

# 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 85<sup>th</sup> 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 7<sup>th</sup> and 8<sup>th</sup> 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 <sup>(i)</sup>
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	565,910,422	37.672 <sup>(i)</sup>
Guardian Limited	Beneficiary/Interest of controlled corporation	75,354,850	5.016 <sup>(v)</sup>
Harneys Trustees Limited	Interests of controlled corporations	617,114,586	41.081 <sup>(iii)</sup>
Lawrencium Holdings Limited	Beneficiary	303,465,589	20.201 <sup>(ii)</sup>
Lawrencium Mikado Holdings Limited	Beneficiary	313,648,997	20.879 <sup>(ii)</sup>
The Magna Foundation	Beneficiary	313,648,997	20.879 <sup>(ii)</sup>
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	617,114,586	41.081 <sup>(ii)</sup>
Mikado Investments (PTC) Limited	Interest of controlled corporation/ Trustee	313,648,997	20.879 <sup>(i)</sup>
New Mikado Holding Inc.	Trustee	313,648,997	20.879 <sup>(i)</sup>
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	80,354,850	5.349 <sup>(iv)</sup>
Oak (Unit Trust) Holdings Limited	Trustee	75,354,850	5.016 <sup>(i)</sup>
Oak HSH Limited	Beneficiary	75,354,850	5.016 <sup>(iv)</sup>
Mr. Richard Parsons	Trustee	75,354,850	5.016 <sup>(v)</sup>

#### 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 was therefore 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 <sup>(i)</sup>
M&G Investment Funds (1)	Interest of controlled corporation	145,897,101	9.712 <sup>(i)</sup>
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