

The background of the slide is a photograph of an ornate, classical ceiling, likely from a grand building. It features intricate carvings, including acanthus leaves and scrolls, and a series of decorative moldings. The lighting is soft, highlighting the textures of the plaster and stone. The overall color palette is muted, with various shades of beige, cream, and light brown.

# Chairman's Statement and Chief Executive Officer's Report

# Chairman's Statement

## Dear Shareholders,

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

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

Whilst preserving the hotel's renowned heritage and tradition, we have introduced new conference facilities and redesigned, elegantly refined guestrooms and restaurants. This has been accompanied by the launch of ground-breaking hotel technology, which is described further on page 4 of Feature Stories.

I am particularly pleased that this technology has been developed by our in-house research and development team – demonstrating that the Company's capabilities to enhance the service we offer our guests, span the whole range from conception and implementation to day-to-day application. The second and final phase of the renovation programme at The Peninsula Hong Kong is scheduled for completion in Spring 2013. As my colleagues would testify, I have personally followed this programme closely and I am convinced that, on completion, The Peninsula Hong Kong will stand proud amongst the very best hotels in the world.



**The Hon. Sir Michael Kadoorie**  
Chairman

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

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

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

Looking towards the more immediate future, I believe that 2013 will be another landmark year for the Group. We look forward to the resumption of full operations at The Peninsula Hong Kong and the Repulse Bay Complex. We will also be celebrating two important anniversaries – the 125<sup>th</sup> anniversary of the Peak Tram

and the 85<sup>th</sup> anniversary of The Peninsula Hong Kong. The celebration of the Peninsula will be under the theme "85 Years of Tradition Well Served". I regard this as an admirable expression of the traditions both of The Peninsula Hong Kong and of the Group as a whole.

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

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



**The Hon. Sir Michael Kadoorie**  
13 March 2013

