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.

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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.

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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.

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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.

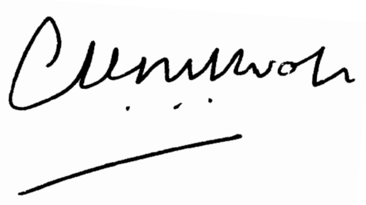
Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime 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