Tram, Hong Kong

Established: 1888
Ownership: 100%

Thai Country Club, Bangkok, Thailand

Established: 1996
Ownership: 75%



Quail Lodge & Golf Club, Carmel, USA

Acquired: 1997
Ownership: 100%

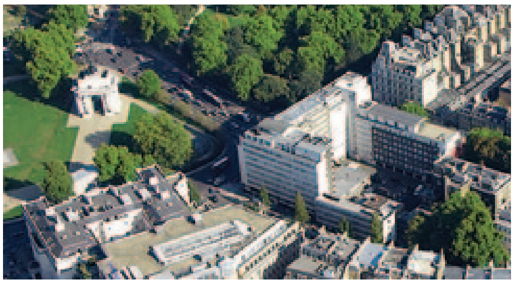
*** The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner at the end of the joint venture period.*

Commercial

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

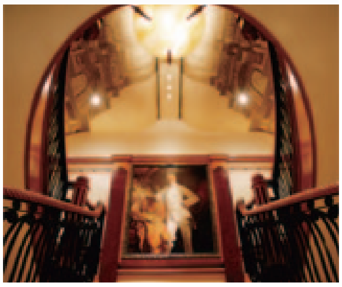
The Repulse Bay Complex, Hong Kong
Established: 1989
GFA: 62,909 sq. ft.
Ownership: 100%

1-5 Grosvenor Place, London, United Kingdom
Acquired: 2013
GFA: 246,192 sq. ft.
Ownership: 50%

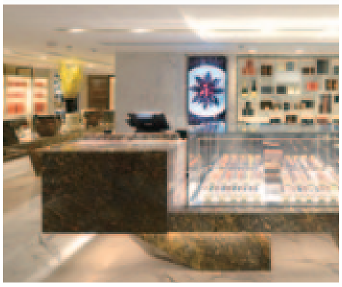


21 avenue Kléber, Paris, France
Acquired: 2013
GFA: 43,163 sq. ft.
Ownership: 100%

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



Peninsula Merchandising
Established: 2003
Ownership: 100%



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

GRI G4 Material Disclosure: G4-17

2013 Performance Highlights

↑ 6% (2013 / 2012)	Turnover	HK$5,508m
↑ 9% (2013 / 2012)	EBITDA	HK$1,306m
↑ 10% (2013 / 2012)	Profit Attributable to Shareholders	HK$1,712m
↑ 16% (2013 / 2012)	Underlying Profit Attributable to Shareholders	HK$511m
↑ 10% (2013 / 2012)	Earnings per Share	HK$1.14
↑ 17% (2013 / 2012)	Underlying Earnings per Share	HK$0.34
↑ 6% (2013 / 2012)	Shareholders' Funds	HK$35,105m
↑ 14% (2013 / 2012)	Dividends per Share	16 HK cents
↓ 5% (2013 / 2012)	Greenhouse Gas Emissions	112,024 tonnes
↑ 11% (2013 / 2012)	Revenue per Greenhouse Gas Emission	HK$49,600 per tonnes of carbon dioxide equivalent
↓ 1% (2013 / 2012)	Energy Consumed	847,233 Gigajoules
↑ 7% (2013 / 2012)	Revenue per Energy Used	HK$6,600 per Gigajoules
↑ 3% (2013 / 2012)	Water Consumed	1,853,386 m^3
↑ 1% (2013 / 2012)	Revenue per Full-Time Headcount	HK$739,400

Financial Highlights

	2013	2012	Increase/ (Decrease)
Consolidated Income Statement (HK$m)			
Turnover	**5,508**	5,178	6%
EBITDA	**1,306**	1,201	9%
Operating profit	**911**	817	12%
Profit attributable to shareholders	**1,712**	1,555	10%
Underlying profit attributable to shareholders*	**511**	439	16%
Dividends	**240**	210	14%
Earnings per share (HK$)	**1.14**	1.04	10%
Underlying earnings per share (HK$)*	**0.34**	0.29	17%
Dividends per share (HK cents)	**16**	14	14%
Dividend cover (times)**	**2.1x**	2.1x	–
Interest cover (times)	**9.7x**	9.6x	1%
Weighted average gross interest rate	**2.9%**	3.2%	(0.3pp)
Consolidated Statement of Financial Position (HK$m)			
Total assets	**43,119**	39,807	8%
Audited net assets attributable to shareholders	**35,105**	33,150	6%
Adjusted net assets attributable to shareholders#	**38,486**	36,396	6%
Audited net assets per share (HK$)	**23.37**	22.07	6%
Adjusted net assets per share (HK$)#	**25.62**	24.23	6%
Net borrowings	**3,992**	1,989	101%
Funds from operations to net debt##	**28%**	48%	(20pp)
Net debt to EBITDA (times)	**3.1x**	1.7x	82%
Net debt to equity	**11%**	6%	5pp
Gearing	**10%**	6%	4pp
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before taxation	**1,401**	1,133	24%
Capital expenditure on fixed assets (excluding new acquisitions)	**(928)**	(875)	6%
Acquisition of 1-5 Grosvenor Place	**(1,688)**	n/a	n/a
Acquisition of 21 avenue Kléber	**(605)**	n/a	n/a
Share Information (HK$)			
Highest share price	**14.20**	11.92	19%
Lowest share price	**10.38**	8.63	20%
Year end closing share price	**10.52**	10.82	(3%)

* 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 assets attributable to shareholders and adjusted net assets 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.

\## Being EBITDA less tax paid and net interest paid as a percentage of net debt.

pp Denotes percentage points.

FINANCIAL REVIEW SUMMARY

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

EBITDA and EBITDA margin of the Group for 2013 increased by 9% and one percentage point to HK$1,306 million and 24% respectively. These increases were mainly due to improved performances of the hotels and commercial properties divisions.

2 Purchase of fixed assets

The Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of FF&E, purchase of new items and major upgrade or enhancement projects. Together with the capital expenditure incurred for new acquisitions, the spending of HK$3,221 million in 2013 can be analysed as follows:

	HK$m
Acquisition of a 50% interest in 1-5 Grosvenor Place	1,688
Purchase of 21 avenue Kléber	605
Guestroom enhancement project at The Peninsula Hong Kong	198
Reconfiguration and other upgrade works at The Repulse Bay Complex	293
Other CAPEX on existing assets	437
	3,221

Consolidated Statement of Financial Position at 1.1.2013

	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	(1,451)
	33,439
Capital and reserves	
Share capital and premium	4,361
Retained profits	28,687
Hedging reserve	(72)
Other reserves	174
	33,150
Non-controlling interests	289
	33,439

Consolidated Statement of Cash Flows for the year ended 31.12.2013

		HK$m
1 EBITDA		1,306
Net changes in debtors/creditors		95
Payment of current tax		(93)
2 Purchase of fixed assets		(3,221)
Proceeds from disposal of an unlisted equity instrument		3
Net repayment from a joint venture		63
Loans to an associate		(224)
Net financing charges and dividends paid		(328)
Net increase in bank borrowings		1,679
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		54
Net cash outflow for the year		(666)
Cash and bank balances	2,185	
Less: Bank deposits maturing more than 3 months	(494)	
Less: Bank overdrafts	(9)	
Cash & cash equivalents at 1.1.2013		1,682
Effect of changes in exchange rates		20
Cash & cash equivalents at 31.12.2013*		1,036
* Representing:		
Cash and bank balances		1,494
Bank deposits maturing more than 3 months		(440)
Bank overdrafts		(18)
		1,036

Consolidated Income Statement for the year ended 31.12.2013

	HK$m
3 Turnover	5,508
Operating costs before depreciation and amortisation	(4,202)
EBITDA	1,306
Depreciation and amortisation	(395)
Operating profit	911
Net financing charges	(94)
Profit after net financing charges	817
4 Share of result of a joint venture	(280)
5 Increase in fair value of investment properties	1,403
Gain on disposal of an unlisted equity instrument	3
6 Taxation	(231)
Profit attributable to shareholders	1,712

Consolidated Retained Profits for the year ended 31.12.2013

	HK$m
Retained profits at 1.1.2013	28,687
Profit attributable to shareholders for the year	1,712
Dividends distributed during the year	(210)
Retained profits at 31.12.2013	30,189

Consolidated Statement of Financial Position at 31.12.2013

	HK$m
Net assets	
Fixed assets	38,187
Other long term investments	2,560
Deferred tax assets	3
Derivative financial instruments	8
Cash and bank balances	1,494
Other current assets	867
	43,119
Bank overdrafts	(18)
Bank borrowings	(5,468)
Derivative financial instruments	(35)
Deferred tax liabilities	(707)
Other liabilities	(1,517)
	35,374
Capital and reserves	
Share capital and premium	4,361
Retained profits	30,189
Hedging reserve	(35)
Other reserves	590
	35,105
Non-controlling interests	269
	35,374

Underlying profit attributable to shareholders for the year ended 31.12.2013

	HK$m
Profit attributable to shareholders	1,712
Non-operating items	(1,201)
7 Underlying profit attributable to shareholders	511

3 Turnover

The hotels division is the main contributor to the Group's revenue, accounting for 73% of the total revenue. In 2013, our hotels generally performed well and achieved satisfactory revenue growth as a result of our effective marketing campaigns and revenue management strategy.

The commercial properties division achieved a revenue growth of 10%, mainly due to increased contributions from The Repulse Bay Complex and The Peak Tower.

For the clubs and services division, the 18% increase in revenue was mainly due to the re-opening of the hotel portion of Quail Lodge & Golf Club in March 2013 and the increased mooncake sales revenue achieved by Peninsula Merchandising during the year.

Detailed discussion of the operating performance of each division is set out on pages 25 to 38.

4 Share of result of a joint venture

The Group has a 50% interest in The Peninsula Shanghai Complex. The increase in share of loss of this joint venture was mainly due to the reclassification of 19 apartment units as "assets held for sale" during 2013 which necessitated the provision of an unrealised net loss of HK$355 million. This loss mainly comprises the PRC land appreciation tax in respect of the 19 apartment units held for sale which is assessed based on progressive tax rates of 30% - 60% of the appreciation in value. Details of the joint venture's result are summarised on pages 45 and 46.

5 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$1,403 million, principally attributable to The Repulse Bay Complex and the shopping arcades at The Peninsula Hong Kong and The Peninsula New York.

6 Taxation

The increase in taxation in 2013 was due to the improved profitability and the provision of deferred tax in respect of the gain on fair value of the shopping arcade at The Peninsula New York.

7 Underlying profit attributable to shareholders

To provide additional insight into the performance of its business operations, the Group presents underlying profit by excluding non-operating and non-recurring items such as any change in fair value of investment properties. Details of the reconciliation from reported profit to underlying profit are summarised on pages 40 and 41.

Ten Year Operating Statistics

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
a) The Peninsula Hotels:										
Hong Kong (Note 1)										
Occupancy rate	**72%**	79%	74%	70%	57%	71%	77%	80%	79%	69%
Available rooms	**242**	155	300	300	300	300	300	300	300	300
Average room rate (HK$)	**5,170**	5,133	4,503	4,197	4,176	4,504	4,151	3,551	3,160	2,925
RevPAR (HK$)	**3,731**	4,072	3,347	2,926	2,401	3,219	3,182	2,851	2,498	2,020
Other Asia (apart from Hong Kong) (Note 2)										
Occupancy rate	**66%**	63%	57%	58%	48%	57%	68%	68%	72%	67%
Available rooms	**1,941**	1,941	1,941	1,941	1,941	1,706	1,706	1,392	1,393	1,398
Average room rate (HK$)	**2,065**	2,179	2,156	2,100	1,904	2,237	1,668	1,269	1,073	955
RevPAR (HK$)	**1,361**	1,367	1,221	1,214	920	1,284	1,139	858	773	641
United States of America										
Occupancy rate	**74%**	72%	69%	65%	59%	68%	76%	76%	75%	76%
Available rooms	**772**	771	771	771	771	771	771	772	774	774
Average room rate (HK$)	**4,858**	4,627	4,550	4,403	4,292	4,936	4,844	4,337	3,867	3,318
RevPAR (HK$)	**3,573**	3,346	3,135	2,856	2,511	3,378	3,701	3,282	2,902	2,522
b) Residential (Note 3)										
Occupancy rate	**89%**	92%	91%	92%	88%	94%	92%	91%	82%	77%
Average monthly yield per square foot (HK$)	**42**	41	38	36	37	39	35	33	27	25
c) Shopping Arcades (Note 4)										
Occupancy rate	**99%**	99%	97%	96%	95%	97%	97%	93%	90%	96%
Average monthly yield per square foot (HK$)	**191**	179	168	153	168	165	148	148	140	132
d) Offices (Note 5)										
Occupancy rate	**92%**	96%	100%	98%	91%	98%	99%	100%	95%	84%
Average monthly yield per square foot (HK$)	**48**	45	45	42	36	35	27	22	19	18
e) Peak Tram										
Patronage ('000)	**6,272**	5,918	5,777	5,385	4,862	5,006	4,939	4,430	3,923	4,107
Average fare (HK$)	**19**	19	19	17	16	16	16	15	14	14
f) Full Time Headcount										
Hotels	**5,877**	5,612	5,475	5,444	5,489	5,239	5,138	4,601	4,334	4,814
Commercial Properties	**332**	314	323	331	339	339	329	316	307	297
Clubs and Services	**1,302**	1,243	1,224	1,180	998	1,056	1,027	1,004	981	955
Total headcount	**7,511**	7,169	7,022	6,955	6,826	6,634	6,494	5,921	5,622	6,066

Notes:

1. The renovation in The Peninsula Hong Kong was completed in two phases, resulting in 135 rooms being removed from saleable inventory from January to September 2012, followed by 165 rooms being out of saleable inventory from September 2012 to May 2013.
2. The number of rooms increased after the opening of The Peninsula Tokyo in September 2007 and The Peninsula Shanghai in October 2009.
3. Residential properties includes all apartments in The Repulse Bay Complex. The statistics are affected by the re-opening of de Ricou tower in August 2013 after an 18-month closure for a complete renovation.
4. Shopping arcades are located in The Peninsula Hotels in Hong Kong, Shanghai, Beijing, New York, Tokyo, Bangkok and Manila, as well as The Repulse Bay Complex and The Peak Tower.
5. Offices are located in The Peninsula Hong Kong and St. John's Building.

General notes for hotels in section a) above:

1. Occupancy rates, average room rates and RevPAR are weighted averages for the hotels in each grouping.
2. The average room rates and RevPAR include undistributed service charge, which is levied at 10% in Hong Kong and at 15% in China and Japan.

General notes for other businesses in sections b) to f) above:

1. Occupancy rates are weighted averages based on the space available in each grouping.
2. The operating statistics do not include information for operations that are not consolidated or whose results are not material in the Group context: The Landmark, Vietnam; The Peninsula Residences, Shanghai; and 21 avenue Kléber, Paris. The operating statistics also do not include information for 1-5 Grosvenor Place, London because of the proposed redevelopment.
3. The full-time headcount as at 31 December each year.

Ten Year Financial Summary

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Consolidated Income Statement (HK$m)										
Turnover	**5,508**	5,178	5,009	4,707	4,218	4,938	4,542	3,717	3,276	3,120
EBITDA	**1,306**	1,201	1,211	1,143	924	1,425	1,510	1,275	1,092	992
Operating profit	**911**	817	834	794	586	1,051	1,175	1,024	850	749
Profit attributable to shareholders	**1,712**	1,555	2,259	3,008	2,660	(27)	4,002	2,350	2,830	3,218
Underlying profit attributable to shareholders *	**511**	439	464	408	323	808	906	787	638	381
Dividends	**240**	210	208	177	132	246	259	228	199	168
Earnings per share (HK$)	**1.14**	1.04	1.52	2.04	1.82	(0.02)	2.79	1.65	2.01	2.30
Underlying earnings per share (HK$)*	**0.34**	0.29	0.31	0.28	0.22	0.56	0.63	0.55	0.45	0.27
Dividends per share (HK cents)	**16**	14	14	12	9	17	18	16	14	12
Dividend cover (times) **	**2.1x**	2.1x	2.2x	2.3x	2.4x	3.3x	3.5x	3.5x	3.2x	2.3x
Interest cover (times)	**9.7x**	9.6x	9.5x	7.4x	6.8x	15.5x	13.5x	8.6x	5.2x	3.1x
Weighted average gross interest rate	**2.9%**	3.2%	3.1%	3.2%	3.2%	3.4%	4.2%	5.0%	5.0%	5.0%
Consolidated Statement of Financial Position (HK$m)										
Total assets	**43,119**	39,807	38,233	36,587	32,872	29,606	29,519	24,609	21,972	21,061
Total liabilities	**(7,745)**	(6,368)	(6,490)	(6,498)	(5,817)	(5,215)	(4,911)	(4,419)	(4,196)	(6,104)
Non-controlling interests	**(269)**	(289)	(283)	(981)	(908)	(934)	(891)	(783)	(710)	(614)
Audited net assets attributable to shareholders	**35,105**	33,150	31,460	29,108	26,147	23,457	23,717	19,407	17,066	14,343
Adjusted net assets attributable to shareholders#	**38,486**	36,396	34,708	31,893	28,571	26,611	27,056	21,859	19,970	17,384
Audited net assets per share (HK$)	**23.37**	22.07	21.11	19.67	17.79	16.18	16.45	13.59	12.04	10.23
Adjusted net assets per share (HK$)#	**25.62**	24.23	23.29	21.55	19.44	18.35	18.76	15.31	14.09	12.40
Net borrowings	**(3,992)**	(1,989)	(2,335)	(1,674)	(1,990)	(1,198)	(1,455)	(2,076)	(2,313)	(4,274)
Funds from operations to net debt##	**28%**	48%	42%	52%	33%	92%	86%	48%	35%	16%
Net debt to EBITDA (times)	**3.1x**	1.7x	1.9x	1.5x	2.2x	0.8x	1.0x	1.6x	2.1x	4.3x
Net debt to equity	**11%**	6%	7%	6%	8%	5%	6%	11%	14%	30%
Gearing	**10%**	6%	7%	5%	7%	5%	6%	10%	12%	23%
Consolidated Statement of Cash Flows (HK$m)										
Net cash generated from operating activities before taxation	**1,401**	1,133	1,145	1,173	904	1,429	1,616	1,271	1,139	1,042
Capital expenditure on fixed assets	**(928)**	(875)	(312)	(276)	(269)	(417)	(213)	(437)	(292)	(175)
Investment in new projects	**(2,293)**	–	(578)	–	(1,157)	–	(595)	(208)	(372)	(185)
Share Information										
Highest share price (HK$)	**14.20**	11.92	14.74	14.90	11.98	14.50	15.46	13.50	9.65	7.50
Lowest share price (HK$)	**10.38**	8.63	8.10	10.32	4.26	5.13	10.90	8.00	6.40	4.15
Year end closing share price (HK$)	**10.52**	10.82	8.61	13.32	11.36	5.86	13.70	13.14	8.50	6.95

* 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 assets attributable to shareholders and adjusted net assets 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.

Being EBITDA less tax paid and net interest paid as a percentage to net debt.

Chairman's Statement

As pioneers of our industry, we continue to innovate, improve and invest in our assets to ensure we maintain our position as one of the finest luxury hotel brands in the world.

Dear Shareholders,

2013 was a year that will go down in the long history of your company as a year of new frontiers and celebration of our traditions. We are very proud of our 148-year heritage but we take care not to rest on the laurels of history. As pioneers of our industry, we continue to innovate, improve and invest in our assets to ensure we maintain our position as one of the finest luxury hotel brands in the world.

Our long-term strategy is to own and operate a small number of the world's best hotels and I am happy to report that this year has been a notable one in progressing this approach and adding long-term value to shareholders. After decades of searching for an ideal site in London, we completed in July 2013 the acquisition of a 50 percent ownership interest in a commercial property at 1-5 Grosvenor Place, Belgravia, London, partnering with international property company Grosvenor. Together, we plan to redevelop this property into The Peninsula London, subject to obtaining various planning approvals.

One of the world's most exciting emerging markets is Myanmar and I am pleased that in 2013, we made the strategic decision to enter into this promising country. In April 2013, we signed non-binding heads of terms to acquire a 70% interest in a joint venture with Yoma Strategic Holdings Ltd, a Singapore-listed company, to redevelop a heritage-listed Victorian colonial building in Yangon, Myanmar into The Peninsula Yangon. Conditional definitive agreements were signed in January 2014.

In June 2013, we acquired the significant commercial property immediately adjacent to The Peninsula Paris on 21 avenue Kléber. We expect The Peninsula Paris to bring new life and excitement to the surrounding area of the 16th arrondissement after its opening later in 2014, thereby increasing property values in the neighbourhood.

Continuously improving our assets is a key strategy of the company, to maintain their quality and competitiveness in a keenly competitive environment. During the year, our existing portfolio of assets completed two substantial capital improvements including the refurbishment of The Peninsula Hong Kong and de Ricou Apartments of The Repulse Bay Complex.

The Peninsula Hong Kong, the flagship hotel of the company, celebrated its 85th Anniversary in 2013 with a series of activities leading up to a gala in December, attended by guests from Hong Kong and around the world. Other significant highlights included the 25th Anniversary of The Peninsula New York, the 15th Anniversary of The Peninsula Bangkok and the 125th Anniversary of the Peak Tram. These milestones culminated in the celebration of the long and illustrious heritage of the Company as encapsulated in the remake of the film *Tradition Well Served* that documents the story of the Company since its inception in 1866.

While 2013 was filled with both historical anniversaries and new frontiers for the Company, our ongoing businesses remained affected by varied conditions in the regions in which we operate. There continues to be oversupply of luxury hotels in a number of our key markets, and there have been political uncertainties and natural disasters in Thailand and the Philippines. In the midst of this operating environment, the high level of quality of our properties and brand has helped us to maintain a competitive edge and sustainable earnings. The Company's 2013 performance is further discussed in our Chief Executive Officer Mr. Clement Kwok's *Management Discussion & Analysis*.

Continuously improving our assets is a key strategy of the Company, to maintain their quality and competitiveness in a keenly competitive environment.

As a significant "new frontier", I am delighted to report that preparations are being finalised for the much-anticipated opening of The Peninsula Paris in 2014, which will mark the Company's first entry into Europe. I believe this hotel will become an important landmark, and will bring a new level of distinction to the luxury hotel market in this discerning city.

Corporate sustainability underpins our Group's businesses. In 2013, we unveiled our new Sustainable Luxury Vision 2020, setting out a blueprint for our business and our ambition to take luxury to the next level. Vision 2020, with over 50 measurable and time-bound goals, is the result of 15 months of planning that involved our management team and key stakeholder groups in a structured process of assessing the future trends that will affect our industry over the long term.

The achievements of 2013 reflect the dedication and leadership of our Chief Executive Officer and his senior management team, and the hard work and loyalty of each member of the HSH family, which the board gratefully acknowledges.

I would also like to express my gratitude for the wisdom and guidance offered by my fellow Directors and for the continued support of the shareholders of our Company.

2013 will be remembered as an important year in the 148-year history of The Hongkong and Shanghai Hotels, Limited. We should never forget that the future is built on the past, and we have a great legacy which provides the foundation for continued success.

The Hon. Sir Michael Kadoorie
17 March 2014

Management Discussion and Analysis

Chief Executive Officer's Letter

The strength of our Group continues to emanate from our genuine commitment to a long-term future.

The theme of the 2013 Annual Report is "New Frontiers | Celebration of Traditions," which reflects the exciting growth of our Company's asset portfolio, while continuing our rich legacy of exceptional hospitality and care for our guests. The year was a busy and rewarding one, and I am pleased to report some exciting new deals, successful renovation projects and satisfactory financial results.

We celebrated a number of milestones in the past year while looking back at our proud history: the 85th Anniversary of The Peninsula Hong Kong; 25th Anniversary of The Peninsula New York; 15th Anniversary of The Peninsula Bangkok and 125th Anniversary of the Peak Tram. To mark these anniversaries, we launched and premiered the remake of our hallmark documentary, *Tradition Well Served*, which truly captures the Company's proud history and spirit.

Pressing Ahead with New Frontiers

Location, quality and long-term potential are the key attributes of our business development decision-making. We are pleased to have confirmed commitments with new partners on the exceptionally well-located London and Yangon opportunities.

Location, quality and long-term potential are the key attributes of our business development decision-making.

We have acquired a 50% interest in an existing commercial property located at 1-5 Grosvenor Place, Belgravia, London, for HK$1,564 million (£132.5 million). Together with our partner, Grosvenor, we will seek planning permission to demolish the existing building and redevelop it into The Peninsula London hotel and residential complex. We target to commence demolition and construction by 2016.

We have also entered into a deal with our main partner Yoma Strategic Holdings Ltd to restore the heritage building that is the former Myanmar Railway Company headquarters in Yangon, Myanmar, to be redeveloped as The Peninsula Yangon upon conditions being fulfilled on the definitive agreements and subject to necessary approvals.

Our June 2013 acquisition of the commercial property at 21 avenue Kléber, Paris for HK$566 million (€56 million) will bring long-term value to the Company, thanks to its strategic location immediately adjacent to The Peninsula Paris, which is expected to open in 2014.

To handle the new projects, we have strengthened our senior management team as well as our projects team. You will find further discussion of these projects on pages 35 and 39.

2013 Performance Review

Market conditions remained mixed in our key markets, with varied economic conditions and continuing oversupply of new luxury hotels in certain cities. During this turbulent year, the superior quality of our properties and brand remained our anchor. Combined with Group-wide cost control measures, selective capital investments, careful management and robust corporate governance, our Company reported an increase in turnover in almost all of the businesses within the Group as compared with 2012. The underlying earnings of the Company increased by 16% to HK$511 million in 2013 while the EBITDA margin increased by one percentage point to 24%.

Hotels

Our hotels, located in leading gateway cities of the world, continued to experience the effect of new luxury hotel supply from competitors. We seek to stay ahead of this intense competition with effective marketing strategies and rate positioning. In 2013, our hotels division revenue increased by HK$159 million (4%) over 2012.

We generally enjoyed good business positions with eight of our hotels each achieving revenue growth in 2013 in either or both their base currency and Hong Kong dollars. The Peninsula Hong Kong returned to full inventory in May. We expect to see further growth in 2014 which will be our first full year of operation with the new rooms product. The Peninsula Shanghai also recorded good results, with growth in almost all areas of operation. In 2013, we commenced the sale of 19 of the 39 units of The Peninsula Residences in Shanghai, with a satisfactory number of deals being entered into by the year-end. The remaining apartment units will continue to be held as investment properties for leasing. The Peninsula Tokyo and The Peninsula Beverly Hills achieved very good results, although the weak Japanese yen affected the results of The Peninsula Tokyo in Hong Kong dollar terms. The Peninsula Manila faced the challenges of the aftermath of flooding, an earthquake and a super-typhoon and The Peninsula Bangkok was affected by the local political acrimony in late 2013.

I am pleased that the extensive room renovation project at The Peninsula Hong Kong was completed and has been very well received by our guests. Our Board has also approved extensive renovations for The Peninsula Chicago at approximately HK$164 million (US$21 million) and The Peninsula Beijing at approximately HK$1,138 million (RMB890 million), to be carried out in the coming one to three years.

Our new global marketing strategies proved successful. *Peninsula Moments*, our global marketing campaign that was conceived and developed in-house in 2012, was expanded and received very positive feedback in 2013. This makes use of visual and online media and has already generated over a million views by customers around the world. We have also rejuvenated The Peninsula Academy at all of our hotels, offering bespoke guest experiences, which has attracted good demand.

Commercial Properties

Our commercial properties division continued to provide a stable contribution to our earnings in 2013. Our key asset in this division, The Repulse Bay Complex, achieved satisfactory results with a 4% growth in revenue despite the subdued real estate market and macro-economic uncertainties. This was partly due to the return to inventory of de Ricou Apartments following its renovation, which has resulted in an improved mix of units that we expect would increase its rental yield. The Peak Tower achieved significant growth in 2013 with increased commercial rentals and higher frequency of visitors to Sky Terrace 428. Rental income from 1-5 Grosvenor Place and 21 avenue Kléber also contributed to the commercial properties division this year from their respective dates of acquisition. Total revenue from this division was HK$73 million (10%) higher than 2012.

Clubs and Services

Peninsula Clubs and Consultancy Services maintained a consistent portfolio in 2013 and continued to provide club management services for several prestigious private clubs in Hong Kong, as well as the Cathay Pacific Lounges at Hong Kong International Airport.

Peninsula Merchandising represents our successful diversification of business and outreach to new destinations, particularly in Taipei. Its mooncake sales continued to see substantial growth.

We have submitted a proposal to the Hong Kong Government to improve and enlarge the capacity of the Peak Tram for the long-term future. In the meantime, our right to operate the Peak Tram has been extended for another two years to the end of 2015.

2013 saw an increase of HK$98 million (18%) in total revenue over 2012 for this division.

New Paris Hotel Close to Completion

The Peninsula Paris, our first hotel in Europe, is preparing for its 2014 soft opening.

As I mentioned in our last annual report, it has been a lengthy and complicated project to convert this beautiful historic building into a Peninsula hotel. In 2013, we and our partners, Katara Hospitality, agreed with the lead contractor a revised fixed price construction contract with an increased budget of HK$4,592 million (€429 million) excluding contingency for which we are responsible for our 20% proportional interest. We are making progress towards completion despite challenging circumstances. I am confident that this hotel will set new standards on design, luxury and comfort.

Further discussion on the 2013 performance of our different lines of business and future plans are set out in the *Management Discussion and Analysis* section.

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 the high-end shopping arcades within our hotels. With the balance of earnings provided by this diversified portfolio, I am pleased to report that in 2013 our Group achieved an increase of 16% in underlying earnings to HK$511 million.

It continues to be a strength of our Group that our hotels business is balanced by a strong mix of commercial properties.

Inclusive of our 50% share of the result of The Peninsula Shanghai and non-operating items, being principally the revaluation surpluses of our investment properties, the net profit attributable to shareholders amounted to HK$1,712 million, representing an increase of 10% over 2012. HK$523 million of the investment property revaluation surplus was attributable to a successful restructuring of the leases of the retail spaces at The Peninsula New York.

The net cash generated from the Company's operating activities after tax amounted to HK$1,308 million in 2013, an increase of 36% over 2012. During the year, in addition to regular capital expenditure on our existing properties, the Group made a payment of HK$566 million (€56 million) for the acquisition of 21 avenue Kléber, Paris and HK$1,564 million (£132.5 million) for the acquisition of 50% interest in 1-5 Grosvenor Place, London, resulting in net borrowings being increased from HK$1,989 million to HK$3,992 million.

The Group's financial position as at 31 December 2013 remained strong, with net assets attributable to shareholders increasing by 6% to HK$35,105 million and our gearing at a conservative level of 10%. Despite the increase in net borrowings, our interest cover remained comfortable at 9.7 times.

Based on our results, the Board has recommended a final dividend payable on 20 June 2014 of 12 HK cents per share. Together with the 2013 interim dividend of 4 HK cents per share paid on 30 September 2013, the total dividend in respect of the 2013 financial year will be 16 HK cents per share, an increase of 14% as compared to last year. In the light of our new project commitments, most notably The Peninsula London project, the Directors have decided to restore the Company's scrip dividend option for shareholders in respect of the final dividend payable on 20 June 2014.

Sustainable Luxury Vision 2020

An important milestone for the year was the launch of our Sustainable Luxury Vision 2020. This puts sustainability at the heart of our business model and our brand. With seven areas of focus covering all divisions of our business, Vision 2020 sets out more than 50 economic, social and environmental goals that we are committed to achieve by 2020. As part of this vision, we also developed and embarked on a bespoke two-year stakeholder engagement programme on the relevant issues.

> Our Sustainable Luxury Vision 2020 puts sustainability at the heart of our business model and our brand.

To deliver on both luxury and sustainability is not without challenge, but we see a genuine opportunity to achieve this in a way that complements our heritage of quality, thoughtfulness and meticulous attention to detail. 2013 already saw some of our operations making great strides in crafting the path towards sustainable luxury. The renovations at de Ricou Apartments not only enhanced its appeal to tenants and rental value, but the property also achieved LEED Gold Certification for its environmental performance. On other fronts, we reinforced our efforts for sustainable and ethical sourcing as well as energy and water conservation.

Further details are set out in the *Sustainability Review* on pages 56 to 102.

Future Prospects

The strength of our Group continues to emanate from our genuine commitment to a long-term future. This 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.

With the imminent opening of The Peninsula Paris, the new projects to develop Peninsula hotels in London and Myanmar and the ongoing projects to enhance and renovate our existing hotels, I am confident that the longer term growth of our Company is on the right path.

For 2014, we are seeing positive trends in our key markets, particularly in Hong Kong where our key assets of The Peninsula Hong Kong, The Repulse Bay Complex and The Peak Tower are located. 2014 will see the first full year of earnings contribution from the fully renovated Peninsula Hong Kong hotel and the de Ricou Apartments at The Repulse Bay Complex. Elsewhere, travel sentiment and spending continue to show some improvement with the more positive macro trends.

Financially, we are well-placed for a long-term future supported with a strong balance sheet comprising valuable high quality assets and a low level of gearing.

Finally, our Company is supported by strong heritage which brings a distinct personality and identity to our Company and our brands, products and services. However, it is not our 148-year history alone that serves us; we are committed to improving and innovating our products and services to create special memories and experiences for our guests. This would not be possible without our committed, long-serving and loyal staff. I would like to deeply thank all members of our large "HSH family" who have worked so hard to achieve so much for the Group this year and, I am sure, will continue to do so for many years to come.

Clement K.M. Kwok
17 March 2014

Business Review

Non-Accounting Performance Indicators

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:

$$\frac{\text{Rooms Occupied}}{\text{Rooms Available}} \times 100\%$$

Review of Group Results

Our Group comprises three key divisions – hotels, commercial properties, and clubs and services, and these divisions are described in more detail in the following review.

HK$m	2013	2012	2013 vs 2012
Revenue			
Hotels	4,044	3,885	4%
Commercial Properties	806	733	10%
Clubs and Services	658	560	18%
	5,508	5,178	6%
EBITDA			
Hotels	649	596	9%
Commercial Properties	521	474	10%
Clubs and Services	136	131	4%
	1,306	1,201	9%

We are pleased to report that the HSH Group's turnover continued to grow in 2013 and amounted to HK$5,508 million, representing an increase of 6% over HK$5,178 million in 2012. EBITDA for the year was HK$1,306 million, an increase of 9% over the previous year. Profit attributable to shareholders amounted to HK$1,712 million, after including property revaluation gains, net of tax and non-controlling interests. The Group's underlying profit attributable to shareholders for the year ended 31 December 2013 increased by 16% to HK$511 million.

The Board has recommended a final dividend payable on 20 June 2014 of 12 HK cents per share. Together with the 2013 interim dividend of 4 HK cents per share paid on 30 September 2013, the total dividend in respect of the 2013 financial year will be 16 HK cents per share, an increase of 14% over 2012. In the light of our new project commitments, most notably The Peninsula London project, the Directors have decided to restore the Company's scrip dividend option for shareholders in respect of the final 2013 dividend.

As we will explain in more detail in the following business review, it should be noted that The Peninsula Hong Kong and de Ricou tower at The Repulse Bay Complex were not fully operational during 2013 due to enhancement and renovation projects. We have acquired two new investment properties in London and Paris, which come into our accounts for the first time. 19 apartments of The Peninsula Residences, Shanghai have been re-classified as they are now held for sale, as explained on pages 45 and 46.

Operating Statistics

Peninsula Hotels

	Available Rooms		Occupancy %		ARR (HK$)		RevPAR (HK$)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Hong Kong (Note 1)	**242**	155	**72**	79	**5,170**	5,133	**3,731**	4,072
Other Asia (excluding Hong Kong)	**1,941**	1,941	**66**	63	**2,065**	2,179	**1,361**	1,367
United States of America	**772**	771	**74**	72	**4,858**	4,627	**3,573**	3,346
Total	**3,013**	3,012						
Average			**68**	66	**3,087**	3,091	**2,105**	2,046

Notes:

1. The renovation in The Peninsula Hong Kong was completed in two phases, resulting in 135 rooms being removed from saleable inventory from January to September 2012, followed by 165 rooms from September 2012 to May 2013. The occupancy and RevPAR are based on the number of rooms not being renovated.
2. Occupancy rates, average room rates and RevPAR are weighted averages for the hotels in each grouping.
3. The average room rates and RevPAR include undistributed service charge, which is levied at 10% in Hong Kong and at 15% in China and Japan.

Hotel's Revenue by Geographical Segment (HK$m)

	2009	2010	2011	2012	**2013**
Hong Kong	997	1,119	1,217	1,092	**1,268**
Other Asia	1,328	1,547	1,551	1,758	**1,685**
USA	820	910	998	1,035	**1,091**
	3,145	3,576	3,766	3,885	**4,044**

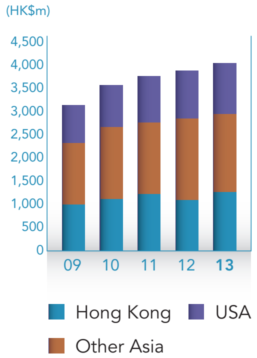
Hotel's Revenue by Nature (HK$m)

	2009	2010	2011	2012	**2013**
Rooms	1,324	1,549	1,642	1,637	**1,768**
Food & Beverage	985	1,123	1,175	1,232	**1,218**
Others	836	904	949	1,016	**1,058**
	3,145	3,576	3,766	3,885	**4,044**

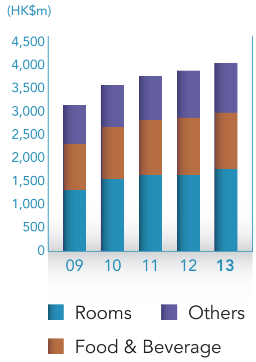
Hotel's EBITDA

	2009	2010	2011	2012	**2013**
EBITDA (HK$m)	443	604	605	596	**649**
EBITDA Margin	14%	17%	16%	15%	**16%**

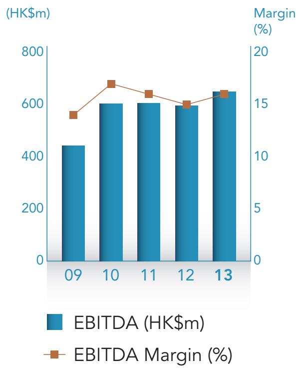
Hotel's Revenue by Geographical Segment



Hotel's Revenue by Nature



Hotel's EBITDA



Leasing

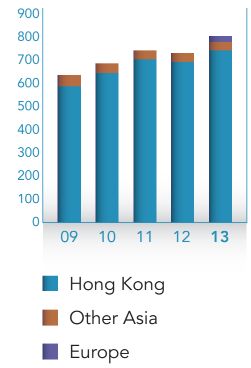
	Occupancy %		Yield psf (HK$)	
	2013	2012	**2013**	2012
Residential (Note 1)	**89**	92	**42**	41
Shopping Arcades (Note 2)	**99**	99	**191**	179
Offices (Note 3)	**92**	96	**48**	45

Notes:

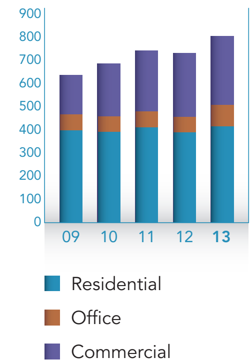
1. Residential properties includes all apartments in The Repulse Bay Complex. The statistics are affected by the re-opening of de Ricou tower in August 2013 after an 18-month closure for a complete renovation.
2. Shopping arcades are located in seven Peninsula hotels as well as The Repulse Bay Complex and The Peak Tower.
3. Offices are located in The Peninsula Hong Kong and St. John's Building.
4. Occupancy rates are weighted averages based on the space available in each grouping.
5. The operating statistics do not include information for operations that are not consolidated or whose results are not material in the Group context. The operating statistics also do not include information for 1-5 Grosvenor Place, London because of the proposed redevelopment.

Commercial Properties

Rental Revenue from Commercial Properties by Geographical Segment



Rental Revenue from Commercial Properties by Nature



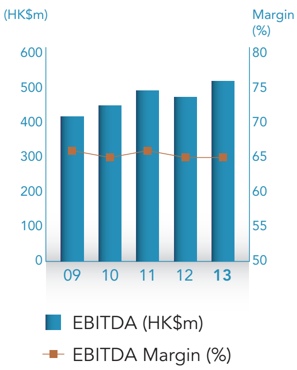
Rental Revenue from Commercial Properties by Geographical Segment (HK$m)

	2009	2010	2011	2012	**2013**
Hong Kong	588	646	704	694	**743**
Other Asia	49	42	39	39	**36**
Europe	–	–	–	–	**27**
	637	688	743	733	**806**

Rental Revenue from Commercial Properties by Nature (HK$m)

	2009	2010	2011	2012	**2013**
Residential	398	392	410	390	**415**
Office	70	66	71	67	**93**
Commercial	169	230	262	276	**298**
	637	688	743	733	**806**

Commercial Properties' EBITDA

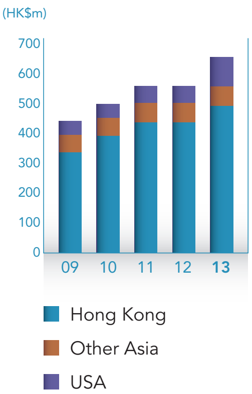


Commercial Properties' EBITDA

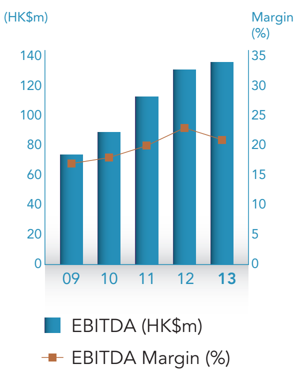
	2009	2010	2011	2012	**2013**
EBITDA (HK$m)	418	450	493	474	**521**
EBITDA Margin	66%	65%	66%	65%	**65%**

Clubs and Services

Revenue from Clubs and Services by Geographical Segment



Clubs and Services' EBITDA



Revenue from Clubs and Services by Geographical Segment (HK$m)

	2009	2010	2011	2012	**2013**
Hong Kong	338	393	438	438	**494**
Other Asia	58	60	66	66	**65**
USA	47	47	56	56	**99**
	443	500	560	560	**658**

Clubs and Services' EBITDA

	2009	2010	2011	2012	**2013**
EBITDA (HK$m)	74	89	113	131	**136**
EBITDA Margin	17%	18%	20%	23%	**21%**

Hotels

Set out below is a breakdown of revenue by hotels:

HK$m	2013	2012	2013 vs 2012
Consolidated hotels			
The Peninsula Hong Kong	**1,192**	1,025	16%
The Peninsula Beijing	**424**	417	2%
The Peninsula New York	**592**	566	5%
The Peninsula Chicago	**499**	469	6%
The Peninsula Tokyo	**734**	814	(10%)
The Peninsula Bangkok	**235**	225	4%
The Peninsula Manila	**292**	302	(3%)
Management fees income	**76**	67	13%
	4,044	3,885	4
Non-consolidated hotels			
The Peninsula Shanghai	**553**	492	12%
The Peninsula Beverly Hills	**508**	481	6%
	1,061	973	9%

2013 was an exciting year for the Group's hotels division. At the beginning of the year, our hotels portfolio comprised of nine operating Peninsula Hotels in Hong Kong, Shanghai, Beijing, Tokyo, New York, Chicago, Beverly Hills, Bangkok, Manila, while the tenth, The Peninsula Paris, was under construction. By the end of the year, we confirmed the expected opening of The Peninsula Paris in 2014, and embarked on two new projects for The Peninsula London and The Peninsula Yangon.

During the year, our existing portfolio of hotels achieved overall growth. This was the result of eight operating hotels achieving revenue growth in 2013 as compared with 2012. The Peninsula Tokyo achieved a revenue growth of 10% in its base currency, although the depreciation of the Japanese yen translated such growth into a 10% decrease in revenue in Hong Kong dollar terms. The Peninsula Manila recorded a reduction in revenue under the pressure of increased competition and the unfortunate natural disasters which occurred in the Philippines in late 2013. Our hotels generally enjoyed a strong market position in the midst of a tight operating environment and increasingly competitive local markets.

The Peninsula Hong Kong

The Peninsula Hong Kong

Revenue HK$1,192m	+16%
Room Revenue HK$329m	+42%
Available Rooms	+55%
Average Room Rate	+1%

Hong Kong

The Peninsula Hong Kong completed its 17-month, HK$450 million room enhancement project, with all rooms of the hotel returning to inventory in May 2013. The increased recognition the hotel has been garnering has been sizeable, with notable accolades including the "No. 1 2013 World's Best Service Hotels Overall – City Hotels" Award from *Travel + Leisure (USA)* and "No. 1 Best Hotel in Asia for Business – 2013 Travel Awards" by *Condé Nast Traveler (USA)*. See page 128 for more details on our Awards.

Total revenue of the hotel in 2013 was HK$1,192 million, which was 16% higher than 2012. This increase includes HK$98 million of additional room revenue, with the remainder from food and beverage and the Peninsula Arcade. Much of the increased room revenue is related to the return of all rooms to saleable inventory from May 2013, which increased the number of available rooms by 55% as compared with 2012. We expect room earnings to improve in 2014 with full inventory being available in the hotel.

The Peninsula Arcade remained highly sought-after by leading international luxury retail brands and continued to be fully let throughout the year with a further increase in the average rent. The Office Tower was also fully let during the year.

2013 was a very special year for the hotel as our Grande Dame hosted a series of events to mark her 85th Anniversary, culminating in a celebration gala event in November and the premier of the documentary on the heritage of our hotels, *Tradition Well Served*. The hotel also partnered with four local charities and raised HK$1 million for each of these organisations respectively.

Greater China

Our hotels in China recorded revenue growth in 2013 amidst markets which are still seeing increasing supply in luxury hotels.

Shanghai saw intense price competition and the business environment remained challenging, with more than 1,000 new luxury hotel rooms entering the market in 2013. Despite the challenging market conditions, **The Peninsula Shanghai** achieved good results this year with a revenue increase of HK$61 million (12%) above 2012, reflecting growth in all areas apart from The Peninsula Arcade.

Although the Arcade remained fully let, average rentals were lower than 2012 due to incentives being given to attract new tenants. To drive foot traffic into the Arcade and surrounding areas, we teamed up with neighbouring properties in No. 1 Waitanyuan to launch "Magical Waitanyuan" – a winter wonderland of cultural events, dining, shopping and an outdoor skating rink.

The Peninsula Shanghai maintained its position as the city's No. 1 in RevPAR. Awarded "The World's Best Business Hotel 2013" by *Travel + Leisure (USA)*, the hotel remained busy in the forefront of luxury entertainment of the city. The hotel is also gaining an excellent reputation for outside catering and this has become an additional revenue stream. In February, a refurbished 1934 Rolls-Royce Phantom II arrived at the hotel. The hotel hosted the third Tour de Bund Charity Ride in September, which is becoming a signature event in the city. In October we launched deluxe touring options to explore Shanghai, including a new tour by river on The Peninsula Yacht.

The Peninsula Shanghai

Revenue HK$553m	+12%
Occupancy	+7pp
Average Room Rate	+0pp
RevPAR	+12%


The Peninsula Shanghai

Within the same complex as The Peninsula Shanghai are The Peninsula Residences which feature the same luxury standards and patented technology as our hotels. In 2013, we commenced the sale of 19 of the 39 units of The Peninsula Residences, with a satisfactory number of deals being entered into by the year-end. The remaining apartment units will continue to be held as investment properties for leasing.

The Peninsula Shanghai and The Peninsula Residences, Shanghai

The Peninsula Beijing

Revenue HK$424m	+2%
Occupancy	+7pp
Average Room Rate	-28%
RevPAR	-19%

The Peninsula Beijing adopted an aggressive room-selling strategy during the year to maintain its competitiveness in the oversupplied market, but despite these efforts RevPAR was 19% lower than 2012. International visitor numbers to Beijing decreased by 14% as compared with 2012 and the continuous strengthening of the RMB has made China less affordable for foreign visitors.

The total revenue of the hotel achieved a HK$7 million (2%) increase over 2012 as higher commercial revenue offset reduced revenue in the other areas of the complex. In June, we opened *Yun*, which is the only rooftop bar in the Wangfujing area.

There will be continued intense competition in the city with five hotels opening in 2014, creating an additional supply of approximately 1,300 luxury rooms. In order to maintain and increase the competitiveness of the hotel, the Board has approved extensive renovations for The Peninsula Beijing at a cost of approximately HK$1,138 million (RMB890 million) over the next few years. This renovation will be in the planning stages in the next year and will not have any revenue impact in 2014.

Other Asia

In Japan, the general business environment has improved after the March 2011 earthquake and tsunami and overall confidence in the health of the local economy is at its highest level in recent years. The weaker yen is making Japan a more affordable destination for tourists and there has been a significant increase in both corporate and long-haul leisure travellers visiting Japan. New visa waiver arrangements with Thailand and

The Peninsula Beijing

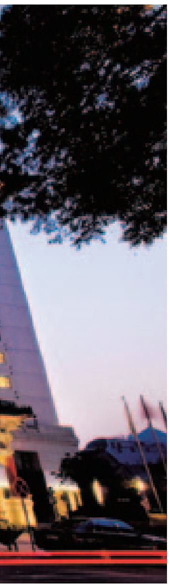
Malaysia, announced in 2013, resulted in double-digit increases in visitors to Japan from these countries.

Benefitting from this environment, **The Peninsula Tokyo** performed well and reported a 10% increase in total revenue in its base currency over 2012. However, due to the weakening of the Japanese yen, the hotel's total revenue was HK$80 million (10%) lower than 2012 in Hong Kong dollar terms. The increased revenue in the base currency was generated from all divisions of the operation, with the largest increase coming from the hotel's occupancy.

In March, the hotel unveiled a new grill concept at *Peter* restaurant on the 24th floor, which proved very popular, and throughout the year the hotel initiated various energy and water-saving projects. With the recent announcement of the 2020 Olympic Games in Tokyo and the generally positive sentiment of the country, we are optimistic that this exceptional hotel will continue to achieve positive growth.

2013 marked the 15th Anniversary of **The Peninsula Bangkok**, which enjoys a spectacular location on the banks of the Chao Phraya River, and the hotel celebrated this milestone with a collection of special events and offers. The Lobby was renovated with a floor-to-ceiling restyling to create a contemporary and sophisticated Asian ambience. The first phase of a guest room refurbishment programme was completed, with nine of 32 floors completed by the end of 2013. A new Chef's Table was introduced in the kitchen of the hotel's award-winning Chinese restaurant, Mei Jiang.

This hotel achieved an increase in total revenue of HK$10 million (4%) over 2012. However, further growth was limited by substantial political unrest in the country, especially in the last two months of the year, followed by a State of Emergency being declared in January 2014, which has naturally impacted overseas visitors.



The Peninsula Tokyo

The Peninsula Bangkok

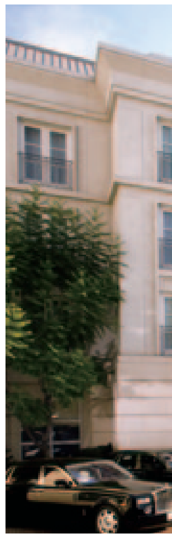
The Peninsula Tokyo

Revenue JPY 9.3billion	+10%
Revenue HK$734m	-10%
Occupancy	+13pp
Average Room Rate (JPY)	+1%
RevPAR (JPY)	+23%

The Peninsula Bangkok

Revenue HK$235m	+4%
Occupancy	-4pp
Average Room Rate	+18%
RevPAR	+9%

The Peninsula Manila



The Peninsula New York

The Peninsula Manila

Revenue HK$292m	-3%
Occupancy	-4pp
Average Room Rate	+2%
RevPAR	-3%

The Peninsula New York

Revenue HK$592m	+5%
Occupancy	-1pp
Average Room Rate	+10%
RevPAR	+9%

It was a challenging year in Manila. The Philippines unfortunately suffered from some devastating natural disasters in 2013, including flooding from typhoons, an earthquake in October and a super-typhoon in November which affected tens of thousands of people. To raise funds for the victims, all Peninsula Hotels launched a "Hope for the Philippines" campaign, with proceeds going directly to the Gawad Kalinga Community Development Foundation to help rebuild the affected areas.

On the business side, the city experienced an unprecedented influx of new hotel room supply, resulting in a 40% increase in the number of available 5-star hotel rooms compared with 2012. In light of this challenging environment, total revenue of **The Peninsula Manila** was HK$10 million (3%) lower than 2012. Nevertheless, the hotel maintained its RevPAR position throughout the year and we plan to enhance our product offering with a renovation of our Club Lounge and Peninsula Suite in 2014. We remain optimistic for the outlook in 2014, given an increased number of meetings, forums and major exhibitions that are expected to be held as part of a global effort to support the economic recovery of the Philippines.

USA

The Peninsula New York celebrated its 25th Anniversary in 2013 with a spectacular Gala event and the launch of the chic Yabu Pushelberg-designed *Clement* restaurant. After a complete refurbishment in 2012, the Peninsula Suite positively contributed to increased revenue in 2013.

Our New York hotel worked to diversify its client base during the year, with special focus on higher-rated businesses, and visible improvements in its RevPAR positioning within its competitor set. We were pleased to see an increase in hotel revenue of HK$26 million (5%) higher than 2012, with a 10% growth in the average room rate.

Our meetings and events in this hotel saw a double digit increase over the previous year, and we hosted the most successful United Nations General Assembly in our history in September.

The Peninsula Beverly Hills

The financial industry remains a strong base for the hotel and will continue to represent a substantial percentage of room nights.

In April 2013, we opened the Vu Hair Salon and an elegant Nail Suite in The Peninsula Spa. The Peninsula Spa received the Best Spa in New York City award in the 2013 Concierge Choice Awards.

The Peninsula Chicago is heavily reliant on domestic business from within North America and is therefore directly influenced by domestic business trends. Chicago is a major conventions market but in 2013 the city experienced a poor convention year as compared with 2012. To further add to a relatively weak environment, Chicago added 1,900 rooms to the market in 2013.

Taking this into consideration, we are pleased to see the 4% improvement in RevPAR and a strong 10% growth in food and beverage revenue during 2013. The Lobby received a Michelin Star from the Michelin Guide in November 2013, which has increased its popularity.

Total revenue of the hotel was HK$30 million (6%) higher than 2012, despite intense local market competition. Our Board approved extensive room renovations for The Peninsula Chicago at approximately HK$164 million (US$21 million), with a focus on our world-class in-room technology. We expect that this will position The Peninsula Chicago as one of the most advanced hotels in the city and will greatly enhance our value and appeal to guests.

General market conditions in Beverly Hills were buoyant in 2013, with growth in international and business travel, particularly from the Middle East and Australia, and recovery in the entertainment and financial sectors. **The Peninsula Beverly Hills** remained a leader in RevPAR in its competitive set and continues to achieve an extraordinarily high repeat guest factor. 2013 was an exceptional year for the hotel with the highest revenue, highest number of days with full occupancy and highest average room rate, resulting in a total revenue that was HK$27 million (6%) higher than 2012 with improved contributions from all areas of the operation.

In 2013 our Beverly Hills hotel completed several infrastructure improvements and the conversion of its Gardenia Meeting Room into a Garden Suite, which contributed to improved revenue. The remodeling of the House Beautiful Suite into the Glamour Suite in honour of Beverly Hills' 100th Anniversary is also well under way and is expected to launch in 2014.

The Peninsula Chicago

Revenue HK$499m	+6%
Occupancy	+2pp
Average Room Rate	+2%
RevPAR	+4%

The Peninsula Beverly Hills

Revenue HK$508m	+6%
Occupancy	+3pp
Average Room Rate	+3%
RevPAR	+4%

The Peninsula Chicago

Commercial Properties

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

HK$m	2013	2012	2013vs 2012
The Repulse Bay Complex, Hong Kong	540	518	4%
The Peak Tower, Hong Kong	157	131	20%
St. John's Building, Hong Kong	46	45	2%
The Landmark, Ho Chi Minh City, Vietnam	36	39	(8%)
1-5 Grosvenor Place, London	16	–	n/a
21 avenue Kléber, Paris	11	–	n/a
	806	733	10%

The Repulse Bay Complex

Our commercial properties division continues to be an important part of our business and provides an excellent balance for the Group's overall portfolio of assets. This division provides a stable contribution to the Group's earnings through its consistent leasing revenue, counter-balancing the cyclical nature of hotel earnings. The total revenue from this division in 2013 was HK$73 million (10%) higher than the previous year, with significant revenue growth in The Repulse Bay Complex and The Peak Tower. New contributors to our portfolio include **1-5 Grosvenor Place, London**, and **21 avenue Kléber, Paris**, which were acquired in mid-2013 by the Company. More details can be found on page 35.

The Peak Tower

Hong Kong

In line with our strategy of improving our existing assets, enhancing efficiency and increasing the potential for better yield, in 2012 we embarked on an extensive 18-month renovation and reconfiguration programme for **The Repulse Bay Complex,** which is the most important asset within our commercial properties division. The 49 apartments of de Ricou tower, one of the towers of the Complex, were re-launched for lease in 2013. The tower comprises 34 unfurnished apartments and 15 serviced apartments with significantly improved layouts and interior design. We are delighted to report that de Ricou tower is the first in Hong Kong to be awarded the prestigious LEED Gold Award in the Alteration and Addition category. With renovation of the public areas also completed in 2013, The Repulse Bay Complex is a premier residential property and offers one of the finest and most enjoyable living environments in Hong Kong.

The results of the Complex were pleasing, especially in light of the rather pessimistic sentiment that persisted throughout the year in the Hong Kong residential leasing market. Total revenue of The Repulse Bay Complex was HK$22 million (4%) higher than 2012, due to improved occupancy and rental rates of the 353 apartments in 101 and 109 Repulse Bay Road, and increased inventory from the completion of de Ricou tower refurbishment. The Complex is well-positioned to make the best of the subdued market conditions and will benefit in 2014 from a full year of leasing of de Ricou tower.

It was another exciting year for **The Peak Tower** which remains one of Hong Kong's most popular and unique tourist attractions. The Tower generates most of its revenue from commercial leasing, with additional revenue coming from tourist entrance fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong.

The Repulse Bay Complex, Hong Kong

Revenue HK$540m +4%

The Peak Tower, Hong Kong

Revenue HK$157m +20%

Visitors to Sky Terrace 428 +10%

St. John's Building, Hong Kong

Revenue HK$46m +2%

The Landmark, Vietnam

Revenue HK$36m -8%

The Landmark

St. John's Building

This property saw significant growth in 2013 of HK$26 million (20%) as compared with the previous year. Revenue improved from increased rentals in the commercial areas of the property and higher revenue from Sky Terrace 428 after the introduction of the Hong Kong Sky Tour. This is a personal interactive touch-screen audio guide available in several languages, through which visitors can explore Hong Kong's neighborhoods, architecture, history and culture.

St. John's Building accommodates the lower terminus of the Peak Tram and leases office space that returns a stable stream of revenue. In 2013 the building achieved revenue growth of HK$1 million (2%) in total revenue compared to 2012. We made capital improvements to maintain the competitiveness of this property, with major renovations in the lobby and common areas. In addition, a new water-cooled air-conditioning system was installed in summer 2013, achieving energy savings. We expect prime office supply to remain limited in the building's vicinity.

Other Asia

Our portfolio in Asia includes **The Landmark** which is a mixed-use commercial building in Ho Chi Minh City, Vietnam, comprised of serviced apartments and office and retail space. We began a renovation programme of the serviced apartments in December 2011 which will be substantially completed in 2014. Total revenue of The Landmark was HK$3 million (8%) below 2012, partly due to the renovation which resulted in fewer available apartments in the Complex.

With around 4,200 new units planned to enter the market in the next five years, we expect the Vietnam serviced apartment market to remain competitive. Although we remain one of the premier commercial properties in the city, we anticipate that increasing general rental rates will be challenging.

New Commercial Properties

In July 2013, the Company acquired a 50% interest in an existing commercial property located at **1-5 Grosvenor Place**, Belgravia, London, for approximately HK$1,564 million (£132.5 million), exclusive of transaction costs, stamp duty, land tax and other applicable taxes. The remaining 50% economic interest is held by Grosvenor, which is the Company's partner in this property. Together with Grosvenor, we will seek planning permission to demolish the existing building and redevelop it into The Peninsula London hotel and residential complex. We target to commence demolition and construction by 2016. The property is currently a commercial complex of approximately 220,000 square feet (20,439 square metres), which was fully let at year-end and contributes to the revenue of the commercial properties division.

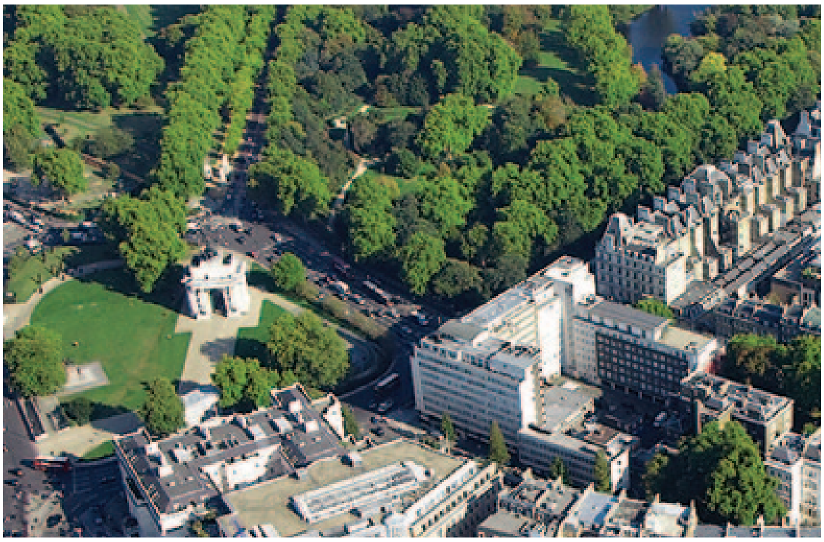
In Paris, a unique opportunity arose in early 2013 when the commercial building known as **21 avenue Kléber** became available through a private sale process. Given its location immediately adjacent to The Peninsula Paris and the potential of the building to bring long-term value to the Company, we acquired a 100% interest in this property in June 2013 for approximately HK$566 million (€56 million), exclusive of transaction costs and taxes. In the early 20th century, this Second Empire architectural style building was owned by Hotel Majestic Paris, and was subsequently rebuilt in the 1970s. The offices, retail and residential components of the current building are spread over four floors of approximately 43,163 square feet (4,010 square metres).

1-5 Grosvenor Place, London

Revenue	HK$16m

21 avenue Kléber, Paris

Revenue	HK$11m



1-5 Grosvenor Place

21 avenue Kléber

CLUBS AND SERVICES

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

HK$m	2013	2012	2013 vs 2012
Clubs and Consultancy Services	172	154	12%
Peninsula Merchandising	153	126	21%
Peak Tram	121	114	6%
Thai Country Club	65	66	(2%)
Quail Lodge & Golf Club	99	56	77%
Tai Pan Laundry	48	44	9%
	658	560	18%

Peak Tram

Revenue HK$121m	+6%
Total Patronage	+6%

The Group's clubs and services division includes management and consultancy services, retailing of merchandise, operation of the Peak Tram, operation of golf clubs and provision of dry cleaning and laundry services. The 2013 total revenue from the division was HK$98 million (18%) higher than 2012 as a result of revenue gains in Quail Lodge & Golf Club, Peninsula Clubs and Consultancy Services, and Peninsula Merchandising.

The Peak Tram

In Hong Kong, the **Peak Tram** celebrated its 125th Anniversary in 2013. We launched a specially-designed ticket and The Peak Complex was converted into a traditional playground, with weekend street performances at The Peak Tower and souvenirs given to visitors. The Peak Tram continued to be a very popular ride, with 2013 total revenue recorded at HK$7 million (6%) higher than 2012, and patronage of 6.3 million.

We have submitted a proposal to the Hong Kong Government to improve and enlarge the capacity of the Peak Tram for the long-term future. In the meantime, our right to operate the Peak Tram has been extended for another two years to the end of 2015.

Peninsula Merchandising

Quail Lodge & Golf Club

Peninsula Clubs and Consultancy Services manage a number of prestigious private clubs in Hong Kong. We also manage and operate most of Cathay Pacific's airport lounges at Hong Kong International Airport and provide consultancy services.

Although there was a HK$18 million (12%) overall increase in revenue in 2013, there was a higher increase in operating costs; in particular, for payroll and food and beverage costs incurred in Cathay Pacific's Lounges due to the increased lounge seating capacity and enhanced food and beverage offerings.

Peninsula Merchandising continues to be a successful extension of The Peninsula Hotels' brand in the retail world and allows the Company to reach out to regional destinations through franchise arrangements to showcase some of its hallmark merchandise.

In April 2013, following the success of our first two Peninsula Boutiques in Taipei, a third boutique was unveiled at the popular Pacific Sogo Zhongxiao shopping arcade. The business performance of Peninsula Merchandising continues to record significant growth, with a HK$27 million (21%) increase in total revenue over 2012, with mooncake sales being particularly strong.

The hotel portion at **Quail Lodge & Golf Club** was reopened in March 2013 after a three-year closure and a complete refurbishment. In March 2013 a celebratory Open House welcomed approximately 500 community leaders, customers, business partners and residents to showcase Quail Lodge's renovations. The grand opening of the Lodge took place in August with over 1,000 attendees.

Peninsula Clubs and Consultancy Services

Revenue HK$172m **+12%**

Peninsula Merchandising

Revenue HK$153m **+21%**

Quail Lodge & Golf Club

Revenue HK$99m **+77%**

Thai Country Club

Thai Country Club

Revenue HK$65m -2%

Tai Pan Laundry

Revenue HK$48m +9%

The association with specialist managers Kemper Sports resulted in a notable improvement in revenue at the Golf Club. Total revenue of Quail Lodge & Golf Club was HK$43 million (77%) higher than 2012, of which HK$32 million was contributed by the Lodge.

Quail Lodge & Golf Club hosted the very successful annual *The Quail, A Motorsports Gathering* in August, with more than 4,000 enthusiasts participating in 2013, while *The Quail Motorcycle Gathering* in May drew over 2,000 motorcycle enthusiasts. These events are very popular and provide a unique opportunity for the promotion of our Lodge and golf courses. Revenue from these events continued to increase due to successful strategies for ticket sales and sponsorships.

Thai Country Club continues to be recognised as one of the premier golf courses in Asia, receiving notable awards within the golf course and club house categories of the Asia Pacific Golf Group. Total revenue of the Thai Country Club was similar to 2012, which is an acceptable result given the negative impact of political unrest in the latter part of 2013.

As a result of the increased volume of laundry, **Tai Pan Laundry**'s revenue was HK$48 million, an increase of HK$4 million over 2012.

Projects and Developments

The focus of the Company's projects and development activities is to establish a small and select number of new Peninsula hotels in key international gateway cities, and continually enhance our existing hotels and other properties to increase their long-term value.

In July 2013, we purchased a 50% economic interest in **1-5 Grosvenor Place**, Belgravia, London for approximately HK$1,564 million (£132.5 million), exclusive of transaction costs, stamp duty, land tax and other applicable taxes. The site is a spectacular location at the entrance to Belgravia, opposite the Wellington Arch at Hyde Park Corner with views across to the gardens of Buckingham Palace. A detailed study and design process is being undertaken to determine the total redevelopment cost and to seek requisite planning approvals to turn the site into a luxury mixed-use hotel and residential complex. Proceeding with the redevelopment is subject to mutual agreement between the partners. We target to commence demolition and construction by 2016. The hotel portion will be named **The Peninsula London**, and managed by the Company as operator for an initial period of 50 years with two automatic renewals of 50 years.

The opportunity to establish our presence in **Yangon, Myanmar** arose in 2013. We have entered into a deal with our main partner Yoma Strategic Holdings Ltd to restore the heritage building that is the former Myanmar Railway Company headquarters, to be redeveloped as **The Peninsula Yangon**. A non-binding heads of agreement was signed in April 2013 and definitive agreements signed in January 2014. HSH has a 70% interest in the redevelopment of the historic building based on an agreed land valuation of approximately HK$117 million (US$15 million).

As previously reported, **The Peninsula Paris** has encountered a number of challenges during its construction, resulting in overall delays and cost increases. A considerable amount of time was spent in the first half of 2013 in negotiations with the lead contractor and sub-contractors to mitigate the cost overruns. As a result we and our partners Katara Hospitality agreed with the lead contractor a revised fixed-price construction contract with an increased budget of approximately HK$4,592 million (€429 million) excluding contingency, for which we are responsible for our 20% proportional interest. In 2013, significant construction progress was made. Pre-opening plans are underway and The Peninsula Paris is expected to have its soft opening in 2014.

The Peninsula Paris

Financial Review

The Group's Adjusted Net Asset Value

Adjusted NAV per share

HK$25.62
+6%

In the Financial Statements the Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, instead of fair value. We believe fair value better represents the underlying economic value of our properties.

Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 31 December 2013, the details of which are set out on pages 47 and 48. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 10% to HK$38,486 million as indicated in the table below.

HK$m	2013	2013	2012	2012
Net assets attributable to shareholders per audited statement of financial position		35,105		33,150
Adjusting the value of hotels and golf courses to fair market value	4,103		3,619	
Less: Related defered tax and non-controlling interests	(722)		(373)	
		3,381		3,246
Adjusted net assets attributable to shareholders		38,486		36,396
Audited net assets per share (HK$)		23.37		22.07
Adjusted net assets per share (HK$)		25.62		24.23

The Group's Underlying Earnings

Underlying EPS

HK$0.34
+17%

Our operating results are mainly derived from the operation of hotels and letting of commercial properties and we manage the Group's operations with principal reference to its underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating and non-recurring items, such as any changes in fair value of investment properties, in our income statement. In order to provide a better reflection of the performance of the Group without the non-operating and non-recurring items, we have provided 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 on the next page.

The Group's underlying profit attributable to shareholders for the year ended 31 December 2013 increased by 16% to HK$511 million.

HK$m	2013	2012	2013 vs 2012
Profit attributable to shareholders	**1,712**	1,555	10%
Increase in fair value of investment properties	**(1,403)**	(1,073)	
Share of property revaluation loss of The Peninsula Shanghai, net of tax	**178**	14	
Gain on disposal of an unlisted equity investment	**(3)**	(46)	
Tax and non-controlling interests attributable to non-operating items	**27**	(11)	
Underlying profit attributable to shareholders	**511**	439	16%
Underlying earnings per share (HK$)	**0.34**	0.29	17%

Income Statement

The Group's consolidated income statement for the year ended 2013 is set out on page 188. The following table summarises the key components of the Group's profit and loss. This table should be read in tandem with the commentaries set out on pages 42 to 46 of this Financial Review.

HK$m	2013	2012	2013 vs 2012
Turnover	**5,508**	5,178	6%
Direct operating costs	**(4,202)**	(3,977)	6%
EBITDA	**1,306**	1,201	9%
Depreciation and amortisation	**(395)**	(384)	3%
Net financing charges	**(94)**	(85)	11%
Share of result of The Peninsula Shanghai	**(280)**	(125)	124%
Non-operating items	**1,406**	1,119	26%
Taxation	**(231)**	(170)	36%
Profit for the year	**1,712**	1,556	10%
Non-controlling interests	**–**	(1)	(100%)
Profit attributable to shareholders	**1,712**	1,555	10%

Turnover

The Group's turnover in 2013 increased by 6% to HK$5,508 million and the breakdown of this by business segment and geographical segment is set out in the following table.

Turnover

HK$5,508m

+6%

Hotels
HK$4,044m +4%

Commercial Properties
HK$806m +10%

Clubs & Services
HK$658m +18%

Consolidated revenue by business segment

HK$m	2013	2012	2013 vs 2012
Hotels	4,044	3,885	4%
Commercial Properties	806	733	10%
Clubs and Services	658	560	18%
	5,508	5,178	6%

Consolidated revenue by geographic location

HK$m	2013	2012	2013 vs 2012
Arising in			
Hong Kong	2,505	2,224	13%
Other Asia	1,786	1,864	(4%)
United States of America	1,190	1,090	9%
Europe	27	n/a	n/a
	5,508	5,178	6%

Our hotels division is the main contributor to the Group's revenue, accounting for 73% of total revenue. In 2013, our hotels generally performed well and achieved satisfactory revenue growth as a result of our effective marketing campaigns and revenue management strategy. The breakdown of revenue by hotels and detailed discussions of the operating performances of individual hotels are set out in the Business Review section on pages 25 to 31.

Our commercial properties division achieved a revenue growth of 10%, mainly due to increased contributions from its Hong Kong properties; in particular, The Repulse Bay Complex and The Peak Tower. During 2013, the Group acquired two properties, one in Paris and one in London (which is being held for redevelopment at a later date). Further details of these properties are set out on page 35 and 39 and detailed discussions of the operating performances of individual commercial properties, including these two newly acquired properties, are set out in the Business Review section on pages 32 to 35 and page 39.

Our clubs and services division includes businesses relating to the provision of management services, wholesaling and retailing of merchandise, operation of the Peak Tram, operation of golf clubs and provision of dry cleaning and laundry services. The division's 18% increase in revenue was mainly due to the re-opening of the hotel portion of Quail Lodge & Golf Club in March 2013 and the increased mooncake sales revenue achieved by Peninsula Merchandising during the year. Detailed discussions of the operating performances of the businesses of this division are set out in the Business Review section on pages 36 to 38.

Operating Costs

In 2013, our operating costs increased by 5% to HK$4,597 million, due to higher business levels and depreciation charges following the major enhancement projects at The Peninsula Hong Kong and various other locations.

Excluding depreciation and amortisation of HK$395 million, direct operating costs of the Group for 2013 amounted to HK$4,202 million, an increase of 6% over 2012.

Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of operating costs. As at 31 December 2013, the Group's direct operations had 5,772 full-time employees. There was an increase of 288 headcounts over 2012 due to the introduction of a 5-day work week for the Group's Hong Kong operations as well as gradual filling of vacant positions. Staff costs and related expenses for the year increased by 6% to HK$1,951 million, representing 46% (2012: 46%) of the Group's direct operating costs and 35% (2012: 36%) of the Group's revenue.

Operating Costs

HK$4,597m

+5%

Full time headcount at year end	2013 Direct Operations	2013 Managed Operations	2013 Total	2012 Direct Operations	2012 Managed Operations	2012 Total	2013 vs 2012
By division:							
Hotels	4,565	1,312	5,877	4,354	1,258	5,612	5%
Commercial Properties	332	–	332	314	–	314	6%
Clubs and Services	875	427	1,302	816	427	1,243	5%
	5,772	1,739	7,511	5,484	1,685	7,169	5%
By geographical location:							
Hong Kong	1,943	427	2,370	1,778	427	2,205	7%
Other Asia	2,780	884	3,664	2,701	847	3,548	3%
United States of America	1,049	422	1,471	1,005	411	1,416	4%
Europe	–	6	6	n/a	n/a	n/a	n/a
	5,772	1,739	7,511	5,484	1,685	7,169	5%

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group increased by HK$105 million or 9% to HK$1,306 million in 2013. Compared to an increase of HK$330 million or 6% in consolidated revenue, the increase in EBITDA represented a flow-through of 32%. Our efforts to control costs have resulted in an increase of one percentage point in the Group's overall EBITDA margin to 24%.

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

EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total
2013					
Hotels	**452**	**189**	**8**	**–**	**649**
Commercial Properties	**484**	**16**	**–**	**21**	**521**
Clubs and Services	**144**	**15**	**(23)**	**–**	**136**
	1,080	**220**	**(15)**	**21**	**1,306**
	83%	**17%**	**(1%)**	**1%**	**100%**
2012					
Hotels	384	181	31	n/a	596
Commercial Properties	453	21	–	n/a	474
Clubs and Services	135	18	(22)	n/a	131
	972	220	9	n/a	1,201
	81%	18%	1%	n/a	100%
Change					
2013 vs 2012	11%	–	(267%)	n/a	9%

EBITDA margin	2013	2012
Hotels	**16%**	15%
Commercial Properties	**65%**	65%
Clubs and Services	**21%**	23%
Overall EBITDA margin	**24%**	23%
Arising in:		
Hong Kong	**43%**	44%
Other Asia	**12%**	12%
United States of America	**(1%)**	1%
Europe	**78%**	n/a

The hotel business is a labour-intensive industry, and it requires a relatively high cost of inventories to maintain the quality of service and food and beverage. Despite rising costs and the introduction of a 5-day work week for The Peninsula Hong Kong, we are pleased to have been able to improve our hotels division's EBITDA margin by one percentage point to 16% in 2013.

The EBITDA margin of the commercial properties division in 2013 remained stable due to the nature of the leasing business. On the other hand, the clubs and services division's EBITDA margin decreased by two percentage points to 21%, mainly due to the reopening of the hotel portion of Quail Lodge & Golf Club which has yet to reach a stabilised level of operation as well as the increased cost base of the Cathay Pacific Airways' First and Business Class Lounges at Hong Kong International Airport.

Depreciation and Amortisation

The depreciation and amortisation charge of HK$395 million (2012: HK$384 million) largely relates to the hotels and in particular following the renovation project at The Peninsula Hong Kong. Depreciation charges are substantial and as such the Group adopts a rolling 5-year capital expenditure plan that is reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Non-Operating Items

The increase in fair value of investment properties for the year was principally attributable to the increase in appraised market value of The Repulse Bay Complex and the shopping arcades at The Peninsula Hong Kong and The Peninsula New York. These increases reflect the growth in underlying committed rentals, in particular, those achieved by the shops at The Peninsula New York. HK$523 million of the investment property revaluation surplus was attributable to a successful restructuring of the leases of the retail spaces at The Peninsula New York.

During the year, the Group further received a deferred consideration of HK$3 million in respect of the 2012 disposal of its interest in Inncom International, Inc.

Results of The Peninsula Shanghai

The Group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited ("PSW"), owns a 50% interest in The Peninsula Shanghai Complex. This comprises a hotel, a shopping arcade and a residential tower of 39 apartments. In addition to operation of the hotel and leasing of the shopping arcade and apartments, PSW also sublets and manages No. 1 Waitanyuan, which is adjacent to the Complex.

The Peninsula Shanghai performed well in 2013 and was the market leader in terms of RevPAR in its competitive set and generated an EBITDA of HK$92 million (2012: HK$68 million). However, given that it is a highly-geared property, and in order to reduce financing charges, PSW resolved in July 2013 to sell 19 apartment units in the market. Accordingly, these apartment units were reclassified from "investment properties" to "assets held for sale" during 2013. Following this reclassification, these apartment units are stated at their fair value net of the estimated selling costs to be incurred as required by the applicable accounting standard, whereas the remaining 20 apartment units, which are available for lease, continue to be stated at fair value.

As a result of the above accounting reclassification, an unrealised net loss on revaluation of HK$355 million was recognised by PSW in 2013. This loss mainly comprises the PRC land appreciation tax in respect of the 19 apartment units held for sale which is assessed based on progressive tax rates of 30%-60% of the appreciation in value which was not previously provided for when these apartment units were previously accounted for as long-term investment properties.

After accounting for the unrealised net loss on revaluation, depreciation and net financing charges, the loss sustained by PSW in 2013 amounted to HK$560 million (2012: HK$250 million) and the Group's share of PSW's loss for the year amounted to HK$280 million (2012: HK$125 million).

Balance Sheet

The Group's financial position as at 31 December 2013 remained strong, with year-on-year increase of shareholders' funds of 6% to HK$35,105 million, representing a per share value of HK$23.37 compared to HK$22.07 in 2012. The consolidated balance sheet of the Group as at 31 December 2013 is presented on page 190 and the key components of the Group's assets and liabilities are set out in the table below.

HK$m	2013	2012	2013 vs 2012
Fixed assets	38,187	34,123	12%
Other long term assets	2,571	2,517	2%
Cash at banks and in hand	1,494	2,185	(32%)
Other assets	867	982	(12%)
	43,119	39,807	8%
Interest-bearing borrowings	(5,486)	(4,174)	31%
Other liabilities	(2,259)	(2,194)	3%
	(7,745)	(6,368)	22%
Net assets	35,374	33,439	6%
Represented by			
Shareholders' funds	35,105	33,150	6%
Non-controlling interests	269	289	(7%)
Total equity	35,374	33,439	6%

Fixed Assets

The Group has interests in 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 commercial buildings for rental purposes.

In line with our vision of investing in assets for their long-term value, we completed two significant enhancement projects for The Peninsula Hong Kong and The Repulse Bay Complex, including a major reconfiguration of de Ricou tower and the upgrade of the public areas of the Complex.

We also acquired two additional commercial properties to complement our property portfolio. In June 2013 a commercial building in Paris known as 21 avenue Kléber was purchased for approximately HK$566 million (€56 million) exclusive of transaction costs and taxes. On 25 July 2013, we completed the acquisition of a 50% interest in 1-5 Grosvenor Place in London for approximately HK$1,564 million (£132.5 million) exclusive of transaction costs, stamp duty, land tax and other applicable taxes. 1-5 Grosvenor Place is currently leased out, but we are working with our partner Grosvenor on designs, costs and planning consent with a view to redeveloping this property into The Peninsula London hotel and residential complex.

Our hotel properties and investment properties are accounted for in different ways. The 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. Therefore independent valuers have been engaged to conduct a fair valuation of these properties as at 31 December 2013, and a summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2013 is set out in the table on the following page.

	Group's Interest	100% Value: Fair Value based on Independent Valuation (HK$m)	100% Value: Book Value (HK$m)
Hotels			
The Peninsula Hong Kong	100%	11,850	9,903
The Peninsula New York	100%	2,327	1,744
The Peninsula Beijing	76.6%*	1,843	1,399
The Peninsula Chicago	100%	1,340	1,123
The Peninsula Tokyo	100%	1,211	833
The Peninsula Bangkok	75%	795	778
The Peninsula Manila	77.4%	262	255
		19,628	16,035
Commercial properties			
The Repulse Bay Complex	100%	16,376	16,376
The Peak Tower	100%	1,276	1,276
St. John's Building	100%	894	894
21 avenue Kléber (acquired in June 2013)	100%	642	642
1-5 Grosvenor Place (acquired in July 2013)	50%	3,580	3,580
The Landmark	70%**	85	85
		22,853	22,853
Other properties			
Thai Country Club golf course	75%	245	239
Quail Lodge resort, golf course and vacant land	100%	266	257
Vacant land near Bangkok	75%	317	317
Others	100%	187	98
		1,015	911
Total market/book value		43,496	39,799
Hotel and investment property held by a joint venture			
The Peninsula Shanghai Complex***	50%	5,480	5,202
Hotel property held by an associate company			
The Peninsula Beverly Hills	20%	2,245	463

* The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

** The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner at the end of the joint venture period.

*** Excluding the 19 apartment units held for sale.

Other Long-Term Assets

The balance of HK$2,571 million of other long-term assets as at 31 December 2013 (2012: HK$2,517 million) principally represents the Group's 50% interest in The Peninsula Shanghai (PSH) and 20% in The Peninsula Paris. The 2013 results of PSH were equity accounted for in our consolidated financial statements.

In addition, the Group has a 20% interest in The Peninsula Beverly Hills, which we previously accounted for as an unlisted investment. Following a reclassification we will start accounting for The Peninsula Beverly Hills on an equity accounting basis from 2014.

Cash at Banks and in Hand and Interest-Bearing Borrowings

As at 31 December 2013, the Group's cash at banks and in hand decreased to HK$1.5 billion and interest-bearing borrowings increased to HK$5.5 billion. While the net cashflow from operations was sufficient to cover capital expenditure of existing assets including the guestroom renovation at The Peninsula Hong Kong and the upgrade project at The Repulse Bay Complex, the additional borrowings were mainly to fund the acquisition of 21 avenue Kléber and 1-5 Grosvenor Place. A breakdown of the Group's capital expenditures for the year ended 31 December 2013 is set out on page 50. Further details of the Group's borrowing profile, gearing, interest cover and treasury management are discussed on pages 52 to 55.

Cash Flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2013 is set out on page 193. The following table summarises the key cash movements leading to the increase in net borrowings of the Group as at 31 December 2013.

HK$m	2013	2012
EBITDA	1,306	1,201
Net change in debtors/creditors	95	(68)
Tax payment	(93)	(169)
Net cash generated from operating activities	1,308	964
Capital expenditure on existing assets	(928)	(875)
Net cash inflow after normal capital expenditure	380	89
Acquisition of new properties	(2,293)	–
Net cash (outflow)/inflow before dividends and other payments	(1,913)	89

The decrease in current tax payments in 2013 was mainly due to depreciation allowances in respect of the capital expenditure incurred in renovations of The Peninsula Hong Kong and The Repulse Bay Complex, which resulted in a substantial reduction of Hong Kong profits tax.

Our after-tax net cash generated from operating activities for the year amounted to HK$1,308 million (2012: HK$964 million), of which HK$928 million (2012: HK$875 million) was applied to fund capital expenditure on existing assets, which included the capital expenditure of HK$491 million (2012: HK$556 million) for The Peninsula Hong Kong and The Repulse Bay Complex. Free operating cash flow of HK$380 million (2012: HK$89 million) resulted after capital expenditure on existing assets.

In addition to capital expenditure on existing assets, the Group also incurred HK$2,293 million for the acquisitions of 1-5 Grosvenor Place, London and 21 avenue Kléber, Paris. The breakdown of the Group's spending on its existing assets and the new acquisitions is analysed below.

HK$m	2013	2012
Properties upgrade		
Hotels		
The Peninsula Hong Kong (including guestroom renovation)	198	336
Other hotels	265	183
Commercial properties		
The Repulse Bay Complex (including de Ricou reconfiguration)	293	220
Other properties	50	42
Clubs and services	122	94
	928	875
New acquisitions (inclusive of taxes and transaction costs)		
1-5 Grosvenor Place	1,688	–
21 avenue Kléber	605	–
	2,293	–
	3,221	875

Off Balance Sheet Information

The following capital commitments and contingent liabilities are not reflected in the Group's income statement, statement of financial position and statement of cash flows but are considered relevant and should be read in conjunction with the Financial Statements.

Capital Commitments

The Group is committed to enhancing the asset value of its hotel and investment properties and for the long-term value of these assets. As at 31 December 2013, the Group's capital commitments amounted to HK$2,046 million (2012: HK$1,520 million) and the breakdown is as follows:

HK$m	2013	2012
Capital commitments		
Major enhancement projects		
The Peninsula Beijing	1,138	–
The Peninsula Chicago	164	–
The Peninsula Hong Kong	–	236
The Repulse Bay Complex	–	420
Quail Lodge & Golf Club	72	159
Others	672	705
	2,046	1,520
The Group's share of capital commitments of		
– a joint venture	9	22
– associates	210	387

The Group is planning to embark on a major renovation programme for The Peninsula Beijing to enhance its position in a highly competitive market. The cost of this major renovation is estimated to be approximately HK$1,138 million (RMB890 million). 2014 will be a year of planning, and construction work is scheduled to be completed in early 2017. Given the size of the investment and the scale of the required work, the Group is reviewing a number of scenarios with a view to minimising disruption to the hotel's operations and its retail tenants.

In addition, following the completion of the upgrade project of The Peninsula Chicago's main suite and rooftop bar, the Group is planning to renovate all guestrooms of the hotel at an estimated cost of approximately HK$164 million (US$21 million). This renovation is expected to be completed in mid-2015.

Contingent Liabilities

Contingent liabilities as at 31 December 2013 for the Group and the Company are analysed in the table below. However, the Directors consider that these contingent liabilities are unlikely to materialise. As such, no provision has been made in the Financial Statements.

	Group		Company	
HK$m	**2013**	2012	**2013**	2012
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**5,557**	4,239
Other guarantees	**–**	1	**–**	1
	–	1	**5,557**	4,240

Treasury Management

The Group manages treasury activities centrally at our corporate office in Hong Kong. We are exposed to liquidity, foreign exchange, interest rate and credit risks in the normal course of business and have policies and procedures in place to handle such risks.

Liquidity/Financing

Our policy is to regularly monitor current and expected liquidity requirements and to ensure that we maintain sufficient funds to meet short and longer-term obligations and commitments. The Group also constantly reviews its loan profile so as to manage its refinancing risks and extend its maturity profile.

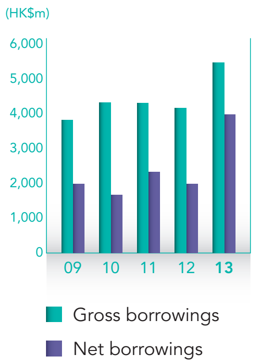
In the first half of 2013, the debt capital markets had a good start with record issuance volumes and low bond interest rates. In lieu of the favourable debt market environment, the Group established a US$1 billion Medium Term Note Programme on 25 June 2013 through a wholly owned subsidiary. However, the debt market environment turned unfavourable for any issuance after the Federal Reserve Chairman announced that the Federal Reserve would taper its bond repurchase if there were signs of sustained improvement in the labour market.

The Group then used our strong banking relationships to arrange bilateral five-year term loan agreements totalling HK$1.8 billion with several international banks. The proceeds were principally used for the payment of HK$1,564 million for the 1-5 Grosvenor Place lease. In addition, term loan facilities of €60 million and ¥5 billion were finalised during the year for the acquisition of 21 avenue Kléber and early refinancing of existing indebtedness respectively.

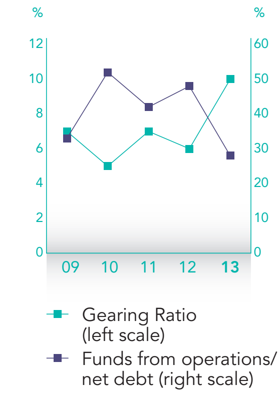
In 2013, gross borrowings increased to HK$5,486 million (2012: HK$4,174 million). Consolidated net debt increased to HK$3,992 million as compared to HK$1,989 million in 2012 taking into account cash of HK$1,494 million (2012: HK$2,185 million). Gearing, expressed as a percentage of net borrowings to the total of net borrowings and shareholders' funds, increased from 6% to 10% while funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 48% to 28%. These ratios still reflect a very healthy financial position of the Group.

The average debt maturity increased from 2.4 years to 3.5 years.

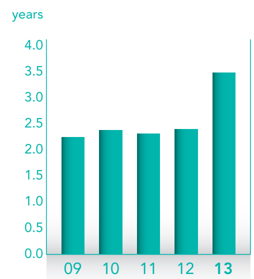
Gross and Net Borrowings



Gearing and Funds from Operations to Net Debt



Average Debt Maturity



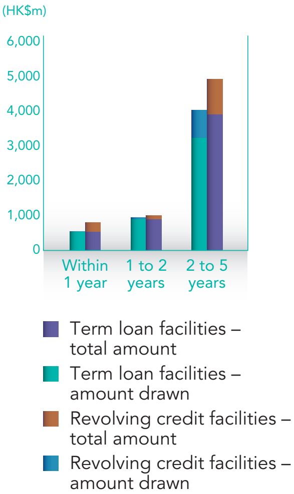
In addition to the Group's consolidated borrowings, The Peninsula Shanghai (50% owned), The Peninsula Beverly Hills (20% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Company.

The consolidated and non-consolidated borrowings as at 31 December 2013 are summarised as follows:

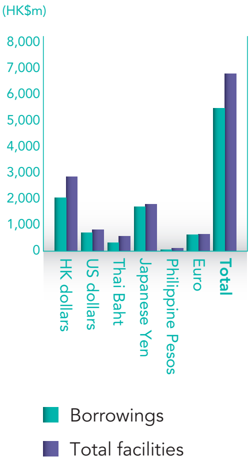
	2013					2012
HK$m	Hong Kong	Other Asia	United States of America	Europe	Total	Total
Consolidated gross borrowings	2,057	2,079	714	636	5,486	4,174
Non-consolidated gross borrowings attributable to the Group*						
The Peninsula Shanghai (50%)	–	1,412	–	–	1,412	1,425
The Peninsula Beverly Hills (20%)	–	–	218	–	218	218
The Peninsula Paris (20%)	–	–	–	446	446	215
Non-consolidated borrowings	–	1,412	218	446	2,076	1,858
Consolidated and non-consolidated gross borrowings	2,057	3,491	932	1,082	7,562	6,032

*Represented HSH's attributable share of borrowings

Banking Facilities and Borrowings (by type and maturity)



Banking Facilities and Borrowings (by currency)



Foreign Exchange

The Group reports our financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. It usually hedges most of the foreign exchange exposures arising from significant foreign currency monetary assets and liabilities, including foreign currency borrowings. The Group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge exposures.

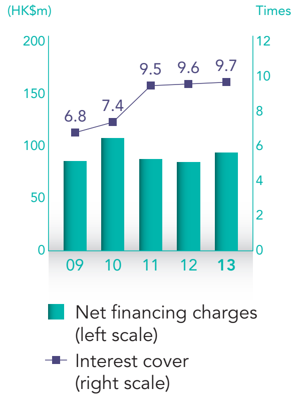
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2013, Hong Kong dollar borrowings represented 37% (2012: 24%) of total borrowings. The balances were mainly in US dollars, Japanese yen and other local currencies of the operations of the Group's entities.

Interest Rate Risk

The Group has an interest rate risk management policy which focuses on reducing the Group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the Group also uses interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure.

Financing charges on borrowings in 2013 amounted to HK$140 million (2012: HK$141 million). After interest income of HK$46 million (2012: HK$56 million), a net charge of HK$94 million (2012: HK$85 million) was recognised in the income statement. Interest cover (operating profit divided by net financing charges) increased to 9.7 times (2012: 9.6 times) in 2013 arising mainly from the improved operating profit. As at 31 December 2013, the Group's fixed to floating interest rate ratio was at 45% (2012: 54%) and the weighted average gross interest rate for the year decreased to 2.9% (2012: 3.2%). The floating interest rate portfolio capitalised on the current low interest rate environment.

Net Financing Charges and Interest Cover



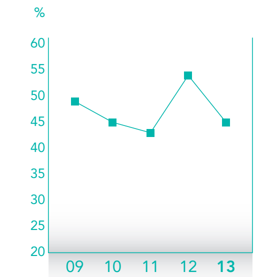
Credit Risk

The Group manages its exposure to non-performance of counterparties by transacting with those who 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 rating.

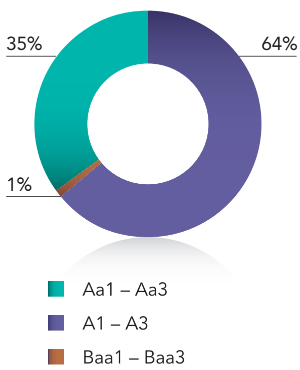
Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade, even in developing countries, because of the longer term effect.

As at 31 December 2013, cash and time deposits of HK$1,471 million (2012: HK$2,147 million) and derivatives with notional amount of HK$2,090 million (2012: HK$2,398 million) were transacted with financial institutions with credit ratings of at least an investment grade.

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



Cash at Banks by Credit Rating of Banks



Share Information

At market close on 17 March 2014, the Company's share price stood at HK$10.46, giving a market capitalisation of HK$15.7 billion (US$2.0 billion). This reflects a discount of 55% to net assets attributable to shareholders of the Company, or a discount of 59% to the adjusted net assets (see page 40).

The average closing price during 2013 was HK$12.41, with the highest price of HK$14.20 achieved on 20 May 2013 and the lowest price of HK$10.38 recorded on 27 December 2013.

Introduction

We are fully aware that the future of our business will depend on how well prepared we are for it. Dwindling natural resources, aggressive demand for talent, as well as an increasingly competitive market make it necessary for any responsible business to take a hard look at sustainability measures.

That was why, two years ago, we made the decision to broaden our sustainability management system to include a longer term vision that would allow us to better integrate our sustainability practices and principles with our businesses across the Group.

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. We report on the progress and challenges we had in delivering the HSH Sustainable Luxury Vision 2020.

After consultation with our stakeholders, assessing macro trends shaping our business landscape and benchmarking best practice in the industry, we came up with a framework that would set the stage for our sustainability efforts in the long term and we were proud to roll out our Sustainable Luxury Vision 2020 in 2013.

The framework of our Sustainable Luxury Vision 2020 comprises 7 pillars: Guest Experience, Employees, Community, Supply Chain, New Build and Refit, Operations, and Governance and Management. While many of the pillars encompassed what we are already doing as a Group, the new Vision 2020 will allow us to incorporate sustainability into decision-making processes at an early stage and provide our employees with a more defined context and direction of where we are heading.

We continue to build up both customer and employee loyalty, through enticing bespoke programmes for the former and rewarding training courses for the latter. We also maintain our close engagement with the communities in cities which we call home.

At the operations level, we continue to make strides in our efforts to improve on our energy performance and carbon footprint. Despite business growth, we used 3% less energy and 4% less water in 2013, than we did in 2008. Across the Group, we are also prioritising responsible sourcing as a standard practice.

We have reaped early rewards for our efforts with The Peninsula Chicago receiving its inaugural EarthCheck Silver Certified status and the Leadership in Energy and Environmental Design (LEED) Gold Certification for the renovation of the de Ricou apartments at The Repulse Bay Complex.

THE SUSTAINABLE LUXURY VISION 2020

HSH ASPIRES TO DELIVER THE HIGHEST STANDARD OF LUXURY IN A SUSTAINABLE WAY AND CONTINUE TO GROW RESPONSIBLY AND SUSTAINABLY.

GUEST EXPERIENCE

We strive to offer unique experiences, timeless glamour and exquisite surroundings and facilities, all designed to enrich, enhance and create everlasting memories for our guests while respecting the environment and preserving our heritage. Our service is genuine, personalised and innovative, and we are committed to quality in everything we do.

EMPLOYEES

We create a culture of engaged and loyal employees who are proud of our heritage and are passionate in delivering service. This is achieved in a family environment that promotes honesty and respect for each other, where we are recognised as a genuine and caring employer that continually grows and develops our own talent. We are committed to the health and safety of our employees and endeavour to nurture them to make a positive impact on our customers, our community and the environment.

COMMUNITY

Respectful to our environment and our community, we will engage with our communities to respond to their needs in a strategic, relevant and focused way.

We also seek to integrate our aspirations for supporting the development of our communities with our core operations.

OPERATION

We strive to deliver high standards in the most sustainable and cost-effective way.

We commit to implementing robust sustainability management and practices and to delivering continuous improvement through discipline, creativity and applying the right technology.

NEW BUILD & REFIT

We strive to design and deliver our hotels and properties to meet the highest sustainability criteria whilst providing an exceptional level of comfort. These high design standards support superior service delivery in the future and provide the foundation for efficient energy, water, waste and safety management.

SUPPLY CHAIN

We seek opportunities to delight customers, whilst controlling cost. We will address the sustainability risks in our supply chains, with the goal of minimising the negative environmental and social impacts of our procurement decisions. Whilst meeting our financial and quality requirements, we will make preference to source locally and from sustainable sources in order to support the local communities and environment and, in the process, reduce our carbon and water footprints.

GOVERNANCE & MANAGEMENT

We meet local laws and regulations and ensure that our business is conducted in accordance with professional, ethical and moral standards, as outlined in our code on corporate governance, so as to achieve sustained, healthy and long term growth.

We consult and share our sustainability performance with our key stakeholders and balance their interests with the Group's objectives.

Reporting Scope[1]

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%[2] of the Group's business portfolio. 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 is not included in the report as it is still under construction.

Reporting Standards and Assurance

We have used the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) G4 and the Hong Kong Stock Exchange's Environmental, Social and Governance Guides (ESG Guides) in the development of this report. GRI and ESG references can be found on pages 256-262. The report meets GRI G4 Core Level compliance and is verified by GRI on Materiality Matters.

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 G4 as detailed on pages 256-262. The report from KPMG is set out on page 263.

Materiality and Defining Report Content[3]

The content reported in this section covers the calendar year of 2013. In line with G4's materiality principles, our process for defining report content 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. Details of HSH Sustainability Materiality Matrix can be found on page 100.

In the Report, disclosures of management approach for material GRI aspects and topics are mapped to the pillars within our Sustainable Luxury Vision 2020. The Sustainability Data Statements section supplements the discussion with detailed performance data. (See pages 251-255.)

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 267 of this report.

1 *GRI G4 Material Disclosure: G4-17*

2 *Based on the Group's annual revenue in 2013.*

3 *GRI G4 Material Disclosure: G4-18, 27*

Sustainability Scorecard	Guest Experience	Employees	Community
2020 Ambitions	• Expand our customer base, particularly the 30s-50s age groups, and nurture their loyalty through our authentic service culture and the use of innovative technology • Attract family travellers by providing facilities and services that cater to their needs • Attract senior travellers by providing facilities and services that cater to their needs • Engage our customers in preserving our heritage for future generations • Provide Green Meeting options to corporate clients • Continue to create memorable guest experiences through impeccable service, applying the right technology, leveraging on the resources of the cities we operate in, and creating an environment that supports our guests' lifestyle choices, such as healthier and more sustainable lifestyles	• Strengthen executive and leadership development • Attract new talent and retain quality employees • Implement the competency framework • Introduce "Ambassadors for Good" Training Programme • Empower Operations' CRS champions through training • Target zero work fatality or incident resulting in permanent disability • Minimise occupational health and safety incidents by improving the processes and system to support the management, planning and disclosure needs on health and safety • Achieve OHSAS 18001 for all operations • Establish a global human resources system to support human resources management, planning and disclosure needs	• Contribute 100K hours of community service by 2020 • Engage 10% of employees in community service • Develop Group "Impact" programmes on global and regional levels • All hotel operations have at least one "Impact" programme. • All hotel and property operations to annually organise at least one cause marketing campaign to engage their customers in contributing to communities where we operate. • Empower disadvantaged youth and marginalised groups in communities where we operate with the skills and opportunities for livelihoods while building the pipeline for our future workforce needs • The Peninsula Academy provides opportunities for guests to appreciate and care for the local community and environment.
2014 Commitments	• Enhance online guest experience • Continue to add meaningful guest experiences that appeal to guest of all ages to the programme offering of Peninsula Academy	• Roll out refreshment programmes for the Code of Conduct training • Develop Human Resource tools to support HSH competency framework • Conduct global employee engagement survey • Develop new employee e-learning module on Sustainable Luxury Vision 2020 • All operations to develop action plans for achieving HACCP certification • Enhance injury and illness prevention programme through more robust post-incident investigations • Establish more vigorous discipline of conducting emergency drills to enhance our emergency preparedness • Implement a new health and safety reporting template to support the monitoring of health and safety performance across the Group	• Implement the renewed HSH Group community investment and engagement strategy and framework • Introduce the Group community impact programme Honing Skills in Hospitality across all operations
Progress Against 2013 Targets	➡ Further integrated sustainability considerations in the delivery of guest experience	✓ Built a competency framework for the Group ✓ Developed a human resources manual and toolkit for hotel pre-opening ➡ Enhanced our support for employee wellness and work-life balance ✓ Launched a new module of the Executive Development programme targeting the next generation of leaders ◌ Expanded the Peninsula Scholarship programme ➡ Rolled out a new health and safety reporting template to improve the monitoring of Group operations' performance on training and reducing incidents ➡ Hotels division to continue to implement the Operational Risk Manual	➡ Rolled out a renewed HSH Group community investment and engagement strategy and framework ✓ Rolled out new Group community development initiatives that strategically align with the needs of our business and our communities ➡ Continued to actively engage with the local communities where we operate

Operation	New Build and Refit	Supply Chain	Governance and Management
Using the 2006-08 average baseline – Achieve 10% absolute carbon emission reduction – Achieve 30% carbon intensity reduction – Achieve 25% energy intensity reduction – Achieve 25% water intensity reduction • Achieve 25% reduction on waste intensity from 2012 baseline • Achieve 60% waste diversion rate through recycle, reuse and donation • Achieve excellent rating in IAQ assessment for all operations • Provide self- bottled water for guestrooms and meetings to reduce plastic waste • All hotel operations achieve HACCP certification • Operations located in water stressed regions to be "water neutral" by efficient use of water and replenishing sources near our locations	• In countries where qualified contractors are available, all main contractors appointed are ISO 14001 certified. • In countries where qualified contractors are available, all main contractors appointed are OHSAS 18001 certified. • All new built and major refit meet international green building standards. • All paints used for indoor environment are free of VOCs.	• All operations continue to enforce the group-wide ban on shark fin. • Paper products will be from certified sustainable sources by 2017. • Critically endangered species are removed from our food and beverages offerings. • Strive to source 50% perishable produce locally • Guestroom amenities are made of sustainable materials. • More than 50% cleaning products used in operations will be chemical -free or biodegradable. • Tea, coffee and chocolate we sell are from certified ethical sources. • Our luxurious furnishings meet uncompromising quality and sustainability criteria. • Strive to have all procurement contracts in compliance with HSH Supplier Code of Conduct and verified by sample audit • Rejuvenate "Naturally Peninsula" as the choice for sustainable, organic, and healthy options	• Build robust succession planning framework for senior leadership • Introduce Leaders for Good Training Programme for Management • Establish a robust framework to track and manage financial, operational and ESG risks the Group is exposed to • Engage stakeholders on wider sustainability issues through a process that is meaningful and adds value in advancing the Group's sustainability commitments • Establish a robust sustainability management system to support the management, planning and disclosure requirements on sustainability issues as well as progress towards 2020 goals • Meet international and local sustainability disclosure requirements relevant to HSH
• Achieve an overall 18.5% energy intensity reduction against the 2006-08 baseline • Achieve 16% water intensity reduction against the 2006-08 baseline for hotels division and 7% reduction for commercial properties, clubs and services division • Carry out water management assessment across the Group • Continue to seek opportunities to improve waste diversion • All operations carry out employee awareness programme on environmental conservation.	• Begin to implement the renewed Sustainable Design Standards for new build and major refit projects	• Conduct sustainability review on the seafood offering across operations • Introduce supplier pre-qualification process which incorporates HSH Supply Chain Code of Conduct requirements • Implement a new reporting template to measure our performance on responsible sourcing practices • Develop protocols to incorporate HSH Supply Chain Code of Conduct compliance assessment as part of supplier visits • Develop sustainable procurement guidelines	• All operations develop action plans and define the associated goals contributing to Sustainable Luxury Vision 2020. • Develop communication tools to support the leadership teams of all operations to cascade localised Vision 2020 plans to the wider workforce • Implement the two-year stakeholder engagement plan to support the rollout of Sustainable Luxury Vision 2020 • Continue to expand employee engagement effort on corporate responsibility and sustainability • Continue to improve the robustness of the Group's sustainability management system
✘ To achieve an overall 18% energy intensity reduction against the 2006-08 baseline ✔ Further reduced water intensity of our hotels division ➡ Conducted a pilot building re-commissioning project ➡ Continued to improve the robustness of monitoring waste management performance ✔ All catering operations completed their gap analysis on compliance with HACCP as a Group standard.	✔ Reviewed the Sustainable Design Standards	◌ Implemented a new reporting template for the Group to measure our performance on responsible sourcing practices ➡ Incorporated the requirement of complying with HSH Supply Chain Code of Conduct into the day-to-day procurement practices ◌ Introduced a best practice of conducting regular supplier visits to assess compliance with the HSH Supply Chain Code of Conduct ➡ Explored ways to promote sustainable seafood consumption	✔ Developed a longer-term sustainable business vision and define the associated goals ✔ Continued to work on building a longer-term roadmap and strategic framework for stakeholder engagement on environmental, social and ethical issues ✔ Developed a new Group employee engagement programme on sustainability issues ➡ Continued the rollout of the revamped sustainability management system ✔ Assessed the implications of new international and local sustainability disclosure requirements at HSH

✔ Achieved ➡ On Plan ◌ Behind Plan ✘ Objective missed

GUEST EXPERIENCE

Our Mission

We strive to offer unique experiences, timeless glamour and exquisite surroundings and facilities, all designed to enrich, enhance and create everlasting memories for our guests while respecting the environment and preserving our heritage. Our service is genuine, personalised and innovative, and we are committed to quality in everything we do.

Our 2020 Ambitions

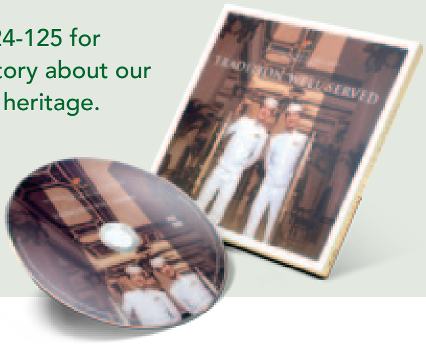
- Expand our customer base, particularly the 30s-50s age groups, and nurture their loyalty through our authentic service culture and the use of innovative technology
- Attract family travellers by providing facilities and services that cater to their needs
- Attract senior travellers by providing facilities and services that cater to their needs
- Engage our customers in preserving our heritage for future generations
- Provide Green Meeting options to corporate clients
- Continue to create memorable guest experiences through impeccable service, applying the right technology, leveraging on the resources of the cities we operate in, and creating an environment that supports our guests' lifestyle choices, such as healthier and more sustainable lifestyles

Building on our reputation as a purveyor of timeless luxury, HSH is as committed to defining the future of luxury as we have been to preserving our magnificent heritage of the past. Our Sustainable Luxury Vision 2020 focuses on refining and evolving luxury in tandem with the changing needs of our guests.

We understand that there is a perceived divide between the notion of luxury and the principles of sustainability. To bridge this divide is not without challenges. However, our attention to detail and persistent quest for superior quality often lead us to new opportunities for innovation – in delivering luxury and quality to our customers in the most sustainable ways, or enhancing standards by making sustainability part of the appeal of our luxury offering.

Tradition Well Served

See pages 124-125 for the feature story about our tradition and heritage.



Understanding and Exceeding Guest Expectations

A key element of The Peninsula experience is our bespoke products and services, from our custom car fleet to our personalised technology. To this end, we provide our employees with hospitality training and a family culture that equips and empowers them to anticipate customer needs and to surpass customer expectations.

A key element of The Peninsula experience is our bespoke products and services

Measuring guest satisfaction

We tactfully solicit feedback from guests through our interactions with them, as well as through optional surveys available in the guest rooms. To gain a deeper understanding of our guests' experience, we also partner with a mystery-shopping firm to interact with our properties and employees.

The programme provides thorough and quantifiable analyses on how well we meet our standards. It covers the entire journey of guest experience from making a reservation to departure, assessing the quality of services such as housekeeping and laundry, pools and fitness centres as well as our restaurants, lobbies, boutiques and other guest areas. Detailed reports with performance charts, scoring summaries, and executive analyses provide insights into how we can continuously improve. In 2013, key results from these guest satisfaction reports for our hotels did not reveal any fundamental, endemic gaps that we need to address but instead showed a series of specific, tactical improvement opportunities we could attend to on a property-by-property basis.

The Peninsula brings each destination to our guests with style, sophistication and elegance

The Peninsula Academy supports the rebuilding of heritage and customs in danger of dying out

Crafting Unique Guest Experiences

The cities in which The Peninsula Hotels are located are as iconic and memorable as the hotels themselves. We want our guests to fully explore and enjoy the cities we call home as well as get to know the communities we cherish. We want to share with our guests the rich culture, history and heritage, as well as individuality of each of these cities.

Touches of Tradition

Each of the Group's hotels reflects local culture through the use of local materials and artwork, such as Thai silk and teak in Bangkok, Art-Deco styling in Shanghai, traditional Japanese design and artwork in Tokyo, and indigenous crafts and adornments in Manila.

Experience our cities, Peninsula-style

To engage with our guests and customers online, PenCities was developed in partnership with stylish travel guide LUXE City Guides to provide an up-to-date, online luxury lifestyle journal. Since its launch at the end of 2012, PenCities has been showcasing the best of each Peninsula destination, with a tightly edited selection of informed recommendations, covering the latest openings, classic favourites, special events, seasonal celebrations, plus emerging new luxury lifestyle and travel trends.

Peninsula moments

In 2013, we continued the roll-out of our new, global brand campaign *Peninsula Moments*, using short films and photography to illustrate how The Peninsula brings the outstanding aspects of each destination to our guests with style, sophistication and elegance. Conceived and developed in-house, each short film and photograph showcases the magic that the Peninsula team brings to our guests, going behind the scenes to tell each hotel's story and featuring the special memories created by staff members.

Curating the guest experience

During the year, we also re-launched The Peninsula Academy with a refreshed collection of carefully curated programmes to delight our guests with unforgettable experiences, as well as to introduce the rich culture and tradition of each city to our guests. These programmes focus on history and heritage, art and lifestyle, and family experiences unique to each of our cities, and are designed to be enjoyed by guests of all ages.

The Peninsula Academy has also created a platform to marry guest experiences with preserving the cities' heritage for our future generations. For example, in Hong Kong, our guests can uncover disappearing crafts such as paper-tearing, Chinese shadow-puppet mastery and the art of *qipao* knotted flower-button crafting. Guests can also meet the artisans and learn the history

" Innovation is part of The Peninsula's DNA and the guest-focused technology we unveiled with the re-launch of The Peninsula Hong Kong has elevated guest stays to a whole new echelon of experiential luxury"

Mr. Peter Borer
Chief Operating Officer

behind their chosen vocations. In Beijing and Shanghai, kite-making and flying classes allow children and accompanying adults to learn the ancient art of kite-making that originated in China over 2,000 years ago. More than a learning experience, these programmes support these traditional crafts by contributing to their sustainability through education and awareness building. We hope that these strategically crafted guest experiences support the rebuilding of heritage and customs in danger of dying out.

Setting New Standards of In-Room Technology

We believe that HSH is the only hotel company in the world which develops its own high-tech in-room solutions in-house and is renowned as an industry leader in the research and development of in-room technology. The latest in-room technology we unveiled in 2013 as part of the landmark room enhancement programme of The Peninsula Hong Kong set new standards for personalised in-room experience. All information of interest to our guests and full control of all in-room functions, from streaming terrestrial TV, lighting control to valet call and privacy option, are now available on the new customised, interactive tablets. The tablets can be preset to one of 11 languages to suit guest preference. We believe that guest-focused and intuitive technology can enrich guest experiences and help us stay relevant.

Refer to Sustainability Scorecard for 2014 Commitments

We are also leveraging on technology to enable community engagement. The Peninsula Tokyo was the first within the Group to offer complimentary, interactive iPod walking tours of the hotel's art collection and its neighbourhood. In 2013, along with celebrating The Peak Tram's 125-year legacy, The Peak Tower launched the *Hong Kong Sky Tour*, a personal and interactive touch screen audio guide available in six languages, to help visitors explore Hong Kong's history, architecture and neighbourhoods while enjoying the spectacular views from Sky Terrace 428.

More Than Child's Play

In addition to inspiring cooking classes, The Peninsula Kids' Academy programmes range from origami classes and making wind chimes in Tokyo, Thai-style painting in Bangkok, to firehouse excursions in Chicago and New York. These programmes aim to provide our younger guests with fun insights into the tradition and culture of our cities as well as a delicious and educational time with our chefs.

EMPLOYEES

Our Mission

We create a culture of engaged and loyal employees who are proud of our heritage and are passionate in delivering exceptional service.

This is achieved in a family environment that promotes honesty and respect for each other, where we are recognised as a genuine and caring employer that continually grows and develops our own talent.

We are committed to the health and safety of our employees and endeavour to nurture them to make a positive impact on our customers, our community and the environment.

Our 2020 Ambitions

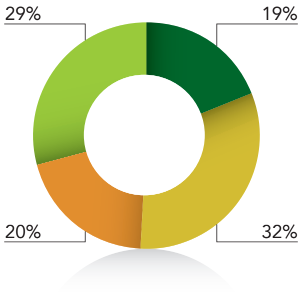
- Strengthen executive and leadership development
- Attract new talent and retain quality employees
- Implement the competency framework across the Group
- Introduce "Ambassadors for Good" Training Programme
- Empower Operations' CRS champions through training
- Target zero work fatality or incident resulting in permanent disability
- Minimise occupational health and safety incidents by improving the processes and system to support the management, planning and disclosure needs on health and safety
- Achieve OHSAS 18001 for all operations
- Establish a global human resources system to support human resources management, planning and disclosure needs

Our people are at the heart of our business and our brand. Behind every life-long memory our guests take away is the passion and love of service embodied by our employees. Their dedication, commitment and creativity to go above and beyond the expectations of our customers define the excellence that HSH stands for.

We place great value and pride in being a genuine and caring employer. We want our employees to reach their full potential for the growth and success of our business. The unique family culture that runs deep throughout the Group's 148-year history is what engages and empowers our employees. We also treasure a loyal relationship with our employees. The long-service employees' 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.

Refer to the Sustainability Data Statements section

More than 8,000 Employees Worldwides



Reinforcing an Ethical Culture

We are committed to providing an environment that promotes integrity, respect and diversity. Maintaining strong corporate governance and ethical standards supports business sustainability and is what our stakeholders expect from us.

Our Code of Conduct and Equal Opportunities outlines the standards of behaviour that we expect at all times from employees on a range of ethical issues, including anti-bribery, fair competition, equal opportunities and protection of customer privacy. 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, as well as recognising the basic right of workers in forming and joining trade unions to protect their interests[4].

It is a compulsory requirement for all employees to undertake the two modules of Code of Conduct training programme[5], covering anti-corruption and bribery and equal opportunities which is an important aspect of human rights issues relevant to our operation. All employees who handle customer information are required to also undertake training on customer data privacy[6]. In the coming year, while continuing to have new employees complete the Code of Conduct training, we will also be rolling out a refreshment programme for all HSH employees. In 2013, out of the Group's workforce of over 8,200 employees, 7 grievances of discrimination were lodged, investigated and dealt with in accordance with the Group's policy, and there were no reported breaches of anti-corruption practices.

United in Our Differences

Diversity at HSH is more than an obligation; it is a business strength that we celebrate. We have a gender-balanced workforce[7] and this diversity offers our employees the opportunity to learn from one another and effectively connect with our customers from around the world.

4 *In 2013, 12.9% of our employees were covered by collective bargaining agreements.*

5 *Most existing employees undertook these trainings when they were launched in 2011. In 2013, 26% of the total workforce undertook anti-corruption training, 25% undertook equal opportunities training. The participants included all new recruits and existing employees who were not able to attend the training modules previously. These represented a total of 1,080 hours of training on anti-corruption, 1,030 hours on equal opportunities.*

6 *The customer data privacy module of the Code of Conduct training, rolled out in late December 2012, is designed to be undertaken by all management as well as general employees who handle guest information in functions such as guest services, food & beverage, front-office, sales and marketing. These included 1,804 employees. 7% completed the training in 2012 and another 91% in 2013. 1,516.5 training hours on protection of customer data privacy were recorded in 2013.*

7 *The gender split of our workforce: In both our overall workforce and management team, we employ 41% females and 59% males. Our full time workforce is 40% female and 60% male and our part time workforce is 54% female and 46% male. Permanent employees are 41% female and 59% male, while fixed term/temporary contract employees are 54% female and 46% male. In Asia, we employ 41% females and 59% males. Outside of Asia, we employ 43% females and 57% males.*

The Group is committed to providing an inclusive, non-discriminatory workplace which gives opportunities of continuing development to all employees as well as fair consideration to all applicants regardless of gender, age, nationality, religion, sexual orientation or disability. At our operations across the world, we employ people with disabilities to perform duties that can effectively draw on their talents and skills. Unfortunately, our hotel operations in Shanghai and Bangkok will be paying a total of HK$346,392 to their respective local governments for not meeting the required legislative quota for employing people with disabilities in 2013. This was mainly due to natural attrition. Both properties are searching for the right candidates to fill the vacant positions.

Bringing Our Values to Life

The values of HSH as a company and as a brand are exemplified every day by our employees. Their passion, commitment and creativity are what make HSH special to our customers and what lead our business to achieve our ambitions for sustainable growth. Hence, attracting, developing and retaining the right talents are fundamental to our success.

Investing in the future

Each year, we update our learning and development programmes based on the annual analysis of training needs across the Group. In light of the Group's business development plan, a series of new executive development programmes were introduced in the past three years to ensure our aspiring leaders were well equipped and poised to support the Group in expanding its foothold to new frontiers. The new module rolled out in 2013 engaged 12 selected executives across the Group in a range of business simulation exercises, a 360° review, and an action learning project whereby the participants would work in small teams for six months to tackle one of the ambitions under the Group's Sustainable Luxury Vision 2020. The module was aimed at helping the participants refine their management skills and leadership presence

SILENT SUCCESSES

The Peninsula Manila's chocolatiers were both born deaf but did not let their disabilities get in the way of success. From the Philippine School for the Deaf, they apprenticed at the hotel and are responsible for creating thousands of chocolate truffles and pralines every day to delight our guests.

At The Peninsula Beijing, the hotel not only provides training to its employees with hearing disabilities, but also organises training courses on sign language to facilitate fellow colleagues to communicate with them more effectively.

while broadening their perspectives to prepare them for stepping up in their leadership roles within the HSH portfolio.

The Group also runs scholarship programmes which provide funding support and summer internship to students studying hospitality. In 2013, scholarship support was provided to students in Manila and Hong Kong. We intended to expand the programme to other cities and began the process of selecting the right candidates in Paris, New York and Beijing for 2014.

The cornerstone for people development

We began the journey of building a global competency framework in early 2012 to help us define the desired behaviours at different job levels and the link to driving business success for the Company as a whole. The competency framework reflects not just present needs but also what the future may require of us in delivering sustainable luxury to our customers and sustainable growth for the Company.

In 2013, through interviews, focus groups and online questionnaires, we obtained input from close to 800 employees to help us sketch out the core and critical competencies for staff members from support level to senior management and executive levels. In the coming year, we plan to roll out the competency framework with tools to support its application during performance management conversations, learning and development programmes and be integral part of the recruitment process.

Emphasising dialogue and engagement[8]

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 different forums to ensure their teams are informed and heard.

8 GRI G4 Material Disclosure: G4-26

Building Local Talent

The Peninsula Shanghai partnered with UK-based Institute of Hospitality and the Vocational Training Centre in Hong Kong to launch an 18-month part-time diploma course in hotel management to give its locally-hired managers an opportunity to deepen their knowledge on different topics of hotel management, such as business management, marketing and sales, human resources, finance and business planning. The first in-take of 20 managers graduated in the summer of 2013, with the second batch of another 20 starting their study in November.

Discover Our Journey

In 2013, the Group released a new video *The Journey to Sustainable Luxury*. The five-minute video shares with our employees the Group's commitment to responsible and sustainable practices and highlights the progress we collectively achieved over the past five years. It will also be included in the orientation of new recruits. We hope our employees will be encouraged by the success and the positive spirit highlighted in the video, and be inspired to take individual actions in making a difference. The video serves well to help us reflect on our journey thus far and prepare us to turn to a new page with our new vision for 2020.

In 2011 and 2012, we undertook an employee engagement survey at 11 Group operations. More than 4,200 employees participated, representing over 50% of the Group's total workforce. The survey confirmed that our employees were proud to be associated with HSH and to advocate the HSH brand. The findings also showed that there was room for us to improve on employee recognition and two-way communication. From writing a personal note to recognise a staff member to dedicating a week each year to celebrate the hard work for a certain function, from managers making time for one-on-one coffee session with their staff members to instilling the discipline of hosting a monthly departmental meeting, the 11 operations developed over 400 action plans to address the feedback gathered from the survey. At the Group level, we took action to strengthen our performance management process and develop a global competency framework. A global engagement survey is scheduled for 2014 and will cover all full-time HSH employees with over six months' service to ensure their needs and feedback are heard.

A handy toolkit

During the year, a human resources manual and toolkit for hotel pre-opening was developed. It provides a valuable resource, with preparations now in Paris and London in the medium term. Before a Peninsula hotel opens its doors to a city, an incredible amount of work goes into engaging the potential workforce, building skills and competencies through training programmes, and instilling HSH's strong ethical culture and unique service standards. The new manual would help formalise and reinforce this important work.

Refer to the Sustainability Data Statements section

Health and Safety is a Priority

Making sure our hotels and properties are safe for our customers and our employees is of highest priority to HSH and our stakeholders. To ensure the welfare of our employees and minimal disruption to our business, we place strong emphasis on taking a preventive approach through health and safety training and incident management.

In 2013, HSH began to introduce a new workplace claims management programme with accompanying policies and procedures across all operations to formalise the reporting of workplace incidents. This new system helps improve internal controls and injury prevention measures. All operations also have a Health and Safety Committee, which meets regularly to review performance and devise the appropriate improvement

Safety First

In 2013, we continued to focus on employee training in reinforcing a safety culture. A total of 19,382 hours of health and safety training were delivered across our operations, a 14% increase from 2012. Fire safety remained the predominant training topic during the year, followed by training in other areas such as food safety and hygiene as well as manual handling.

The Peninsula Tokyo splashed some fun to its fire safety training by participating in a firefighting contest among businesses based in the Marunouchi district, competing on the response speed of firefighting, the use of firefighting equipment and teamwork.

The Peninsula New York organised a wellness day where all employees were invited to visit different health awareness stands, including podiatry, dentistry, acupuncture, general medicine and fitness. The de-stress corner with two massage chairs proved to be very popular. Employees could also have basic health checks and enjoy a selection of healthy food.

plans. These measures have helped us continue to reduce the Group's injury rate. In 2014, we aim to enhance our injury and illness prevention programme through more robust post-incident investigations. We will also continue rolling out a new health and safety reporting tool to improve the monitoring of Group operations' performance on training and incident reduction.

Supporting Employee Wellness

The health and wellbeing of our employees is vital to our continued business success. We believe that healthy and happy employees contribute to a healthy company and happy customers.

Across the Group, we strive to increase the wellness of our workforce by setting up staff fitness centers on premises or partnering with local health clubs in offering discounted memberships to our employees. Many also organise sports and wellness programmes to help employees adopt a healthy lifestyle, from runners' clubs in Manila and Hong Kong, yoga classes in Shanghai, to golf lessons at Thai Country Club and a dedicated staff wellness team at The Landmark Vietnam bringing fruit, water and energizing exercises to their fellow colleagues. We have also become more conscientious in providing not only tasty, but also healthy and balanced meals at staff cafeterias. To better support employee work-life balance, The Peninsula Hong Kong, Peninsula Merchandising Limited, Global Customer Services Centre and The Peak Complex implemented 5-day and 5.5-day work weeks in 2013.

Caring for the HSH family

Within the Group, 148 employees took parental leave during the year. Among the employees who took parental leave in 2012, 84% were still working with us a year on. During the year, we began to introduce across our Hong Kong operations a series of employee benefits, such as a three-day paternity leave, four-week adoption leave, full remuneration for maternity leave as well as extending annual comprehensive medical examination benefits to all permanent employees.

How We Did in 2013

- ✓ Built a competency framework for the Group
- ✓ Developed a human resources manual and toolkit for hotel pre-opening
- ➡ Enhanced our support for employee wellness and work-life balance
- ✓ Launched a new module of the Executive Development programme targeting the next generation of leaders
- ◌ Expanded the Peninsula Scholarship programme
- ➡ Rolled out a new health and safety reporting template to improve the monitoring of Group operations' performance on training and reducing incidents
- ➡ Hotels Division to continue to implement the Operational Risk Manual

✓ Achieved ➡ On Plan ◌ Behind Plan ✗ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

Operation

Our Mission

We strive to deliver high standards in the most sustainable and cost-effective way.

We commit to implementing robust sustainability management and practices, and to delivering continuous improvement through discipline, creativity and applying the right technology.

Our 2020 Ambitions

- Using the 2006-08 average as baseline:

  Achieve 10% absolute carbon emission reduction

  Achieve 30% carbon intensity reduction

  Achieve 25% energy intensity reduction

  Achieve 25% water intensity reduction

- Achieve 25% reduction on waste intensity from 2012 baseline
- Achieve 60% waste diversion rate through recycle, reuse and donation
- Achieve excellent rating in IAQ assessment for all operations
- Provide self-bottled water for guestrooms and meetings to reduce plastic waste
- Achieve HACCP certification for all hotel operations
- Operations located in water stressed regions to be "water neutral" by efficient use of water and replenishing sources near our locations

HSH develops and manages a portfolio of prestigious hotels and premium properties. Our reputation as one of the leading hotel companies in the world is built upon the exemplary customer service, superior facilities and thoughtful technology we offer. Whilst we are committed to providing the highest standard of luxury products and services to our customers, we are conscious that buildings account for about 40% of global energy and 25% of global water use[9], with significant impact on the world's carbon footprint as well as energy and water demands. Buildings are also a prime origin of municipal solid waste which is expected to double in volume over the next 10 years, presenting grave environmental and social challenges. This makes energy, water and waste management a clear priority in our operations. These are also issues of keen interest to our stakeholders.

We have made good progress in reducing our environmental footprint over the past few years. In 2013, we used 3% less energy and 4% less water than we did in 2006-2008 despite our business growth over the years which included the addition of The Peninsula Shanghai in 2009. To drive continuous improvement on our environmental performance while meeting our unwavering luxury standards is not without challenge. However, we believe that this is a challenge that we have to embrace if HSH wants to be a part of the solution.

The Group's Sustainable Luxury Vision 2020 sets out our commitments and provides a clear framework for driving continuous improvement. We have found that as we increasingly look at our operation through a sustainability lens, it opens up new opportunities for driving innovation, efficiency and cost reduction while further enhancing the standard of our services and products by making sustainability part of the appeal of our luxury offering.

9 *The United Nation's Environment Programme's Sustainable Building and Climate Initiative (UNEP-SBCI) (www.unep.org/sbci)*

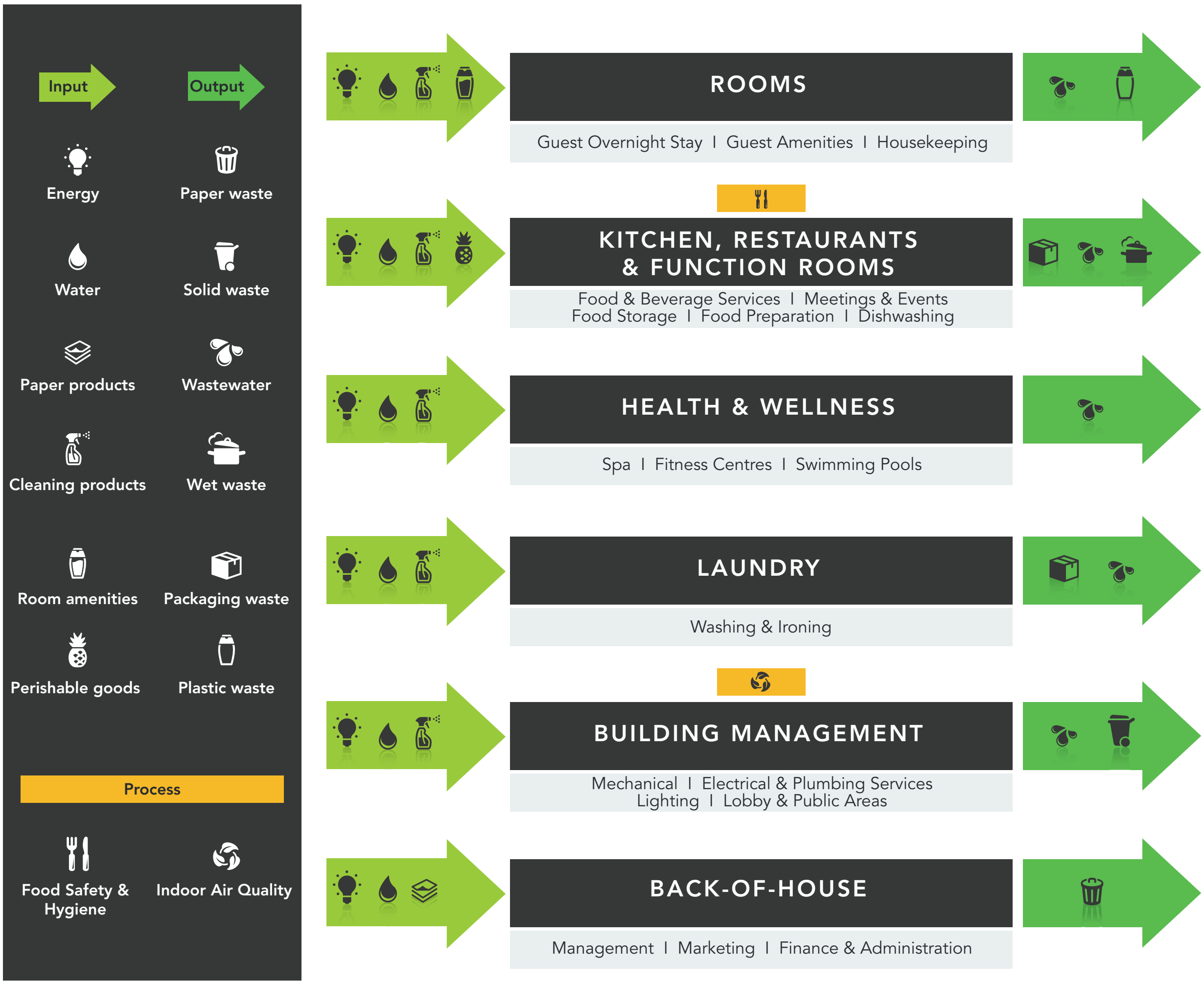
A Nod to Our Commitment

The Peninsula Chicago received its inaugural EarthCheck Silver Certified status in 2013 in recognition of its robust environmental management process and its commitment to continuous improvement. EarthCheck is a leading international sustainability benchmarking and certification programme for the hospitality sector.

EARTHCHECK
SILVER CERTIFIED
2014

The certification is a part of the hotel's continued sustainability efforts and a reflection of the strong commitment across all levels of The Peninsula Chicago team in embedding sustainability principles and practices into its operation.

Our Sustainability Footprint



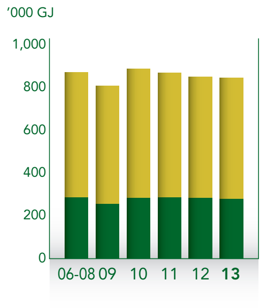
An Ongoing Focus on Energy and Carbon Reduction

In 2013, we continued the pursuit of improving our energy performance and carbon footprint through implementing a variety of environmental engineering projects, such as LED lamp replacements, chiller upgrades and improving the efficiency of our air handling units. We also launched a building re-commissioning project at The Peninsula Hong Kong to achieve energy and emission savings through optimising the performance of our machinery and equipment. The project was planned for completion in 2014. Our completed 2013 emission reduction projects are estimated to result in annual energy and carbon emissions reductions of 9,850 GJ and 1,447 tonnes of

CO_2 equivalent respectively. Over the past five years, our environmental engineering projects brought about an estimated saving of 94,383 GJ, which is enough energy to power more than 1,000 homes in Hong Kong for four years[10]. The saving in energy also meant a saving of HK$23 million on our recurring annual operational cost.

In 2013, both our overall energy intensity and energy use were at similar levels as 2012 despite our business growth. However, compared to the baseline of 2006-2008 average consumption, the current energy intensity of 1,440 per floor area was still 3.5% shy from our 18% reduction target for 2013. This was mainly due to increased energy demand by Quail Lodge & Golf Club. The energy intensity of Quail Lodge & Golf Club increased by 63% from 653 MJ per floor area to 1,064 MJ per floor area after it reopened its hotel portion, featuring 93 guestrooms, in March 2013. Despite being more

Group Energy Use



Illuminating Sustainable Luxury

In 2013, The Peninsula Tokyo replaced more than 5,000 halogen lamps in the guestrooms with LED lights, reducing the energy demand by 90%. It would generate an estimated annual saving of JPY11 million (HK$805,703) in electricity cost and 2,365GJ of energy, which is equivalent to the average annual electricity consumption of nearly 300 Japanese households[11]. It also meant a reduction of 274 tonnes of carbon emissions. Although LED replacements can be an effective measure for cost and energy reduction, it was an area that we undertook with great caution. To ensure the lighting quality met our strict luxury standards, The Peninsula Tokyo team commissioned a supplier to tailor-make LED lights for our needs and conducted extensive trials before introducing these LED lights to the guestrooms.

The Peninsula Tokyo team also put on their creative hats and used LED lights to build a stunning Christmas tree to light up the holiday season. The 6-meter tall tree took three days to install and was the result of a year-long planning process. Thoughtfully designed with reusable materials, the tree could be fully dismantled and stored in wait for the next Christmas season.

10 *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).*

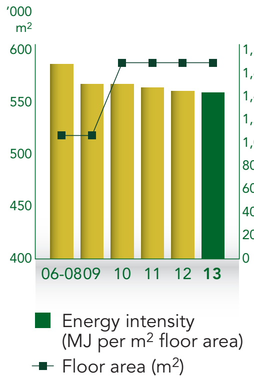
11 *Based on World Energy Council 2010 estimates that the average Japanese household consumers 2,241 kilowatt hours of electricity annually.*

efficient in energy use than before, the increased energy demand inevitably affected the Group's overall energy performance. In the coming year, we will work even harder to identify opportunities for improvement.

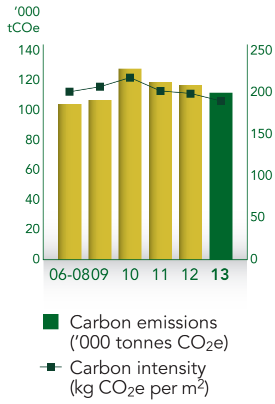
The increasing impact of climate change is evident in the cities where we operate. These cities are seeing increasing incidents of extreme weather events which poses greater potential risks of disrupting our business operation and supply chain. The Sustainable Luxury Vision 2020 contains elements of our approach to managing climate risk and making our business more resilient to this.

In 2013, our energy consumption[12] generated a total of 112,024 tonnes of CO_2 equivalent, 5,286 tonnes less than the previous year, while our Group carbon intensity reduced by 4.5% to 190 kg per floor area. The carbon intensity of our hotels division was 113.3 kg CO_2e per occupied room per day[13], a 9.7% reduction from 2012 which was 125.5 kg CO_2e per occupied room per day.

Group Energy Intensity



Group Carbon Emissions and Intensity



Minimising Our Impact on the Ozone Layer

Older air-conditioning systems in our hotels and properties are the main sources of our ozone-depleting substances (ODS) emissions. ODS have a detrimental effect on the ozone layer, damaging the Earth's protection against excessive levels of solar radiation. The Montreal Protocol regulates the phase-out of CFCs, halons, and other ozone-depleting chemicals internationally. We strive to replace all ozone-depleting refrigerants in use by the Group by the end of 2015. Through investing in chiller replacement and retrofit of chiller refrigerants, we reduced our estimated ODS emissions from 167 kg CFC-11 in 2009 to 68 kg equivalent in 2013.

Pushing Ourselves Further on Water Stewardship

Across the Group, we used 1.9 million m^3 of water, 4% lower than that in 2006-2008. The water intensity of our hotels division in 2013 was 1,187 litres per guest night, 7.3% lower than 2012 and 15.9% lower than the 2006-2008 baseline. However, the water intensity of commercial properties, clubs and services division saw a year-on-year increase by 6.6%. This was mainly due to the re-opening of the hotel at Quail Lodge & Golf Club and St John's Building and The Repulse Bay switching to water cool chillers which increased the demand for water.

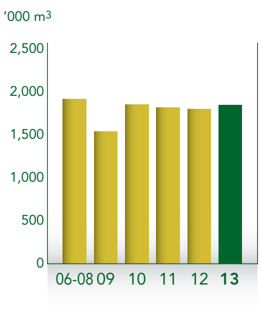
Studies have shown that more than 40% of the world's population will be living in water-stressed areas[14] by

12 *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 2013, the split of our direct energy consumption by sources were: 61.9% gas, 29.1% diesel oil and vehicle fuel 9.1%, whilst our indirect energy consumption were mainly from electricity (91.6%) and steam (8.4%).*

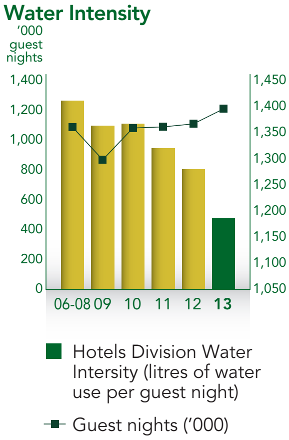
13 *Based on the carbon accounting methodology of Hotel Carbon Measurement Initiative developed by International Tourism Partnership and World Travel and Tourism Council (www.tourismpartnership.org and http://www.wttc.org), our group-wide hotel HCMI 2012 figure restated, reflecting the change in the calculation method to include a value for hotels with outsourced laundry and limit the boundary to hotel properties only.*

2030. Beijing, Shanghai and California, where our properties are located, are among the world's most water-stressed places. Compared to the 2006-08 baseline, The Peninsula Beijing and Shanghai saw a 17% and 24.8% reduction in their water intensity in 2013 while The Peninsula Beverly Hills and Quail Lodge & Golf Club also lowered theirs by 21.5% and 8.8% respectively. We are conscious of the financial and operational risks of operating in these water-stressed areas, and endeavour to contribute our best in water conservation to support the sustainability of these communities.

Group Water Consumption



Hotel Division Water Intensity



Since we began our environmental programme in 2008, our water savings initiatives have saved 185,972m^3 of water (equivalent to 929,860 bathtubs[15]). In 2013, our Group Corporate Responsibility Committee reviewed a selection of best practices within the Group for water conservation and endorsed these practices to be adopted group-wide and in new projects where appropriate. For 2014, we seek to achieve 16% water intensity reduction against the 2006-08 baseline for hotels division and 7% reduction for commercial properties, clubs and services division so as to bring the water intensity back to the 2012 level despite its business growth. We will identify further reduction opportunities through a water management assessment to be carried out across the Group.

A Cool Solution

The Peninsula Tokyo adopted a new process using a specialist volcanic rock known as silica to help reduce water use of its cooling tower. Silica can only be found in certain thermal geological places in Japan. The process involves using small particles of silica as a filter system for cooling tower which would effectively lower the water and energy demand of the cooling tower, generating financial, labour and environmental savings in the long run. The hotel would be able to save more than 1,000 cubic meters of water (equivalent to over 5,300 bathtubs) and close to JPY1 million each year with the application of the silica filter system.

Over

920,000

bathtubs saved

Refer to the Sustainability Data Statements section

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

15 *Reference made from Chinawaterrisk.org*

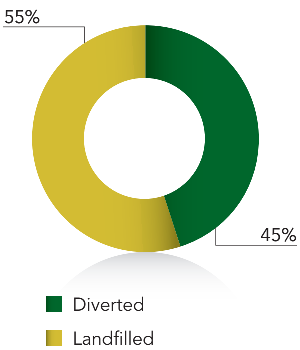
Wastefulness is not Luxury

We recognise that if waste is not properly managed, it can lead to a host of environmental, social and health issues in the community. We endeavour to reduce the waste we produce and divert as much waste as possible from landfills by managing our resources more wisely and cutting down on wastage. At HSH, we believe that luxury is not about drowning our guests with excess, but about pampering our guests with the finest, being thoughtful to their needs and delighting them with unique experiences that last for a lifetime.

All Group operations report their waste management performance on a quarterly basis. This discipline has helped us improve our understanding of the nature and quantities of the resources we use and the waste generated. Waste disposal methods vary across our operations, largely due to available solutions and infrastructure in the communities where we operate.

In 2013, The Peninsula Beverly Hills and The Peninsula Manila led in their waste diversion efforts within the Group, recycling more than 85% of the waste generated from their operations.

What happened to our waste in 2013?



Some of our operations send their waste to contractors designated by the municipal government for single stream waste segregation and recycling. Others work with various waste management vendors and charities to manage their waste. In 2013, some 3,341 tonnes of wet waste and 2,719 tonnes of dry waste were generated from our operations around the world. Of this 50.9% of wet waste (including used cooking oil) and 37.4% of dry waste were diverted from landfill for reuse and recycling. Compared to 2012, we reduced the waste we generated by 211 tonnes and improved the waste diversion rate by about 7.4 percentage points to 44.9%, meaning 2,719 tonnes of waste was recycled – the weight of more than 600 elephants[16]!

In 2013, we also recorded the disposal of 14,690 kg of hazardous waste, such as fluorescent tubes, paints, solvents and dry cleaning chemicals. The disposal of our hazardous waste is regulated by local authorities and handled by specialist contractors.

A Commitment to Safety

Making sure our operation is safe for our guests and employees is of utmost importance to HSH and its stakeholders. From the food we serve to the indoor air quality, we remain committed to safeguarding the well-being of our guests and employees.

Safety before taste

Our food and beverage operation is an important aspect of how we plan to deliver sustainable luxury, which begins with our longstanding commitment to food safety and hygiene – an area rated by our stakeholders as the number one priority corporate responsibility issue for HSH in our materiality study. Our operations strictly adhere to local food safety standards. To further raise the bar on safeguarding food safety and hygiene, our ambition is to have all our food and beverage operations go beyond their local regulatory requirements to achieve Hazard Analysis and Critical Control Points (HACCP)[17] certification by 2020.

16 *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.*

17 *Hazard Analysis & Critical Control Points (HACCP) is an internationally recognised food safety and hygiene standard for commercial kitchens. 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.*

A Delicate Balance

In Hong Kong, where HSH is headquartered, the city is facing a mounting problem in managing municipal solid waste as its existing landfills are set to be full by 2018. About 3 million tonnes of municipal solid waste, with more than a third being food waste, are disposed to landfill each year. We all need to play a part in managing our waste responsibly.

Deliciously sustainable

The Peninsula Hong Kong operates eight food and beverage outlets which produced around 2,900 kg of food waste per day in 2013. The hotel worked hard in reducing its food waste by curating its food presentation thoughtfully as well as a series of campaigns for raising employee awareness on treasuring food.

The hotel offers sumptuous buffets at its Verandah restaurant. Unlike many buffets which often serve food in big trays, The Verandah serves a wide selection of gourmet food presented delicately in small quantities. This not only helps reduce wastage of food by the end of a buffet, but it also enables our guests to sample more variety of dishes and enjoy the food from the buffet table while they are still fresh and tender, enhancing the quality of our food offering.

As urban Hong Kong offers limited space for food composting, The Peninsula Hong Kong invested in two bio-digesters to turn food waste into wastewater in order to reduce the pressure on Hong Kong's landfill capacity. In 2013, the hotel also began to donate vegetable trimmings from its Chinese and banquet kitchens to local non-profit organisation Food Angel, which cooks them to serve the homeless and others in need. Our chefs only use the finest part of a vegetable in creating a dish, so this new partnership enabled the hotel to divert its vegetable trimmings for a good cause.

Turning waste into resources

In a metropolitan city like Hong Kong, what visitors and tenants admire most about The Repulse Bay is often its lush garden. Twigs, branches and cuttings from the pruning and maintenance of the garden are by-products which previously ended up in landfill. The Repulse Bay invested in a compost grinder to make its own mulch for the flower beds. It not only reduced the refuse sent to landfill, but also made the garden more lush as the layer of mulch helped inhibit weed growth and increased the organic content of the soil. These by-products also made excellent firewood for the fireplace in its Reading Room, keeping the guests warm during the traditional and popular fondue evenings in winter.

In 2013, we made significant strides with The Peninsula Hong Kong and The Peninsula Manila – the two oldest hotels in the Group – becoming HACCP certified. Both hotels reviewed all aspects of their catering operations, from food provenance and storage, to serving practices and training, and worked closely with their suppliers over a two-year process to meet HACCP requirements. The process also involved close to 5,000 hours of food safety and hygiene employee training. During the year, all HSH operations also completed a gap analysis to identify the required steps for complying with HACCP. The study provided useful reference for each operation to develop its action plan for closing the gaps before 2020.

Healthy indoor air quality

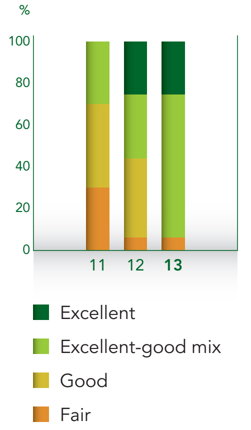
Ensuring safe and healthy indoor air quality on our premises is core to our accountability to our guests and employees. To deliver on this commitment, we carefully manage indoor environments through cautious control of ventilation and water systems, as well as well-timed maintenance work and the use of less hazardous paint and cleaning products.

We introduced a Group Indoor Air Quality (IAQ) Policy in 2012 to further strengthen our emphasis on safeguarding indoor air quality. Whilst IAQ assessment is not a regulatory requirement in most of the locations where we currently operate, our Group IAQ Policy mandates all operations to annually assess their IAQ standards. From arcades to guest rooms, spas to bars, and restaurants to back-of-house offices, the assessments reached all corners of our properties. IAQ assessments at all locations were confirmed to be satisfactory with more achieving "excellent" ratings when compared to 2012.

More properties achieving excellent grade of indoor air quality.

We have set a goal to achieve excellent air quality rating in all our properties. This should not be difficult to attain in locations where the outdoor air quality is good; however, air pollution at some of the cities that we operate, such as Beijing and Shanghai, is posing a challenge to public health. It makes safeguarding our indoor air quality an important undertaking.

Indoor Air Quality Assessment



How We Did in 2013

- ✗ To achieve an overall 18% energy intensity reduction against the 2006-08 baseline
- ✓ Further reduced water intensity of our hotels division
- ➡ Conducted a pilot building re-commissioning project
- ➡ Continued to improve the robustness of monitoring waste management performance
- ✓ All catering operations completed their gap analysis on compliance with HACCP as a Group standard

✓ Achieved ➡ On Plan Behind Plan ✗ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

NEW BUILD & REFIT

Our Mission

We strive to design and deliver our hotels and properties to meet the highest sustainability criteria whilst providing an exceptional level of comfort. These high design standards support superior service delivery in the future and provide the foundation for efficient energy, water, waste and safety management.

Our 2020 Ambitions

- In countries where qualified contractors are available, all main contractors appointed are ISO 14001 certified
- In countries where qualified contractors are available, all main contractors appointed are OHSAS 18001 certified
- All new build and major refit meet international green building standards
- All paints used for indoor environment are free of VOCs

The Group's portfolio of prestigious hotels and properties were designed to deliver an exceptional level of experiential luxury to our guests and tenants. Our design is thoughtful, sophisticated and relentless in attention to detail. We use the finest materials and craftsmanship in our construction process. Nonetheless, the Company embraces innovation and is keen to make our properties more sustainable while preserving their historical characteristics.

We are keenly aware that building design has vital implications on ongoing energy and water efficiency, waste and safety management as well as operating costs. Our Sustainable Luxury Vision 2020 sets out our commitment to keep sustainability considerations in mind from the onset of any project. It demands us not only to design and deliver our new development projects or major renovation works to the highest standard of quality and comfort, but also to lay the foundation for lower-impact operations.

A Cool Investment

The Repulse Bay Complex invested in a new water-cooled chiller system which could bring about 35% saving in energy use and produce less greenhouse gas emissions and contaminants to the environment when compared to the conventional air-cooled chillers. In 2013, the new system generated a year-on-year energy saving of 1,902 GJ, which is enough energy to power 80 households in Hong Kong for a year. It also meant a saving of 417 tonnes of carbon emission. The new system unavoidably increased the water demand but the team is proactively looking into water saving opportunities.

Redefining Luxury

In 2013, we completed the revitalisation programmes of The Peninsula Hong Kong and The Repulse Bay Complex. The significant investment in these two important assets, which combine more than 200 years of history in Hong Kong, is a powerful expression of both the Group's heritage and our commitment to the future.

The landmark HK$450 million room enhancement programme of the Group's flagship hotel, The Peninsula Hong Kong, saw all 300 of the hotel's guestrooms transformed to define the future of experiential luxury stay. The enhancement programme not only ushered in revolutionary in-room technology while preserving the hotel's magnificent heritage, but also looked into using FSC-certified timber for all non-finished surfaces and LED lights in the corridors of guestroom floors. The extensive HK$300 million renovation programme of The Repulse Bay Complex brought a significant upgrade to all the public areas of the apartment towers and a complete reconfiguration of its de Ricou apartments. The renovation also embedded different sustainability attributes, from the installation of a new water-cooled chiller system and application of energy-saving T5 tubes and LED lights, to using tables and chairs made from leftover ship vessel planking and recycled elm wood at the breakers café.

A LEED in Sustainable Luxury

The Repulse Bay team proudly received the Leadership in Energy and Environmental Design (LEED) Gold Certification for the renovation of de Ricou apartments, which is the first residential property in Hong Kong to earn this international accolade for an Alterations & Additions (A&A) project. This award comes as a result of a comprehensive renovation meticulously planned and carried out over 18 months. It also marks an important milestone in the Group's long-term commitment to sustainable luxury.

Sustainable Site

The de Ricou apartments is part of The Repulse Bay Complex, which boasts a magnificent 23,000-square foot lush garden that accounts for over 60% of the site. A variety of services and essential amenities, such as sports facilities, restaurants, pre-schools, shops and clinics, are located on the doorstep of its residents, enhancing their lifestyle while fostering community. The provision of an Euro-5 standard shuttle service and easy access to public transportation connects the residents to other parts of the city conveniently.

Energy and Atmosphere

To optimise energy performance and reduce unwanted solar heat gain, all apartments were fitted with low-E double glazing window to reduce the indoor greenhouse effect and keep the apartment cool during Hong Kong's hot summers. The design has thoughtfully maximised the use of natural light for both the apartments and public places. The use of high solar-reflectance index roof coatings further reduces the "heat island" effect by reflecting daylight, ensuring comfort and improving environmental performance.

Water Efficiency

The use of rainwater for irrigation, water-saving sanitary fittings, and innovative wastewater technologies involving the use of bleed-off water from the cooling tower for flushing contribute to a substantial reduction in water consumption.

Indoor Environment Quality

By using high quality, energy efficient air-conditioning system, low-emitting volatile organic compunds (VOC) as well as optimising air exchange to eliminate airborne pollutants, we are able to maintain excellent standards of indoor air quality.

Going Beyond

Beyond the LEED Gold criteria, de Ricou apartments also demonstrate its support of sustainable forestry practices by using Forest Stewardship Council (FSC) certified wood flooring in all apartments.

"Ultimate luxury and style need not be at the expense of the environment. By attaining the LEED Gold certification, de Ricou apartments have proven that an existing or even historical property can be transformed by incorporating cutting-edge green building technologies," said Mr Palle Ledet Jensen, General Manager of The Repulse Bay. "de Ricou apartments offer not only consummate luxury and style in an enviable oceanfront location but also green living and a healthy home for discerning residents."

In both renovation projects, we engaged contractors which are ISO 14001 and OHSAS 18001 certified to ensure that the construction process adhered to sound environmental management system and adopted effective measures in controlling occupational health and safety risks.

Raising the Bar on Sustainability Standards

As we undergo exciting new developments in London and Yangon, we seek to challenge ourselves to assess how we can deliver these projects to the highest standards of quality and sustainability criteria. The renewed HSH Design Standards on sustainable building design adopted in 2013 would provide helpful guidance to this process.

The new edition of the Sustainable Design Standards was developed after an extensive research of green building standards and frameworks worldwide, and reviewing the challenges in applying the existing standards on our projects over the past three years. The new standards adopted Building Research Establishment Environmental Assessment Method (BREEAM), a UK-based certification scheme, as a benchmark, replacing the previously used benchmark which was largely based on US-based LEED. The shift to BREEAM was made in part because of its stronger emphasis on establishing proper control systems to monitor responsible usage of resources as opposed to complying with specific performance thresholds that are not always applicable in our context.

We will begin to apply, where possible, the renewed Sustainable Design Standards and will continue to look to LEED and other green building standards for sustainable design concepts and guidance. We will also constantly monitor how we can incorporate new concepts and technologies into the history and heritage of our established properties.

Every Decision Counts

We strive to make sustainable choices for every building project, big and small. For example, at The Peninsula Beijing, ecological wood was used for the decorative work in the hotel's new YUN Bar & Lounge in 2013.

How We Did in 2013

✓ Reviewed the Sustainable Design Standards

✓ Achieved ➡ On Plan ◌ Behind Plan ✗ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

SUPPLY CHAIN

Our Mission

We seek opportunities to delight customers, whilst controlling cost. We will address the sustainability risks in our supply chains, with the goal of minimising the negative environmental and social impacts of our procurement decisions.

Whilst meeting our financial and quality requirements, we will make preference to source locally and from sustainable sources in order to support the local communities and environment and, in the process, reduce our carbon and water footprints.

Our 2020 Ambitions

- All operations continue to enforce the group-wide ban on shark fin.
- Paper products will be from certified sustainable sources by 2017.
- Critically endangered species are removed from our food and beverages offerings.
- Strive to source 50% perishable produce locally
- Guestroom amenities are made of sustainable materials.
- More than 50% cleaning products used in operations will be chemical-free or biodegradable.
- Tea, coffee and chocolate we sell are from certified ethical sources.
- Our luxurious furnishings meet uncompromising quality and sustainability criteria.
- Strive to have all procurement contracts in compliance with HSH Supplier Code of Conduct and verified by sample audit
- Rejuvenate "Naturally Peninsula" as the choice for sustainable, organic, and healthy options

Central to our Sustainable Luxury Vision 2020 is the commitment to making thoughtful choices. Over the past few years, we have become more conscious of the environmental and social impact of the choices we make as a buyer. Under the Supply Chain pillar, we aim to uphold our luxury standard while looking to source ethically, sustainably and locally, and to collaborate with our suppliers in driving positive changes through our procurement decisions.

Considering Biodiversity 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 community. In 2013, we continued to focus on driving the responsible sourcing of paper products and food items across all operations.

Forest matters

Our day-to-day business operations involve the use of a wide range of paper products. To ensure that our operational needs are not met at the expense of exploiting the world's forest and forest biodiversity, we introduced in 2012 a policy which mandated all Group companies to purchase paper products from certified sustainable and transparent sources and to reduce the consumption of paper. It is our goal that all paper products used in all of our operations will be from certified sustainable sources by 2017.

We made great progress towards our goal during the year with 54% of our paper product purchased from Forest Stewardship Council (FSC)[18] certified sources, representing close to a 20 percentage point increase

Planting the Seeds

The Peninsula Beijing, Hong Kong and Manila as well as Thai Country Club organised tree planting programmes to raise employees awareness on forest conservation.

The Winds of Change

After extensive research, we identified a new choice of paper that we felt could represent the Peninsula brand and offer an environmental solution. The selected paper, which is FSC-certified and manufactured using wind power, would be used for all printed matters and collaterals bearing the Peninsula brand. All hotel operations have started to implement the change upon replenishing their stock, with the goal of completing the switch by the summer of 2014.

18 *FSC (ic.fsc.org) is internationally recognised as the most comprehensive certification scheme on forest management.*

from the previous year. The Peninsula Merchandising, which develops and sells a range of Peninsula-branded food products, gift items and award-winning cookbooks worldwide, managed to switch more than 95% of its luxurious paper packaging to FSC-certified sources. The Peninsula Beijing and Chicago also set wonderful examples across the Group with nearly 90% of their paper needs now met by FSC-certified stock.

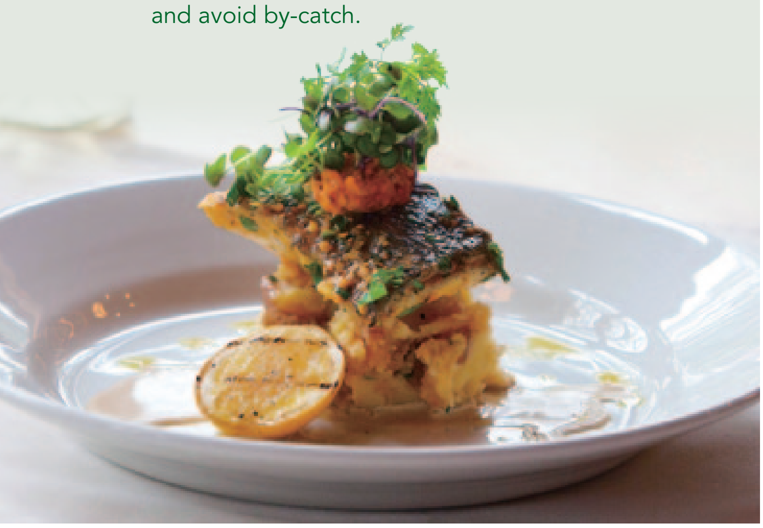
Making positive waves on sustainable seafood

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[19]. Our intention is genuine, but we acknowledge that delivering on it is not an easy challenge, especially in our Asia operations, where certain seafood items are highly tied to local culture and customs. Despite these challenges, we remain dedicated and optimistic on realising our ambitions of removing all critically endangered species from our food offering by 2020.

An important step along this journey was the decision we took to stop serving shark fin at all of our owned food outlets since 2012. This decision was well received by our guests and other stakeholders around the world. As a public support for shark conservation, we also became a signatory of WWF's No Shark Fin Corporate Pledge. In 2013, to further our effort in sustainable seafood sourcing, we collaborated with WWF in assessing the sustainability of the wide range of seafood items offered at the Group's flagship hotel, The Peninsula Hong Kong. This pilot study provided useful pointers for us in developing our broader sustainable seafood strategy in an effort to contribute to preserving the marine eco-system for the world's future generations.

Nature's Bounty

Edgar's at Quail Lodge & Golf Club is a restaurant partner of Monterey Bay Aquarium's Seafood Watch, committed to not serving any seafood caught or farmed in ways that harm marine biodiversity. It takes care to ensure its delicious seafood comes from sustainable sources. The swordfish, for example, are harpooned, the tuna are caught by pole and line, the striped bass by rod and reel – all methods that are highly selective and avoid by-catch.



Redefining Luxury Dining

Having our produce come from reliable, sustainable and ethical sources are increasingly part of the luxury gastronomic experience that we offer to our guests. At The Peninsula New York, the *Clement* restaurant fully embraces the farm-to-table concept and offers a thoughtful menu that caters to the seasonality of the finest and freshest ingredients locally sourced from the Northeast. It has successfully added a fresh perspective to the fine dining experience in Mid-town Manhattan.

The Peninsula Manila's culinary team partnered with The Farm at San Benito to creatively curate the hotel's "360° Wellness, Naturally Peninsula" dishes which draws on eastern health philosophies and western nutritional recommendations. These exquisite dishes, available across all the dining outlets of the hotel, use the finest organic seasonal produce cooked at very low temperatures or served raw to preserve the unique and

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

pristine flavours of the ingredients. Guests can enjoy their meal knowing that ingredients are free of toxins and harmful chemicals and they are helping preserve the environment as well.

Edgar's, which is our restaurant at the Quail Lodge & Golf Club in Carmel, California, is one of our finest examples of embracing sustainable concept and luxury. The restaurant sources produce not genetically modified and uses the freshest ingredients harvested from local farms and ranches where possible, including grass-fed beef and free range chicken. To finish off the meal, delicious desserts are made from fair-trade chocolate, followed by coffee and tea which are also sourced from farms that follow fair trade and sustainable farming practices.

Our chefs are always on the look-out for quality produce from local, ethical and sustainable sources. We endeavour to make sustainability considerations part of the concept of luxury dining experience.

Making Responsible Sourcing a Standard Practice[20]

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. The HSH Supply Chain Code of Conduct was developed in late 2009 to articulate our expectations of suppliers and contractors on sustainable and responsible business practices.

20 *GRI G4 Material Disclosure: G4-26*

A New Blend of Luxury

The Peninsula Tokyo introduced new coffee blends in all its restaurants in the autumn of 2013. The new blends not only enhanced the quality of coffee, for which the hotel received many compliments from its guests, but also helped to support sustainable farming practices as all the coffee are Rainforest Alliance[21] certified.

HEALTHY CONSIDERATIONS

Bathroom amenities are one aspect of enjoying the luxury of our hotels. In 2013, in an exclusive partnership with Oscar de la Renta, a collection of brand new bathroom amenities was conceived, featuring not only a bespoke fragrance, but carefully crafted to contain no sodium lauryl sulfate, parabens, synthetic fragrance or other substances that may be harmful to human health. The custom designed bottles with rose shaped caps are recyclable and all paper packaging was FSC-certified.

21 *Rainforest Alliance (www.rainforest-alliance.org) is an international nonprofit organisation that helps farmers and forest managers realise greater economic benefits by ensuring ecosystems within and around their operations are protected, and that their workers are well-trained and enjoy safe conditions, proper sanitation, health care and housing.*

Following the launch of the Code, we surveyed our major suppliers by a self-assessment questionnaire to assess their environmental, labour, social and human rights practices as well as their compliance with the Code. The Code is part of the compliance requirements mandated by the Group's Purchasing and Tendering Procedures, which applies to all purchase of goods and services above HK$200,000 and aims to ensure fair, responsible and robust procurement practices. In the past three years, Group operations have also progressively incorporated compliance with the Code as a standard requirement in all procurement contracts, in a bid to ensure that suppliers we work with follow responsible and sustainable business practices.

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.

In addition, our Group sustainability guidelines for responsible procurement outline the recommended principles and practices of sourcing locally and sustainably. For example, in Hong Kong, where the Group's headquarters and 9 operations are located, 50% of our purchase of products and services in 2013 were through local suppliers[22] in Hong Kong or China whilst meeting our financial and quality requirements. We plan to update and expand the guidelines in the coming year to better support our procurement decisions. In 2013, we reviewed our process for tracking our performance on sustainable sourcing, with a view to gaining a better understanding of the sustainability impacts of our day-to-day purchasing decisions. A new reporting tool is being developed for roll-out in 2014 to measure our performance in this area, including our progress towards the ambitions we set for ourselves under the Group's vision for 2020. As part of this reporting tool, we will also introduce a toolkit to empower our procurement teams to communicate the Code to our suppliers and review their level of compliance.

How We Did in 2013

- Implemented a new reporting template for the Group to measure our performance on responsible sourcing practices (Behind Plan)
- Incorporated the requirement of complying with HSH Supply Chain Code of Conduct into the day-to-day procurement practices (On Plan)
- Introduced a best practice of conducting regular supplier visits to assess compliance with the HSH Supply Chain Code of Conduct (Behind Plan)
- Explored ways to promote sustainable seafood consumption (On Plan)

✔ Achieved ➡ On Plan ◌ Behind Plan ✖ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

22. *Geographical categorisation of a supplier is defined by the location of the supplier entity with which the Company contracted with.*

Community

Our Mission

Respectful to our environment and our community, we will engage with our communities to respond to their needs in a strategic, relevant and focused way.

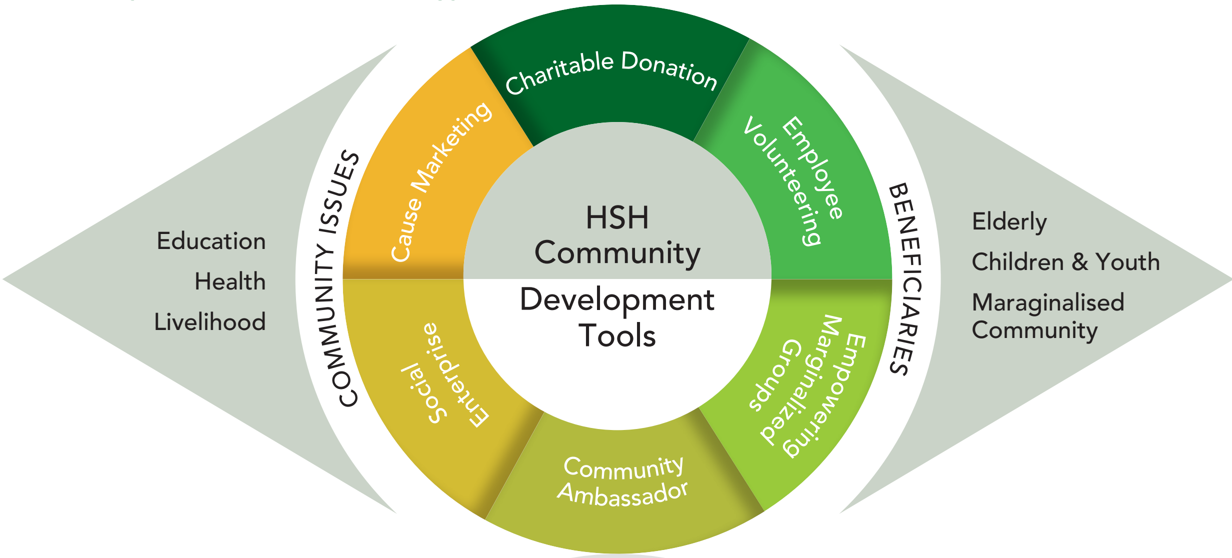
We also seek to integrate our aspirations for supporting the development of our communities with our core operations.

Our 2020 Ambitions

- Contribute 100K hours of community service by 2020
- Engage 10% of employees in community service
- Develop Group "Impact" programmes on global and regional levels
- All hotel operations have at least one "Impact" programme.
- All hotel and property operations to annually organise at least one cause marketing campaign to engage their customers in contributing to communities where we operate.
- Empower disadvantaged youth and marginalised groups in communities where we operate with the skills and opportunities for livelihoods while building the pipeline for our future workforce needs
- The Peninsula Academy to provide opportunities for guests to appreciate and care for the local community and environment

Caring for the community is a core value that stretches back more than 140 years when HSH was founded in 1866. Our Sustainable Luxury Vision 2020 cements this commitment firmly for the future. The success of our business is rooted in the success of the communities in which we operate. They provide the resources, infrastructure and markets that support our businesses. In return, we feel we have a responsibility to contribute to the needs and the development of these communities.

Community Development Strategy



Our Community Development Wheel[23] outlines the framework of our engagement work. We strive to integrate our aspirations for supporting the development of our communities with our core operations. It may be through employment opportunities, through the sales of our products, through our sourcing practices, or acting as an ambassador for the communities in which we operate. The aim is to bring lasting benefits to these communities.

In Aid of Worthy Causes

In 2013, HSH supported more than 700 non-profit organisations worldwide. Our monetary donations totalled HK$7.8 million, of which about HK$4 million was part of The Peninsula Hong Kong's giving programmes in celebration of its 85th anniversary. In addition to monetary donations, we also provided a variety of in-kind sponsorships to our charity partners such as hotel stays, meal coupons, spa treatments and event venues.

At the Group level, all Peninsula hotels showed support for Breast Cancer Awareness Month throughout October through the "Peninsula in Pink" campaign for the third consecutive year. All our hotels leveraged on their signature afternoon teas and other specially-designed pink-themed products, such as cocktails, desserts and

23 *GRI G4 Material Disclosure: G4-26*

Cause Marketing
Charitable Donation

spa programmes, to raise funds and awareness as well as to entice guests to enjoy our services and products. In 2013, each Peninsula hotel also introduced an organic Pink menu, with recipes available online, to promote healthy eating. A percentage of the proceeds of all these products and services go directly to our local breast cancer charity partners in each destination.

Individual Group operations continued to work with their local partners to support the needs in their local communities. In 2013, from charity concerts to sporting activities, the majority of Group operations' community giving was devoted to support healthcare, education and livelihood programmes for children and youth, and the welfare of the elderly. We also looked at what we could capitalise from our operations to benefit the community. For example, Tai Pan Laundry in Hong Kong donated unclaimed clothing and towels to support underprivileged families while Peninsula Merchandising Limited donated unredeemed mooncakes to bring some sweetness to its charity partners.

COMMUNITY WARMTH

During the winter season, The Peninsula Chicago turned its terrace into a skating rink, providing a unique winter playground for its guests and patrons in downtown Chicago. All the rink's skating earnings were donated to two children's charities in Chicago, Ann & Robert H. Lurie Children's Hospital and Hephzibah Children's Association. It raised USD22,623 (HK$ 176,000) in the 2012-2013 winter season.

The Peninsula Shanghai hosted the third Tour de Bund Charity Cycle Ride to promote the benefits of fitness and healthy living and raise funds for Raleigh China, a charity organisation supporting youth development and education. Four hundred cyclists and guests participated in the race along the waterfront of the Huangpu River before finishing at The Peninsula Shanghai to enjoy a rewarding feast. Volunteers from The Peninsula Shanghai and other organising parties pitched in to support the smooth running and safety of the race.

Employee Volunteering
Charitable Donation

Mobilising to Support Meaningful Causes

Employee volunteering is an integral part of our community engagement strategy. It provides a meaningful way for our employees and the Company to connect with their local communities and to acquire skills and motivation while giving back to the society. In 2013, more than 830 employees across the Group devoted 7,350 hours to volunteer work. From The Peninsula Chicago serving a barbeque-themed menu to the elderly, to The Peninsula Hong Kong giving the elderly a treat at its iconic Felix restaurant; from The Landmark Vietnam's staff efforts to keep an orphanage clean, to The Peninsula Manila and Shanghai collecting books and funds to build libraries for underprivileged children; or The Peninsula New York's spa team mending towels and linens for a homeless shelter in its neighbourhood, our employees contributed skills and time and, more importantly, their compassion to serve the needs in their local communities.

Making a Lasting Impact

Working with local partners[24]

Exploring the right opportunities to partner with social enterprises[25] has been a strategic focus for our community engagement work in the past two years. We purchase a diverse range of commodities and raw materials to support our day-to-day operations and we feel we can more proactively look into opportunities of sourcing from social enterprises. This will allow us to integrate support to the community with our core business activities.

Double Benefits

Besides giving back to society, community service also provided a great platform for team-building. At the 2013 HSH General Managers' Conference in Bangkok, our top management team visited the children's shelter of the Foundation for the Better Life of Children, learning about the children and planting fruit-bearing trees together as a source of sustainable income for the Foundation. After their hard work, the children and the volunteers were also treated to a delicious feast by The Peninsula Bangkok team.

The Foundation provides underprivileged children with shelter, education and vocational skills. This special visit marked the beginning of The Peninsula Bangkok's partnership with the Foundation. During the year, the team also organised a garage sale and English classes to support the Foundation.

In Hong Kong, where the Group is headquartered, we partnered with the Hong Kong Council of Social Service[26] (HKCSS) to explore how we may support the development of social enterprises. A series of programmes, such as a bazaar for social enterprise

24 GRI G4 Material Disclosure: G4-26

25 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.

26 Hong Kong Council of Social Service is a federation of non-profit organisations in Hong Kong. It represents more than 400 non-profit organisations in Hong Kong and engages in policy research, social services and third sector development work.

products, self-service kiosks offering snacks made by social enterprises, and visits to these enterprises, were organised to introduce the concept and capacity of social enterprise to employees, especially the procurement teams, across our operations in Hong Kong. We are pleased to see that step by step we have started to make headway in this area.

Social Enterprise

Leveraging on our operation to nurture future talent

The Group works with hotel schools around the world to help develop new talent for the hospitality industry by providing work exposure opportunities. In 2013, about 1,130 individuals benefited from more than 404,000 hours of training and work placement programmes with our Group operations.

Hospitality is a gateway sector into working life for many people. 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 Hong Kong, in partnership with Caritas Hong Kong, offers a retraining scheme to benefit middle-aged unskilled people. Some graduates were offered positions at The Peninsula Hong Kong while some were employed by other hotels in the city. The Peninsula Tokyo supports the National Re-training School for Elderly People to help the elderly re-train 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. These initiatives have proved a rewarding relationship: people with genuine needs were able to learn new skills and gain livelihood opportunities while we had the opportunity to develop potential new employees.

HSH Headquarters

developed a strategic partnership with Hong Kong Council of Social Service and organised a series of activities to introduce the concept and capacity of social enterprise to its operations in Hong Kong.

The Peninsula Hong Kong

- purchased hand-knitted bags from a social enterprise which provides underprivileged women who were new immigrants to Hong Kong with an opportunity to earn and helps them integrate into the Hong Kong community. The bags were offered as festive amenities to guests staying at the hotel.
- donated HK$1 million to HKCSS in setting up an incubating fund to support the research and creation of unique and meaningful products by local social enterprises. The GoodBuy Cookies, a joint creation of three social enterprises, were the first products developed.

- received an Outstanding Partner of Social Enterprise Award by the Hong Kong government's Home Affairs Bureau in recognition of its support to the development of social enterprises in Hong Kong.

Peninsula Merchandising Limited

Almost all the cookies carried by Peninsula Merchandising Limited were packed by a social enterprise which provided employment opportunities for people with mental disabilities.

Tai Pan Laundry

Tai Pan Laundry purchased all its nylon laundry bags and covers from a sheltered workshop which provides employment opportunities to people with visual impairment.

The Repulse Bay

The Repulse Bay dedicated a specific counter to showcase products from local social enterprises to its tenants and visitors at its popular Christmas fair.

Finding a great fit for marginalised groups

Empowering Marginalised Groups

In 2013, the Group launched a new community development programme to support the development of ethnic minority students in Hong Kong. The Honing Skills in Hospitality Programme is organised in partnership with Delia Memorial School (Broadway) and Hong Kong Council of Social Services (HKCSS), and involved three modules, from introduction to HSH's operations, service trainings, to a six-week internship and mentorship. Five Group operations in Hong Kong – The Peninsula Hong Kong, The Repulse Bay, The Peak Complex as well as Cathay Pacific Lounges and Butterfield's under Peninsula Clubs and Consultancy Services – provided nine underprivileged ethnic minority students, who currently take Tourism and Hospitality Studies at school, an opportunity to learn and experience the inner workings of the hospitality industry.

With keen competition in university admission and lack of mastery of written Chinese, ethnic minority youngsters in Hong Kong are facing big hurdles. In addition to inspiring the students to pursue a career in hospitality, the programme also aims to make these students feel more integrated with the Hong Kong community.

A social impact assessment, based on a framework developed by the University of Hong Kong and HKCSS, evaluated three levels of impacts of the HSH programme, individual, organisational and community levels. The findings show that the programme was able to help the ethnic minority students enhance their self-efficacy and social skills, and build their aspirations for a career in hospitality and tourism industry. The programme also facilitated cross-cultural understanding, contributing to the long term process of racial inclusion in Hong Kong.

Hope for Illinois

The Peninsula Chicago, with the support of all its sister properties, created a fundraising campaign for the Illinois communities affected by the deadly tornado on 17 November. The Peninsula Chicago is only a few hours away from the affected communities and felt compelled to give back to the state of Illinois and the families in need. The hotel organised online charity auctions with travel packages from all Peninsula Hotels as well as Quail Lodge & Golf Club to raise funds in aid of the victims.

Another Earthquake in Sichuan

Five years after the massive earthquake that killed some 70,000 people in Sichuan province and its neighbouring areas in China, another powerful earthquake hit near Yan'an city in Sichuan province on 20 April, killing hundreds and leaving thousands homeless. The Peninsula Beijing and Shanghai organised to raise funds and clothing for the victims of the quake.

Responding to The Community In Challenging Times

The year 2013 saw the world facing a number of serious natural disasters. Among them were the devastating Super Typhoon Haiyan in the Eastern Visayas region of the Philippines, the tornadoes that paralysed mid-west United States in November, and the powerful earthquake that hit the Sichuan province of China in April. We operate in all these countries.

Coming together to provide Hope for the Philippines

The Peninsula Hotels launched a four-pronged Hope for The Philippines initiative in each Peninsula hotel across Asia and the US over the year-end holiday season to raise funds for the victims of Super Typhoon Haiyan. The fund-raising efforts included a donation of US$ 5 per room night of each guest's stay, plus sales of a special Philippine-themed afternoon tea and the classic Filipino *Halo Halo* iced dessert in each of our hotels. The annual group-wide "Trees of Hope" fundraising campaign over the holiday season for 2013 was also dedicated to Hope for the Philippines, with specially created SnowPage glass ornaments for donors to take home. All the proceeds were donated to the Philippine-based Gawad Kalinga Community Development Foundation, Inc., with the stipulation that funds go directly to their mission of rebuilding homes and communities in the affected areas of Eastern Visayas. Gawad Kalinga has been a charity partner of The Peninsula Manila since 2008. The Peninsula Manila executives would oversee Gawad Kalinga's work on the Group's behalf. The Peninsula Hong Kong and The Repulse Bay also collected over 900 kg of adult and children clothing to donate to the victims.

Celebrating with The Community

The Peninsula Hong Kong celebrated its 85th anniversary in 2013 with a series of milestone celebrations during the year. Through a series of fundraising efforts in partnership with its charitable partners as well as employee volunteer work, the hotel raised HK$1 million for each of its four designated Hong Kong-based charities. The four charitable partners include Make-A-Wish Hong Kong, which grants the wishes of children with life-threatening illnesses; St. James' Settlement Funeral Navigation Service, which assists the elderly with funeral preparations; the Hong Kong Hereditary Breast Cancer Family Registry, which provides free access to genetic screening and consultations for high-risk cancer patients and their families; and the Hong Kong Council of Social Service, through which the hotel established an incubating fund for social enterprises. The hotel also founded a Scholarship for Gastronomic Excellence in Dim Sum, created to preserve the disappearing art of making dim sum by nurturing Hong Kong's nascent culinary talent. The three young talented winners would have the chance for training and apprenticeship at The Peninsula Hong Kong, as well as cash prizes.

In addition to the annual Trees of Hope campaign over the Christmas holiday season, our operations run different initiatives locally over the holiday season. Over the Chinese New Year, The Peninsula Beverly Hills introduced a charitable component of raising funds for Operation Smile, a US-based organisation which works internationally to surgically repair and heal children born with cleft palates. The Peninsula New York donated turkey to the underprivileged during Thanksgiving while The Peninsula Chicago team shared simple acts of kindness with visitors and residents across the city of Chicago during the winter months.

Looking Ahead

We will endeavour to explore a wider variety of community development tools to bring lasting benefits to our community.

A Musical Wish

As part of the celebration of its milestone anniversary year, The Peninsula Hong Kong worked with the hotel's long-standing charity partner Make-A-Wish Hong Kong in organising a recital, creating a platform for disadvantaged children who are passionate about music to showcase their talent. The Asian Youth Orchestra also participated in this charity event.

How We Did in 2013

- ➡ Rolled out a renewed HSH Group community investment and engagement strategy and framework
- ✔ Rolled out new Group community development initiatives that strategically align with the needs of our business and our communities
- ➡ Continued to actively engage with the local communities where we operate

✔ Achieved ➡ On Plan ◌ Behind Plan ✖ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

GOVERNANCE & MANAGEMENT

Our Mission

We meet local laws and regulations and ensure that our business is conducted in accordance with professional, ethical and moral standards, as outlined in our code on corporate governance, so as to achieve sustained, healthy and long-term growth.

We consult and share our sustainability performance with our key stakeholders and balance their interests with the Group's objectives.

Our 2020 Ambitions

- Build robust succession planning framework for senior leadership
- Introduce Leaders for Good Training Programme for Management
- Establish a robust framework to track and manage financial, operational and ESG risks the Group is exposed to
- Engage stakeholders on wider sustainability issues through a process that is meaningful and adds value in advancing the Group's sustainability commitments
- Establish a robust sustainability management system to support the management, planning and disclosure requirements on sustainability issues as well as progress towards 2020 goals
- Meet international and local sustainability disclosure requirements relevant to HSH

Over the past six years, sustainability has become an important strategic priority for HSH. Our accomplishments to date are the result of establishing rigorous governance and management processes that provide a strong foundation for our future. By continuing to evolve governance and management practices, our aspirations for Sustainable Luxury Vision 2020 across all of its pillars are enabled.

To deliver long-term value to our stakeholders, key focus areas of our work in 2013 included enhancing our Group's corporate responsibility governance and management framework by setting a long-term vision with time-bound and measurable goals, and creating continued value through stakeholder engagement, particularly on deepening and widening employee engagement on our sustainability programme.[27]

Creating Accountability through Executive Oversight

In 2013, we began to further utilise two important governance processes – our Corporate Responsibility Quarterly Report and Corporate Responsibility and Sustainability (CRS) Budget Planner – both introduced in 2012.

The Corporate Responsibility Quarterly Report enables executive oversight on our sustainability performance across operations regularly throughout the year. The Corporate Responsibility and Sustainability Budget Planner 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. Both the Quarterly Report and Budget Planner help to identify gaps and needs where more support from Group level may be required, ensuring that material issues will be given proper attention and underpinning our commitment to integrating sustainable practices and principles across our businesses with balance and focus.

27 GRI G4 Material Disclosure: G4-26, 27

How We Govern and Manage at Group Level

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, objectives and plans for embedding sustainable practices and principles across all operations. The reporting structure and composition of the Committee is outlined on page 140 in the Governance Report.

Our Sustainable Luxury Vision 2020 guides our commitment to managing sustainability risks and opportunities and has laid out seven pillars of focus, from guest experience and employees, to operation and community. Each pillar is championed by a CRC member whose role is to provide guidance and advance work in the area with Group operations. Policies and procedural manuals as outlined in the previous sections of this report have been put in place to support the effort of the Champions.

The Chief Executive Officer is accountable for HSH's overall corporate responsibility and sustainability performance. He is supported by the Director of 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.

Thinking Globally, Acting Locally

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 and ensure compliance with local laws and regulations, including those related to employment and environmental practices. These committees are often supported by specific working groups on health and safety, the environment and community engagement.

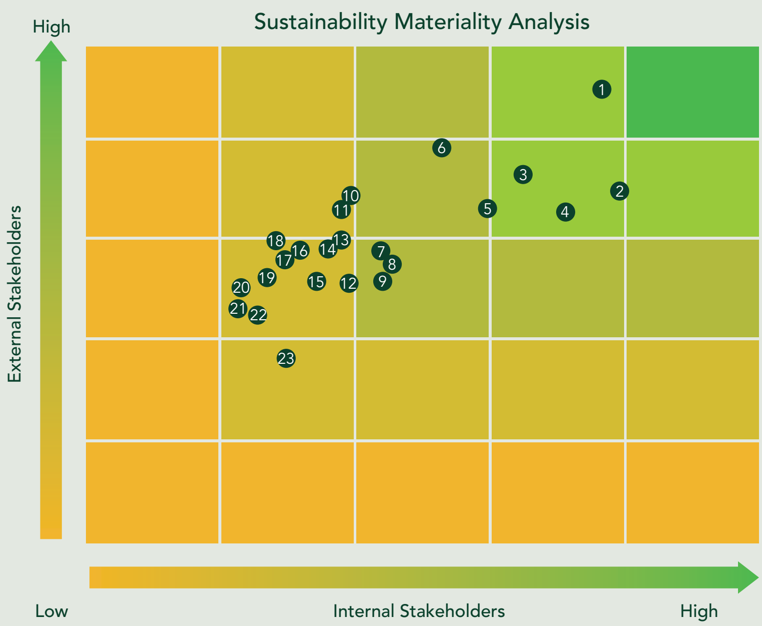
In 2013, we continued our engagement with industry advocacy groups and associations to keep ourselves informed of the latest developments on sustainability issues and to learn from other industry peers while sharing our own experience. Our Chief Executive Officer is a member of the World Travel & Tourism Council (WTTC) (www.wttc.org), and we provided time and input to support initiatives and research, which included WTTC's Tourism for Tomorrow report. We are a member of International Tourism Partnership (www.tourismpartnership.org) and Forum for The Future (www.forumforthefuture.org), and participated in the Cornell Hotel Sustainability Roundtable to share best practices with industry peers. In Hong Kong where the Group is headquartered, we continued our engagement and collaboration with Hong Kong Council of Social Service (www.hkcss.org.hk) and WWF Hong Kong (www.wwf.org.hk).

OUR MATERIALITY MATRIX[28]

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 involving over 100 stakeholders including the Group's management team as well as external stakeholders from 12 major stakeholder groups in Asia, Europe and the US. For the Company, priorities are ranked based on the likelihood and potential impact of issues affecting business continuity and development. The two factors were multiplied to give the overall rating of an issue. For external stakeholders, prioritisation is given to the importance of the issues to society and the relevance of HSH to these issues. Additional information on the process and metholodogy used to develop our materaility matrix can be found in the Sustainability Review of our 2012 Annual Report, pages 65-67.

In 2013, we continued to build upon the findings of our materiality matrix. We mapped our matrix to evolving standards such as the topics covered by Global Reporting Initiative's G4 framework to establish and prioritise our disclosure of key performance indicators. Our materiality assessment along with a benchmarking study of other leading hospitality and luxury brands also provided a foundation for defining the pillars and associated commitments in our Sustainable Luxury Vision 2020.

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

Taking Precautionary Measures to Manage Risk

In 2013, in addition to the development of a Group Risk Register to further strengthen how we assess and manage key strategic and operational risks, we began to implement an onsite bi-annual Safety & Security Risk Assessments for all properties to monitor both crisis and safety management, reinforcing our effort in ensuring the security of our staff and guests. To bolster emergency preparedness, a global command station has been established at HSH headquarters, enabling live surveillance of all properties. In 2014, we will focus on practising emergency drills to enhance our emergency preparedness.

For more information on how we manage risk, please refer to the Governance section on pages 164 to 171.

Bringing Our Vision to Life through Stakeholder Engagement[29]

Stakeholder engagement is central to our Sustainable Luxury Vision 2020 with dedicated pillars focused on engagement with our guests, employees, communities, suppliers and contractors. Within our vision's Governance and Management pillar, we formalise our commitment to ongoing transparent and value-added engagement to support shared objectives between the Company and our stakeholders.

To ensure that our Sustainable Luxury Vision 2020 truly becomes a shared vision throughout the organisation, we developed a two-year, three-phased plan in 2013 focused on integrated and continuous stakeholder engagement throughout the year.

The two-year plan was developed through a process involving internal executive interviews and a review of current stakeholder engagement practice. Gaps for implementing and communicating Vision 2020 were identified, which included the need to develop local action plans for delivering Vision 2020 and the opportunity to enhance the integration of corporate responsibility and sustainability issues into mainstream communication and training programmes across the Group. The three-phased stakeholder engagement plan defined a rigorous engagement process with our internal and external stakeholders for our path forward in 2014 and 2015 toward our 2020 ambitions.

Two-year Stakeholder Engagement Plan

	Phase 1 Continue building the Vision 2020 foundations internally	Phase 2 Deepen internal alignment with Vision 2020 and start preparing for external communications	Phase 3 Sustain internal alignment and reach out to external stakeholders on more strategic basis
Vision 2020 Implementation	Localise Vision 2020	Formalise organisational set-up and share best practises	Review progress and refine targets moving forward
Internal Communications	Raise awareness and build understanding	Deepen understanding and help connect the dots	Enhance and sustain staff alignment
External Communications	Build the foundation	Prepare for strategic communications	Kick off strategic communications
	Months 1-12	Months 12-18	Months 18+

28 GRI G4 Material Disclosure: G4-18, 26, 27

29 GRI G4 Material Disclosure: G4-26, 27

Building local commitment to Vision 2020[30]

As part of the two-year stakeholder engagement plan, we launched a new programme designed to assist operation teams in developing their local plans for delivering on Vision 2020. Through workshops and action review meetings with the executive committee and key department heads at each operation, we aim to build a shared understanding of key future trends that would impact our business and a shared commitment to Vision 2020 among operations' leadership team. Following the workshop, each operation will map out its local ambitions and action plans over the next six years in contributing to the delivery of the Group's 2020 ambitions.

We completed the first phase of the programme with 12 operations during the year and will complete the process in 2014.

Inspiring passion internally

In 2013, a Group corporate responsibility video-making contest was organised, using a fun and interactive way to raise employees' awareness and commitment to responsible and sustainable practices around the world. All HSH operations and corporate offices were invited to use short videos to share their best sustainability practice and be an inspiration to each other. The finalists were selected through an online voting by all employees, followed by a judging process involving the Group's senior management and representatives of environmental and social non-profit organisations.

30 GRI G4 Material Disclosure: G4-26, 27

The campaign received strong interest with 15 inspiring video entries and 5,340 employees (65% of the Group's total workforce) cast their votes for their favourite videos. The level of interest in the contest and quality of the entries demonstrated our collective potential to transform our Sustainable Luxury Vision 2020 aspirations into reality if we mobilise as an organisation.

Uniting to Meet Our 2020 Ambitions

In 2013, we created a framework to provide sustainable luxury and further embed corporate responsibility and sustainability into our operations. As we unite to meet our 2020 ambitions, we hope to provide unique, localised opportunities where our employees can know that they have made a difference. While we acknowledge the humbling challenges and opportunities ahead, we look forward to embarking on the next phase of our sustainability journey and continuing to report on our progress annually to our stakeholders.

How We Did in 2013

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

✓ Achieved ➡ On Plan Behind Plan ✗ Objective missed

Refer to Sustainability Scorecard for 2014 Commitments

Feature Stories

New Frontiers

Celebration of Traditions

A Royal Opportunity Opens Up in London

London Acquisition

1-5

Grosvenor Place London

(50% interest)

English author Samuel Johnson once said, "By seeing London, I have seen as much of life as the world can show." As one of the world's most-visited cities and top global financial centres, London has been on the HSH Group's radar as a potential location for a Peninsula Hotel for over three decades. Selecting the right address has always been the key to the Company's strategy of opening a hotel worthy of The Peninsula name, and this has been a challenging task in London.

However, some things are worth waiting for. In 2013 an opportunity became available at 1-5 Grosvenor Place, at the entrance of Belgravia, located opposite the gardens of Buckingham Palace and facing Hyde Park, just a stone's throw away from Knightsbridge and Piccadilly.

"We are delighted to have signed a deal with Grosvenor to develop the future Peninsula London," said Mr. Clement Kwok, Managing Director and CEO of The Hongkong and Shanghai Hotels, Limited. "We have been looking for decades to find a location that truly captures the essence of London, with its great history, heritage and culture. This project is consistent with our Group's long-term strategy and represents our desire to further expand in Europe."

Mr. Kwok explained that looking for a site that would complement the Company's hotels in its portfolio was a huge challenge. "For example, in New York we are on Fifth Avenue, in Los Angeles in Beverly Hills, in Shanghai on The Bund, in Tokyo facing the Imperial Palace. Belgravia, located near Buckingham Palace, certainly fits the bill for a London address."

The district of Belgravia has been home to notable residents including former prime ministers, poets such as Lord Tennyson, composers (including Chopin and Mozart) and various members of the British aristocracy. Grosvenor Place was first developed in the 1760s with French-Renaissance style buildings. No. 1-5 was later rebuilt in the 1960s.

Subject to various planning approvals and other conditions, the Company plans to redevelop the site in a way that is architecturally and culturally sensitive to the surrounding area and community.

"When we develop a site, we take care to embrace the local community in the area in which we operate. We are sensitive to the local culture and environment and ensure that we operate in a sustainable manner. We also create new jobs, and bring new life to the local area in the form of elegant restaurants, bars, shops, and the excellent service standards that are associated with our hotels around the world. Our plan is to build a hotel that showcases the very best of British elegance combined with our Company's rich heritage and standards of world-class service. We believe The Peninsula London will become recognised as one of the finest hotels in London," said Mr. Kwok.

This project is consistent with our Group's long-term strategy and represents our desire to further expand in Europe.

Mr. Clement Kwok, CEO of HSH (left) and Mr. Peter Vernon, CEO of Grosvenor

PRIME ACQUISITION IN PARIS

PARIS ACQUISITION

The Company is preparing for the opening of The Peninsula Paris in 2014, a magnificent hotel that will become a landmark in Paris and bring new energy to avenue Kléber and the surrounding area. In June 2013, the opportunity arose for the Company to acquire 100% of the commercial property on 21 avenue Kléber, the building immediately next door and built in the same Second Empire architectural style.

"We were very excited to learn that the building immediately adjacent to The Peninsula Paris became available through a private sale process, as it is very rare that a neighbouring building to one of our hotels becomes available," says Ming Chen, Director, Business Development and Investor Relations.

"21 avenue Kléber was acquired as an investment property due to its location, stable income generation and potential value appreciation. At present, avenue Kléber is one of the quieter areas off the Champs-Elysées but once The Peninsula Paris opens its doors we expect to see a huge uplift."

The building was developed in the late 19th Century and at one time was owned by the Hotel Majestic Paris.

Boasting a classic French courtyard at its heart, 21 avenue Kléber currently houses extensive office accommodation, two ground level retail spaces and a residential portion. The retail areas are currently let while the offices are occupied by the previous owner of the building.

Group Director, Properties, Martyn Sawyer, affirms the Group's strong belief that the opening of The Peninsula Paris will inject new life into avenue Kléber, making the acquisition of 21 avenue Kléber an excellent investment. "We can see the huge advantages this beautiful hotel is going to bring to the neighbourhood with international visitors and Parisians frequenting its restaurants and shops. This in turn will attract new businesses and new tenants setting 21 avenue Kléber at the heart of this renaissance," he adds.

Mission Accomplished at The Repulse Bay

An ambitious three-year plan to give The Repulse Bay Complex a major facelift, both externally and internally, came to a grand conclusion with the completion of the refurbishment of de Ricou tower in May 2013.

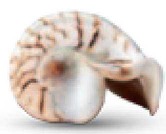
Located on the scenic south side of Hong Kong Island and overlooking Repulse Bay beach and the South China Sea, The Repulse Bay Complex is comprised of eight apartment towers and a shopping arcade with restaurants and a health wing, built on the site of the former Repulse Bay Hotel. All the apartments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

de Ricou marks the last phase of the upgrade programme which initially started from plans to revitalise the Arcade including The Verandah and Spices located in the lush gardens of the Complex. This was followed by an extensive upgrading of all public areas in both 101 and 109 Repulse Bay Road.

Works on the third phase of the overall project, including a complete reconfiguration of the apartment tower, de Ricou, started in January 2012. The 68 duplex serviced apartments were converted into a mix of 34 unfurnished and 15 serviced apartments to improve the efficiency and yield on the property.

"By reworking this mix of apartments, yield on the property improves with more efficient space planning, modern design and a reduction in overheads," says Martyn Sawyer, Group Director, Properties.

The Repulse Bay Complex



Repulse Bay Road
Hong Kong

By reworking this mix of apartments, yield on the property improves with more efficient space planning, modern design and a reduction in overheads.

The serviced apartments have been remodelled to a more practical and user-friendly 1,700 sq. ft. whilst the unfurnished units range from 1,800 sq. ft. to 4,500 sq. ft. The conversion was a challenging process that required extensive structural changes and major structural strengthening.

"This was an extremely complex project and our biggest challenge was how to minimise disturbance to our current residents," explains Martyn. "The Repulse Bay has always been a holistic place to live. We have every facility one needs including dining, doctors, dentists, a supermarket, two schools and many others. Essentially, no one really needs to leave the premises," says Martyn.

In accordance with the Company's sustainability goals, the works also had to adhere to the prerequisites set out by the US-based LEED, (Leadership in Energy & Environmental Design), which includes criteria such as using low-emission glass, sustainable materials as well as effective water treatment. The effort put into The Repulse Bay de Ricou apartments has been rewarded with the first LEED Gold Certification for Alterations & Additions Works for residential buildings in Hong Kong.

"The Repulse Bay team did a great job looking into opportunities not only to enhance tenants' experience, but also to do so with attention to sustainability considerations. These requirements are always much harder to achieve when it comes to renovating an existing building," says Natalie Chan, Director, Corporate Responsibility and Sustainability.

With shorter leases and luxurious, contemporary fit-outs, the serviced apartments were quickly taken up by eager tenants, while occupancy of the unfurnished units is growing steadily. "The property agents tell us the renovated apartments with their stunning location are the best on the market," adds Martyn.

The facelift has not just been to the buildings themselves but also extended to the public areas, landscaping as well as the gardens which have been rejuvenated to enhance the lushness and greenness of this unique property. "We've made a huge effort on the landscaping of the whole property. It's very much our signature," says Martyn.

85 YEARS AS THE GRAND DAME OF HONG KONG

THE PENINSULA HONG KONG

85TH ANNIVERSARY

Every great lady has a story, and The Peninsula Hong Kong is no exception. Hers is a remarkable story of vision and evolution. The architects who in the early 1920s drew up plans for "the finest hotel east of Suez" did so at the behest of men whose foresight and confidence in Hong Kong set them on what was considered an audacious path. But from the moment The Peninsula Hong Kong opened on 11 December, 1928, it was evident that the seeds of progress sown by the Directors of the Company had indeed found fertile ground. Almost immediately, The Peninsula Hong Kong transformed Kowloon from a sleepy backwater to the focal point of a vibrant local social life.

The Peninsula Hong Kong began life as a very upmarket transport hotel, serving both the railway passengers who came to Hong Kong by train across the Eurasian land mass, and the sea passengers who arrived by scheduled liner at the nearby quays of Kowloon. Later, it also became the hub of Hong Kong's air travel, with airline offices all around its Lobby, and merry air crews sometimes making exhibitions of themselves during off-duty hours. It was a very luxurious caravanserai; enriched by all the variety, surprise and excitement of intercontinental travel, and this flavour of purposeful exuberance is its hallmark to this day.

Gone are the airline counters and the devil-may-care pilots; few are the travellers who choose to come to Hong Kong via the Trans-Siberian Express; but The Peninsula Hong Kong still welcomes its guests with a particular blend of luxury, comfort and personalised service. Today, this hotel is held as a beacon of the highest standards by peers all around the world and its success is marked not only by its history but by continually adapting and transforming itself to remain relevant to its guests.

"Throughout its history, The Peninsula has understood the need to keep pace with changing times," says the Company's Chairman The Hon. Sir Michael Kadoorie. "But one factor has always remained constant, and that is our commitment to the highest standards of hospitality for the thousands of guests who have made The Peninsula Hong Kong their home away from home for the past 85 years."

One factor has always remained constant, and that is our commitment to the highest standards of hospitality for the thousands of guests who have made The Peninsula their home away from home for the past 85 years.

So it was befitting that this Grande Dame of Hong Kong should embark on its 85th year with a series of programmes which not only paid homage to some of the most evocative memories of Hong Kong but also enhancements to bring the guest experience to new dimensions.

After 17 months and HK$450 million of intensive renovations, The Peninsula Hong Kong's 300 renovated guest rooms unveiled distinctive and luxurious design touches as well as state-of-the-art technology that takes the definition of bespoke guest experiences to new, unmatched levels.

One-touch technology, via the bedside and desk tablets which come in 11 different languages, controls all in-room functions from restaurant menus to the PenCities guides as well as personalised television. LED panels on the walls allow guests to select lighting ambience, valet calls, weather details, thermostat, language and privacy options according to personal preference. Feedback on the renovated rooms by guests was extremely positive, and they were prepared to pay higher room rates to enjoy the full experience.

In a nod to much-loved Hong Kong traditions, in its 85th year The Peninsula Hong Kong also created "Signature Sundays " by bringing back the heady glamorous days of the Afternoon Tea Dance, with the backing of a 10-piece band, and reliving the classic French menus at Gaddi's, which also celebrated its Diamond Jubilee in 2013. These alternated with art performances at the Lobby as well as The Peninsula Mini Clubman traversing the city to deliver some of Hong Kong's culinary heritage delights such as the "airplane olives."

The year-long anniversary celebrations culminated in a birthday gala on 11 December 2013, which started in the morning with the symbolic lion dance eye-dotting ceremony by Sir Michael Kadoorie and General Manager and Regional Vice-President Rainy Chan.

The hotel continued its festivities into the evening when it threw open its doors to more than 2,000 guests and VIPs. The Lobby was transformed into a ballroom with free-flowing champagne and gastronomic temptations from The Peninsula chefs. The hors d'oeuvres were just a precursor to the glittering launch ceremony by Sir Michael, where a dazzling animation using the classic façade of the hotel as its expensive canvas was unveiled to chart 85 magnificent years of The Peninsula Hong Kong and the incredible story of Hong Kong before a breath-taking fireworks display brought the show to an end after which guests were free to

The age-defying charm of The Peninsula Hong Kong will see the hotel continue to stand firm in Asian hospitality, as an icon of Hong Kong and throughout the world.

partake of delicacies and entertainment at The Verandah, Chesa, Imasa, Spring Moon, The Garden Suite, The Sun Terrace, The Bar and Felix.

With so much to celebrate, The Peninsula is also committed to contributing to the community in Hong Kong. Through fundraising efforts in partnership with like-minded charitable NGOs, as well as meaningful staff volunteerism, the hotel is committed to supporting the needy. The hotel's Hong Kong-based beneficiary charities include: Make-A-Wish, which grants the wishes of children with life-threatening illnesses; St James' Settlement Funeral Navigation Service, which assists the elderly with funeral preparations; the Hong Kong Hereditary Breast Cancer Family Registry, which supports high-risk breast-cancer programmes by providing free access to genetic screening and consultations for high-risk cancer patients and their families; the Hong Kong Council of Social Service, through which the hotel established an incubating fund for social enterprises; and a newly founded Scholarship for Gastronomic Excellence in Dim Sum, created to preserve the disappearing art of dim-sum making by nurturing Hong Kong's culinary talent.

The age-defying charm of The Peninsula Hong Kong will see the hotel continue to stand firm in Asian hospitality, as an icon of Hong Kong and throughout the world.

Cooking Up Special Experiences

It takes a very special relationship to last more than half a century. Such is the bond between The Peninsula and its employees that when The Peninsula Hong Kong celebrated its illustrious 85th birthday, the Grande Dame embraced the long-serving committed staff that have journeyed through the years with her.

For former Executive Sous Chef Mak Kam Yin, the posh party brought back many nostalgic memories of his 56 years with The Peninsula Hong Kong and more than a few dramatic flashbacks to some of Hong Kong's most historic moments.

It was only four years ago when Chef Mak reconnected with fellow Peninsula alumni at the hotel's first Retiree Staff Gathering. And on 11 December 2013, he returned to the "Finest Hotel East of Suez" to celebrate her milestone birthday, only to find out that he had won the grand prize of a "My Peninsula Memories" campaign.

The campaign was jointly organised by Hong Kong's leading local newspaper Ming Pao and The Peninsula Hong Kong, engaging with over 10,000 readers in the 100 days leading up to the grand celebration.

Born in Guangzhou, Chef Mak first joined The Peninsula Hong Kong in 1931 as a kitchen helper. There were no child labour laws then and the 11-year-old jumped at the chance to work in the kitchens for $1 a month when a relative offered to introduce him.

"The first job was just to clean and dry the cutlery. It was what everyone had to do when they started out. After a year, I was transferred to making tea and smoothing the butter," reminisces the 93-year-old.

Like every other apprentice, Chef Mak started out doing menial tasks like washing vegetables and chopping meat, before being allowed the important job of cooking the gravy and sauces for western meals.

His time in the kitchen was interrupted when the Japanese army commandeered The Peninsula Hong Kong as its headquarters in 1941. The young Mak found himself transferred to the Japanese telegraph company at The Peak as cook for their staff. Mak returned to The Peninsula Hong Kong when the war ended.

Having started his career at a very young age, Chef Mak had limited education opportunities. He knew that if he wanted to work his way up, he'd need to brush up his language skills in order to communicate effectively with his western supervisors. Therefore, Chef Mak made use of his free time between split shifts to take English lessons at a private school in Yau Ma Tei, Kowloon, Hong Kong. Chef Mak's promotion from kitchen apprentice to chef came at an opportune moment when The Peninsula Hong Kong opened the Marco Polo Restaurant in 1957 in a new annexe, The Peninsula Court, across the road.

"I was offered the job to be transferred to Marco Polo as the Number One there, taking the place of the former expat chef," recalls Chef Mak.

When the Executive Sous Chef at The Peninsula Hong Kong left, Chef Mak was transferred to take the reins of the hotel's kitchen operations, where he worked until he retired.

One of his most exciting moments came when he was told to prepare an al fresco lunch for former British Prime Minister Margaret Thatcher during one of her official visits. "It wasn't a big party of people but, still, everything had to be perfect!" Chef Mak says.

Each meal was meticulously planned, cooked and served at The Peninsula Hong Kong, recalls Chef Mak, whose most popular creation was a grilled chicken breast stuffed with foie gras. "I think it is one of the reasons why the reputation of The Peninsula has endured: a lot of factors have to work together; it's not just a matter of having the food taste good, but combining all the elements together to create a very special experience."

It's not just a matter of having the food taste good, but combining all the elements together to create a very special experience.

In his 56 years at the hotel, the chef was rarely tempted to leave his position although he confesses to having succumbed enough to go for a job interview "just once."

"Somehow human resources got wind of it and asked me in for a chat the next day," recalls Chef Mak cheerfully. Of course, the hotel persuaded him to stay on.

Life at The Peninsula Hong Kong offered many benefits. "We were offered staff quarters then, where my wife and I brought up our seven children. The pay was all right. There was a strong bond between the employees and we were able to organise sports matches and parties. There was even a company holiday home that staff could use," Chef Mak says.

Chef Mak moved out of the quarters after he retired in 1987, but still keeps in touch with some of his old friends, in particular his own students from the kitchen. "We used to meet for yum cha once a week; nowadays I can't get around as easily," he says.

These days, the 93-year old veteran's culinary skills are mainly put to use when his children and grandchildren come to visit and he has to whip up a good meal. "Unlike my training in the western kitchens, nowadays I mainly create a fusion of east and west."

A New York Night to Remember

When dawn broke above New York City on 30 September, 2013, The Peninsula New York became energised with a special sense of purpose. The final countdown had begun for the hotel to celebrate its 25th anniversary in style with a coterie of loyal guests and VIPs. The day turned into a day of military precision to ensure the hotel was poised for the evening's gala.

It was on 3 December, 1988, that the Company established its US Peninsula flagship when it purchased the 23-storey Beaux-Arts landmark building, situated on the corner of 55th Street and 5th Avenue in New York City. At that time The Peninsula New York was one of the first Asia-based hotel brands to establish itself in the United States. The property strove to follow in the footsteps of the hotel group's Grande Dame, The Peninsula Hong Kong, by providing luxurious comfort combined with exceptional, personalised service.

In 1998, with a comprehensive US$45 million reconstruction project, The Peninsula New York updated the ambience of this location. Exquisite furnishings and technology were incorporated with the many classical design elements already present in the hotel.

A few elements of the original Gotham Hotel remained inside the 1998 redevelopment, including the heavily ornate lobby ceiling and rear fire stairs, but almost everything else was brand new. A representative room was No. 1600, with its spectacular view north up Fifth Avenue, past the brownstone spire of Fifth Avenue Presbyterian Church.

Two-and-a-half-decades later, the hotel is a solid member of the community that has shared in the city's triumphs and sorrows, through catastrophes such as 9/11 and the more recent Hurricane Sandy. Affirmation of the hotel's prestigious place in the city came in the form of a present from the Mayor's office, officially proclaiming the hotel's silver anniversary on 30 September, 2013, as "The Peninsula New York Day."

A small army of 75 staff had worked tirelessly around the clock for three days to transform the lobby into a dream-like

THE PENINSULA NEW YORK

25TH ANNIVERSARY

flower garden for its 25th birthday, with more than 25,000 stems of brightly-coloured blooms forming a rainbow of fresh flowers over two storeys tall. When the guests arrived at the gala, they were greeted by a symbolic lion dance on a red carpet that stretched from 55th Street into the magnificent Lobby.

The gala marked the starting point of this anniversary year, with celebratory activities to take place for the following 25 weeks. A significant renovation also marked the silver anniversary with the hotel's former *Fives* restaurant replaced by the new restaurant *Clement*, named after the Company's Chief Executive Officer, Mr. Clement Kwok.

Featuring designs by international award-winning interior design firm Yabu Pushelberg, *Clement* restaurant and bar is representative of a modern concept revealing elegant rooms from an intimate lounge to larger dining areas that cater to a range of moods and occasions. *Clement* is set to create a buzz as one of New York's finest.

"I am delighted and it is most fitting that our CEO Clement's leadership and immense contribution should be acknowledged in this way. We are confident that the refurbished restaurant will prove popular and add to the attraction of our New York property," said the Company's Chairman, The Hon. Sir Michael Kadoorie.

In 2002, Mr. Kwok was contacted by the Kadoorie family and invited to take up the position of CEO of the Company. Under Mr. Kwok's leadership, the Company has weathered storms such as SARS and the global financial crisis whilst significantly improving both its operating results and strengthening its financial position, thus increasing shareholder value. More importantly, the status and recognition of The Peninsula brand is

To have stayed at the top of the scale of luxury hospitality all those years is certainly testament to the vision of the Company and the dedication and loyalty of its employees.

at an all-time high. Both the Company and Mr. Kwok individually have received accolades for management quality and corporate governance. Significant advances have also been made in corporate responsibility throughout the Group.

When asked about how he feels about having a restaurant named after him, the CEO remains modest. "I am truly honored and I am also very proud of our brand and our people. I must thank Sir Michael for trusting me with managing a brand and a company that are so close to his heart, and also Peter Borer, with whom I have a tremendous personal and working relationship. At the end of the day, it's all about teamwork."

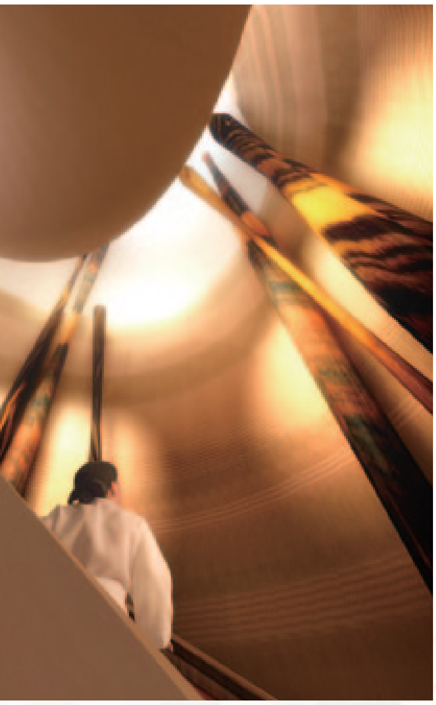
Twenty-five years is an important milestone in the existence of any hotel, but to have stayed at the top of the scale of luxury hospitality all those years is certainly testament to the vision of the Company and the dedication and loyalty of its employees, 21 of whom were also honoured by Sir Michael for 25 years of dedicated service to the Company.

Full Circle

General Manager of The Peninsula New York Jonathan Crook's 13½ year career with The Hongkong and Shanghai Hotels, Limited, has come full circle. His first posting at The Peninsula Hotels was in February 2000 as the Restaurant and Bar Manager of *Adrienne* restaurant at The Peninsula New York, which then became *Fives* and has now been re-introduced as a new concept under the name *Clement*. On April 11, 2011, he returned to the Forbes Five Star and AAA Five Diamond property as General Manager.

Before returning to The Peninsula New York, he was General Manager of The Peninsula Manila, a position he held for more than two years, prior to which he served as Hotel Manager of The Peninsula Tokyo and Resident Manager of The Peninsula Beijing.

Sitting behind his desk one early New York summer morning over coffee, the affable General Manager exudes passion and enthusiasm as he discusses his current role and responsibilities in the lead-up to the hotel's 25th Anniversary celebrations.



"When I first arrived back here in my current role, the brief was to revitalise the property, give it more personality, and further personalise the guest experience. This began with overseeing the completion of guest room renovations and the makeover of The Grand Suite and The Peninsula Suite."

Jonathan is one of a handful of Peninsula Hotels' General Managers who has worked in a number of the Company's properties, including in his case New York, Chicago, Beijing, Tokyo, and Manila.

"Prior to coming to The Peninsula, I worked in London, which was a quintessential hotel experience," says Jonathan. "Of course I knew of The Peninsula brand and when I was offered my first position at The Peninsula New York, I was both excited and honoured and it was a great time and place to embark upon this journey."

In late 2012, the hotel had to face the havoc wreaked on New York by Hurricane Sandy, which severely interrupted arrivals, but it was one of the few five-star properties in the city to maintain full service for guests throughout the storm. "We have been through various crisis periods here at the hotel, including 9/11, which was obviously a very poignant time to be here, but we have managed to overcome difficult circumstances, and these situations have given both the staff and myself even more of a connection to both the community and the property."

In the 25th year of The Peninsula New York, Jonathan says that there is a major focus on giving back to the community through the hotel's '25 Acts of Kindness' program, through which members of the management team will devote 25 days of service to helping local charities including the American Cancer Society, Ronald McDonald House and the Golden Hat Foundation, to name but a few.

Under Jonathan's leadership, The Peninsula New York has earned the coveted accolades of #1 Hotel in New York City and #1 Hotel Spa in America by the Readers of Condé Nast Traveler in 2012.

"Coming back to New York was quite surreal in a way, but somehow a very natural occurrence," says Jonathan as he prepares to start his daily routine. "The majority of the staff were the same, which was very beneficial as they were so incredibly accepting. The first 18 months involved a great deal of hard work but they were also a lot of fun. That period really grounded me as a hotelier."

For 25 years, since the opening of The Peninsula New York on December 8th, 1988, the staff of the hotel have been loyally serving guests in true Peninsula style. A testament to the hotel's friendly working environment, they have all become part of The Peninsula family. We salute the employees who have been part of that family since the day the hotel opened its doors.

I consider it a real privilege to be part of The Peninsula New York family.

John Ou

Assistant Technology Manager

"My first job here was in housekeeping 25 years ago and 10 years later after I had finished studying, I wanted to look for another job at The Peninsula. I had a computer science degree and so could move out of housekeeping to join the ELV department (now Research & Technology). It was an interesting time then back in 1988 and the ELV was a new department. We built all of the technology in the guest rooms at the time and the most interesting thing about my role is the constantly changing technology – it makes every day different. My two most memorable events were the September 11 blackout of the city and when the subway stopped because of the 2005 transport strike. Many locals came to stay at the hotel and you saw the side of them that really cared about their families and friends."

Alden Inniss

Watch Engineer

"I have always worked the night shift from midnight to 8:00am for the past 25 years. I was here during the major renovation period when all the staff were off except the engineers. I was also part of the kitchen and spa renovations when I had the opportunity to assist in many different ways. I have witnessed the growth of the hotel over the years and am very proud to have been a part of that. I consider it a real privilege to be part of The Peninsula New York family."

Caroline Lyons
Room Attendant

"When The Peninsula first opened in 1988, it was a lot of hard work, but we also had great staff parties where they would take us all out in an open-top bus to different locations. It was good for staff morale."

Helen Moy
Room Attendant

"Every day is a happy day at The Peninsula, we are like family. We have been through many crises together, including 9/11, the transit strike, Hurricane Sandy and SARS, but these events have brought us even closer together."

Marion Shepard
Room Attendant

"I had my son during the time that I have worked here; he is now 14 years old. When I came back to work after the renovation in 1998, the rooms were much bigger and more beautiful. I had more mirrors to clean!"

Vivian Chiu
Uniform Attendant

"My daughter is a 'Peninsula baby' and she recently obtained a scholarship to study science, which I am thrilled about."

Pete Alequin
Cafeteria Steward

"I love that I get to know all the staff. I'm like their bartender, it's my job to keep them happy. As long as they're eating well, they're happy."

Paulette Ramus
Cashier
Clement (formerly *Fives* restaurant)

"I enjoy seeing a lot of different faces every day from behind the cashier and working with the other team members here. We're like a family."

Rafael Firpo
Stewarding Supervisor

"This was my first job when I came from the Dominican Republic – The Peninsula was like a gift for me at the time. I really

appreciate the loyalty the hotel has shown me and have given mine in return – it's not about money, it's about feeling comfortable and happy."

David Camejo
Banquet Server

"You want me to tell you everything now? Wow, the last 25 years…"

Jacqueline Rodriguez
Cashier
Clement (formerly *Fives* restaurant)

"I have always enjoyed our staff outings when we leave the hotel to celebrate. My favorite was when we took a yacht around Manhattan."

Juan Lopez
Utility Steward

"I have learned a lot over the years. I have been working with a many of the same people for so long that it's like family. I have my brothers here. I have seen the hotel change and I am happy with where it is now."

Le Mang Lieu
Uniform Attendant

"I love being here. This is like my second house with all of my family in it. Filled with uncles, sisters, nephews, cousins, sons and daughters, they are all here. I love taking pictures over the years of my Peninsula family. Last year was my 25th anniversary here and I loved the gifts I received."

Patrick Wong
Bell Captain

"I have so many familiar faces that I love to see. Guests who have stayed with us for decades I know and am happy to see whenever they are with us. I also appreciate the great management. We really are encouraged to stay five-star strong in everything that we do and it makes me proud."

PEAK TRAM ASCENDS INTO THE FUTURE

THE PEAK TRAM

125TH

ANNIVERSARY

The Peak Tram rolled into its 125th year in 2013 in fine style with a specially-designed 125th Anniversary collectors' ticket. At the top of its steep journey, passengers alighted at The Peak Tower which had been transformed into a traditional playground filled with toys, games and street performances at the main entrance of The Peak Tower. Visitors were offered a special gift set with several different classic toys, all in celebration of this iconic Hong Kong feature which has been loyally serving locals and visitors alike for 125 years.

Far back in May 1881, an enterprising Scotsman named Alexander Findlay Smith devised a plan to speed the development of new residences in the district with the introduction of a new tram system that would connect Murray Barracks to Victoria Gap.

Prior to the Peak Tram's inauguration in 1888, the 30 or 40 families who lived on the Peak and guests at the newly-opened Peak Hotel relied mainly on sedan chairs to get up and down the hill. When the Peak Tram commenced operations on 30 May, 1888, it carried more than 600 passengers on its first day. Today, each day on average it serves more than 17,000 passengers who want to relive some of Hong Kong's history with an approximately six-minute ride up Victoria Peak that showcases Hong Kong at its natural best. The popularity of the Peak Tram is still increasing year on year.

"We know that demand is growing significantly," says Martyn Sawyer, Group Director, Properties. "During peak periods there are very many people eager for a ride on this important recreational facility up to The Peak."

The Company has submitted a proposal to the Hong Kong Government to improve and enlarge the capacity of the Peak Tram for the long-term future.

In the meantime, the company's right to operate the Peak Tram has been extended for another two years to the end of 2015.

"We do not want to increase the speed of the Tram as we know that people view the Peak Tram as an exciting experience, not just as an alternative means of getting to The Peak – they can always take the bus or a taxi. To our visitors, travelling on the Peak Tram is entertainment and fun," adds Martyn. "Because of the technical specifications of the tracks, the bridges and their physical limitations, we cannot go higher or wider and increasing the length of the tram is our only option. Even this is limited though, as the tramway operates on a single track and, at one point in the track, the two trams heading in opposite directions have to pass each other and that passing area has a finite length. We have come up with a plan that increases the tram length, relocates the platform and therefore increases the capacity on each journey."

To our visitors, travelling on the Peak Tram is entertainment and fun.

"It will be a major investment for the Company once terms are agreed. We are aligned in our vision with the Hong Kong Government to provide the best Peak Tram services to Hong Kong and its visitors, and we are excited about the Peak Tram's future," says Martyn.

TRADITION WELL SERVED

When the first "Tradition Well Served" documentary was released to commemorate the launch of the new Peninsula Tower at The Peninsula Hong Kong in 1994, it was a fascinating look at the rich history of the hotel and the Kadoorie family, the principal shareholders of the Company.

Back then, the Company had a more concentrated hotels portfolio comprising only five hotels – The Peninsula Hong Kong, The Peninsula Manila, The Peninsula Beijing, The Peninsula New York and The Peninsula Beverly Hills. The unique Hong Kong story was a fascinating one to tell and it seemed befitting that Hong Kong-based producer Elaine Forsgate Marden, a long-time friend of the Kadoorie family, was the driving force behind the 1994 edition.

As The Peninsula Hong Kong celebrated its 85th birthday close to 20 years later, in 2013, the Peninsula story had grown significantly and it was a good time to showcase the exciting developments of the Group.

So, back in 2011, with the blessing of HSH Chairman The Hon. Sir Michael Kadoorie and armed with new archival footage and material amassed through years of research, Elaine Marden started updating her Peninsula files to produce a new version of "Tradition Well Served," collaborating with Libby Halliday Palin as director and Brian McDairmant on photography. The score is composed by Peter White, while *Luxe Guides* founder Grant Thatcher narrates.

This fascinating 45-minute documentary celebrating the heritage of the Company and the roots of the Kadoorie family features new archival footage and historical photographs. Interviews with key personalities also cast new light on the rich history and traditions of The Peninsula Hotels, which now include new members The Peninsula Bangkok, The Peninsula Tokyo, The Peninsula Shanghai and, soon, The Peninsula Paris.

Amongst some of the compelling scenes are footage of Peninsula destination cities from the 1900s to 1940s, including rare scenes from Sir Robert Hotung's golden wedding anniversary party at The Peninsula Hong Kong in the 1930s, a watershed moment that endorsed the hotel as the place for Hong Kong's high society of the day. Interviews and relevant footage also offer deeper insight into the Kadoorie family lineage.

The documentary takes in signature features and events from all of the nine different Peninsula hotels, including a look at the detailed restoration work that has been taking place in the historic site of The Peninsula Paris. From the glamour of the Hong Kong flagship, the feature also takes viewers behind the scenes to similar events in The Peninsula Shanghai and The Peninsula Chicago.

As in almost every film produced, music plays a key role amidst the narrative, and British composer and conductor Peter White was given the role of Musical Director. Peter White is one of the leading musical directors in the UK, working mainly on musical theatre productions, with credits including the 25th anniversary production of *Les Miserables*, which he conducted in the UK, France, and the US. "I was absolutely delighted with how Peter's score enhanced the film," Elaine says. "Every piece was perfect for each part of the production."

At the heart of this production is the clear message of the Company's commitment to the respective communities in each of The Peninsula's destination cities and how the Company has stayed true to serving its heritage and traditions even as it keeps a keen eye on the future and the opportunities it presents.

"The challenge for us was to find a story within each hotel that was truly unique, whilst projecting The Peninsula spirit shared between them in a way that would inform, inspire and entertain," says Libby. "We produced this documentary not as a marketing tool, but as something quite special that showed the relationship between the Kadoorie family and the hotels, which I do think is quite extraordinary. There is a great bond there."

At the heart of this production is the clear message of the Company's commitment to the respective communities in each of The Peninsula's destination cities.

Did You Know?

The Hongkong and Shanghai Hotels, Limited

In 2013, HSH invested in environmental engineering projects that resulted in annual energy and carbon emissions reduction of 9,850 GJ and 1,447 tonnes respectively, which is enough energy to power more than 400 homes in Hong Kong for a year and gas to fill more than 300 hot air balloons.

In 2013, 54% of all our paper products were FSC-certified, representing a 20 percentage point increase from the previous year. It is our goal to have all paper product sourced from certified sustainable and responsible sources by 2017.

Our vintage fleet of Rolls-Royce includes three 1934 Phantom II Sedanca de Villes located in Hong Kong, Shanghai and Tokyo, and a fourth to be commissioned after the opening of The Peninsula Paris. Each one is restored to its former glory with modern, bespoke additions, such as discreet air conditioning, a fridge, a cocktail cabinet and IDD telephone.

The Peninsula Hong Kong

5,000 preserved traditional Chinese olive delights were distributed by The Peninsula Hong Kong around the city in 2013.

5.1 billion computer instructions run around the hotel complex every second.

The Peninsula Beijing

205,000 pieces of luggage are delivered by bellmen to guest rooms each year at The Peninsula Beijing.

Over 472,300 car doors a year are opened by doormen at The Peninsula Beijing forecourt.

The Peninsula Shanghai

More than 48,600 canapés, 48,000 pastries, 2,800 portions of beef, 3,200 portions of fish were served by The Peninsula Shanghai to VIPs and car owners during Ferrari Racing Days on 1 and 2 June 2013 at the F1 circuit.

It takes one kilogram of organic tomato, mushroom and coriander to make one bowl of Yi Long Court's bestselling soup.

The Peninsula Tokyo

The Peninsula Tokyo has the largest international luxury suite in the city which is also the only suite with a private gym and an outdoor balcony.

16,574 onigiri rice balls have been made and donated to a local orphanage by The Peninsula Tokyo staff since December 2009.

The Peninsula Bangkok

It would take seven people to wrap their arms around the trunk of the gigantic Banyan Tree at Thiptara restaurant.

The Peninsula Manila

609 tonnes of silver a year are polished by The Peninsula Manila's stewarding team.

A daily average of 1,000 eggs are cracked and 50 kilograms of butter churned for whipping up pastry delights.

The Peninsula New York

603 kilograms of soap donated by The Peninsula New York were recycled into 3,202 soap bars for those in need, according to the benefactor of the hotel's drive, Clean the World.

The new *Clement* restaurant serves over 90% locally sourced products.

The Peninsula Chicago

The Peninsula Chicago is the only hotel in the city with a skating rink overlooking Michigan Avenue.

The Peninsula Beverly Hills

Each month, approximately 50 canine guests at The Peninsula Beverly Hills are pampered with personalised towels, beds and a menu that offers treats such as the "Bow Wow Beef Burger" and "Spot's New York Strip".

The Repulse Bay Complex

Scenes from the classic American movie featuring William Holden and Jennifer Jones, "Love is a Many-Splendored Thing" (1955), were filmed at the Repulse Bay Hotel.

The Peak Complex

Two versions of the Hong Kong $20 banknote, issued by "Bank of China" and "HSBC" in 2003, feature The Peak Tower and the Peak Tram.

Thai Country Club

Thai Country Club is the habitat of a variety of animal types including the protected Monitor Lizard.

Peninsula Clubs and Consultancy Services

880,000 bowls of noodles a year are served by Cathay Pacific Lounges.

Awards and Accolades

HSH

2013 Corporate Hotelier of the World

for Mr Peter Borer, HSH Chief Operating Officer (HOTELS Magazine, USA)

HSH

Platinum Award

Hong Kong Institute of Certified Public Accountants 2013 Best Corporate Governance Disclosure Award

The Peninsula Hotels

No. 2 Best Hotel Brand for Business Travel

2013 Business Travel Awards (Condé Nast Traveler, USA)

The Peninsula Hong Kong

No. 1 Best Hotel in Asia for Business

2013 Business Travel Awards (Condé Nast Traveler, USA)

We are delighted to receive many prestigious industry awards – too many to list them all here! A selection of the top awards:

HSH

2013 Corporate Hotelier of the World for Mr Peter Borer, HSH Chief Operating Officer *(HOTELS Magazine, USA)*

HSH 2012 Annual Report:

Silver Award in General Category *(2013 HKMA Best Annual Reports Awards)*

Platinum Award for the Best Corporate Governance Disclosure in the Non-Hang Seng Index (Large Market Capitalisation) Category and **Special Mention** in the Sustainability and Social Responsibility Reporting Award Category *(Hong Kong Institute of Certified Public Accountants (HKICPA)'s 2013 Best Corporate Governance Disclosure Awards)*

Bronze Prize (Hotel & Leisure category) for Cover Photo/Design *(ARC 2013 Awards)*

Gold Award in Annual Reports – Overall Presentation *(2013 Galaxy Awards)*

Hotels

The Peninsula Hotels

No. 2 Best Hotel Brand for Business Travel – 2013 Business Travel Awards *(Condé Nast Traveler, USA)*

TTG Travel Awards 2013 – Best Luxury Hotel Brand *(TTG Asia, Singapore)*

The Peninsula Hong Kong

No. 1 Best Hotel in Asia for Business – 2013 Business Travel Awards *(Condé Nast Traveler, USA)*

No. 1 in all of the following: 2013 World's Best Service Hotels Overall – City Hotels; 2013 World's Best Service Hotels Asia – City Hotels; 2013 World's Best Awards – Top City Hotels in Asia; 500 World's Best Hotels 2013 – Best Hotels in Hong Kong *(Travel + Leisure, USA)*

No. 2 Overseas Business Hotels – 2013 Readers' Travel Awards *(Condé Nast Traveller, UK)*

Best International Luxury Hotel – Luxury Travel Gold Awards *(Luxury Travel Magazine, Australia)*

No. 4 – 101 Best Hotel Restaurants Around the World 2013 *(Felix) (The Daily Meal, USA)*

The Peninsula Shanghai

No. 1 in all of the following: 2013 World's Best Business Hotels – Top 5 Overall; 500 World's Best Hotels 2013 – Best Hotels in Shanghai; Top Hotels by City (International) – Shanghai *(Travel + Leisure, USA)*

World's Top 20 Best City Hotel - Andrew Harper's 2013 Reader's Choice Awards *(Andrew Harper's, USA)*

The Best Hotel in Shanghai – Readers' Choice Awards 2013 *(DestinAsian, Singapore)*

Best Luxury Hotel in China – 2013 City Traveler Best Hotel Awards *(City Traveler, China)*

Forbes Five Star – The Peninsula Shanghai and The Peninsula Spa *(Forbes Five Star, USA)*

The Peninsula Beijing

No. 1 Best Hotel in Beijing – 500 World's Best Hotels 2013 *(Travel + Leisure, USA)*

No. 3 Top Hotels by City (International) – Beijing *(Travel + Leisure, USA)*

Top 100 Hotels in China – 2013 China Travel Awards *(Travel + Leisure, China)*

The Peninsula Tokyo

No. 1 Gold List 2013 – Japan *(Condé Nast Traveler, USA)*

No. 2 Top 10 Hotels in Japan and South Korea – Readers' Choice Awards 2013 *(Condé Nast Traveler, USA)*

No. 3 Top 5 Overall and **Best Business Hotels in Japan 2013** *(Travel + Leisure, USA)*

No. 3 Best Hotels in Tokyo – Business Travel Poll 2013 *(Finance Asia, Hong Kong)*

Top 10 Spas in Japan – SpaFinder Japan Readers' Choice Award 2013 *(SpaFinder Japan)*

The Peninsula New York

No. 1 Top 25 Hotels in New York City – Readers' Choice Awards 2013 *(Condé Nast Traveler, USA)*

Gold List 2013 – *(Condé Nast Traveler, USA)*

No. 2 Best Hotels in New York – 2013 Best Hotels *(US News)*

No. 4 Best Hotels in New York City – 500 World's Best Hotels 2013 *(Travel + Leisure, USA)*

Best Spa in New York City – 2013 Concierge Choice Awards *(New York City Association of Hotel Concierges, USA)*

The Peninsula Chicago

No. 2 Favorite City Hotels – 2013 Readers' Choice Awards *(Andrew Harper's Hideaway Report, USA)*

No. 1 Best Business Hotels in Chicago *(Condé Nast Traveler, USA)*

Best Hotel in the United States for Business – 2013 Business Travel Awards *(Condé Nast Traveler, USA)*

Michelin Star Restaurant – One Star (The Lobby) *(Michelin Guide, USA)*

No. 1 Five Best Asian Restaurants in Chicago *(Shanghai Terrace) (Zagat USA)*

The Peninsula Beverly Hills

AAA Five Diamond 21 consecutive years and **Forbes Five Star Hotel in Southern California** for 21 consecutive years

Gold List 2013, and The Platinum Circle for five consecutive years *(Condé Nast Traveler, USA)*

No. 1 Favorite City Hotels – 2013 Readers' Choice Awards *(Andrew Harper's Hideaway Report, USA)*

No. 1 Top 25 Hotels in Southern California – Readers' Choice Awards 2013 *(Condé Nast Traveler, USA)*

No. 1 in all the following: Top Large City Hotels in the Continental US; Best Hotels in Los Angeles Area – 500 World's Best Hotels 2013; Top Hotels by City (United States) – Los Angeles *(Travel + Leisure, USA)*

The Peninsula Shanghai

BEST LUXURY HOTEL IN CHINA

2013 City Traveler Best Hotel Awards (City Traveler, China)

The Peninsula New York

NO. 1 TOP 25 HOTELS IN NEW YORK CITY

2013 Business Travel Awards (Condé Nast Traveler, USA)

The Peninsula Chicago

MICHELIN STAR RESTAURANT

One Star (The Lobby) (Michelin Guide, USA)

The Peninsula Beverly Hills

NO. 1 TOP 25 HOTELS IN SOUTHERN CALIFORNIA

Readers' Choice Awards 2013 (Condé Nast Traveler, USA)

The Peninsula Bangkok

BEST SPA

World's Global Traveler Leisure Awards

The Repulse Bay Complex

HONG KONG'S FIRST LEED GOLD CERTIFICATION FOR AN ALTERATION & ADDITIONS (A&A) PROJECT

for de Ricou Apartments Renovation

The Peninsula Bangkok

No. 1 – Top 15 Hotels in Thailand – Readers' Choice Awards 2013 *(Condé Nast Traveler, USA)*

No. 1 Skyscraper Hotels in Bangkok – 500 World's Best Hotels 2013 *(Travel + Leisure, USA)*

No. 2 2013 World's Best Service Hotels Asia – City Hotels *(Travel + Leisure, USA)*

No. 3 2013 World's Best Service Hotels Overall – City Hotels *(Travel + Leisure, USA)*

Best Spa – World's Global Traveler Leisure Awards *(Global Traveler, USA)*

The Peninsula Manila

No. 2 Best Hotels Around Manila – Business Travel Poll 2013 *(Finance Asia, Hong Kong)*

No. 2 Best Hotels in Manila – 500 World's Best Hotels 2013 *(Travel + Leisure, USA)*

No. 1 Winner of Philippine Chiller Energy Efficient Project (PCEEP) 2013 (Philippine Department of Environment and Natural Resources)

COMMERCIAL PROPERTIES, CLUBS AND SERVICES

The Repulse Bay Complex

Hong Kong's first LEED Gold Certification for an Alteration & Additions (A&A) project for de Ricou Apartments Renovation

Certificate of Excellence for The Waterscape in the category of Best Institutional and Public Space *(Perspective Awards 2013)*

Thai Country Club

First Runner Up for **Best Course in Thailand**; Second Runner Up for **Best Club House in Asia Pacific** *(Asian Golf Monthly 2013 Awards)*

Cathay Pacific Lounges

No. 2 Best Business Class Lounge *(Skytrax World Airline Awards 2013)*

The Landmark, Vietnam

Best Manager in caring for staff benefits (for Mrs. Bee Lian Ng, General Manager) *(HCMC Trade Union)*

Governance

Chairman's Overview

We believe good corporate governance is the cornerstone to a successful and sustainable company.

Dear Shareholders,

We believe good corporate governance is the cornerstone to a successful and sustainable company. As Chairman of the Board, I am committed to ensuring that HSH operates to the highest standards of corporate governance. HSH has a well-established framework of policies, processes and management systems throughout its operations, based on principles of integrity, equity and transparency to support its governance and sustainability efforts. The following pages outline our approach to governance.

In addition to the new projects and celebrations I mentioned in my letter, 2013 has been a year of change to the Board composition and new developments in the corporate governance area which I would highlight below:

Board Composition

My role as Chairman is to ensure that HSH has a dynamic Board which works effectively and constructively in challenging the Executive Directors and management. This involves having Directors with the right range and balance of skills, expertise, experience and perspectives on the Board. We have made good progress in this area this year with the appointment of Dr. Rosanna Wong with effect from 1 February 2013, who brings with her a wealth of experience. Dr. Wong is also the first female Director of HSH. Mr. Robert Miller, after serving 12 years on the Board, resigned with effect from 1 January 2014, while Mr. Neil Galloway stood down from the Board on 13 September 2013. In Mr. Galloway's place, we are pleased to welcome Mr. Alan Clark who will join the Board on 30 March 2014. He joins us with a background rich in international hospitality. We have also started the process of identifying candidates with a view to filling the vacancy created by Mr. Miller's resignation.

After serving our Board for 14 years, Mr. Ian Boyce will resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. Mr. Andrew Brandler will be proposed to be elected as a Non-Executive Director. Mr. Brandler will be a valuable addition to the Board with a wealth of knowledge in executive management from his many years of service to a listed utility company of Hong Kong, CLP Holdings Limited.

I would like to thank Mr. Miller, Mr. Boyce and Mr. Galloway for their years of service to the Company.

In selecting new Directors for the Board, while we recognise the benefits of diversity, including gender diversity, and will continue to ensure that this is taken into account when considering any particular appointment, the Company's policy remains that selection should be based on the best person for the role.

Board Evaluation

I see Board evaluation as an area which is fundamental to improving Board effectiveness. For the first time, we conducted an in-house evaluation process coordinated by our Company Secretary. The process involved completion of a questionnaire by all Board members, and the output was discussed at our October 2013 Board meeting. I am also pleased to say that from the Board evaluation, it is evident that your Non-Executive Directors have a positive and constructive relationship with the Executive Directors. As a result of the Board evaluation, suggestions on additional presence of management and more strategic discussions at Board meetings and more regular contacts between Non-Executive Directors with management were implemented. The Board evaluation process was well received and our policy now is to undertake these evaluations every other year.

Group Management Board

Our management board, the Group Management Committee, was retitled Group Management Board during the year. To address the Board's concern on resources to handle an increased number of new projects, two members of the Group Management Board were promoted to the role of Group Executives to assist the Executive Directors in managing the Company and its assets and projects.

Corporate Governance Code

As we did last year, in our Corporate Governance Report, we are reporting against the Stock Exchange's Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules. 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.

It is pleasing to see the progress we have made this year in the governance area. However, we shall continue to review and seek further improvements in this area.

The Hon. Sir Michael Kadoorie
17 March 2014

Board of Directors

(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; John A.H. Leigh; Patrick B. Paul; Dr. the Hon. Sir David K.P. Li; Clement K.M. Kwok; Dr. William K.L. Fung; Dr. Rosanna Y.M. Wong; Pierre R. Boppe; Nicholas T.J. Colfer

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 72. 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)

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

Non-Executive Deputy Chairman*

Ian Duncan Boyce

Aged 69. 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 54. 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. From 1996 to 2002, 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, and serves on the Board of the Faculty of Business and Economics of The University of Hong Kong. (E, F)

Chief Operating Officer

Peter Camille Borer

Aged 60. 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 78. 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 Foundation in London and various other charitable organisations.

William Elkin Mocatta

Aged 61. 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.

* Mr. Ian Boyce will resign as Non-Executive Director and Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. Mr. Andrew Brandler will be proposed to be elected as Non-Executive Director of the Company at the Annual General Meeting. His biographical details are disclosed in the announcement dated 17 March 2014.

** Mr. Alan Clark will join the Board as Executive Director and Chief Financial Officer on 30 March 2014. His biographical details are disclosed in the announcement dated 5 November 2013.

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 60. 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 54. 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. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), 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 75. Appointed to the Board in 1987, Sir David is Chairman and Chief Executive of The Bank of East Asia, Limited. Sir David is an Independent Non-Executive Director of 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 (all listed in Hong Kong). He is also a Director of CaixaBank, S.A. (listed in Spain). Sir David was an Independent Non-Executive Director of COSCO Pacific Limited and China Overseas Land & Investment Limited (both listed in Hong Kong) until May 2012 and March 2013 respectively, and a Non-Independent Non-Executive Director of AFFIN Holdings Berhad (listed in Malaysia) until August 2013. He also served as a member of the Legislative Council of Hong Kong from 1985 to 2012. Sir David is the Chairman of The Chinese Banks' Association, Limited. He is also a member of the Council of the Treasury Markets Association. (N)

Patrick Blackwell Paul

CBE

Aged 66. 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 66. 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 65. 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 61. 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 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. (R)

Senior Management

(front row, from left to right) Peter C. Borer; Clement K.M. Kwok
(back row, from left to right) Maria Razumich-Zec; Rainy Chan; Christobelle Liao; Martyn Sawyer; Sindy Tsui

Senior Management

Group Management Board

The Group Management Committee was retitled as Group Management Board in September 2013 to communicate more clearly the role of this Group to external stakeholders. The Group Management Board is tasked with key decision-making for the Group's management and operations, under the official delegation of authority from the Board. With the increased number of new projects, a new executive level of Group Executives was also formed to assist the Executive Directors in managing the Company and its assets and projects. The Group Management Board comprises five Group Executives and three other members. Members of the Group Management Board are shown on the following page.

Group Executives:

In addition to **(1) Chief Executive Officer, Clement K.M. Kwok, (2) Chief Financial Officer, (3) Chief Operating Officer, Peter C. Borer,**

(4) Christobelle Liao

Aged 45. Ms. Liao is a qualified solicitor in Hong Kong and England & Wales. After a number of years in legal practice in corporate mergers and acquisitions, she joined the Group as Company Secretary and Corporate Counsel in 2002. She was appointed to the Group Management Board in 2011 and was promoted to Group Executives and retitled as Group Director, Corporate and Legal in 2013 while retaining the position of Company Secretary.

(5) Martyn Sawyer

Aged 56. Mr. Sawyer is responsible 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, Thailand, France and the UK. He has been with the Group since 1985. He was appointed Group General Manager, Properties and Clubs in 1999, made a member of the Group Management Board in 2002 and was promoted to Group Executives and retitled as Group Director, Properties in 2013.

Other members:

(6) Rainy Chan

Aged 49. 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 Area Vice-President – Hong Kong and Thailand in 2010. She was appointed to the Group Management Board in 2011 and was retitled as Regional Vice-President in 2013.

(7) Maria Razumich-Zec

Aged 56. 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 was appointed to the Group Management Board in 2007 and was retitled as Regional Vice-President in 2013.

(8) Sindy Tsui

Aged 45. 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 was appointed to the Group Management Board in 2011 and was retitled as Group Director, Human Resources in 2013.

Corporate Governance Report

Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group.

Introduction to Corporate Governance Framework

Our Board of Directors bears the responsibility towards our shareholders and stakeholders to ensure the sound management of the Company. This can only be achieved with the right structure and support by appropriate and well managed processes. Our Board sets the governance culture based on integrity, transparency and accountability and ensures the same culture is reinforced throughout the Group. Good corporate governance throughout the organisation ensures that we can stand up to scrutiny and the changing regulatory environment, in turn to foster and maintain shareholders' and stakeholders' confidence in our Company.

Our corporate governance structure is shown below:

* In September 2013, the Group Management Committee was retitled as the Group Management Board.

Corporate Governance Code Compliance

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules ("CG Code") 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 the principles of the CG Code.

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

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

In respect of **CG Code code provisions**, we have complied with all of the code provisions throughout 2013.

In respect of **CG Code recommended best practices**, we have complied with all of the recommended best practices throughout 2013, with the exception of 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 informed on the Group's periodic performance, we issue quarterly operating statistics setting out key operating information; and
- **Disclosure of individual senior management remuneration** – We do not disclose the remuneration of individual senior management. However, we have complied with CG Code code provisions and disclosed the remuneration payable to senior management by band in our Remuneration Committee Report.

2013 Developments in Corporate Governance Practices

We review and seek improvements in our corporate governance practices on a regular basis. We highlight below our achievements during the year:

- ✔ We have conducted our first in-house Board evaluation aimed at improving effectiveness of the Board.
- ✔ We formalised our diversity practices and adopted a Board Diversity Policy in March 2013, prior to the effective date of the new CG Code code provision on Board diversity in September 2013. Our first female Director was appointed to the Board in February 2013.
- ✔ We adopted an Inside Information Escalation Policy formalising inside information control which were already undertaken by the Company, to ensure proper safeguards exist to prevent a breach of disclosure requirements. Training was conducted to the Group Management Board in March 2013. The policy was also presented to and discussed with relevant financial and operational management staff in the Finance Conference of May 2013.
- ✔ We have conducted a major update of our Purchase and Tendering Procedures to enhance operational control and efficiency while maintaining internal control over the process. This set of procedures was released to all staff on our intranet. Interactive discussions were also conducted with the procurement teams of our Asian operations, and to relevant financial and operational management staff at the Finance Conference in May 2013 by Audit & Risk Management to promote awareness and compliance. A comprehensive set of Frequently Asked Questions was released to all staff in June 2013 and further updated in August 2013.

2013 Developments in Corporate Governance Practices (continued)

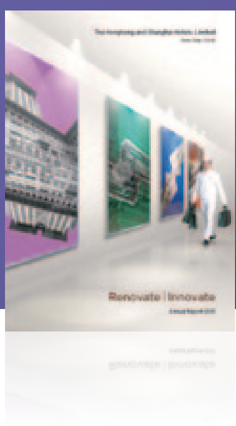
- ✔ Interactive e-learning data privacy programme for all relevant customer-facing staff was 98% completed by the end of 2013.
- ✔ The Group Risk Committee has selected a single-enterprise risk management system platform for comprehensive risk reporting, analysis, and monitoring needs across the Group.
- ✔ The Group Risk Committee released a Crisis Response Checklist tailored for corporate office and all operations in May 2013, which summarises the key concerns and contact details for management team in an emergency situation. Each Checklist was updated regularly at not less than semi-annual intervals, including the latest update in November 2013.
- ✔ We have measured our performance against the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange, and duly reported in this Report on pages 256 to 262.
- ✔ We have mobilised a company secretarial task force to review the new Companies Ordinance and considered how the constitution and other governance documents of the Company may be impacted. Shareholders' approval will be sought at the Annual General Meeting of 2014 on changes to the Articles of Association of the Company to reflect the requirements of the new law.

Transparent Reporting Wins Awards

HSH is committed to providing its shareholders and stakeholders with a transparent picture of our business performance and our Annual Report is an important part of our communications. In 2013, HSH won the Silver Award for Best Annual Reports Awards under General Category organised by the Hong Kong Management Association. In addition, we received the Platinum award of HKICPA's 2013 Best Corporate Governance Disclosure Awards. While reporting is not about winning awards, the external recognition reaffirms that our practices are meeting the expectations of our shareholders and stakeholders.

Silver
Best Annual Reports Awards

Platinum
Best Corporate Governance Disclosure Award



The Role of the Board

The names and biographical details of all Board members (including details of their relevant experience, and financial, business, family or other material or relevant relationships among them) are set out on pages 134 to 137. This information is also posted on the Company's website: *www.hshgroup.com/en/Corporate-Governance*.

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 157), 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;
- approving financial statements, annual and interim reports, and making judgements that are appropriate in the preparation of the Company's disclosure statements;

- approving the Group's annual budgets and forecasts;
- approving significant changes in accounting policies;
- approving changes to the Company's capital structure;
- setting the dividend policy;
- authorising material borrowings and expenditures;
- approving the appointment of Directors for election and/or re-election in general meetings;
- reviewing and ensuring corporate governance functions are carried out 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 Board.

With respect to the Directors' responsibility for preparing the Financial Statements for the year ended 31 December 2013, please refer to the Directors' Report set out on page 186.

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

The Hon. Sir Michael Kadoorie has been our Non-Executive Chairman since May 1985 and Clement King Man Kwok has been the Chief Executive Officer since February 2002.

There is a clear division of the responsibilities in the Company between the running of the Board, and the executives responsible for the running of the Company's business. The respective 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 Independent Non-Executive Directors (each an "INED") 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 in frequent contact with the Chief Executive Officer through various means including face-to-face meetings and telephone conversations on average at least 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. With the assistance of the Company Secretary, the Chairman also ensures that good corporate practices and procedures are established and implemented throughout the Group, including facilitating the first in-house Board evaluation in 2013.
- **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 Board, 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 Group's performance in achieving agreed corporate goals and objectives and monitor 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, as well as determine appropriate levels of remuneration for Executive Directors and senior management. 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 are not confined to the areas of business covered by their specific executive functions, but are extended to the 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. The dates of the 2013 Board meetings were determined and provided to the Directors in the fourth quarter of 2012. 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 to allow sufficient time to review discussion topics.

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 2013, 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
- Nomination Committee
- Remuneration Committee
- 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 References

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 terms of reference of the Nomination Committee was updated in March 2013 in line with CG Code provisions on Board diversity.

The terms of reference of each Board Committee can be found on the Company's website: *www.hshgroup.com/en/Corporate-Governance/Board-Committees*. 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 Controls and Risk Management" section and the "Group Risk Committee and Risk Management Report" section • 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) • Group 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 172 and 173

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 review the Board's Diversity Policy • 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 pages 174 and 175

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 Committees • 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) • Group Director, 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 176 to 180

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
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 Heads of corporate 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 the 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, 1 January 2013 to 12 September 2013)
Regular Attendees by Invitation	• Relevant Non-Executive Director(s) • Company Secretary • General Manager, Group Finance • Group Treasurer • General Manager of Operations or Heads of corporate 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

2013 Board and Committee Attendance

The attendance of Directors at the Annual General Meeting, Board and Governance Board Committee meetings in the year 2013 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 W. Miller[(1)]	●●●○○			●●	●
Mr. Patrick B. Paul	●●●●●	●●●●		●●	●
Mr. Pierre R. Boppe	●●●●○				●
Dr. William K.L. Fung	●●●●●	●●○○	●○		○
Dr. Rosanna Yick Ming Wong	●●●●●				●
Executive Directors					
Mr. Clement K.M. Kwok, Chief Executive Officer	●●●●●				●
Mr. Neil J. Galloway[(2)], Chief Financial Officer	●●●				●
Mr. Peter C. Borer, Chief Operating Officer	●●●●●				●

Notes:

(1) Mr. Robert Miller resigned as Director with effect from 1 January 2014.

(2) Mr. Neil Galloway resigned as Director with effect from 13 September 2013.

2013 Board Meetings

Five regular Board meetings took place in 2013. Two of which were conducted at The Peninsula Hong Kong. The Board also visited Quail Lodge & Golf Club in Carmel Valley, California for its October Board meeting.

The Board's key activities during the year included:

Governance

- Reviewed and received reports from Audit Committee Chairman on audit issues
- Approved the 2014 budget and the Company's Annual Report and Interim Report
- Reviewed and discussed Board evaluation results facilitated internally by the Company Secretary and formulated action plan
- Approved of Medium Term Note Programme
- Received updates on financial performance of the Group

Strategy

- Reviewed and discussed business development priorities and parameters
- Scrutinised and approved (a) acquisition of interest in the property located at 1-5 Grosvenor Place, London, United Kingdom; (b) the acquisition of commercial property located at 21 avenue Kléber, Paris, France; and (c) proposed project at Yangon, Myanmar
- Reviewed investment in existing assets and approving renovation programme for The Peninsula Beijing

Leadership and Employees

- Approved the appointment of Dr. Rosanna Wong as INED and Mr. Alan Clark as Executive Director and Chief Financial Officer
- Reviewed and received reports from Remuneration Committee Chairman on all operations salary adjustment and bonus proposals
- Non-Executive Directors lunch with selected management

Sustainability

- Endorsed the Sustainable Luxury Vision 2020
- Reviewed the HSH Group Video Making Contest on corporate responsibility and sustainability initiatives

The Composition of the Board

As of the date of this Report, our Board comprises 13 members. Eleven out of our 13 Directors are Non-Executives, among which five are INEDs, independent of management and representing 38% of the entire Board. 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. During the year, we announced the departure of Mr. Neil J. Galloway as Executive Director and Chief Financial Officer with effect from 13 September 2013 and the departure of Mr Robert W. Miller as an INED on 1 January 2014. Mr. Alan P. Clark will join as Executive Director and Chief Financial Officer on 30 March 2014. Mr. Ian Boyce will resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. Mr. Andrew Brandler will be proposed to be elected as a Non-Executive Director of the Company at the Annual General Meeting. If elected, he will be a Non-Executive Director and appointed as Deputy Chairman of the Company.

The Nomination Committee reviewed and the Board confirmed that the structure, size and composition of the Board as at end of 2013 remained appropriate for it to perform its responsibilities. The Nomination Committee is in the process of identifying a replacement for Mr. Robert W. Miller.

Boardroom Diversity

The Board believes that diversity is important for Board effectiveness. The Board has formalised its approach on Board diversity and adopted its diversity policy in March 2013. This policy can be found on the Company's website: *www.hshgroup.com/en/Corporate-Governance*. This philosophy does not end at the Board level but is carried out throughout the Group.

Gender Diversity of management as at the date of this Report is set out below:

	Number	Proportion
The Board	1 female 12 males	8% female 92% male
Senior Management*	4 females 3 males	57% female 43% male
General Managers of operations and Heads of corporate departments**	9 females 23 males	28% female 72% male

* Inclusive of 2 Executive Directors

** General Managers of operations and Heads of corporate departments category does not include members of senior management who also holds a functional role at operations or corporate office

The Company has taken, and continues to take steps to promote diversity, including gender diversity at management levels as well as in the Boardroom. The Company has policies on equal opportunities and policies against discrimination with regard to gender in relation to recruitment and promotion as well as family friendly employment practices. Active steps were taken in promoting diversity in recruitment.

The Board recognised the lack of gender diversity at the Board level, and Dr. Rosanna Wong was appointed as an Independent Non-Executive Director on 1 February 2013 as the first female Director of our Company. In addition, with the departure of Mr. Neil J. Galloway as our Chief Financial Officer, external search consultants engaged by the Company in the selection process were requested to observe our diversity policy in terms of skill set, experience, knowledge, expertise, culture, level of independence from the Company, age, race and gender. While the diversity policy was observed, the consideration over appointments continued to be based on merit, measured against objective criteria and skills and experience of the individual.

The Board has considered but decided not to set express diversity quotas or measurable objectives for implementing the diversity policy. However, the Board will continue to ensure that diversity is always taken into account as one of the key appointment consideration factors. The Company's recruitment philosophy remains that decisions should be made based on the best person for the role.

Board Evaluation

In addition to an annual meeting held between the Non-Executive Chairman and the Non-Executive Directors, including INEDs, without the presence of the Executive Directors to evaluate management effectiveness, the Board adopted a more structured Board evaluation approach in 2013. During 2013, the Board carried out its first self-assessment to evaluate its own performance. The process involved the development of a bespoke online qualitative questionnaire by the Company Secretary in consultation with the Group Management Board. The questionnaire was disseminated for completion by all Directors in August 2013. Responses were received anonymously to ensure that these responses were as open, frank and informative as possible. In October 2013, the Board discussed the report from the evaluation and agreed its action plan, as outlined in the diagram on the right. The Board affirmed the value of such evaluation and agreed that similar evaluation should be conducted every two years.

July 2013: Company Secretary, in consultation with the Group Management Board, prepared a bespoke qualitative questionnaire with more than 30 questions. Directors were asked to rate the Board and themselves on the following areas:

- our Group's objectives, strategy and performance assessment
- internal control and risk management effectiveness
- succession planning
- management performance
- composition and effectiveness of the Board
- process supporting the Board
- individual member's performance.

August 2013: All Directors completed the questionnaire online anonymously.

October 2013: Company Secretary collated and prepared a summary of the survey scores and responses. The summary was discussed at Board Meeting. Strengths were acknowledged and weaknesses identified.

At the **October Board Meeting**, a number of actions were agreed by the Board:

- Chief Executive Officer and management will meet with Non-Executive Directors more regularly to discuss business strategy of the Company on new projects earlier
- Management will prepare a medium-term strategy of the Company, updated annually at Board Meetings
- Management will prepare a 5- to 10-year succession plan
- General Managers of Operations and Heads of Corporate Departments will conduct presentations at Board Meetings to keep Board members appraised of the presenters' roles and functions.

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. All corporate policies are also explained and provided to new Directors by the Company Secretary. Dr. Rosanna Y.M. Wong, who was appointed to the Board in February 2013, has completed a tailored induction programme facilitated by the Company Secretary. The induction programme included one-to-one meetings with Executive Directors and senior management and General Managers of properties and operations as well as site visits to all Hong Kong operations.

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 October 2013 Board Meeting was held at Quail Lodge & Golf Club. Board members toured the facilities and met 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 Directors provide the Company with details of their training attended by them annually and such records are maintained by the Company Secretary. During 2013, the Directors received a total of approximately 259 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 range of topics, including: new laws and regulations, corporate governance practices and sustainability developments and Group business related topics.

Training records of Directors and the Company Secretary for 2013 are as follows:

Directors	Type of Training		
	Attending 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(1)	✓	✓	✓
Mr. Patrick B. Paul	✓	✓	✓
Mr. Pierre R. Boppe	✓	✓	✓
Dr. William K.L. Fung	✓		✓
Dr. Rosanna Y.M. Wong	✓	✓	✓
Executive Directors			
Mr. Clement K.M. Kwok, Chief Executive Officer	✓	✓	✓
Mr. Neil J. Galloway(2), Chief Financial Officer	✓	✓	✓
Mr. Peter C. Borer, Chief Operating Officer	✓	✓	✓
Company Secretary			
Ms. Christobelle Liao	✓	✓	✓

Notes:
(1) Mr. Robert Miller resigned as Director with effect from 1 January 2014.
(2) Mr. Neil Galloway resigned as Director with effect from 13 September 2013.

Appointments and Re-election of Directors

The Company confirms that all Directors' appointments and re-elections were conducted in compliance with the CG Code in 2013. Details of the appointments to and resignations from the Board in 2013, and Directors who will retire and offer themselves for re-election in the 2014 Annual General Meeting are set out in the Directors' Report in page 183.

Time Commitment of Directors

The Board recognises that it is important that all Directors should be able to dedicate sufficient time to the Company to discharge their responsibilities. 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 reviews annually the contributions required from the Directors and whether they are spending sufficient time performing their responsibilities.

All Directors have confirmed to the Company that they have given sufficient time and attention to the Company's affairs throughout 2013.

Independence of INEDs

The independence of the Non-Executive Directors is relevant to Board balance. The Company has received annual written confirmations of independence from each of its six INEDs who served in 2013. The Nomination Committee and the Board considered that all INEDs who served in 2013 were, and the current five INEDs continue to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules and that there were no business or other relationships or circumstances which are likely to affect the judgement of any of the INEDs.

Beyond the formal confirmation of independence referred to above, of overriding importance is that each INED possesses a mind-set that is independent and is prepared to challenge conventional wisdom in a constructive fashion. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is assumed to have lost his or her independence.

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 2013. Details of the shareholding interests held by the Directors of the Company as at 31 December 2013 are set out on page 184.

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 Employees. Brief particulars and shareholding interests of the senior management are set out on pages 139 and 184.

Directors' Disclosure on Conflict of Interest

We have established procedures to ensure we comply with disclosure requirements on potential conflicts of interests. 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 2013, 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 Board ("GMB") comprising senior management covering major operations and functions. The GMB is in turn supported by three sub-committees, and the General Managers and heads of the operations and functional departments. For the GMB and its sub-committees, each has its own terms of reference or charter that set out their respective authorities and responsibilities.

Group Management Board

Chairman and Members

- Chairman: Mr. Clement K.M. Kwok, Chief Executive Officer
- Members:

  Executive Directors: Mr. Peter C. Borer, Chief Operating Officer, Chief Financial Officer

  Group Executives: Ms. Christobelle Liao, Group Director, Corporate and Legal; Mr. Martyn P.A. Sawyer, Group Director, Properties

  Other Members: Ms. Rainy Chan, Regional Vice-President and General Manager of The Peninsula Hong Kong; Mrs. Maria Razumich-Zec, Regional Vice-President and General Manager of The Peninsula Chicago; Ms. Sindy Tsui, Group Director, Human Resources

Main Responsibilities

The GMB 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
- 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 GMB has three sub-committees consisting of the 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: Mr. Clement K.M. Kwok, Chief Executive Officer
- Members: Director, Corporate Responsibility and Sustainability, and selected members of senior management, General Managers of operations and Heads of corporate departments 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 GMB 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: Mr. Ernest Tang, General Manager, Group Finance (Acting Chairman from 13 September 2013)
- Members: Selected members of senior management, Heads of corporate departments and selected representatives 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: Ms. Christobelle Liao, Group Director, Corporate and Legal (Acting Chairman from 13 September 2013)
- Members: Selected members of senior management and corporate Group 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 GMB

Internal Controls and Risk Management

The Board considers the internal controls and risk management system is fundamental to the achievement of the Company's objectives. It acknowledges that it is ultimately responsible for maintaining sound internal control systems and to assess their effectiveness on a regular basis.

Furthermore, 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.

The Board confirms that there is a framework of ongoing processes in place for identifying, evaluating and managing significant risks faced by the Group. The framework and its processes are regularly reviewed by the Board and the Audit Committee as appropriate and have been in place during the year ended 31 December 2013 and up to the date of approval of this Annual Report.

Control Landscape

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.

Codes and Policies

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** that is founded upon the Corporate Governance Code of the Listing Rules, and **HSH Code of Conduct and Equal Opportunities** which governs behaviour of our employees. These documents form the backbone of our internal control system and are regularly reviewed and supplemented by other policies and procedures manuals.

A **Whistleblowing Policy** is in place to facilitate employees and other stakeholders reporting on any suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation. The policy is posted on the Company's website: *www.hshgroup.com/en/Corporate-Governance/Whistleblowing-Policy*. In 2013, five incidents were reported through the dedicated and secure whistleblowing email account. All incidents were promptly followed up by Audit & Risk Management in accordance with the policy. Investigation results were communicated to the Executive Directors with approved recommendations implemented by the responsible parties.

The Group's **Data Privacy 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. Data privacy is also an area of key importance to our stakeholders as confirmed in our sustainability materiality study.

Following a data breach incident of Peninsula Merchandising Limited in September 2013 which was reported to the Privacy Commissioner for Personal Data of Hong Kong, the Company has further tightened its internal data controls by providing access only to selected authorised staff of the operations concerned, improving software restrictions, and required all staff of the operation to undergo the Company's authorised data privacy online trainings, which were completed in September 2013.

In 2013, to reinforce our internal controls:

– following the update of the CMAM in 2012, training was provided to key members of financial and operational management of all operations at the Finance Conference of May 2013;

– we have formalised our **Inside Information Escalation Policy** to ensure potential inside information is being captured and confidentiality of such information is being maintained until consistent and timely disclose are made; and

– we have completed a major update of our **Purchase and Tendering Procedures** in 2013 to enhance operational control and efficiency while maintaining internal control over the process. The full revised set of procedures was released to all staff on our intranet. Specific training and Q&A sessions were also conducted at the Finance Conference in May 2013. A comprehensive set of Frequently Asked Questions was released to all staff in June 2013 and further updated in August 2013.

Inside Information Escalation Policy

Our Inside Information Escalation Policy regulates the handling and dissemination of inside information of the Company, which is a critical internal control component of a listed company in Hong Kong. The policy includes:

- Designated reporting channels from different operations informing any potential inside information to Group Management Board ("GMB")
- GMB to determine further escalation and disclosure as required
- Designated persons authorised to act as spokespersons and respond to external enquiries

Training was provided to GMB, and interactive discussion was conducted with key members of financial and operational management of all operations at the Finance Conference of May 2013.

Financial Management and Reporting

The Operations Finance Department, together with the operating teams represents an important control. All aspects of operational financial activities are subject to its review. The General Manager of this Department reports to the Chief Financial Officer and the Chief Operating Officer.

Operations Finance Department co-ordinates all operating financial reports across the Group, ensuring the accuracy, consistency, validity and completeness of all information. This Department reviews and, where necessary, challenges the financial operating results with a view to find ways to improve 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 operational Directors of Finance and Financial Controllers. This Department also ensures that financial reporting submitted by operations highlight all key information and matters affecting the operations and that the reports fairly reflected the operations performance, market conditions and management efforts.

Operations Finance Department

During 2013, the Operations Finance Department undertook the following:

- Organised the biennial Finance conference, which was attended by all operational Directors of Finance and Financial Controllers and members of the head office team
- Developed and updated Group standard operating procedures related to finance and accounting as required
- Assisted with the recruitment and selection of operational financial personnel
- Participated in the formation and management of strategies for new hotel openings and reviewed pre-opening expense budgets
- Regular matters including full participation in and management of the budgeting process, regular dialogue and reporting on financial performance, sharing of best practices, innovations and performance data throughout the Group, and provision of internal and external training to operational finance staff

Assurance

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 Group General Manager, ARM who leads a team of five qualified professionals. The Group General Manager, ARM has a reporting line to the Chief Executive Officer and has direct access to 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 plan and receives reports produced by ARM throughout the 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 and tools 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 2013, ARM conducted 12 internal audit exercises throughout the entire Group.

Apart from internal audit, General Managers and Directors of Finance or Financial Controllers of the operations submit general representative letters every six months 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. All representation letters and qualifications are summarised and submitted to the Audit Committee and Finance Committee for review.

The Audit Committee conducts semi-annual assessment on the operation and effectiveness of internal controls and risk management 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 172 to 173.

Based on the review of the Audit Committee report, the Board confirmed that throughout 2013, 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 1,808 registered shareholders as at 31 December 2013. 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 total number of shares in issue
500 or below	344	19.027	68,418	0.005
501-1,000	193	10.675	155,322	0.010
1,001-10,000	709	39.215	3,044,095	0.203
10,001-100,000	431	23.838	13,527,410	0.901
100,001-500,000	96	5.310	20,105,953	1.338
Above 500,000	35	1.935	1,465,293,193	97.543
Total	**1,808**	**100.000**	**1,502,194,391**	**100.000**

Note: as at 31 December 2013, 37.05% of all HSH total number of shares in issue 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 2013 and has continued to maintain such a float as at 17 March 2014.

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 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: *www.hshgroup.com/en/Investor-Relations*, along with the presentation materials from such meetings, specifically the Annual Report and the Interim Report. Our Shareholder Communication Policy (posted on the Company's website: *www.hshgroup.com/en/Corporate-Governance*) has specified the various communication channels which our shareholders and stakeholders have access to. For additional information, shareholders and investors can email enquiries to us at ir@hshgroup.com.

Shareholders' Rights to General Meetings

Shareholders holding not less than 5% of total voting rights of the Company may convene an extraordinary general meeting by stating the objectives of the meeting through a requisition and sending the signed requisition to the Company.

Our Company website: *www.hshgroup.com/en/Corporate-Governance/Shareholders-Rights* 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.

2013 Annual General Meeting

The 2013 AGM was held on 3 May 2013 at The Peninsula Hong Kong. There were 256 attendees in total, of which 138 were registered shareholders and 118 attended by proxies or through corporate representatives.

Prior to the meeting, a circular containing the notice of the 2013 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. Nicolas T.J. Colfer and Dr. William K.L. Fung due to other commitments), including the Chairmen of the Audit and Remuneration Committees, were present at the 2013 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 Stock Exchange's websites. Media representatives were invited to observe and report on the AGM.

* *GRI G4 Material Disclosure: G4-26*

Separate resolutions were proposed on each issue, including the re-election of individual Directors. All resolutions proposed at the 2013 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 2012	**100%**
Payment of final dividend of 10 HK Cents per share for the year ended 31 December 2012	**100%**
Re-election of five retiring Directors: The Hon. Sir Michael Kadoorie, Mr Ian D. Boyce, Mr. Peter C. Borer, Mr Patrick B. Paul and Dr. Rosanna Y.M. Wong as Directors of the Company	**Ranging from 98.01% to 100% 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	**100%**
Granting of the general mandate to Directors to allot, issue and deal with the Company's shares	**83.08%**
Granting of the general mandate to Directors to repurchase the Company's shares	**100%**
Authorisation to Directors to extend the general mandate to issue new shares by adding the number of shares repurchased	**83.15%**

Other Information

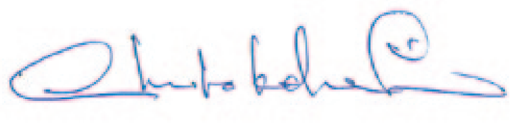
Other information for our investors including our shareholders' calendar are set out in page 267.

The Company's share price information is disclosed on page 55.

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 Review, explains our approach to discharging our responsibilities on such impact.

We encourage our stakeholders to give us feedback on our approach. Comments and enquiries can be sent to our email address at cr@hshgroup.com.



By order of the Board
Christobelle Liao
Company Secretary

* *GRI G4 Material Disclosure: G4-26*

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.

This is our second year of reporting since the establishment of the Group Risk Committee ("GRC") in 2012 to enhance focus on existing and potential risks. 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.

Our GRC comprises of the following members:

Chairman: Ms. Christobelle Liao (Group Director, Corporate and Legal) – Acting Chairman from 13 September 2013

Members: selected members of senior management and corporate Group General Manager

In 2013, the GRC met three times to provide oversight of principal business risks to which the Group is subject. The GRC also issued two updates to the Group Management Board ("GMB") in 2013 on key risks, incidents and mitigating actions, and overall plans, trends and analyses, and shared updates with responsible management.

Group Risk Committee Charter

The GRC developed the Group Risk Committee Charter ("Charter") as its governing instrument. This document outlines the membership, meeting format and frequency, responsibilities for risk oversight and reporting, implementation of the Group Risk Register ("Register"), and the reporting line that applies to the Committee.

The main responsibilities of the GRC under the Charter are as follows:

– Evaluating and monitoring the Group's principal risks through review and challenge, where necessary, information received; monitoring exposure to risk types in a sufficiently accurate and timely manner and the mitigating actions.

– Evaluating and recommending to GMB the risk profile and risk appetite of the Group.

– Developing and updating risk management procedures including overseeing and advising GMB on the embedding and maintenance of a supportive risk management culture throughout the Group, to ensure effective delegation of risk management responsibilities, identification of key risks, implementation of action plans and remedy of incidents.

– Coordinating and compiling the Register with ongoing maintenance, and preparing summaries of top tier risks and related contingency plans to Audit Committee and Board.

– Implementing the Register including establishing clear roles and responsibilities for risk oversight, risk reporting and escalation, risk ownership, and communicating across the Group.

– Approving policies, procedures and instructions relating to the Register.

Group Risk Management Approach

Risk is inherent in every business. We apply our risk management approach throughout the entire Group from the Board and 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.
- **GMB:** oversees the future of GRC and 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.

Our risk management approach follows a clear process of identification, assessment, mitigation, reporting and monitoring.

Key risks, after being calibrated, consolidated, and refined by the GRC, are reviewed by the Audit Committee and considered and agreed upon by our Board, with relevant detailed action plans in place.

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.
- **Process:** New controls and mitigation built into operations and continually monitored and reviewed.
- **People:** Clear roles and accountability for risk owners, management and ARM.

Risk Mitigation Framework

Plan

- Emerging 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 and Procedures ("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

Process

- All major incidents identified are reported to the GRC
- Data derived from past, present, and potential events help determine the Group's risk considerations
- Adequate insurance coverage is in place – in particular for property damages and employee injuries
- ARM evaluates the efficiency of risk reviews, policies, training, management oversight, incident reporting and insurance arrangements

People

- Face to face and online training to provide appropriate skills and knowledge
- On-going oversight of operational activities to manage risk
- Appropriate delegation of authority, proper supervision of employees, and monitoring of outsourced activities
- Regular communication to raise awareness
- External expertise is used for certain technical assessments where appropriate

Group Enterprises Risk Management ("ERM") System Platform

Implementation of a single Group ERM system platform for comprehensive risk analysis, monitoring and reporting needs across the operations' and the Group's risk management activities

Our specific efforts to manage risks are consolidated in our **Group Risk Register** (the "Register") that allows the Audit Committee and GMB 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.

A traffic light approach has been adopted to risk assessment in collating the Register – low/green, medium/amber, high/red – in order to allow an easier visual understanding of the risk profile of the Group, as shown in the diagram on the right.

A detailed description of the principal risks of the Company is set out on pages 168 to 171.

Our Group-wide **Incident Reporting Policy** is a tool to allow systematic, timely and informative reporting of all incidents of the Group of a wide range of nature, in the form of a uniform protocol. The GRC continues to monitor the Incident Reporting Policy to improve transparency and oversight of operational risks and to better assess trends and areas of weaknesses. This uniform approach 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 in 2013 which needed to be brought to the attention of the shareholders.

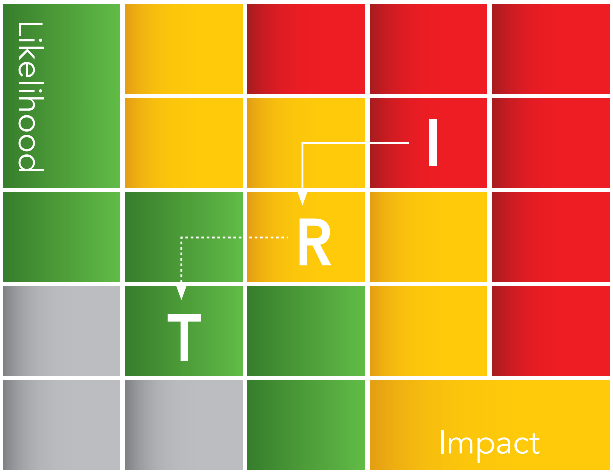
Our risk mitigation framework allow us to continuously assess and address the changing risk universe within which we operate.

2013 Main Activities

The Group Risk Committee conducted the following business in 2013:

- expanded the Register to capture eight additional operations;
- selected a single ERM system platform for comprehensive risk reporting analysis, and monitoring needs across the Group;

Traffic Light Approach Adopted to Risk Assessment



I – **Inherent risk**
(risk level with ineffective or no controls in place)

R – **Residual risk**
(current risk level with existing controls in place)

T – **Target risk**
(desired risk level to optimise investment as required)

- reviewed and implemented the new Group-wide Crisis Response Checklist template at all operations, which will be updated at least semi-annually;
- confirmed security and access rights to confidential information on the Company's intranet, *Sphere*, and formulated an action plan to review information which are posted on this virtual space. Acknowledged the confirmation by Information Technology Department of the technical adequacy of the platform's security;
- reviewed the independent integrated risk assessment reports on property, security and safety prepared by a third party after detailed investigations at our Asian operations including The Peninsula Tokyo, The Peninsula Bangkok, Thai Country Club and The Peninsula Manila, and reviewed the action plans to mitigate identified risk areas;
- discussed incidents with Group-wide impact and implemented policies and procedures to prevent specific recurrence of these risks;

- published the first set of Group-wide policies and procedures improving the operation of guest room key and in-room safe security;
- reviewed data privacy incident relating to Peninsula Merchandising Limited and reassessed controls on data privacy and acknowledged the closure of the matter by the related government authority;
- reviewed the security of the Group's information technology systems, including the quarterly results of security tests ran by an independent third party; and
- reviewed sustainability risk assessment process in investment proposals.

Selected Principal Risks

A summary of HSH principal risks is presented below. This summary is compiled through aggregation, filtering and prioritisation of the risks from a Group's perspective, taking into account each of the Group's operation's detailed risk registers. The process for compiling the principal risks faced by each operation includes multiple interviews and validations with risk owners of the operation concerned. The risk review process provides an opportunity to highlight emerging risks and/or include new risks to the risk registers. The registers are used to track movements of risks and their specific ratings across the Group, contributing to ensuring their proactive management.

Disaster Events, Business Continuity and Crisis Management

Risk Nature	Key controls and mitigating factors
A major disaster event, such as an incident, "Act of God," natural disaster, terrorist activity, war or contagious diseases such as Avian Flu and SARS could impact on our assets, business levels, level of travel activity, and therefore our ability to conduct business, and reduce earnings	• Multiple risk inspections by external risk consultant on selected properties focusing on insurable risks such as engineering, safety and security risks • Crisis Response Checklist rolled out across all operations and crisis management team with qualified and experienced members that addresses crisis management and business continuity • Comprehensive insurance coverage for properties and businesses

Acquisitions, Investments and Developments

Risk Nature	Key controls and mitigating factors
Acquisitions, investments and developments of properties carry inherent risks. These are often pursued in partnership with third parties. Risks related to meeting budgets, incurring debt, missing targets, partnership relationships and competition for resources will need to be managed. Challenges may arise in relation to obtaining planning or other consents and compliance with different jurisdictions' design and construction standards	• Engagement with experienced and reputable local partners • Familiarisation with local authorities • Adequate due diligence to be conducted for each project, including but not limited to: – employing services of qualified and experienced professionals (internal and external) – developing complete and detailed integration plans and business strategies • Continuous monitoring and review of all aspects of developments, planning and construction progress, with regular reporting to the Board and its Committees on material matters • Involvement of Legal and Audit & Risk Management Departments monitor legal, regulatory and internal policy compliance of our projects and developments assisted by professionals • Close monitoring of cost, market trends and developments

Capital Requirements

Risk Nature	Key controls and mitigating factors
Failure to ensure the availability of funds to meet our capital expenditure requirements to develop, maintain and renovate our properties could limit our ability to remain competitive	• On-going regular reviews of hardware standards • Continuous monitoring of furniture, fixture and equipment budget and spend by operations • Regular cash and treasury management and monitoring of allocation of funds and resources

Brand and Reputation

Risk Nature	Key controls and mitigating factors
Failure to protect the Group's brand and reputation from significant negative publicity in media, social media or elsewhere could result in a loss of confidence in our brand, a decline in guest, tenant and/or customer base, and affect our business and our ability to recruit and retain good people	• Care in staff recruitment and training to bring forth the level of service that is befitting of our brand • Our Code of Conduct and behavioural standards regulate staff conduct including prohibiting accepting benefits in contravention of laws and regulations • Supplier Code of Conduct implemented to mitigate risks relating to labour standards and product integrity • Clear guidelines on incident communication and crisis management process by crisis management team • Implementation of Group-wide social media usage guidelines • Social media monitored by external service providers • Hiring staff with social media expertise • Timely and regular specific updates to GRC on incidents

People

Risk Nature	Key controls and mitigating factors
Failure to attract, retain, develop and motivate the best people with the right capabilities, particularly senior executives and at all other levels, could limit our ability to manage and service our business adequately. Shortages of personnel with necessary skills can lead to higher replacement wages and therefore higher operating expenses	• Clear succession plans for key management positions • Regular structured employee engagement surveys and action plans • Training and development, career paths and operational level succession plans • Regular review of competitiveness of remuneration packages • Continuation and pursuit of hotel school recruitment programs • Continuous monitoring of risks and opportunities related to workforce changes

Health and Safety

Risk Nature	Key controls and mitigating factors
Failure to timely address health and safety issues or comply with laws and regulations that regulate our operations, merchandise and the properties we own and manage could expose us to costs and liabilities and result in damaged trust in our business *Food Safety & Hygiene, and Health & Safety of Employees and Guests have been identified as material sustainability issues of high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 100 for further detail)*	• Risks reviewed by management during monthly Safety Meetings and action plans are developed to address any areas of concern • Certification of the health and safety of our premises against relevant standards where possible and hiring or training staff with/for certification on health and safety • Policies and procedures on handling food, waste, and any hazardous materials • On-going risk assessments such as regular health consultations • Supplier Code of Conduct to mitigate risks relating to product integrity • Continued improvements in Occupational Safety and Health programs

Data Privacy

Risk Nature	Key controls and mitigating factors
Given our wide guest base and global operations, we are regulated by privacy laws and regulations of many jurisdictions, which compliance could increase our operating costs and impact our direct marketing abilities. Breaches could result in fines and may adversely affect our brand and business *Data Privacy & Security has also been identified as a material sustainability issue of relatively high concern by external and internal stakeholders of the Company, as reported in our Sustainability Materiality Matrix (please refer to page 100 for further detail)*	• Implementation of Group-wide data privacy policy manual and training (classroom and online formats) • Assessments by data privacy teams across operations • Implementation of a process for reporting and dealing with data breaches • Investment in information technology infrastructure, application and training to protect personal data • Management of risks via e-Commerce functions at operational level

Retail and Commercial Tenants

Risk Nature	Key controls and mitigating factors
Our capital investments and commitment of resources in developing retail and commercial space in our properties may not be well received by our retail or commercial tenants or their customers In addition, commercial letting may become difficult due to factors such as decline in spend within the luxury industry, increased competition, or shifts of retail preferences leading to decrease in our arcade traffic	• 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 potential tenants • Diversification and maintenance of an appropriate mix of tenants

Security and IT

Risk Nature	Key controls and mitigating factors
Our reputation and financial performance may be adversely affected if we fail to maintain appropriate security measures, including security over our information systems, to protect our guests, visitors and employees. The threat of terrorism, criminal acts, and fire incidents continue to be a significant concern for the hospitality industry	• Dedicated Security & Operational Risk teams work with local management to ensure there is adequate level of security in our operations • Detailed threat and vulnerability assessments and tests are carried out at selected sites • Crisis Response Checklist rolled out across all operations in 2013 that addresses crisis management and business continuity • Group Incident Reporting Policy and Procedures launched and monitored by GRC • Technical robustness of our information systems regularly reviewed by Information Technology Department, including engaging third parties to conduct independent tests

Labour and Material Cost

Risk Nature	Key controls and mitigating factors
Rising labour and material costs while we operate in a highly competitive environment will continue to be a major challenge for our business. Failure to manage our costs, such as payroll and benefits, new taxes and social insurance charges, could adversely affect our business	• Close monitoring and management of operating costs, including payroll costs, new taxes and social insurance charges • Strategies to enhance our bargaining power with markets and suppliers • Professionals engaged to advise on labour related costs and liabilities

On behalf of the Group Risk Committee

Christobelle Liao
Acting Chairman of the Group Risk Committee

Audit Committee Report

The Audit Committee views the overall financial and operating controls for the Group during 2013 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 146 and posted on the websites of the Company: *www.hshgroup.com/en/Corporate-Governance/Board-Committees* 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 2013, with senior management, the external auditor and the head of Audit & Risk Management ("ARM") in attendance by invitation. The attendance record of the Audit Committee members of such meetings is shown on page 150 of this Report.

The Chairman of the Audit Committee also met separately with the Group General Manager, ARM and the Audit Committee met with external auditor without management being present during the year to discuss 2013 issues.

The Company Secretary is the Secretary to the Audit Committee.

Main Activities in 2013

During the year the Audit Committee reviewed the functions of the Company's Operations Finance Department and Treasury Department, as well as reviewed the Group's Treasury guidelines. The Audit Committee conducted the following usual business in 2013:

- reviewed and endorsed the 2012 Annual Report for the year ended 31 December 2012 and the annual results announcement, and the 2013 Interim Report for the six months ended 30 June 2013 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 2012 as described below, assessed the performance of the external auditors and endorsed the reappointment of KPMG as the Company's independent auditor for 2013;
- considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2012 Annual Report and 2013 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 2014;
- reviewed connected transactions and related party transactions;
- approved the change in accounting treatment on defined benefit retirement obligation;
- reviewed the valuations of all assets;
- approved the accounting treatment relating to the Company's interests in associates and in new projects and residences for sale; and
- reviewed the purpose and efficacy of the Group Risk Register and incident reporting protocol within the Company's overall risk management framework.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee views the overall financial and operating controls for the Group during 2013 to be effective, sound and sufficient. Issues raised by the internal and external auditors during 2013 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, Sustainability Review, the Directors' Report and Financial Statements for the year ended 31 December 2013 and the annual results announcement, after review and discussion, in March 2014, 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 2013, apart from audit work, we also awarded non-audit work to our independent auditor including due diligence, taxation and other 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 2013 and 2012 is as follows:

Nature of Services	**2013 HK$m**	2012 HK$m
Audit Services	**10**	9
Non-Audit Services		
Taxation and Other Services	**2**	1
Due Diligence Services	**3**	–

On behalf of the Audit Committee

Patrick B. Paul
Chairman of the Audit Committee

Nomination Committee Report

The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity.

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 147 and posted on the websites of the Company: *www.hshgroup.com/en/Corporate-Governance/Board-Committees* 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 twice in 2013 and the attendance record of members is shown on page 150 of this Report.

The Company Secretary is Secretary to the Nomination Committee.

Main Activities in 2013

2013 has been a year of change for the Board requiring Nomination Committee's consideration in the appointment of new directors: the appointment of Dr. Rosanna Wong as our first female Director and INED, in February 2013; the review and selection process of the Chief Financial Officer position and the recommendation of Mr. Alan Clark as Executive Director and Chief Financial Officer from 30 March 2014; and the continued search of a replacement Director for Mr. Robert Miller who resigned with effect from 1 January 2014.

In addition, the Nomination Committee conducted the following business in 2013:

- endorsed the Board Diversity Policy and the proposed amendments to the terms of reference include the Board Diversity Policy for adoption by the Board;
- assessed and reviewed INEDs' confirmations of independence and affirmed the Committee's view over their independence;
- recommended the election of re-retiring Directors;
- reviewed the structure, size and composition of the Board and the split between number of INEDs, Non-Executive Directors and Executive Directors; and
- reviewed the value of having measurable objectives for implementing the Board Diversity Policy.

Board Diversity

The Company approaches diversity in the broadest sense, recognising the benefits of a diverse mix of skills, knowledge, age, race, gender and experience on its Board including accounting, finance, legal, corporate and public sector management, banking and hospitality. The Nomination Committee, when considering Board composition and in its process of recommending Board appointments, is guided by the principles of the Company's policy on diversity. As mentioned in my last report, the appointment of Dr. Rosanna Wong was an important milestone being the first female Director appointment in the history of the Company. This year, our Committee continued with that diversity approach in identifying our new Chief Financial Officer who will join on 30 March 2014. The objectives that we have set for our external search consultants are described in pages 152 and 153. We are also in the process of identifying a replacement Director in place of Mr. Robert Miller who resigned and we will follow the same diversity approach.

The Nomination Committee considered that HSH Board has in place a diverse mix of skills, knowledge and experience, as well as increased gender diversity with one new female member on the Board. In reviewing the appropriateness of an express diversity quota or measurable objective for implementing the Board Diversity Policy, the Nomination Committee concluded that it was not necessary, however, diversity will continue to be considered in assessing Board composition.

Non-Executive Deputy Chairmanship

Mr. Ian Boyce will resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the Annual General Meeting on 12 May 2014. The Nomination Committee has recommended to the Board that Mr. Andrew Brandler be proposed to be elected as a Non-Executive Director of the Company at the Annual General Meeting. If elected, he will be Non-Executive Director and appointed as Deputy Chairman of the Company.

On behalf of the Nomination Committee

The Hon. Sir Michael Kadoorie
Chairman of the Nomination Committee

Remuneration Committee Report

Our 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;

– review and approve 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 147 and posted on the websites of the Company: *www.hshgroup.com/en/Corporate-Governance/Board-Committees* and the Stock Exchange.

Our Remuneration Committee comprises three members:

Chairman: Mr. Patrick B. Paul (INED)

Members: Mr. Robert W. Miller (INED) (resigned on 1 January 2014), Dr. Rosanna Y.M. Wong (INED) (appointed on 1 January 2014) and Mr. Ian D. Boyce (Non-Executive Director)

The Remuneration Committee met twice in 2013 and the Chief Executive Officer and Group Director, Human Resources attended the meetings by invitation. The attendance record of the Remuneration Committee members of such meetings is shown on page 150 of this Report.

The Company Secretary is Secretary to the Remuneration Committee.

Remuneration Philosophy for Executives

An HSH Rewards Philosophy is established and was approved by the Remuneration Committee in 2011. Our 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 and leave encashment.

Retirement Benefits

The Executive Directors and most of the 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. Some senior management participate in a local plan instead of the Company's plan due to the local requirements.

Remuneration for Non-Executive Directors

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 and benchmarking against other Hong Kong listed companies of similar market capitalisation and business.

In line with the above annual fee review's methodology, the Board approved in March 2014 the proposal from the Committee and recommended the fees of Non-Executive Directors and INEDs are to be fixed at the rate of HK$250,000 and HK$300,000 respectively per annum. These fees will be subject to Shareholders' approval at the Annual General Meeting to be held on 12 May 2014.

The Board also approved the recommendations from the Committee of a revision of the fees payable to the Chairman and members of the Remuneration Committee to HK$85,000 and HK$60,000 respectively per annum and the Chairman and members of Nomination Committee to HK$20,000 per annum.

The revised fees will take effect on 12 May 2014 and be payable to the Non-Executive Directors and INEDs on a pro rata basis for the financial year ending 31 December 2014.

Main Activities in 2013

The Remuneration Committee conducted the following business in 2013:

- reviewed fees for Non-Executive Directors and INEDs and additional fees for the same to serve on Board Committees in 2013. No changes were proposed in 2013;
- reviewed and approved the proposed 2012 senior staff bonus for Head Office and Operations under the Management Bonus Plan;
- reviewed and approved the remuneration package and contract of the new Chief Financial Officer who will join in March 2014;
- approved the 2012 special bonus proposal of one member of senior management and remuneration of two members of senior management;
- reviewed and approved the terms of letters of appointment for an INED;
- approved the discretionary element of the annual bonuses for Executive Directors;
- discussed long and short term incentive plan proposals for Executive Directors and senior staff; and
- approved the Group-wide 2014 general salary increase proposal taking into account various factors including market pay trend, inflationary forecast, labour market outlook and the Group financial performance.

2013 Remuneration of Directors and Senior Management

The below information is an integral part of the Audited Financial Statements for the year ended 31 December 2013.

Non-Executive Directors – Remuneration

The fees paid to each of our Non-Executive Directors in 2013 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$'000)	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	**2013 Total**$^{\Delta}$	2012 Total$^{\Delta}$
Non-Executive Directors							
The Hon. Sir Michael Kadoorie	200	100	–	–	10	**310**	308
Mr. Ian D. Boyce	200	100	120	50	–	**470**	470
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	250	–	–	–	10	**260**	258
Mr. Robert C.S. Ng(1)	–	–	–	–	–	**–**	117
Mr. Robert W. Miller	250	–	–	50	–	**300**	300
Mr. Patrick B. Paul	250	–	175(c)	60(c)	–	**485**	483
Mr. Pierre R. Boppe	250	–	–	–	–	**250**	250
Dr. William K.L. Fung	250	–	120	–	10	**380**	378
Dr. Rosanna Y.M. Wong(2)	228	–	–	–	–	**228**	–
	2,678	300	415	160	30	**3,583**	3,464

(1) Mr. Robert C.S. Ng resigned as a Director of the Company with effect from 19 June 2012.

(2) Dr. Rosanna Y.M. Wong was appointed Director of the Company with effect from 1 February 2013.

Executive Directors – Remuneration

The remuneration paid to Executive Directors of the Company in 2013 was as follows:

(HK$'000)	Basic compensation	Bonuses and incentives	Retirement benefits	Other benefits	**2013 Total**$^{\Delta}$	2012 Total$^{\Delta}$
Executive Directors						
Mr. Clement K.M. Kwok	5,160	6,991	849	318	**13,318**	11,872
Mr. Neil J. Galloway*	3,052	2,797	492	250	**6,591**	7,812
Mr. Peter C. Borer	4,045	3,291	650	136	**8,122**	6,988
	12,257	13,079	1,991	704	**28,031**	26,672

* Mr. Neil Galloway resigned as Director of the Company with effect from 13 September 2013.

$^{\Delta}$ 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 (GMB members other than Executive Directors*) disclosed pursuant to the Listing Rules falls within the following bands:

	2013 Number	2012 Number
HK$3,000,001 – HK$4,000,000	**1**	2
HK$4,000,001 – HK$5,000,000	**3**	3
HK$5,000,001 – HK$6,000,000	**1**	–

* The GMB, the Company's management and operations' decision-making authority, comprises the three Executive Directors and five (2012: 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 and two members of senior management (2012: one member of senior management and one other). The emoluments of the two (2012: two) individuals with highest emoluments are within the following bands:

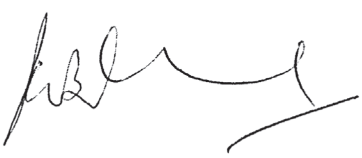
	2013 Number	2012 Number
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**1**	1
HK$5,000,001 – HK$5,500,000	**1**	–

The aggregate of the emoluments in respect of these two (2012: two) individuals is as follows:

	2013	2012
Basic compensation	**6,867**	6,067
Bonuses and incentives	**2,080**	1,051
Retirement benefits	**687**	566
Other benefits	**259**	1,507
	9,893	9,191

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 2013.

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2013.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates, joint venture and joint operation 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 tourism and leisure, club management and other services.

Particulars of the principal subsidiaries of the Company are set out on pages 206 and 207.

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 Business Review on pages 22 to 39 and Financial Review sections on pages 40 to 55.

Ten Year Operating Statistics and Financial Summary

The Group's key operating statistics and financial data for the last ten years are set out on pages 10 and 11.

Financial Statements

The profit of the Group for the year ended 31 December 2013 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 188 to 249.

Share Capital

There was no movement in the number of issued shares in the Company during the year. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Dividends

An interim dividend of 4 HK cents per share (2012: 4 HK cents per share) in respect of the year ending 31 December 2013 was paid during the year 2013. The Directors have recommended a final dividend of 12 HK cents per share (2012: 10 HK cents per share). Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 12 May 2014 ("2014 Annual General Meeting"), such dividends will be payable on 20 June 2014 to shareholders whose names appear on the register of members on 20 May 2014.

The final dividend will be payable in cash but shareholders will have the option of receiving the final dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 23 May 2014.

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 2013 and 2012 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.

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$7,418,296* (2012: HK$1,573,736). The increase was mainly due to donations of The Peninsula Hong Kong's 85th Anniversary programmes and fundraising efforts for Hope for the Philippines in aid of victims of Super Typhoon Haiyan.

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 except the continuing connected transaction set out below.

On 22 March 2013, HSH Management Services Limited, an indirect wholly owned subsidiary of the Company, entered into a tenancy agreement with Kadoorie Estates Limited ("KEL") to renew the office lease of 7th and 8th Floors of St. George's Building, 2 Ice House Street, Central, Hong Kong ("Office Premises") for three years commencing on 1 April 2013 at a market rent of HK$1,540,452 per month plus service charges of HK$182,224 per month with a rent free period of two months. The amount of rent and service charges paid to KEL during 2013 was approximately HK$16.6 million (2012: HK$16.7 million).

KEL is the agent of the registered owner of the Office Premises. The registered owner is controlled by one of the substantial shareholders of the Company. The new lease constituted a continuing connected transaction of the Company and subject to the disclosure requirements under the Listing Rules. Details of the transaction were disclosed in the announcement dated 22 March 2013 ("22 March 2013 Announcement").

All the Independent Non-Executive Directors, who were not interested in the above continuing connected transaction, have reviewed the transaction and confirmed that the transaction has been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms and conducted on arm's length basis; and

(iii) in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has also reviewed this transaction and confirmed to the Board of Directors of the Company that the transaction:

* The donations amount of HK$7,811,729 referred to in the Sustainability Data Statements on page 254 include donations by managed properties owned by joint venture and associates.

(i) has been approved by the Company's Board of Directors;

(ii) has been entered into in accordance with the relevant agreement governing the transaction; and

(iii) has not exceeded the aggregate annual limit disclosed in the 22 March 2013 Announcement.

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 134 to 137. All the thirteen Directors aforementioned in pages 134 to 137 held office throughout 2013 while Mr. Neil J. Galloway held office from 1 January 2013 until his resignation as Executive Director and Chief Financial Officer with effect from 13 September 2013 and Mr. Robert W. Miller who held office from 1 January 2013 until his resignation as Independent Non-Executive Director with effect from 1 January 2014. In addition, Dr. Rosanna Y.M. Wong was appointed to the Board as Independent Non-Executive Director on 1 February 2013. In accordance with the Articles of Association of the Company, Mr. Clement K.M. Kwok, Mr. William E. Mocatta, Mr. Pierre R. Boppe and Dr. William K.L. Fung will retire at the 2014 Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

Mr. Alan P. Clark, following the appointment to the Board as Executive Director of the Company on 30 March 2014, shall hold office until the next general meeting. He will retire at the 2014 Annual General Meeting in accordance with the Articles of Association and being eligible, will offer himself for re-election.

Mr. Ian D. Boyce will also resign as Non-Executive Director and the Deputy Chairman of the Company with effect from the close of the 2014 Annual General Meeting. The Board has approved the recommendation of Nomination Committee to propose Mr. Andrew C.W. Brandler to be elected as Non-Executive Director of the Company at the 2014 Annual General Meeting. If elected, he will be a Non-Executive Director and appointed as Deputy Chairman of the Company.

None of the Directors proposed for re-election and election at the 2014 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 139. All members of senior management held office throughout the year.

Interests of Directors and the Chief Executive Officer

As at 31 December 2013, 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 total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	789,051,161	52.527
Mr. Ian D. Boyce	Beneficial Owner	202,000	0.013
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. Nicholas T.J. Colfer, Patrick B. Paul, Dr. William K.L. Fung and Dr. Rosanna Y.M. Wong, who are Directors of the Company and Mr. R.W. Miller, who was a Director of the Company until 31 December 2013, have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2013.

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 2013, 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 2013, 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 2013, 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 set out on the next page.

Long Position in Shares of The Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue 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 total number of shares in issue of the Company
Prudential plc	Interests of controlled corporations	149,341,195	9.942(i)
M&G Investment Funds (1)	Interest of controlled corporation	145,897,101	9.712(i)
Aberdeen Asset Management Plc and its associates	Investment manager	126,026,347	8.389

(i) Prudential plc was deemed to be interested in the shares through its interests in its controlled corporations including M&G Investment Funds (1).

Except as set out above, as at 31 December 2013, 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 2013, 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 2013 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 140 to 163.

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 2013, 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 2014 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 2014 Annual General Meeting.

By Order of the Board

Christobelle Liao
Company Secretary
Hong Kong, 17 March 2014

Financial Statements

Consolidated Income Statement (HK$m)

	Note	Year ended 31 December 2013	2012
Turnover	2	**5,508**	5,178
Cost of inventories		**(463)**	(427)
Staff costs and related expenses		**(1,951)**	(1,842)
Rent and utilities		**(586)**	(607)
Other operating expenses		**(1,202)**	(1,101)
Operating profit before interest, taxation, depreciation and amortisation ("EBITDA")		**1,306**	1,201
Depreciation and amortisation		**(395)**	(384)
Operating profit		**911**	817
Interest income		**46**	56
Financing charges	4	**(140)**	(141)
Net financing charges		**(94)**	(85)
Profit after net financing charges	3	**817**	732
Share of result of a joint venture	16	**(280)**	(125)
Increase in fair value of investment properties	12(b)	**1,403**	1,073
Gain on disposal of an unlisted equity instrument		**3**	46
Profit before taxation		**1,943**	1,726
Taxation			
Current tax	5	**(130)**	(106)
Deferred tax	5	**(101)**	(64)
Profit for the year		**1,712**	1,556
Profit attributable to:			
Shareholders of the Company		**1,712**	1,555
Non-controlling interests		**–**	1
Profit for the year		**1,712**	1,556
Earnings per share, basic and diluted (HK$)	9	**1.14**	1.04

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 194 to 249 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income (HK$m)

	Note	Year ended 31 December 2013	2012 (restated)
Profit for the year		**1,712**	1,556
Other comprehensive income for the year, net of tax:	8		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**314**	179
– financial statements of a joint venture		**33**	13
– loans to an associate		**26**	10
– hotel operating rights		**26**	11
		399	213
Cash flow hedges:			
– effective portion of changes in fair values		**(1)**	(18)
– transfer from equity to profit or loss		**38**	44
		436	239
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit retirement obligations		**1**	1
Total comprehensive income for the year		**2,149**	1,796
Total comprehensive income attributable to:			
Shareholders of the Company		**2,165**	1,785
Non-controlling interests		**(16)**	11
Total comprehensive income for the year		**2,149**	1,796

The notes on pages 194 to 249 form part of these Financial Statements.

Consolidated Statement of Financial Position (HK$m)

	Note	At 31 December 2013	2012 (restated)
Non-current assets			
Fixed assets			
Properties, plant and equipment		**5,963**	6,015
Investment properties		**32,224**	28,108
	12	**38,187**	34,123
Interest in associates	15	**822**	572
Interest in a joint venture	16	**1,045**	1,229
Hotel operating rights	17	**693**	670
Derivative financial instruments	18(a)	**8**	–
Deferred tax assets	19(b)	**3**	46
		40,758	36,640
Current assets			
Inventories	20	**100**	96
Trade and other receivables	21	**575**	568
Amount due from a joint venture	32(e)	**192**	311
Derivative financial instruments	18(a)	**–**	7
Cash at banks and in hand	22	**1,494**	2,185
		2,361	3,167
Current liabilities			
Trade and other payables	23	**(1,175)**	(1,113)
Interest-bearing borrowings	24	**(550)**	(1,078)
Derivative financial instruments	18(a)	**(13)**	(52)
Current taxation	19(a)	**(48)**	(34)
		(1,786)	(2,277)
Net current assets		**575**	890
Total assets less current liabilities		**41,333**	37,530
Non-current liabilities			
Interest-bearing borrowings	24	**(4,936)**	(3,096)
Trade and other payables	23	**(276)**	(285)
Net defined benefit retirement obligations	28(a)	**(18)**	(19)
Derivative financial instruments	18(a)	**(22)**	(36)
Deferred tax liabilities	19(b)	**(707)**	(655)
		(5,959)	(4,091)
Net assets		**35,374**	33,439
Capital and reserves			
Share capital	25	**751**	751
Reserves		**34,354**	32,399
Total equity attributable to shareholders of the Company		**35,105**	33,150
Non-controlling interests		**269**	289
Total equity		**35,374**	33,439

Approved by the Board of Directors on 17 March 2014 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Directors

The notes on pages 194 to 249 form part of these Financial Statements.

Parent Company Statement of Financial Position (HK$m)

	Note	At 31 December 2013	2012
Non-current assets			
Investment in subsidiaries	13	–	–
Current assets			
Trade and other receivables	21	12,203	11,800
Derivative financial instruments	18(b)	–	43
Cash at banks and in hand		31	379
		12,234	12,222
Current liabilities			
Trade and other payables	23	(94)	(71)
Derivative financial instruments	18(b)	–	(36)
		(94)	(107)
Net current assets		12,140	12,115
Non-current liabilities			
Deferred tax liabilities		–	(1)
		–	(1)
Net assets		12,140	12,114
Capital and reserves			
Share capital	25	751	751
Reserves	26(a)	11,389	11,363
Total equity		12,140	12,114

Approved by the Board of Directors on 17 March 2014 and signed on its behalf by:

The Hon. Sir Michael Kadoorie, Clement K. M. Kwok, Directors

The notes on pages 194 to 249 form part of these Financial Statements.

Consolidated Statement of Changes in Equity (HK$m)

		Year ended 31 December								
		Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve	Exchange and other reserve *(restated)*	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2012		745	3,502	13	(98)	(48)	27,341	31,455	283	31,738
Impact of change in accounting policy	36	–	–	–	–	5	–	5	–	5
Restated balance at 1 January 2012		745	3,502	13	(98)	(43)	27,341	31,460	283	31,743
Changes in equity for 2012:										
Profit for the year		–	–	–	–	–	1,555	1,555	1	1,556
Other comprehensive income	8	–	–	–	26	204	–	230	10	240
Total comprehensive income for the year		–	–	–	26	204	1,555	1,785	11	1,796
Dividends approved in respectof 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)	161	28,687	33,150	289	33,439
Changes in equity for 2013:										
Profit for the year		–	–	–	–	–	1,712	1,712	–	1,712
Other comprehensive income	8	–	–	–	37	416	–	453	(16)	437
Total comprehensive income for the year		–	–	–	37	416	1,712	2,165	(16)	2,149
Dividends approved in respect of the previous year		–	–	–	–	–	(150)	(150)	–	(150)
Dividends approved in respect of the current year		–	–	–	–	–	(60)	(60)	–	(60)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	(4)	(4)
Balance at 31 December 2013		751	3,610	13	(35)	577	30,189	35,105	269	35,374

The notes on pages 194 to 249 form part of these Financial Statements.

Consolidated Statement of Cash Flows (HK$m)

	Note	Year ended 31 December 2013	2012
Operating activities			
Profit after net financing charges		**817**	732
Adjustments for:			
Depreciation	12(a)	**392**	381
Amortisation of hotel operating rights	17	**3**	3
Interest income	3	**(46)**	(56)
Financing charges	4	**140**	141
Loss on disposal of fixed assets		**6**	1
Operating profit before changes in working capital		**1,312**	1,202
(Increase)/decrease in inventories		**(8)**	2
Increase in trade and other receivables		**(48)**	(62)
Increase/(decrease) in trade and other payables		**145**	(9)
Cash generated from operations		**1,401**	1,133
Net tax paid:			
Hong Kong profits tax paid		**(46)**	(117)
Overseas tax paid		**(47)**	(52)
Net cash generated from operating activities		**1,308**	964
Investing activities			
Payment for the purchase of fixed assets		**(928)**	(875)
Payment for the acquisition of properties		**(2,293)**	–
Net repayment from a joint venture		**63**	181
Loans to an associate		**(224)**	–
Proceeds from sale of fixed assets		**–**	1
Proceeds from disposal of an unlisted equity instrument		**3**	46
Net cash used in investing activities		**(3,379)**	(647)
Financing activities			
Drawdown of term loans		**2,366**	1,495
Repayment of term loans		**(1,203)**	(533)
Net increase/(decrease) in revolving loans		**516**	(914)
Net withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months		**54**	(487)
Interest paid and other financing charges		**(158)**	(127)
Interest received		**44**	56
Dividends paid to shareholders of the Company		**(210)**	(95)
Dividends paid to holders of non-controlling interests		**(4)**	(5)
Net cash generated from/(used in) financing activities		**1,405**	(610)
Net decrease in cash and cash equivalents		**(666)**	(293)
Cash and cash equivalents at 1 January		**1,682**	1,963
Effect of changes in foreign exchange rates		**20**	12
Cash and cash equivalents at 31 December	22	**1,036**	1,682

The notes on pages 194 to 249 form part of these 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.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption 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, associates, joint operation and joint venture 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:

	2013	2012
Hotels (note 11(a))		
Rooms	**1,768**	1,637
Food and beverage	**1,218**	1,232
Commercial	**687**	639
Others	**371**	377
	4,044	3,885
Commercial Properties (note 11(a))	**806**	733
Clubs and Services (note 11(a))	**658**	560
	5,508	5,178

3. Profit after net financing charges (HK$m)

Profit after net financing charges is arrived at after charging/(crediting):

	2013	2012
Amortisation	3	3
Depreciation	392	381
Auditor's remuneration:		
audit services	10	9
tax and other services	2	1
due diligence services	3	–
Foreign exchange gains	(2)	–
Minimum operating lease charges for properties, including contingent rent of HK$15 million (2012: HK$15 million) (note 32(b))	251	280
Interest income	(46)	(56)
Rentals receivable from investment properties less direct outgoings of HK$19 million (2012: HK$20 million)	(1,210)	(1,099)

4. Financing charges (HK$m)

	2013	2012
Interest on bank borrowings wholly repayable within five years	77	75
Other borrowing costs	20	16
Total interest expenses on financial liabilities carried at amortised cost	97	91
Derivative financial instruments:		
– cash flow hedges, transfer from equity	43	50
	140	141

5. Income tax in the consolidated income statement (HK$m)

(a) Taxation in the consolidated income statement represents:

	2013	2012
Current tax – Hong Kong profits tax		
Provision for the year (note 19(a))	84	65
Over-provision in respect of prior years	(6)	(2)
	78	63
Current tax – Overseas		
Net charge for the year	52	43
	130	106
Deferred tax		
Increase in net deferred tax liabilities relating to revaluation of overseas investment properties	29	(8)
Increase in net deferred tax liabilities relating to other temporary differences	72	72
	101	64
Total	231	170

The provision for Hong Kong profits tax for 2013 is calculated at 16.5% (2012: 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:

	2013	2012
Profit before taxation	1,943	1,726
Notional tax at the domestic income tax rate of 16.5% (2012: 16.5%)	321	285
Tax effect of non-deductible expenses	13	14
Tax effect of non-taxable income	(7)	(11)
Tax effect of share of loss of a joint venture	46	21
Tax effect of fair value gain on Hong Kong investment properties	(154)	(174)
Tax effect of utilisation of previously unrecognised tax losses	(72)	(6)
Tax effect of tax losses not recognised	36	25
Effect of different tax rates of subsidiaries operating in other jurisdictions	44	20
Others	4	(4)
Actual tax expense	231	170

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 Board and the Non-executive Directors of the Group. Members of the Group Management Board include the Executive Directors and five (2012: five) senior executives. The total remuneration of the key management personnel is shown below:

	2013	2012
Directors' fees	3,583	3,464
Basic compensation	28,697	28,633
Bonuses and incentives	16,888	14,395
Retirement benefits	3,490	3,504
Other benefits	1,338	1,124
	53,996	51,120

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 "2013 Remuneration of Directors and Senior Management" section of the Corporate Governance Report on pages 179 and 180, which forms an integral part of these audited 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$241 million (2012: HK$180 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

	2013			2012		
	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	314	–	314	179	–	179
– financial statements of a joint venture	33	–	33	13	–	13
– loans to an associate	26	–	26	10	–	10
– hotel operating rights	26	–	26	11	–	11
	399	–	399	213	–	213
Cash flow hedges:						
– effective portion of changes in fair values	–	(1)	(1)	(19)	1	(18)
– transfer from equity to profit or loss	43	(5)	38	50	(6)	44
– Remeasurement of net defined benefit retirement obligations	1	–	1	1	–	1
Other comprehensive income	443	(6)	437	245	(5)	240

9. Earnings per share

(a) Earnings per share – basic

	2013	2012
Profit attributable to shareholders of the Company (HK$m)	1,712	1,555
Weighted average number of shares in issue (million shares)	1,502	1,496
Earnings per share (HK$)	1.14	1.04

	2013 (million shares)	*2012 (million shares)*
Issued shares at 1 January	*1,502*	*1,490*
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*
Weighted average number of shares at 31 December	*1,502*	*1,496*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2013 and 2012 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

	2013	2012
Interim dividend declared and paid of 4 HK cents per share (2012: 4 HK cents per share)	60	60
Final dividend proposed after the end of reporting period of 12 HK cents per share (2012: 10 HK cents per share)	180	150
	240	210

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

	2013	2012
Final dividend in respect of the previous financial year, approved and paid during the year, of 10 HK cents per share (2012: 10 HK cents per share)	150	149

11. Segment reporting (HK$m)

The Group is organised on a divisional basis. 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 (HK$m)

The results of the Group's reportable segments for the years ended 31 December 2013 and 2012 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	Year ended 31 December							
	2013	2012	2013	2012	2013	2012	2013	2012
Reportable segment revenue*	**4,044**	3,885	**806**	733	**658**	560	**5,508**	5,178
Reportable segment earnings before interest, taxation, depreciation and amortisation (EBITDA)	**649**	596	**521**	474	**136**	131	**1,306**	1,201
Depreciation and amortisation	**(358)**	(355)	**(10)**	(7)	**(27)**	(22)	**(395)**	(384)
Segment operating profit	**291**	241	**511**	467	**109**	109	**911**	817

* Analysis of segment revenue

	2013	*2012*
Hotels		
– Rooms	*1,768*	*1,637*
– Food and beverage	*1,218*	*1,232*
– Commercial	*687*	*639*
– Others	*371*	*377*
	4,044	*3,885*
Commercial properties		
Rental revenue from:		
– Residential properties	*415*	*390*
– Offices	*93*	*67*
– Shopping arcades	*298*	*276*
	806	*733*
Clubs and Services		
– Clubs and consultancy services	*172*	*154*
– Peak Tram operation	*121*	*114*
– Others	*365*	*292*
	658	*560*
	5,508	*5,178*

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.

11. Segment reporting (HK$m) continued

(b) Segment assets (HK$m)

Segment assets include all tangible and hotel operating rights and current assets held directly by the respective segments. The Group's segment assets and unallocated assets as at 31 December 2013 and 2012 are set out as follows:

	Note	2013	2012
Reportable segments' assets			
Hotels		17,269	16,635
Commercial properties		21,273	17,899
Clubs and services		1,013	923
		39,555	35,457
Unallocated assets			
Interest in associates	15	822	572
Interest in a joint venture	16	1,045	1,229
Derivative financial instruments	18(a)	8	7
Deferred tax assets	19(b)	3	46
Amount due from a joint venture	32(e)	192	311
Cash at banks and in hand	22	1,494	2,185
Consolidated total assets		43,119	39,807

(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 hotel operating rights and the location of operations in the case of interests in associates, joint operation and joint venture.

	Revenue from external customers		Specified non-current assets	
	2013	2012	2013	2012
Hong Kong	2,505	2,224	28,689	27,289
Other Asia *	1,786	1,864	4,961	5,535
United States of America	1,190	1,090	3,199	2,575
Europe	27	-	3,898	1,195
	5,508	5,178	40,747	36,594

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.

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 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
At 1 January 2013	**1,010**	**7,195**	**4,267**	**12,472**	**28,108**	**1**	**40,581**
Exchange adjustments	**(47)**	**(274)**	**(117)**	**(438)**	**125**	**–**	**(313)**
Additions	**–**	**10**	**585**	**595**	**2,588**	**–**	**3,183**
Disposals	**–**	**(5)**	**(47)**	**(52)**	**–**	**–**	**(52)**
Transfer	**–**	**14**	**(14)**	**–**	**–**	**–**	**–**
Fair value adjustment	**–**	**–**	**–**	**–**	**1,403**	**–**	**1,403**
At 31 December 2013	**963**	**6,940**	**4,674**	**12,577**	**32,224**	**1**	**44,802**
Representing:							
Cost	**963**	**6,940**	**4,674**	**12,577**	**–**	**1**	**12,578**
Valuation – 2013	**–**	**–**	**–**	**–**	**32,224**	**–**	**32,224**
	963	**6,940**	**4,674**	**12,577**	**32,224**	**1**	**44,802**
Accumulated depreciation and impairment losses:							
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
At 1 January 2013	**377**	**3,339**	**2,741**	**6,457**	**–**	**1**	**6,458**
Exchange adjustments	**(26)**	**(96)**	**(67)**	**(189)**	**–**	**–**	**(189)**
Charge for the year	**–**	**148**	**244**	**392**	**–**	**–**	**392**
Written back on disposals	**–**	**(10)**	**(36)**	**(46)**	**–**	**–**	**(46)**
At 31 December 2013	**351**	**3,381**	**2,882**	**6,614**	**–**	**1**	**6,615**
Net book value:							
At 31 December 2013	**612**	**3,559**	**1,792**	**5,963**	**32,224**	**–**	**38,187**
At 31 December 2012	633	3,856	1,526	6,015	28,108	–	34,123

12. Fixed assets (HK$m) continued

(a) Movements of fixed assets continued

During 2013, the Group acquired items of fixed assets with a cost of HK$3,183 million (2012: HK$985 million), of which HK$605 million and HK$1,688 million related to the newly acquired investment properties in Paris and London respectively.

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 2013.

(b) All investment properties of the Group were revalued as at 31 December 2013. 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. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. 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 ("Savills")	Members of the Hong Kong Institute of Surveyors
Other Asia *		
Retail shops, offices, residential apartments and vacant land	Savills	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
Europe		
Retail shops, offices and residential apartments	Savills	Members of the Royal Institute of Chartered Surveyors
	HVS	Members of the Royal Institute of Chartered Surveyors

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.

12. Fixed assets (HK$m) continued

(c) Fair value measurement of investment properties

The fair value of the Group's investment properties is determined using the income capitalisation approach by discounting the expected rental income using a capitalisation rate adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected rental income and negatively correlated to the capitalisation rates. The following table summarises the capitalisation rates and expected monthly rental income per square foot adopted by the valuers in assessing the fair value of the Group's investment properties as at 31 December 2013:

Valuation technique	Valuation parameters	Range
Income capitalisation approach	Capitalisation rate	
	– Shopping arcades	4.9% – 6.6%
	– Offices	4.1% – 4.6%
	– Residential properties	3.0% – 3.8%
	Expected monthly rental income per square foot	
	– Shopping arcades	HK$30 – HK$1,300
	– Offices	HK$25 – HK$58
	– Residential properties	HK$38 – HK$75

Details of the movement of the Group's investment properties are disclosed in note 12(a) above.

The net fair value adjustment of investment properties is recognised as a non-operating item in the consolidated income statement.

(d) The analysis of net book value of properties is as follows:

		2013	2012
Hong Kong	– Long term leases	**26,540**	25,404
	– Medium term leases	**1,302**	1,262
Others Asia *	– Freehold	**1,227**	1,331
	– Medium term leases	**2,169**	2,371
USA	– Freehold	**1,173**	1,157
	– Long term leases	**1,526**	1,041
Europe	– Freehold	**668**	31
	– Long term leases	**1,790**	–
		36,395	32,597

* Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.

	2013	2012
Representing:		
Land and buildings carried at fair value (investment properties)	**32,224**	28,108
Land and buildings carried at cost	**4,171**	4,489
	36,395	32,597

12. Fixed assets (HK$m) continued

(e) 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 2013 amounted to HK$41 million (2012: HK$36 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).

(f) Assets under development

Included within properties, plant and equipment are assets under development amounting to HK$113 million (2012: HK$201 million), which were not subject to depreciation.

(g) 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	Hotel
Thai Country Club, 88 Moo 1, Bangna-Trad km. 35.5, Thambon Pimpa, Bangpakong District, 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

12. Fixed assets (HK$m) continued

(g) Hotel and investment properties, all held through subsidiaries, are as follows: continued

	Usage
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 (reopened in March 2013) 8205 Valley Greens Drive, Carmel, California	Resort
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
Held in France:	
Freehold:	
21 avenue Kléber, Paris	Commercial rentals
21 Rue de Longchamp, Paris	Residential
Held in the United Kingdom:	
Long term lease (over 50 years):	
1-5 Grosvenor Place, London	Residential and commercial rentals

(h) The net book value of the Group's hotels and golf courses as at 31 December 2013 amounted to HK$5,712 million (2012: HK$5,794 million). To provide additional information for shareholders, the Directors commissioned an independent valuation of these properties as at 31 December 2013.

The total valuation placed on these properties amounted to HK$9,320 million (2012: HK$9,274 million) as at 31 December 2013. It is important to note that the surplus of HK$3,608 million (2012: HK$3,480 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 fair value of the Group's hotel properties and golf courses is determined based on the discounted cash flow approach by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates.

12. Fixed assets (HK$m) continued

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	
	2013	2012
Unlisted shares, at cost (HK$)	**93,789**	93,780

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

13. Investment in subsidiaries (HK$m) continued

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
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, resort and property investment
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 Δ	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
Le 21 Avenue Kléber SNC	France	1,000 shares of EUR1 each	100% *	Property investment
HSH London Limited ΔΔ	United Kingdom	1 share of GBP1	100% *	Investment holding
Peninsula London Limited ΔΔ	United Kingdom	2 shares of GBP1 each	100% *	Investment holding

* Indirectly held.

** The Palace Hotel Co., Ltd. ("TPH") is a sino-foreign co-operative joint venture. The Group owns 100% of the economic interest of TPH with a reversionary interest to the PRC partner at the end of the co-operative joint venture period.

\# The Group owns 50% of the economic interest of International Burotel Company Limited with a reversionary interest to the Vietnam partner at the end of the joint venture period.

Δ 5,000 shares are fully paid up and the remaining 1,245,000 shares are partially paid up at THB25 each.

ΔΔ The two companies jointly hold a 100% interest in Peninsula London, LP ("PLLP"), a limited partnership formed in the United Kingdom. PLLP is a joint operator of a property in London known as 1-5 Grosvenor Place, London. Details of the joint arrangement are out in note 14.

The non-controlling interests in individual subsidiaries are considered immaterial to the Group.

14. Interest in a joint operation

Through Peninsula London, LP, the Group has a 50% economic interest in 1-5 Grosvenor Place, London (the "Property"), which was acquired on 25 July 2013 and was held for leasing purposes as at 31 December 2013. Subject to certain conditions, including planning approvals, the Group intends to redevelop the Property jointly with our partner into a mixed use complex consisting of a Peninsula hotel and luxury residences.

15. Interest in associates (HK$m)

	Group	
	2013	2012
Loans to an associate	**822**	572

* 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. During the year ended 31 December 2013, an additional loan of EUR21 million (HK$224 million) (2012: nil) was provided to the associate. EUR34 million (HK$364 million) (2012: EUR13 million (HK$133 million)) of the loans is repayable in or before December 2020 while the remaining balance of the loans is repayable on 25 April 2017.

(a) Details of the principal unlisted associates which are accounted for using the equity method in the Group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up/contributed 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 Belvedere Hotel Partnership ("BHP") #	Partnership	United States of America	US$46,500,000	20%	Hotel investment

* The Group's effective interest is held indirectly by the Company.

** Al Maha holds a 100% direct interest in Majestic which in turn owns a property in Paris to be redeveloped into a Peninsula hotel.

\# BHP holds a 100% interest in The Peninsula Beverly Hills. BHP was previously classified by the Group as an unlisted equity instrument and was stated at cost less impairment provision. Having reviewed the accounting treatment of the Group's interest in BHP, the Directors believe that it is more appropriate for the Group to account for BHP as an associate. Accordingly, the Group's interest in BHP was reclassified as an associate on 31 December 2013. The reclassification did not have any material impact on the financial position and the financial result of the Group for the year.

(b) The associates' attributable assets as at 31 December 2013 were HK$1,380 million (2012: HK$857 million). The associates' attributable liabilities as at 31 December 2013 were HK$1,380 million (2012: HK$857 million). The associates' attributable revenue for the year ended 31 December 2013 was HK$nil (2012: HK$nil) and the attributable results for the year ended 31 December 2013 are considered to be HK$nil (2012: HK$nil). The associates' attributable accumulated results as at 31 December 2013 were not significant (31 December 2012: not significant).

(c) Majestic has pledged its properties under development as security for a loan facility amounting to EUR220 million (HK$2,355 million). As at 31 December 2013, the loan drawn down amounted to EUR208 million (HK$2,230 million) (31 December 2012: EUR109 million (HK$1,120 million)). As at 31 December 2013, the net carrying amount of these pledged assets amounted to EUR566 million (HK$6,056 million) (31 December 2012: EUR404 million (HK$4,144 million)).

15. Interest in associates (HK$m) continued

(d) 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) (31 December 2012: US$140 million (HK$1,092 million)). The net carrying amount of these pledged assets amounted to US$76 million (HK$593 million) (31 December 2012: US$75 million (HK$581 million)).

16. Interest in a joint venture (HK$m)

	Group	
	2013	2012
Share of net assets	**524**	771
Loan to a joint venture (note 16(b))	**521**	458
	1,045	1,229

(a) Details of the joint venture are as follows:

Company name	Form of business structure	Place of incorporation	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 2013, the paid up capital of EGL and PSW amounted to HK$1 (2012: HK$1) and US$117,500,000 (2012: US$117,500,000) respectively.

(b) The loan to the joint venture is denominated in US dollars, unsecured, interest free and has no fixed repayment terms. It is neither past due nor impaired. US$58.8 million (HK$458 million) was contributed as capital of PSW as described in note 16(a) above. During the year ended 31 December 2013, an additional loan of US$8.1 million (HK$63 million) was provided to the joint venture.

(c) Set out below is a summary of the financial information on the joint venture, of which the Group has a 50% share:

	Group	
	2013	2012
Non-current assets	**5,201**	6,469
Current assets	**1,189**	227
Current liabilities	**(955)**	(789)
Non-current liabilities	**(4,388)**	(4,366)
Net assets	**1,047**	1,541
Income	**553**	492
Operating expenses	**(461)**	(424)
EBITDA	**92**	68
Depreciation	**(102)**	(102)
Net financing charges	**(195)**	(188)
Loss before non-operating item	**(205)**	(222)
Non-operating item, net of tax*	**(355)**	(28)
Loss for the year	**(560)**	(250)

* Being net valuation adjustment of investment properties.

16. Interest in a joint venture (HK$m) continued

(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 2013, the loan drawn down amounted to RMB2,209 million (2012: RMB2,292 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$6,108 million (RMB4,776 million) (2012: HK$6,469 million (RMB5,201 million)).

17. Hotel operating rights (HK$m)

	Group	
	2013	2012
Cost		
At 1 January	**775**	764
Exchange adjustments	**26**	11
At 31 December	**801**	775
Accumulated amortisation		
At 1 January	**(105)**	(102)
Amortisation for the year	**(3)**	(3)
At 31 December	**(108)**	(105)
Net book value	**693**	670

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated income statement.

Hotel operating rights represent the cost attributable to securing the Group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris ("PPR"). The operating right in respect of for PPR will be amortised from the date of commencement of hotel operation.

18. Derivative financial instruments (HK$m)

(a) Group

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	8	(35)	–	(74)
Cross currency interest rate swaps	–	–	–	(4)
	8	(35)	–	(78)
At fair value through profit or loss:				
Interest rate swaps	–	–	7	(10)
Total	8	(35)	7	(88)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	(13)	–	(38)
Cross currency interest rate swaps	–	–	–	(4)
	–	(13)	–	(42)
At fair value through profit or loss:				
Interest rate swaps	–	–	7	(10)
	–	(13)	7	(52)
Portion to be recovered/(settled) after one year	8	(22)	–	(36)

(b) Company

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges:				
Interest rate swaps	–	–	7	–
At fair value through profit or loss:				
Interest rate swaps	–	–	36	(36)
Total	–	–	43	(36)
Less: Portion to be recovered/(settled) within one year				
Cash flow hedges:				
Interest rate swaps	–	–	7	–
At fair value through profit or loss:				
Interest rate swaps	–	–	36	(36)
	–	–	43	(36)
Portion to be recovered/(settled) after one year	–	–	–	–

19. Income tax in the statement of financial position (HK$m)

(a) Current taxation in the statement of financial position represents:

	Group		Company	
	2013	2012	**2013**	2012
Provision for Hong Kong profits tax for the year (note 5(a))	**84**	65	**5**	5
Provisional profits tax paid	**(57)**	(69)	**(5)**	(6)
	27	(4)	**–**	(1)
Balance of Hong Kong profits tax provision relating to prior years	**(4)**	(6)	**–**	–
Provision for overseas taxes	**20**	19	**–**	–
	43	9	**–**	(1)
Represented by:				
Tax recoverable (note 21)	**(5)**	(25)	**–**	(1)
Current tax payable (included in current liabilities)	**48**	34	**–**	–
	43	9	**–**	(1)

(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 2012	168	682	(23)	(278)	(12)	537
Charged to profit or loss	24	(40)	1	78	1	64
Charged/(credited) to reserves	(1)	5	–	(1)	5	8
At 31 December 2012 and at 1 January 2013	191	647	(22)	(201)	(6)	609
Charged/(credited) to profit or loss	**215**	**147**	**(2)**	**(259)**	**–**	**101**
Charged/(credited) to reserves	**(12)**	**(1)**	**–**	**1**	**6**	**(6)**
At 31 December 2013	**394**	**793**	**(24)**	**(459)**	**–**	**704**

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable.

19. Income tax in the statement of financial position (HK$m) continued

(b) Deferred tax assets and liabilities recognised continued

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	Group	
	2013	2012
Net deferred tax assets	**(3)**	(46)
Net deferred tax liabilities	**707**	655
	704	609

In accordance with the accounting policy set out in note 35(q), the Group has not recognised deferred tax assets totalling HK$539 million (2012: HK$782 million) in respect of certain accumulated tax losses of HK$1,328 million (2012: HK$2,061 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	
	2013	2012
Within one year	**66**	62
After one year but within five years	**533**	542
After five years but within 20 years	**672**	1,412
Without expiry date	**57**	45
	1,328	2,061

In accordance with the accounting policy set out in note 35(q), the Group has not recognised deferred tax liabilities totalling HK$17 million (2012: HK$24 million) in respect of undistributed profits of certain subsidiaries amounting to HK$171 million (2012: HK$243 million) as the Company controls the dividend policy of these subsidiaries.

20. Inventories (HK$m)

	Group	
	2013	2012
Food and beverage and others	**100**	96

The cost of inventories recognised as expenses in the consolidated income statement amounted to HK$463 million (2012: HK$427 million).

21. Trade and other receivables (HK$m)

	Group		Company	
	2013	2012	2013	2012
Loans and other receivables due from subsidiaries	–	–	13,983	13,577
Provision for impairment	–	–	(1,786)	(1,786)
	–	–	12,197	11,791
Trade debtors (ageing analysis is shown below)	242	223	–	–
Loans and receivables	242	223	12,197	11,791
Rental deposits, payments in advance and other receivables	328	320	6	8
Tax recoverable (note 19(a))	5	25	–	1
	575	568	12,203	11,800

Loans and other receivables due from subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount of HK$2,920 million (2012: HK$2,600 million), which bears fixed interest or interest at market rates plus a margin mutually agreed by the relevant parties.

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$133 million (2012: HK$127 million) and HK$9,142 million (2012: HK$9,121 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	
	2013	2012
Current	196	191
Less than one month past due	32	21
One to three months past due	12	9
More than three months but less than 12 months past due	2	2
Amounts past due	46	32
	242	223

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	
	2013	2012	2013	2012
Interest-bearing bank deposits	1,378	2,075	30	378
Cash at banks and in hand	116	110	1	1
Total cash at banks and in hand	1,494	2,185	31	379
Less: Bank deposits with maturity of more than three months	(440)	(494)	–	(90)
Bank overdrafts (note 24)	(18)	(9)	–	–
Cash and cash equivalents in the consolidated statement of cash flows	1,036	1,682	31	289

Cash at banks and in hand at the end of the reporting period include deposits with banks of HK$920 million (2012: HK$688 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

23. Trade and other payables (HK$m)

	Group		Company	
	2013	2012	2013	2012
Trade creditors (ageing analysis is shown below)	140	144	–	–
Interest payable	6	7	–	–
Accruals for fixed assets	103	141	–	–
Tenants' deposits	357	331	–	–
Guest deposits	110	104	–	–
Golf membership deposits	102	107	–	–
Other payables	633	564	18	21
Other payables to subsidiaries	–	–	76	50
Financial liabilities measured at amortised cost	1,451	1,398	94	71
Less: Non-current portion of trade and other payables	(276)	(285)	–	–
Current portion of trade and other payables	1,175	1,113	94	71

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$369 million (2012: HK$387 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	
	2013	2012
Less than three months	138	141
Three to six months	1	3
More than six months	1	–
	140	144

24. Interest-bearing borrowings (HK$m)

	Group 2013	Group 2012
Total facilities available:		
Term loans and revolving credits	**6,535**	4,543
Uncommitted facilities, including bank overdrafts	**276**	298
	6,811	4,841
Utilised at 31 December:		
Term loans and revolving credits	**5,519**	4,144
Uncommitted facilities, including bank overdrafts	**18**	53
	5,537	4,197
Less: Unamortised financing charges	**(51)**	(23)
	5,486	4,174
Represented by:		
Short-term bank loans, repayable within one year or on demand	**532**	1,069
Bank overdrafts, repayable on demand (note 22)	**18**	9
	550	1,078
Long-term bank loans, repayable:		
Between one and two years	**951**	578
Between two and five years	**4,036**	2,090
Over five years	**–**	451
	4,987	3,119
Less: Unamortised financing charges	**(51)**	(23)
Non-current portion of long-term bank loans	**4,936**	3,096
Total interest-bearing borrowings	**5,486**	4,174

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 2013 and 2012, none of the covenants relating to drawn down facilities had been breached.

25. Share capital

	2013	2012
Number of ordinary shares of HK$0.50 each (million)		
Authorised	1,800	1,800
Issued		
At 1 January	1,502	1,490
New shares issued under scrip dividend scheme (note)	–	12
At 31 December	1,502	1,502
Nominal value of ordinary shares (HK$m)		
Authorised	900	900
Issued		
At 1 January	751	745
New shares issued under scrip dividend scheme (note)	–	6
At 31 December	751	751

All ordinary shares issued during 2012 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 2012, 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
2011 final scrip dividend	11.8	9.74	6	108

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 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
At 1 January 2013	**3,610**	**13**	**4,975**	**5**	**2,760**	**11,363**
Profit for the year	**–**	**–**	**–**	**–**	**241**	**241**
Other comprehensive income	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Total comprehensive income for the year	**–**	**–**	**–**	**(5)**	**241**	**236**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(150)**	**(150)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**–**	**(60)**	**(60)**
At 31 December 2013	**3,610**	**13**	**4,975**	**–**	**2,791**	**11,389**

(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 and other reserves

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). Other reserves mainly comprise other comprehensive income recognised for the remeasurement of net defined benefit retirement obligations, the relevant accounting policies for which are set out in note 35(p).

26. Reserves (HK$m) continued

(c) Distributability of reserves

At 31 December 2013, 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$2,791 million (2012: HK$2,760 million). After the end of the reporting period, the Directors proposed a final dividend of 12 HK cents per share (2012: 10 HK cents per share), amounting to HK$180 million (2012: HK$150 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.

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 and joint venture), if any, are also taken into account. The calculations of gearing ratios before and after the non-consolidated entities as at 31 December 2013 and 2012 are as follows:

(HK$m)	2013	2012 (restated)
Interest-bearing borrowings	5,486	4,174
Less: Cash at banks and in hand	(1,494)	(2,185)
Net borrowings per the statement of financial position	3,992	1,989
Share of net borrowings of non-consolidated entities	1,938	1,751
Net borrowings adjusted for non-consolidated entities	5,930	3,740
Equity attributable to shareholders of the Company per the statement of financial position	35,105	33,150
Equity plus net borrowings per the statement of financial position	39,097	35,139
Equity plus net borrowings adjusted for non-consolidated entities	41,035	36,890
Gearing ratio based on the Financial Statements	10%	6%
Gearing ratio adjusted for non-consolidated entities	14%	10%

During 2013, 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 2013 and 2012. 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 Director, Properties
Extent of guarantee given to a bank	GBP120,000
Maximum liability under the guarantee:	
at 1 January 2012	HK$965,000
at 31 December 2012	HK$925,000
at 31 December 2013	HK$nil
Amount paid or liability incurred under the guarantee	HK$nil (2012: HK$nil)

The loan granted to the officer by the bank was fully repaid during the year.

28. Employee retirement benefits

(a) Defined benefit retirement obligations

The Group maintains several defined benefit retirement plans covering 634 employees (2012: 628 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 the average salaries of the 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 2013.

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 2013. The actuarial valuation indicated that MPHI's obligations under the defined benefit retirement plan were 77% (2012: 76%) covered by the plan assets held by the trustee. The present value of the uncovered obligations was fully provided for as at 31 December 2013.

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	
	2013	2012 (restated)
Present value of wholly or partly funded obligations	50	52
Fair value of plan assets	(32)	(33)
	18	19

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$4 million (2013: HK$5 million) in contributions to defined benefit retirement plans in 2014.

Plan assets consist of the following (HK$m):

	Group	
	2013	2012
Stocks	20	25
Mutual funds	12	8
	32	33

The Group's assets–liabilities matching objective is to match maturities of the plan assets to the retirement benefit obligations as they fall due.

Movements in the present value of the defined benefit obligations (HK$m):

	Group	
	2013	2012
At 1 January	52	48
Exchange adjustments	(3)	3
Benefits paid by the plans	(6)	(4)
Current service cost	4	4
Interest cost	3	3
Actuarial loss/(gain)	–	(2)
At 31 December	50	52

28. Employee retirement benefits continued

(a) Defined benefit retirement obligations continued

Movements in plan assets (HK$m):

	Group	
	2013	2012
At 1 January	**33**	29
Exchange adjustments	**(2)**	2
Group's contributions paid to the plans	**4**	4
Benefits paid by the plans	**(6)**	(3)
Interest income	**2**	2
Return on plan assets, excluding interest income	**1**	(1)
At 31 December	**32**	33

Amounts recognised in the consolidated income statement and statement of comprehensive income are as follows (HK$m):

	Group	
	2013	2012
Consolidated income statement		
Current service cost	**4**	4
Interest cost	**3**	3
Interest income	**(2)**	(2)
	5	5
Consolidated statement of comprehensive income		
Actuarial (gain)/loss on:		
Remeasurement of plan asset	**(1)**	1
Remeasurement of defined benefit obligation	**–**	(2)
	(1)	(1)

The principal actuarial assumptions used as at 31 December 2013 are as follows:

	Group	
	2013	2012
Discount rate	**from 4% to 6.5%**	from 3.5% to 6.5%
Future salary increases	**4%**	4%

The below analysis shows how the defined benefit obligation as at 31 December 2013 would have increased/(decreased) as a result of change in the significant actuarial assumptions:

	Defined benefit obligation	
(HK$m)	Increase	Decrease
Discount rate (0.5% change)	(1)	1
Future salary increases (1% change)	2	(1)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

28. Employee retirement benefits continued

(b) Defined contribution retirement plans

The Group has a defined contribution retirement plan covering 1,518 employees (2012: 1,370 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% (2012: 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 509 employees (2012: 483 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 2,362 employees (2012: 2,234 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$101 million (2012: HK$92 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.

29. Financial risk management and fair values continued

(a) Foreign exchange risk continued

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.

All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. 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 2013 and 2012, 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, joint operation, joint venture and associates are excluded.

	Group					
	2013				2012	
(million)	United States Dollars	Renminbi	Philippine Pesos	Japanese Yen	United States Dollars	Philippine Pesos
Trade and other receivables	46	-	-	-	36	-
Cash at banks and in hand	8	-	4	-	13	4
Trade and other payables	(24)	(4)	-	(36)	(17)	-
Derivative financial instruments	-	-	-	-	(1)	-
Interest-bearing borrowings	-	-	-	-	(42)	-
Gross exposure arising from recognised assets and liabilities	30	(4)	4	(36)	(11)	4
Notional amount of derivative financial instruments						
– held as cash flow hedges	-	-	-	-	42	-
Net exposure arising from recognised assets and liabilities	30	(4)	4	(36)	31	4

29. Financial risk management and fair values continued

(a) Foreign exchange risk continued

Exposure to foreign exchange risk continued

	Company			
	2013		2012	
(million)	**United States Dollars**	**Philippine Pesos**	United States Dollars	Philippine Pesos
Trade and other receivables	**32**	**–**	24	–
Trade and other payables	**(13)**	**–**	(8)	–
Cash at banks and in hand	**4**	**4**	8	4
Overall net exposure	**23**	**4**	24	4

Based on the sensitivity analysis performed as at 31 December 2013, it was estimated that a 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.

At 31 December 2013, the Group had interest rate swaps that are classified as cash flow hedges with a total notional contract amount of HK$2,090 million (2012: HK$1,803 million) maturing over the next five years (2012: five years). 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 2013:

	31 December 2013	31 December 2012
Hong Kong Dollars	**1.5% to 1.6%**	2.1% to 4.9%
United States Dollars	**0.6% to 0.7%**	0.6% to 4.7%
Japanese Yen	**1.5% to 2.1%**	1.5% to 2.1%
Euros	**1.2%**	–

29. Financial risk management and fair values continued

(b) Interest rate risk continued

The net fair value of all the swaps entered into by the Group and the Company at 31 December 2013 was as follows (HK$m):

	Group		Company	
	2013	2012	**2013**	2012
Cash flow hedges (note 18)	**(27)**	(78)	**–**	7
At fair value through profit or loss (note 18)	**–**	(3)	**–**	–
	(27)	(81)	**–**	7

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 designated as cash flow hedging instruments.

	Group			
	2013		2012	
	Effective interest rate	**HK$m**	Effective interest rate	HK$m
Fixed rate borrowings:				
Bank loans	**2.8%**	**2,460**	4.2%	2,256
Floating rate borrowings:				
Bank loans	**1.7%**	**3,026**	2.5%	1,918
Total interest-bearing borrowings		**5,486**		4,174
Fixed rate borrowings as a percentage of total borrowings		**45%**		54%

On the other hand, at 31 December 2013 and 2012, 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 the long term. In addition, the Company/Group grants interest-bearing loans to subsidiaries/a joint venture, 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			
	2013		2012		**2013**		2012	
	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
Amount due from a joint venture	**4.8%**	**192**	4.8%	311		**–**		–
Floating rate instruments:								
Bank deposits	**2.6%**	**1,378**	1.4%	2,075	**1.2%**	**30**	1.0%	378
Loans to subsidiaries		**–**		–	**0%**	**2,920**	0.1%	2,302
Total interest-bearing financial assets		**1,570**		2,386		**2,950**		2,978

29. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis

The Group and the Company

The following tables indicate the approximate changes in the Group's and the Company's profit after taxation (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 2013 and 2012, 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.

	Group					
	2013 Increase/(decrease) in			2012 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	7	–	100	5	–
	(100)	(7)	–	(100)	(5)	–
Thai Baht	100	(2)	–	100	(3)	–
	(100)	2	–	(100)	3	–
Japanese Yen	50	(4)	9	50	(3)	3
	(50)	4	(9)	(50)	3	(3)
Philippine Pesos	200	(1)	–	200	(1)	–
	(200)	1	–	(200)	1	–
HK Dollars	100	(6)	39	100	9	3
	(100)	6	(40)	(100)	(9)	(3)
US Dollars	100	(4)	2	100	(1)	7
	(100)	4	(2)	(100)	1	(7)
Euros	100	(1)	19	100	–	–
	(100)	1	(20)	(100)	–	–

	Company					
	2013 Increase/(decrease) in			2012 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	24	–	100	22	(1)
	(100)	(24)	–	(100)	(22)	1
US Dollars	100	1	–	100	1	–
	(100)	(1)	–	(100)	(1)	–

29. Financial risk management and fair values continued

(b) Interest rate risk continued

Sensitivity analysis continued

The sensitivity analysis above indicates the instantaneous change in the Group's and the Company's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen, 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 and the Company's profit after taxation (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 as for 2012.

(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 2013, total available borrowing facilities amounted to HK$6,811 million (2012: HK$4,841 million), of which HK$5,537 million (2012: HK$4,197 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled HK$1,016 million (2012: HK$399 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											
	2013						2012					
		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	140	140	140	–	–	–	144	144	144	–	–	–
Interest payable	6	6	6	–	–	–	7	7	7	–	–	–
Accruals for fixed assets	103	103	103	–	–	–	141	141	141	–	–	–
Tenants' deposits	357	357	183	53	108	13	331	331	153	45	113	20
Guest deposits	110	110	110	–	–	–	104	104	104	–	–	–
Golf membership deposits	102	102	–	–	–	102	107	107	–	–	–	107
Other payables	633	633	633	–	–	–	564	564	564	–	–	–
Interest-bearing borrowings	5,486	5,814	628	951	4,235	–	4,174	4,384	1,147	630	2,150	457
Interest rate swaps (net settled)	35	53	14	13	26	–	84	90	48	12	21	9
	6,972	7,318	1,817	1,017	4,369	115	5,656	5,872	2,308	687	2,284	593
Derivatives settled gross:												
Cross currency interest rate swaps held as cash low hedging instruments:	–						4					
– outflow		–	–	–	–	–		333	333	–	–	–
– inflow		–	–	–	–	–		(329)	(329)	–	–	–
	–	–	–	–	–	–	4	4	4	–	–	–
	6,972	7,318	1,817	1,017	4,369	115	5,660	5,876	2,312	687	2,284	593
Financial guarantee issued												
– maximum amount guaranteed (note 31)	–	–	–	–	–	–	–	1	1	–	–	–

	Company											
	2013						2012					
		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	18	18	18	–	–	–	21	21	21	–	–	–
Other payables to subsidiaries	76	76	76	–	–	–	50	50	50	–	–	–
Interest rate swaps (net settled) *	–	–	–	–	–	–	36	37	37	–	–	–
	94	94	94	–	–	–	107	108	108	–	–	–
Financial guarantee issued												
– maximum amount guaranteed (note 31)	–	5,519	5,519	–	–	–	–	4,189	4,189	–	–	–

* 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)).

29. Financial risk management and fair values continued

(c) Liquidity risk continued

The Company has also issued guarantees in respect of other banking facilities for its subsidiaries. Of the HK$38 million (2012: HK$51 million) guaranteed (note 31), HK$35 million (2012: HK$49 million) represented the fair value of the derivative financial instruments. The notional value of these derivative financial instruments amounted to HK$1,091 million (2012: HK$928 million) as at 31 December 2013.

(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 2013, cash at banks amounted to HK$1,494 million (2012: HK$2,185 million), of which HK$1,094 million (2012: HK$1,778 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).

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 2013 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.

29. Financial risk management and fair values *continued*

(e) Fair values (HK$m)

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(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 2013. 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 joint venture 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 2013	31 December 2012
Hong Kong Dollars	0.2% – 3.7%	0.2% – 0.7%
United States Dollars	0.2% – 0.3%	0.2% – 0.4%
Japanese Yen	0.1% – 0.5%	0.1% – 0.6%
Euros	0.3% – 2.0%	–

30. Commitments (HK$m)

(a) Capital commitments outstanding at 31 December 2013 not provided for in the Financial Statements were as follows:

	2013			2012		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital expenditure						
Major enhancement projects						
The Peninsula Beijing	–	1,138	1,138	–	–	–
The Peninsula Chicago	–	164	164	–	–	–
The Peninsula Hong Kong	–	–	–	143	93	236
The Repulse Bay Complex	–	–	–	218	202	420
Quail Lodge & Golf Club	3	69	72	–	159	159
Others	81	591	672	90	615	705
	84	1,962	2,046	451	1,069	1,520
The Group's share of capital commitments of						
– a joint venture	–	9	9	3	19	22
– associates	86	124	210	227	160	387

(b) At 31 December 2013, 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	
	2013	2012	2013	2012
Within one year	(1,002)	(914)	166	176
After one year but within five years	(1,193)	(1,338)	600	658
After five years	(60)	(103)	7,262	7,872
	(2,255)	(2,355)	8,028	8,706

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.

The Group's interest in 1-5 Grosvenor Place, London, which was acquired on 25 July 2013, is subject to a lease term of 150 years plus one day commencing 23 February 2012. The minimum annual ground rent payable by the Group amounts to GBP107,719.

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	
	2013	2012	**2013**	2012
Guarantees issued for subsidiaries				
– in respect of bank borrowings	**–**	–	**5,519**	4,188
– in respect of other banking facilities	**–**	–	**38**	51
Other guarantees	**–**	1	**–**	1
	–	1	**5,557**	4,240

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 2013 and 2012.

32. Material related party transactions

Other than the Directors' remuneration and the guarantee given in respect of a loan to an officer as disclosed in the Remuneration Committee Report and note 27 respectively, as well as loans to an associate and a joint venture as disclosed in note 15 and note 16 respectively, material related party transactions are set out as follows:

(a) Under a three-year tenancy agreement which commenced on 1 April 2010, a wholly owned subsidiary of the Company, HSH Management Services Limited ("HMS"), 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$172,831 per month from Kadoorie Estates Limited ("KEL"), which is the agent of the registered owner which is controlled by one of the substantial shareholders of the Company. The lease was renewed for three years on 1 April 2013 at a market rent of HK$1,540,452 per month plus service charges of HK$182,224 per month. The amount of rent and service charges paid to KEL during 2013 amounted to HK$16.6 million (2012: HK$16.7 million). This tenancy agreement falls under the Listing Rules as continuing connected transactions. Further details of this continuing connected transaction are disclosed in the Directors' Report.

Furthermore, HMS leased office premises on the 4th floor of St. George's Building at a market rent of HK$111,690 plus service charges of HK$13,211 per month from KEL for two years and seven months commencing on 1 September 2013. The amount of rent and service charges paid to KEL under this lease during 2013 amounted to HK$0.5 million (2012: HK$nil). The amount of this transaction is de minimis and is exempt from disclosure under the Listing Rules.

(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 2013 amounted to HK$15 million (2012: HK$15 million). This transaction constitutes a continuing connected transaction as defined in chapter 14A of the Listing Rules. However, it is exempted from any reporting requirements under Rule 14A.33(4) the Listing Rules.

(c) On 20 January 2009, a wholly owned subsidiary of the Company, Peninsula International (Lux) Limited S.a r.l. ("LUX"), invested a total 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.a 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 and 2013, additional shareholder's loans 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 2013, the balance of shareholder's loans amounted to EUR76.8 million (HK$822.1 million) (2012: EUR55.8 million (HK$572.3 million)). 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 EUR76.8 million, EUR42.8 million is repayable in April 2017 and the remaining balance is repayable in December 2020.

32. Material related party transactions continued

(d) Unsecured and interest free shareholder's loans amounting to US$66.9 million (HK$521 million) (2012: 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% joint venture 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.

As at 31 December 2013, shareholder's loans amounting to US$58.8 million (HK$458 million) (2012: 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 2013 amounted to approximately HK$35.4 million (2012: HK$30.9 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 2013 amounted to HK$5.1 million (2012: HK$4.6 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 2013, the balance of entrustment loans amounted to RMB150 million (HK$191.8 million) (2012: RMB250 million (HK$310.9 million)). The loans are repayable on 13 June 2014 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, 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$10 million) was recorded in 2013 (2012: RMB8 million (HK$9.9 million)).

(g) Pursuant to a joint venture agreement and subsequent amendments thereto, Peninsula Beverly Hills Holdings, LLC, a wholly owned subsidiary of the Company, has made advances to The Belvedere Hotel Partnership ("BHP"), a 20% associate which holds a 100% interest in The Peninsula Beverly Hills ("PBH"), to fund the working capital of PBH. The advances are unsecured, bear interest with reference to PBH's bank borrowing rates and have no fixed date of repayment. The balance of these advances outstanding as at 31 December 2013 amounted to US$2.0 million (HK$15 million) (2012: US$4.2 million (HK$33 million)) and is included in trade and other receivables.

33. Non-adjusting post reporting period events

The non-adjusting post reporting period events are as follows:

(a) The Group has entered into a definitive agreements in January 2014 with our main partner, Yoma Strategic Holdings Limited, to restore the heritage building that is the former Burma Railway Company headquarters in Yangon, Myanmar, to be redeveloped as The Peninsula Yangon. The Group has a 70% interest in the redevelopment based on an agreed land valuation of US$15 million (approximately HK$117 million). Redevelopment work will commence upon conditions being fulfilled on the definitive agreements and subject to necessary approvals.

(b) 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 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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.

35. Significant Accounting Policies continued

(b) Subsidiaries and non-controlling interests continued

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 joint venture (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 joint ventures

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 joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture 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 joint venture, 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 joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures 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 joint venture, 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) Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

35. Significant Accounting Policies continued

(d) Joint operation continued

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- Its share of any assets held jointly;
- Its share of any liabilities incurred jointly;
- Its share of revenue from the sale of the output by the joint operation;
- Its share of any expenses incurred jointly

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

(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.

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)).

35. Significant Accounting Policies continued

(f) Properties, plant and equipment continued

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.

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) Hotel operating rights

Costs incurred for securing the Group's rights to operate hotels 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 the operating rights is charged to profit or loss on a straight-line basis over the terms of the relevant operating periods.

35. Significant Accounting Policies continued

(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.

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 in the Company's statement of financial position) 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 joint ventures 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.

35. Significant Accounting Policies continued

(j) Impairment of assets continued

(i) Impairment of financial assets continued

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.

(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 calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). 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.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in other reserves. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

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.

35. Significant Accounting Policies continued

(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.

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 a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting year of the Group and the Company. Of these, the following developments are relevant to the Group's Financial Statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 11, *Joint arrangements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Revised HKAS 19, *Employee benefits*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of other comprehensive income in these Financial Statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has reclassified the investment in a jointly controlled entity to a joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

36. Changes in accounting policies continued

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided these disclosures in notes 13, 14, 15 and 16.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided these disclosures in notes 12 and 29. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Revised HKAS 19, Employee benefits

Revised HKAS 19 introduced a number of amendments to the accounting for defined benefit retirement plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit retirement plans could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit retirement plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 1 January 2012 and 31 December 2012, with consequential adjustments to comparatives for the year ended 31 December 2012 as follows:

	As previously reported	Effect of adoption of revised HKAS 19	As restated
Consolidated statement of comprehensive income for the year ended 31 December 2012:			
Remeasurement of net defined benefit retirement obligations	–	1	1
Total comprehensive income for the year	1,795	1	1,796
Consolidated statement of financial position as at 31 December 2012:			
Net defined benefit retirement obligations	25	(6)	19
Total non-current liabilities	4,097	(6)	4,091
Total equity	33,433	6	33,439
Consolidated statement of financial position as at 1 January 2012:			
Net defined benefit retirement obligations	24	(5)	19
Total non-current liabilities	4,207	(5)	4,202
Total equity	31,738	5	31,743

36. Changes in accounting policies continued

Revised HKAS 19, Employee benefits continued

This change in accounting policy did not have a material impact on current or deferred taxation, and earnings per share.

The Group's net defined benefit retirement obligation at 31 December 2013 is lower by HK$6 million than it would have been if the policy had not been changed.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have any impacts on these financial statements as the Group does not have offsetting financial instruments or any agreements that meet the criteria for offsetting.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of these Financial Statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2013 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 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	To be announced

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 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 188 to 249, which comprise the consolidated and Company statements of financial position as at 31 December 2013, 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 2013 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

17 March 2014

Sustainability Data Statements

This section provides statistical information on the Group's sustainability performance. To facilitate stakeholders in understanding and benchmarking 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.

Sustainability Performance Highlights[1]

			2013	2012	2011	2010	2009	2006-08 baseline
Economic	Revenue	HK$m	5,554	5,234	5,058	4,731	4,233	–
	Operating costs	HK$m	2,164	2,051	1,986	1,847	1,698	–
	Employee wage and benefits	HK$m	1,951	1,842	1,728	1,639	1,512	–
	Capital expenditure	HK$m	3,208	985	335	261	281	–
	Payments to providers of capital	HK$m	372	227	195	171	192	–
	Tax payments to governments[2]	HK$m	362	437	422	376	396	–
	Total floor area	'000 m^2	588	588	588	588	518	518
	Total number of guest nights	'000	1,211	1,110	1,090	1,082	870	1,089
People	Headcount		8,216	8,006	7,759	7,730	7,415	–
	Turnover	%	20.3%	19.2%	19.5%	19.4%	11.7%	–
	Headcount by Gender							
	Female	% Female	41%	41%	41%	40%	41%	–
	Average training spend[3]	HK$	2,602	2,645	–	–	–	–
Health and Safety	Training							
	Health and safety training	'000 hours	19	17	11	–	–	–
	Safety							
	Injury rate[4]	reported incidents per 200,000 hours	7.2	7.6	9.5	–	–	–
	Lost day rate[4]	reported days per 200,000 hours	77.1	52.5	55.4	–	–	–
	Absentee rate	reported days/total days worked	1.8%	–	–	–	–	–
Environment	Greenhouse gas emissions[8]	'000 tCO_2e	112	117	119	128	107	104
	Group carbon intensity	kg CO_2e per m^2	190	199	202	218	207	201
	Total energy use[8]	'000 GJ	847	853	871	889	808	873
	Energy intensity	MJ per m^2	1,440	1,449	1,480	1,510	1,512	1,684
	Energy saved through reduction initiatives[5]	GJ	10,383	35,711	44,750		3,540	–
	Direct water consumption	'000 m^3	1,853	1,804	1,820	1,854	1,539	1,921
	Water intensity							
	Hotels Division	litres per guest night	1,187	1,280	1,320	1,367	1,363	1,411
	Commercial Properties, Clubs & Services Division	litres per m^2	2,012	1,888	1,988	1,773	1,557	1,712
	Water recycled	'000 m^3	126	122	95	142	129	–
	Waste generated[6]	tonnes	6,059	6,270	4,712	–	–	–
	Waste recycled[6]	tonnes	2,719	2,350	685	–	–	–
Community	Monetary Donations							
	Company donations[7]	HK$ '000	7,812	1,537	4,163	617	1,689	–
	Employee/Customer donations	HK$ '000	1,088	1,306	290	642	97	–
	Community Outreach							
	Service hours	hours	7,350	7,332	6,192	3,788	2,084	–
	Employee volunteers		835	591	942	2,420	1,004	–
	Internships & Retraining scheme							
	Training hours	'000 hours	404	392	540	305	87	–
	Participants		1,130	1,069	1,210	693	393	–

1. Please refer to Reporting Scope on page 57 for the scope of businesses covered in the reporting of employee, health and safety, community and environmental performance.
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. There was no incident of occupational disease recorded in 2013. Lost days rose in 2013 despite injury rates falling due to the rise in long-term injuries resulting in more lost days per injury. 2011 and 2012 injury and lost day data did not include Quail Lodge & Golf Club.
5. 44,750 GJ represented energy saved over 2010 and 2011. Energy saved was calculated based on vendor estimates and assumptions according to expected efficiency gains.
6. Group waste diversion rate in 2013 was 44.9%. Since 2012, the reporting scope of waste management data expanded to cover 6 more operations so as to align with the scope of other environmental areas.
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.
8. The comparative information has been restated to confirm with the current year's presentation.

Workforce Profile and Safety Performance

		2013 Hotels[1]	2013 Commercial Properties, Clubs & Services[2]	2013 Total	2012 Hotels[1]	2012 Commercial Properties, Clubs & Services	2012 Total
Workforce Demographics	Total Headcount[3]	6,202	2,014	8,216	6,158	1,848	8,006
	by Employment Types						
	Full-time	5,877	1,634	7,511	5,612	1,557	7,169
	Part-time & Casual	325	380	705	546	291	837
	by Type of Contracts						
	Permanent or At Will contract[4]	6,151	1,760	7,911	6,018	1,649	7,667
	Fixed term or temporary contracts	51	254	305	140	199	339
	by Geographical Locations						
	Asia	4,724	1,832	6,556	4,703	1,693	6,396
	Non-Asia[5]	1,478	182	1,660	1,455	155	1,610
	by Gender						
	Male	58.5%	58.5%	58.5%	58.3%	61.3%	59.0%
	Female	41.5%	41.5%	41.5%	41.7%	38.7%	41.0%
	by Management Role						
	Management	6.0%	5.1%	5.8%	7.5%	5.6%	7.1%
	Non-management	94.0%	94.9%	94.2%	92.5%	94.4%	92.9%
	Management Hired from Local Community (%)	69.2%	89.2%	73.5%	59.5%	78.1%	62.9%
	Employees Receiving Regular Performance Reviews (%)[6]	93.3%	98.3%	94.4%	89.2%	96.9%	90.8%
	Employees under Collective Bargaining	13.9%	10.0%	12.9%	13.9%	9.6%	12.9%
Turnover	Total Turnover Rate[7]	18.3%	26.0%	20.3%	18.3%	21.1%	19.2%
	by Geographical Locations						
	Asia	19.3%	24.9%	20.8%	20.3%	21.6%	20.6%
	Non-Asia	15.2%	43.8%	17.2%	11.7%	11.5%	11.7%
	by Gender						
	Male	16.9%	25.2%	18.9%	18.5%	18.9%	18.6%
	Female	19.7%	29.3%	21.7%	17.8%	28.0%	19.9%
	by Age Group						
	Under 30 years old	28.7%	44.0%	31.1%	35.6%	41.8%	36.6%
	30 to 50 years old	14.8%	23.1%	16.6%	11.3%	18.8%	12.9%
	Over 50 years old	9.7%	21.7%	13.9%	7.8%	15.4%	10.5%
New Hires	by Geographical Locations						
	Asia	1,008	435	1,443	1,026	343	1,369
	Non-Asia	237	85	322	230	117	347
	by Gender						
	Male	658	272	930	703	258	961
	Female	587	248	835	553	202	755
	by Age Group						
	Under 30 years old	692	193	885	835	174	1,009
	30 to 50 years old	490	239	729	397	200	597
	Over 50 years old	63	88	151	24	86	110
Parental Leave	Entitled to Parental Leave						
	Male	2,483	573	3,056	2,014	336	2,350
	Female	2,194	636	2,830	2,125	552	2,677
	Took Parental Leave						
	Male	52	6	58	61	10	71
	Female	83	7	90	110	13	123
	Retuned to Work After Taking Parental Leave						
	Male	100%	100%	100%	100%	100%	100%
	Female	69%	86%	70%	87%	91%	88%
	Returned and Still Employed After 12 Months						
	Male	89%	100%	91%	98%	86%	97%
	Female	78%	88%	79%	95%	89%	95%
Training	Average training spend[8]	HK$3,222	HK$690	HK$2,602	HK$2,974	HK$1,197	HK$2,645
	Health and Safety Training (hours)	12,425	6,957	19,382	11,317	5,732	17,049
Health & Safety[10]	Total Injury Rate[9]	7.7	5.4	7.2	8.6	4.6	7.6
	Asia	5.1	4.4	5.0	6.3	4.6	5.8
	Non-Asia	18.3	25.0	18.7	17.6	n.a.	17.6
	Total Lost Day Rate[9]	67.5	116.1	77.1	41.4	85.7	52.5
	Asia	54.3	120.6	69.2	28.3	85.7	45.3
	Non-Asia	122.8	27.8	117.3	93.0	n.a.	93.0
	Total Absentee Rate	1.8%	1.9%	1.8%			
	Asia	1.8%	1.9%	1.8%			
	Non-Asia	1.8%	1.2%	1.7%			

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 cover the entire workforce including full-time and part-time employees working on permanent, fixed term and at will contracts, and non-contracted employees, but do 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. Non-Asia operations include the Group's operations in the US and in Paris, France.

2011			2010			2009		
Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
6,039	1,720	7,759	6,064	1,666	7,730	5,827	1,588	7,415
5,475	1,547	7,022	5,444	1,511	6,955	5,334	1,499	6,833
564	173	737	620	155	775	493	89	582
3,062	1,453	4,515	3,043	1,429	4,472	2,956	1,389	4,345
2,752	210	2,962	3,026	221	3,247	2,691	173	2,864
4,575	1,543	6,118	4,633	1,493	6,126	4,481	1,451	5,932
1,464	177	1,641	1,431	173	1,604	1,346	137	1,483
58.4%	62.7%	59.4%	58.7%	63.6%	59.8%	58.4%	62.7%	59.4%
41.6%	37.3%	40.6%	41.3%	36.4%	40.2%	41.6%	37.3%	40.6%
7.4%	6.1%	7.1%	6.4%	6.1%	6.4%	11.03%	9%	10.5%
92.6%	93.9%	92.9%	93.6%	93.9%	93.6%	88.97%	89%	89.4%
52.8%	83.3%	60.5%	50.8%	75.0%	55.6%	44.7%	80.0%	51.1%
99.8%	90.5%	97.8%	99.7%	99.9%	99.8%			
13.0%	12.5%	12.9%	12.0%	12.4%	12.1%	10.9%	9.9%	10.7%
17.6%	26.1%	19.5%	18.1%	24.0%	19.4%	13.0%	11.0%	11.7%
18.73%	24.69%	20.3%	19.8%	20.4%	20.0%	11.3%	10.7%	11.0%
13.86%	50.59%	16.1%	12.6%	81.3%	17.2%	14.9%	75.0%	15.8%
10.14%	13.77%	10.9%	17.6%	23.8%	19.0%	n/a	n/a	n/a
7.45%	12.35%	8.5%	18.9%	24.5%	20.0%	n/a	n/a	n/a
10.10%	8.53%	9.76%	10.2%	8.7%	9.9%	n/a	n/a	n/a
6.59%	13.77%	8.17%	6.6%	10.4%	7.4%	n/a	n/a	n/a
0.89%	3.81%	1.54%	1.3%	1.4%	2.1%	n/a	n/a	n/a
9,704	1,443	11,147						
11.0	4.3	9.5						
9.1	4.3	7.8						
18.1	n.a.	18.1						
49.9	74.5	55.4						
36.6	74.5	46.8						
100.9	n.a.	100.9						

6. Data reflects the percentage of full-time employees receiving peformance reviews. If total workforce, including part-time and casual employees, is accounted for, the percentage of workforce receiving performance review will be 86.3%, with 87.8% of all male and 84.3% of all female employees.
7. Based on GRI's disclosure requirement, the turnover rate refers to full-time employees only. 2009 Turnover calculation methodology differs from subsequent data, as actual total figures were not available.
8. Average training spend is based on total annual training spend per full-time equivalent.
9. Injuries recorded include from minor first aid incidents to more severe incidents that required hospitalisation. There was no incident of occupational disease recorded in 2013. Lost days rose in 2013 despite injury rates falling due to the rise in long-term injuries resulting in more lost days per injury. 2011 and 2012 injury and lost day data had not included Quail Lodge & Golf Club.
10. Data do not include Peninsula Merchandising Limited, Butterfield's, Hong Kong Club, and Hong Kong Bankers Club. These data will be included in 2014.

Environmental and Community Performance

			2013			2012		
			Hotels	Commercial Properties, Clubs & Services[1]	Total	Hotels	Commercial Properties, Clubs & Services[1]	Total
Environment	Greenhouse gas emissions[2, 8]	'000 tCO_2e	92	20	112	97	20	117
	Scope 1 emission	'000 tCO_2e	15	7	22	18	6	25
	Scope 2 emission	'000 tCO_2e	77	13	90	79	14	93
	Carbon intensity	kg CO_2e per m^2	207	139	190	217	142	199
	Total energy use[3, 8]	'000 GJ	694	153	847	712	141	853
	Direct energy use	'000 GJ	197	83	280	212	73	284
	Indirect energy use	'000 GJ	497	70	567	500	69	568
	Energy intensity	MJ per m^2	1,551	1,087	1,440	1,590	1,000	1,449
	Direct water consumption[4]	'000 m^3	1,437	416	1,853	1,420	384	1,804
	Water intensity (Hotels Division)	litres per guest night	1,187	–	–	1,280	–	–
	Water intensity[5] (Commercial Properties, Clubs & Services Division)	litres per m^2	–	2,012	–	–	1,888	–
	Water recycled	'000 m^3	121	6	126	122	–	122
	Waste generated[6]	tonnes	5,520	539	6,059	5,888	382	6,270
	Waste recycled[6]	tonnes	2,565	154	2,719	2,279	70	2,350
	Emission of ozone depleters	kg CFC-11e	50.0	18.4	68.3	55.5	15.5	71.0
Community	Monetary donations	HK$ '000	8,659	241	8,900	2,514	329	2,843
	Company donations[7]	HK$ '000	7,725	87	7,812	1,493	44	1,537
	Donations by employees and customers	HK$ '000	934	155	1,088	1,021	285	1,306
	Community outreach							
	Service hours	hours	6,421	929	7,350	6,248	1,084	7,332
	Employee volunteers		750	85	835	508	83	591
	Internship and retraining scheme							
	Training hours	'000 hours	387	17	404	382	10	392
	Number of participants		637	493	1,130	504	565	1,069

1. Inclusive of The Repulse Bay Complex, The Peak Tower, 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. The energy use generated from renewable sources is not significant. None of our properties produce renewable energy on-site; renewable energy is limited to the fuel mix used for electricity and steam generation in each location of operation.
4. All water consumed is obtained from municipal sources; none is withdrawn or captured directly.

2011			2010			2009			2006-2008		
Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total	Hotels	Commercial Properties, Clubs & Services	Total
96	22	119	105	23	128	85	22	107	83	21	104
16	6	22	18	6	24	14	6	20	12	5	16
81	16	97	88	17	104	71	16	87	71	16	87
216	159	202	235	164	218	225	157	207	220	147	201
726	144	871	746	142	889	662	146	808	720	153	873
217	69	285	222	61	283	189	67	256	217	69	287
510	76	585	524	81	605	473	79	552	502	84	586
1,623	1,023	1,480	1,668	1,010	1,510	1,684	1,047	1,512	1,899	1,097	1,684
1,438	382	1,820	1,479	375	1,854	1,186	354	1,539	1,537	385	1,921
1,320	–	–	1,367	–	–	1,363	–	–	1,411	–	–
–	1,988	–	–	1,773	–	–	1,557	–	–	1,712	–
95	–	95	142	–	142	129	–	129	–	–	–
4,597	115	4,712	–	–	–	–	–	–	–	–	–
681	4	685	–	–	–	–	–	–	–	–	–
68.3	23.7	92.0	115.9	30.1	145.9	151.8	15.6	167.4	–	–	–
4,355	98	4,453	1,004	255	1,259	1,635	151	1,786			
4,065	98	4,163	389	228	617	1,538	151	1,689			
290	0	290	615	27	642	97	0	97			
6,192	0	6,192	3,608	180	3,788	1,548	536	2,084			
942	0	942	2,307	113	2,420	937	67	1,004			
540	0	540	290	15	305	85	2	87			
1,210	0	1,210	679	14	693	389	4	393			

5. Water intensity of Tai Pan Laundry (16.05 litres per kilogram washed in 2013, up from 15.90 in 2012) is excluded as its intensity is measured on different metrics from that of properties and clubs.
6. Group waste diversion rate in 2013 was 44.9%. Since 2012, the reporting scope of waste management data expanded to cover 6 more operations so as to align with the scope of other environmental areas.
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.
8. The comparative information has been restated to conform with the current year's presentation.

Global Reporting Initiative Content Index and Accreditation

To facilitate stakeholders in understanding and benchmarking our corporate responsibility performance, our reporting follows the Global Reporting Initiative G4 disclosure framework, which is an internationally recognised set of indicators for economic, environmental and social aspects of business performance. GRI guidelines help companies select material content and key performance indicators. For more on GRI, please see *www.globalreporting.org*.

The GRI Content Index also includes references to Key Performance Indicators of the Hong Kong Stock Exchange (HKEx) Environmental, Social and Governance Reporting Guide (ESG Guide)[1].

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 G4. Please refer to the report from KPMG on page 263 for the scope of assurance and detail of the work performed.

Material Aspects and Boundaries

Material Aspects (G4-19)	HKEx ESG Guide	Material to HSH's operation (G4-20)	Material to HSH's value chain (G4-21)	Remarks (The following information support the disclosure requirements of G4-18 and G4-21)	References on DMA
1. Economic					
Economic Performance	–	●	●	Our economic performance is relevant to our investors and communities.	pp. 16-21
Market Presence	–	●	●	Our market presence is relevant to our communities.	pp. 93-94
Procurement Practices	–	●	●	Our procurement practices are relevant to our communities and suppliers.	pp. 83-89
2. Environmental					
Energy	B2, B3, B3.1	●	●	Our energy consumption is relevant to all stakeholders including the communities where we operate.	pp. 70-74
Water	B2, B3, B3.1	●	●	Our water stewardship is relevant to all stakeholders including the communities where we operate.	pp. 74-75
Emissions	B1, B3, B3.1	●	●	Our emissions from operations are relevant to all stakeholders including the communities where we operate.	pp. 70-74
Effluents and Waste	B1, B3, B1.6, B3.1	●	●	Our handling of effluents and waste is relevant to all stakeholders including the communities where we operate.	pp. 76-78
Compliance	–	●		Environmental compliance is relevant to all stakeholders including the communities where we operate and our investors.	pp. 99-101

[1] Key Performance Indicators A3.1-3.2, B2.5, C1.1, C2.1 and C2.4 of the HKEx ESG Guide are not covered in the current disclosure as relevant data are not available or the indicators are not material to the nature of our business.

Material Aspects (G4-19)	HKEx ESG Guide	Material to HSH's operation (G4-20)	Material to HSH's value chain (G4-21)	Remarks (The following information support the disclosure requirements of G4-18 and G4-21)	References on DMA
3. Labour Practices and Decent Work					
Employment	A1, A4	●		Our employment practices are relevant to our investors and communities.	pp. 64-69
Labour and Management Relations	–	●		With 12.9% of our workforce covered by collective bargaining agreements, labour and management relations are relevant to our investors and communities.	pp. 64-69
Occupational Health and Safety	A2, A2.3	●		Occupational health and safety is relevant to our investors and communities.	pp. 68-69
Training and Education	A3	●		Training and education is relevant to our investors and communities.	pp. 64-69
Diversity and Equal Opportunity	A1	●		Diversity and equal opportunity is relevant to our investors and communities.	pp. 65-66
4. Human Rights					
Investment	–	●	●	Our consideration of human rights in making investments is relevant to our guests, communities, suppliers, investors and prospective business partners.	pp. 65-66, 87, 89
Non-discrimination	–	●		Non-discrimination practices are relevant to our guests, investors and communities.	pp. 65-66
Freedom of Association and Collective Bargaining	–	●	●	The protection of freedom of association and right to collective bargaining is relevant to our suppliers, guests, investors and communities.	pp. 65-66, 87, 89
5. Society					
Local Communities	D1, D1.1	●	●	Local community impacts are relevant to all stakeholders, particularly the communities where we operate.	pp. 90-97
Anti-corruption	C3	●	●	Anti-corruption is relevant to our communities, investors and guests.	pp. 65
Compliance	–	●	●	Compliance with local laws and regulations is relevant to our communities, guests and investors.	pp. 99-101
6. Product Responsibility					
Customer Health and Safety	C2	●	●	Customer health and safety, particularly food safety and indoor air quality, is relevant to all stakeholders, most notably our guests. In our materiality assessment, food safety was the topic of highest stakeholder concern.	pp. 78-79, 86-89
Customer Privacy	C2.5	●	●	The protection of customer data privacy is relevant to guests and investors.	pp. 65, 158-159, 170
Compliance	–	●	●	Compliance with laws and regulations concerning the provision and use of products and services within our hotels and commercial properties, clubs and services divisions is relevant to our guests and investors.	pp. 99-101

General Standard Disclosures and Performance Indicators

Material Aspects	GRI Indicator	HKEx ESG Reference	Description	Remarks and References	External Assurance[2]
I. General Standard Disclosures					
Strategy and Analysis	G4.1	–	Statement from the most senior decision-maker about the relevance of sustainability and organisation's strategy	pp. 14, 20	✓
Organisational Profile	G4-3	–	Name of the organisation	pp. 2	✓
	G4-4	–	Primary brands, products, and services	pp. 2-5	✓
	G4-5	–	Location of the organisation's headquarters	pp. 267	✓
	G4-6	–	Number of countries where the organisation operates	pp. 2-5	✓
	G4-7	–	Nature of ownership and legal form	pp. 2-5	✓
	G4-8	–	Markets served, and types of customers and beneficiaries	pp. 2-5	✓
	G4-9	–	Scale of the organisation	pp. 2-5	✓
	G4-10	A1.1	Total number of employees by employment contract, gender and region	pp. 252-253	✓
	G4-11	–	Percentage of total employees covered by collective bargaining agreements.	pp. 252-253	✓
	G4-12	–	Description of supply chain	As an owner, developer and manager of hotels, commercial and residential properties as well as a provider of transport, club management and other services, HSH's supply chain is comprised of thousands of suppliers of products and services. Significant procurement categories include those related to building materials; furniture and fittings; restaurant, spa and guest amenities; transportation fleet and information technology systems.	✓
	G4-13	–	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Quail Lodge & Golf Club re-opened its hotel portion in March 2013 following a resort-wide renovation.	✓
	G4-14	–	Whether and how the precautionary approach or principle is addressed by the organisation.	pp. 101	✓
	G4-15	–	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	pp. 86	✓
	G4-16	–	Memberships in associations and national/international advocacy organisations	pp. 100	✓

2 Refer to the external limited assurance statement on page 263 for the assurance scope and the detail of the work performed

Material Aspects	GRI Indicator	HKEx ESG Reference	Description	Remarks and References	External Assurance[2]
Material Aspects and Boundaries	G4-17	–	All entities included in the organisation's consolidated financial statements or equivalent documents	pp. 2-5, 57, 251	✓
	G4-18	–	Process for defining the report content and the Aspect Boundaries; and how the organisation has implemented the Reporting Principles for Defining Report Content.	pp. 57, 100, 256-257, 260-262	✓
	G4-19	–	All the material aspects identified in the process for defining report content.	pp. 256-257	✓
	G4-20	–	The aspect boundary for each material aspect within the organisation and whether the aspect is material for all entities within the organisation	pp. 256-257	✓
	G4-21	–	Whether the aspect boundary for each material aspect outside the organisation	pp. 256-257	✓
	G4-22	–	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	None during the reporting period except as stated in footnote 8 on pp. 255.	✓
	G4-23	–	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	None from previous reporting period.	✓
Stakeholder Engagement	G4-24	–	List of stakeholder groups engaged by the organisation.	Stakeholder groups include guests and tenants, investors, employees, communities, suppliers and contractors and industry associations.	✓
	G4-25	–	Basis for identification and selection of stakeholders with whom to engage.	We identify and engage with stakeholders at the Group, regional and local levels in consideration of shared social, environmental and economic impacts, concerns and opportunities.	✓
	G4-26	–	Organisation's approach to stakeholder engagement	Engagement with guests, tenants, employees, suppliers and contractors typically occurs on a daily basis. Investor, community, and industry engagement occurs regularly. Additional information on engagement can be found in the Sustainability Review (pp. 67-68, 87, 89, 91, 93, 99-102) and Governance Report (pp. 162-163). In 2012, HSH also engaged with stakeholders to conduct a materiality assessment that informed the development of the 2013 Sustainability Review and the Group's Sustainable Luxury Vision 2020.	✓
	G4-27	–	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns	pp. 57, 98-102 Additional information can be also found on pp. 60-79, 84-97	✓

Material Aspects	GRI Indicator	HKEx ESG Reference	Description	Remarks and References	External Assurance[2]
Report Profile	G4-28	–	Reporting period for information provided.	Calendar year 2013	✓
	G4-29	–	Date of most recent previous report	2012 Annual Report, which included the Sustainability Review and Data Statements, covered calendar year 2012.	✓
	G4-30	–	Reporting cycle	Annual	✓
	G4-31	–	Contact point for questions regarding the report or its contents.	pp. 267	✓
	G4-32	–	GRI Index with "in accordance" option chosen and references to External Assurance Reports	pp. 256-263	✓
	G4-33	–	Organisation's policy and current practice with regard to seeking external assurance for the report	pp. 263	✓
Governance	G4-34	–	Governance structure of the organisation, including committees of the highest governance body and those responsible for decision-making on economic, environmental and social impacts.	pp. 99, 140-149, 151, 157	✓
Ethics and Integrity	G4-56	–	Describe the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	pp. 65-66, 87, 89	✓
		C3.2	Whistle-blowing procedures, how they are implemented and monitored.	pp. 158	
		A4.1, 4.2	Measures to avoid child and forced labour in employment practices.	pp. 65-66 No reported incidents.	
II. Performance Indicators					
1. Economic					
Economic Performance	G4-EC1	D1.2	Direct economic value generated and distributed	pp. 251, 254-255	✓
	G4-EC3	–	Coverage of the organisation's defined benefit plan obligations	pp. 220-223	✓
Market Presence	G4-EC6	–	Proportion of senior management hired from the local community at significant locations of operation	pp. 252-253 Senior management includes management level staff at corporate office and operations, as well as department heads of hotel operations.	✓
Procurement Practices	G4-EC9	–	Proportion of spending on local suppliers at significant locations of operation	pp. 89 Indicator is partially reported. In 2013, HSH developed a responsible sourcing tool to enable full reporting on G4-EC9 in subsequent years.	✓
2. Environmental					
Energy	G4-EN3	B2.1	Energy consumption within the organisation	pp. 254-255	✓
	G4-EN5	B2.1	Energy intensity	pp. 254-255	✓
	G4-EN6	B2.3	Reduction of energy consumption	pp. 70, 72-73, 79 Energy reduced was entirely due to anticipated reduction in electricity requirements, with the exception of a small project for reducing natural gas consumption which contributed less than 0.1% of reduction in energy consumption. Calculations were based on vendor estimates and assumptions according to expected efficiency gains.	✓

Material Aspects	GRI Indicator	HKEx ESG Reference	Description	Remarks and References	External Assurance[2]
Water	G4-EN8	B2.2	Total water withdrawal by source	pp. 254-255	✓
	–	B2.4	Issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	This is not a material issue to HSH operations given the location where we operate. Details on water management can be found on pp. 74-75.	✓
Emissions	G4-EN15	B1.1	Direct greenhouse gas (GHG) emissions (Scope 1)	pp. 254-255 Greenhouse gases included in the emissions calculation included CO_2, CH_4 and N_2O as a result of the consumption of fuel oil, diesel, petrol, natural gas, town gas and Tokyo gas. Fugitive emissions in CFCs and HCFCs from the consumption of refrigerants were also included in the calculations. All greenhouse gases are reported in CO_2 equivalents.	✓
	G4-EN16	B1.1	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	pp. 254-255	✓
	G4-EN18	B1.2	Greenhouse gas (GHG) emissions intensity	pp. 254-255	✓
	G4-EN19	B1.5	Reduction of greenhouse gas (GHG) emissions	pp. 72-74, 251 Greenhouse gas reduction was entirely due to anticipated reduction in Scope 2 purchased electricity requirements, with the exception of a small project for reducing Scope 1 emissions which contributed less than 0.1% of reduced emissions. Calculations were done by applying an emissions factor used for each property during the reporting period to the estimated energy saving of each energy reduction project.	✓
	G4-EN20	B1.1	Emissions of ozone-depleting substances (ODS)	pp. 254-255	✓
Effluents and Waste	G4-EN23	B1.3–1.4	Total weight of waste by type and disposal method	pp. 76-77, 254-255	✓
Compliance	G4-EN29	B1	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 recorded in 2013	✓
3. Labour Practices and Decent Work					
Employment	G4-LA1	A1.2	Total number and rates of new employee hires and employee turnover by age group, gender, and region	pp. 252-253	✓
	G4-LA3	–	Return to work and retention rates after parental leave, by gender	pp. 252-253	✓
Labour and Management Relations	G4-LA4	–	Minimum notice periods regarding operational changes	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.	✓

Material Aspects	GRI Indicator	HKEx ESG Reference	Description	Remarks and References	External Assurance[2]
Occupational Health and Safety	G4-LA6	A2.1–2.2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work- related fatalities, by region and by gender	pp. 252-253 No fatalities or occupational diseases during the reporting period. Rates not yet reported by gender during the reporting period. Gender information will be collected in 2014 as we begin to implement the new reporting template developed in 2013.	✓
Training and Education	G4-LA11	–	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	pp. 252-253	✓
Diversity and Equal Opportunity	G4-LA12	A1.1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	pp. 152, 252-253 Data not reported per employee category and according to minority group membership because they are not relevant to the nature of our business.	✓
4. Human Rights					
Investment	G4-HR2	–	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	pp. 65	✓
Non-discrimination	G4-HR3	–	Total number of incidents of discrimination and corrective actions taken	In 2013, seven grievances of discrimination were lodged, investigated and dealt with in accordance with the standards set forth in the Group's Code of Conduct.	✓
Freedom of Association and Collective Bargaining	G4-HR4	–	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	No known significant risks identified within our operations. We strive to mitigate all potential supply chain risks within our sphere of influence through our Supply Chain Code of Conduct.	✓
5. Society					
Local Communities	G4-SO1	–	Percentage of operations with implemented local community engagement, impact assessments, and development programs	All operations had local community engagement programs during the reporting period.	✓
Anti-Corruption	G4-SO5	C3.1	Confirmed incidents of corruption and actions taken	None during the reporting period.	✓
Compliance	G4-SO8	–	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Except as stated on page 66, no non-compliance with law that resulted in significant fines or sanctions identified during the reporting period.	✓
6. Product Responsibility					
Customer Health and Safety	G4-PR1	–	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Health and safety impacts are assessed for improvement for all significant products and services.	✓
Customer Privacy	G4-PR8	C2.2, 2.5	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	pp. 159	✓
Compliance	G4-PR9	C2.2, C2.3	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No significant fines during the reporting period.	✓
		C2.3	Practices relating to observing and protecting intellectual property rights	Our Code of Conduct outlines our commitment to IPR protection.	

Independent Assurance Report

KPMG was engaged by The Hongkong and Shanghai Hotels, Limited to provide limited assurance on the Sustainability Review and Data Statements 2013 (further referred to as "The Report") for the year ended 31 December 2013.

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 and presentation of The Report for the year ended 31 December 2013 in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described in the Section of GRI Content Index of The Report, for determining the content and statements contained therein, and for establishing sustainability reporting guidelines and maintaining appropriate records and internal control systems 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. 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 (G4), as detailed in the Section of 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

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Sustainability Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures include:

- 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 four local operations;
- Checking the GRI Content Index on pages 256-262 to ensure consistency with G4 reporting guidelines in meeting Core disclosure level and The Environmental, Social and Governance Reporting Guide (ESG Guide) Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
- 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 2013, is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (G4) as described on pages 256-262 of the Report.

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
17 March 2014

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.

Glossary

Terms

Absentee Rate	Represents the number of absentee days per year. It is calculated as total absentee days, which include sick days and lost days due to injury and occupational diseases, divided by total work days for the year
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
BREEAM	Building Research Establishment Environmental Assessment Method is a UK-based environmental assessment and certification scheme on sustainable building
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 organisation, not always expressed in spatial terms
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

Terms

Gearing	This measures the degree of debt financing used by the Group to fund its business, calculated based on the following formula: $\frac{\text{Net borrowings}}{\text{Net borrowings + Shareholders' equity}}$
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
Hong Kong Stock Exchange (HKEx) Environmental, Social and Governance Reporting Guide	A reporting guide on environmental, social and governance disclosure standard published by the Hong Kong Stock Exchange for recommemded disclosure by listed companies in Hong Kong
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
ISO 14001	ISO 14001 is an internationally recognised environmental management standard
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 based on the following formula: $\frac{\text{Total injuries}}{\text{Total hours worked}} \times 200{,}000^{*}$ * *The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year*

Terms

Lost Day Rate	Represents the number of lost days per 100 equivalent employees per year. It is calculated based on the following formula: $\frac{\text{Total lost days}}{\text{Total hours worked}} \times 200{,}000^*$ * *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: $\frac{\text{Rooms occupied}}{\text{Rooms available}} \times 100\%$
OHSAS 18001	Occupational Health & Safety Assessment Series 18001 is an internationally recognised occupational health and safety management standard
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

Shareholders' Calendar 2014

Announcement of 2013 annual results	17 March
For entitlement to attend and vote at the Annual General Meeting	
– Last day to register	7 May 4:30pm
– Closure of register of members	8 May to 12 May *(both days inclusive)*
– Record date	12 May
Annual General Meeting	12 May 12:00 noon
For entitlement to receive the final dividend	
– Last day to register	15 May 4:30pm
– Closure of register of members	16 May to 20 May *(both days inclusive)*
– Record date	20 May
Deadline for return of scrip dividend election forms	11 June 4:30pm
Final dividend payment date	20 June
Announcement of 2014 interim results	August

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Listing Information

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Request for Feedback

To improve the quality of our annual reporting, we welcome your feedback via email to ir@hshgroup.com or by post to our registered office.

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www.therepulsebay.com

The Peak:
www.thepeak.com.hk

The Landmark:
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Thai Country Club:
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"Creation of a Masterpiece" – Renowned Hong Kong artist, Mr Lee Chi Ching, rendered The Peninsula Hong Kong's 85 years of glorious history in a 3500mm x 800mm ink painting. With the assistance of the Hong Kong Arts Centre and Public Art Hong Kong, Lee has charted the shared legacy of Asia's Grande Dame and her beloved Hong Kong, using a combination of traditional Chinese ink painting and techniques from the Western school. It took the artist four months to plan the framework for this masterpiece, with the final artwork meticulously painted in just three weeks.

Photo credits:

– Andrew Holt – Simon Nicol – Graham Uden – Hechler Photographers

Concept, design and produced by YELLOW CREATIVE (HK) LIMITED www.yellowcreative.com

The Hongkong and Shanghai Hotels, Limited
香港上海大酒店有限公司

www.hshgroup.com