

DIRECTORS' REPORT



The Directors have pleasure in submitting their report together with the audited Financial Statements for the year ended 31 December 2015.

Principal Activities

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, joint venture, joint operation and associates are the ownership, development, and management of prestigious hotels and 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.

Particulars of the principal subsidiaries of the Company are set out in note 13 to the Financial Statements.

Business Review and Performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the CEO's Strategic Review on pages 24 to 53 and Financial Review on pages 54 to 65. Description of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in External Environment and Industry Trends on pages 92 to 97 and Group Risk Committee Report on pages 132 to 137. Particulars of an important event affecting the Company that have occurred since the end of the financial year 2015 is set out in note 31 to the Financial Statements. The future development of the Company's business is discussed throughout this Annual Report including in the CEO's Strategic Review on pages 51 to 53.

Launched in 2013, the Sustainable Luxury Vision 2020 sets out the Group's policies and commitments in creating a more sustainable business – one that creates sustained value to the Company's shareholders as well as other stakeholders such as employees, customers and communities. It covers the Company's plan on lowering its environmental footprint, becoming more resilient to climate risks and creating shared value with the community. The Group's progress in delivering on its Sustainable Luxury Vision 2020 was reviewed by the Board during the year. No incident of significant non-compliance to environmental laws and regulations was recorded in 2015.

The discussions with respect to the above topics in the Annual Report and Corporate Responsibility and Sustainability Report form part of this Directors' Report.

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 12 and 13.

Share Capital

Movements in the share capital of the Company during the year are set out in note 24 to the Financial Statements.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Dividends

An interim dividend of 5 HK cents per share (2014: 5 HK cents per share) in respect of the year ending 31 December 2015 was paid during the year 2015. The Directors have recommended a final dividend of 15 HK cents per share (2014: 18 HK cents per share). Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 11 May 2016 (2016 Annual General Meeting), such dividends will be payable on 24 June 2016 to shareholders whose names appear on the register of members on 19 May 2016.

The proposed final dividend will be offered with a scrip alternative for shareholders to elect to receive such final dividend wholly or partly in the form of new fully paid shares instead of in cash. 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 24 May 2016.

Borrowings

Particulars of all borrowings are set out in note 23 to the Financial Statements.

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK\$4,653,324 (2014: HK\$3,184,086).¹³

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

Audit & Risk Management has reviewed all connected transactions of the Company which were undertaken in the ordinary and usual course of business and noted that they are fair and reasonable and entered into on normal commercial terms. Audit Committee and the Board have also reviewed all of these transactions and they were exempt from any reporting requirements under the Listing Rules 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 a monthly service charge of HK\$182,224 with a rent free period of two months. With effect from 1 January 2015, the monthly service charge was revised to HK\$201,010. The rent and service charge incurred in 2015 amounted to HK\$20 million (2014: HK\$20 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 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

¹³ The donations amount of HK\$6,273,052 (2014: HK\$4,196,997) referred to in the Sustainability Data Statements on page 214 include donations by managed properties owned by a joint venture and associates and employees.

- (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 that:

- (i) nothing has come to their attention that caused them to believe that the transaction has not been approved by the Company's Board of Directors;
- (ii) nothing has come to their attention that caused them to believe that the transaction has not been entered into, in all material respects, in accordance with the relevant agreement governing the transaction; and
- (iii) nothing has come to their attention that caused them to believe that the transaction has exceeded the maximum aggregate annual consideration disclosed in the 22 March 2013 Announcement.

Material Related Party Transactions

Details of material related party transactions which were undertaken in the ordinary and usual course of business are set out in note 30 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 102 to 105. All these Directors held office throughout 2015 with the exception of Dr Kim L. Winser who was appointed to the Board as Independent Non-Executive Director on 1 January 2016.

Mr Matthew J. Lawson was appointed as Executive Director and Chief Financial Officer with effect from 3 May 2016 replacing Mr Alan Clark who resigned on 30 November 2015. In accordance with the Articles of Association of the Company, The Hon. Sir Michael Kadoorie, Mr Peter C. Borer, Mr Patrick B. Paul and Dr Rosanna Y.M. Wong will retire at the 2016 Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

The Directors who were appointed by the Board, namely Dr Kim L. Winser and Mr Matthew J. Lawson, will retire at the 2016 Annual General Meeting in accordance with the Articles of Association and being eligible, will offer themselves for re-election.

None of the Directors proposed for re-election at the 2016 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.

Directors of Subsidiaries

The list of directors who have served on the Board of the subsidiaries of the Company during the year and up to the date of this report are shown on the Company's website.¹⁴

Senior Management

Biographical details of senior management at the date of this Report are shown on pages 108 and 109. All members of senior management held office throughout the year except Messrs P.T. Wong and Shane Izaks who were appointed as members of the Group Management Board with effect from 5 August 2015.

¹⁴ www.hshgroup.com/en/Corporate-Governance

Interests of Directors

As at 31 December 2015, the interests and short positions of the Directors 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 as follows:

Long position in shares of the Company

	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)	820,303,098	53.163
Mr Clement K.M. Kwok	Beneficial Owner	693,683	0.045
Mr Peter C. Borer	Beneficial Owner	347,567	0.023
Mr Ronald J. McAulay	Note (b)	257,014,718	16.657
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (c)	78,199,788	5.068
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,037,751	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 820,303,098 shares in the Company. These shares were held in the following capacity:
- (i) 178,814,930 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
 - (ii) 325,490,460 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) 315,997,708 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 820,303,098 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. She has no legal or beneficial interest in those shares otherwise.
- (b) Mr Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 257,014,718 shares in the Company. These shares were held in the following capacity:
- (i) 178,814,930 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects; and
 - (ii) 78,199,788 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 78,199,788 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 78,199,788 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 78,199,788 shares.

Messrs Andrew Brandler, Nicholas T.J. Colfer, Patrick B. Paul, Dr William K.L. Fung and Dr Rosanna Y.M. Wong, who are Directors of the Company have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 31 December 2015.

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 2015, none of the Directors 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 2015, 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 of the Company, as at 31 December 2015, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	178,814,930	11.589 ⁽ⁱ⁾
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	587,505,178	38.076 ⁽ⁱ⁾
Guardian Limited	Beneficiary/Interest of controlled corporation	78,199,788	5.068 ^(iv)
Harneys Trustees Limited	Interests of controlled corporations	641,488,168	41.574 ⁽ⁱⁱⁱ⁾
Lawrencium Holdings Limited	Beneficiary	315,997,708	20.480 ⁽ⁱⁱ⁾
Lawrencium Mikado Holdings Limited	Beneficiary	325,490,460	21.095 ⁽ⁱⁱ⁾
The Magna Foundation	Beneficiary	325,490,460	21.095 ⁽ⁱⁱ⁾
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	641,488,168	41.574 ⁽ⁱⁱ⁾
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	325,490,460	21.095 ⁽ⁱ⁾
New Mikado Holding Inc.	Trustee	325,490,460	21.095 ⁽ⁱ⁾
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	83,199,788	5.392 ^(iv)
Oak (Unit Trust) Holdings Limited	Trustee	78,199,788	5.068 ⁽ⁱ⁾
Oak HSH Limited	Beneficiary	78,199,788	5.068 ^(iv)
Mr Richard Parsons	Trustee	78,199,788	5.068 ^(iv)

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".
- (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".
- (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".
- (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 78,199,788 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".

(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	77,770,308	5.040 ⁽ⁱ⁾
M&G Investment Funds (1)	Interest of controlled corporation	77,770,308	5.040 ⁽ⁱ⁾
International Value Advisers, LLC	Investment manager	127,376,810	8.255

Note:

(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 2015, the Company had not been notified of any substantial shareholder (other than Directors 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 2015, 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 Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2015 or at any time

during the year except the continuing connected transaction as disclosed in Connected Transactions and material related party transactions in note 30 to the Financial Statements.

Directors' Indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors. The level of the coverage is reviewed annually. The Company has also granted indemnities to each Director of the Company and some of the Directors of its associated companies (including certain former Directors) to the extent permitted by law. The indemnity was in force throughout the financial year and is currently in force.

Employee Retirement Benefits

Details of the Group's employee retirement benefits are shown in note 26 to the Financial Statements.

Corporate Governance Report

The Corporate Governance Report outlines the Company's approach to governance is set out on pages 110 to 131.

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 2015, 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 2016 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 2016 Annual General Meeting.

By Order of the Board



Christobelle Liao
Company Secretary
16 March 2016