

# DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2018.

## Principal Activities

The principal activity of the company is investment holding and the principal activities of its subsidiaries, joint ventures 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 33 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, including analysis using financial key performance indicators, are provided in the Operational Review on pages 39 to 70 and Financial Review on pages 72 to 87. Description of the principal risks and uncertainties facing the group can be found throughout this annual report, particularly in Group Risk Committee Report on pages 154 to 161. Particulars of an important event affecting the group that has occurred since the end of the financial year 2018 are set out in note 31 to the financial statements. The future development of the group's business is discussed throughout this annual report including in the CEO's Strategic Review on page 38.

Details regarding compliance with relevant laws and regulations which have a significant impact on the group can be found throughout this annual report and the Corporate Responsibility and Sustainability Report (CRS Report). Further details regarding the sustainability and environment related policies and performance are provided in the CRS Report and an account of the group's relationships with its key stakeholders in Creating Stakeholder Value on pages 116 and 117.

The discussions with respect to the above topics in the annual report and CRS Report which is available online<sup>28</sup> 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 22 and 23.

## Share Capital

Movements in the share capital of the company during the year are set out in note 24 to the financial statements.

## Equity-linked Agreements

No equity-linked agreement was entered into by the company during the year or subsisted at the end of the year.

## 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 (2017: 4 HK cents per share) in respect of the year ending 31 December 2018 was paid during the year 2018. The Directors have recommended a final dividend of 16 HK cents per share (2017: 16 HK cents per share) and this is in line with our dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. Subject to the approval by shareholders at the Annual General Meeting to be held at The Peninsula Hong Kong on 10 May 2019 (2019 Annual General Meeting), such dividends will be payable on 21 June 2019 to shareholders whose names appear on the register of members on 21 May 2019.

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 2019.

## 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\$2.1 million (2017: HK\$3 million)<sup>29</sup>.

## 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 during the year.

## Connected Transactions

Audit & Risk Management has reviewed and confirmed that (i) the internal control procedures of connected transactions are adequate and effective; and (ii) the continuing connected transactions of the company set out below were undertaken in the ordinary and usual course of business and they are fair and reasonable and entered into on normal commercial terms. Their findings are submitted to Audit Committee. The Audit Committee and the Board have also reviewed the continuing connected transactions below.

On 21 March 2016, HSH Management Services Limited, an indirect wholly-owned subsidiary of the company, entered into two tenancy agreements with Kadoorie Estates Limited (KEL) to renew the office leases of (i) Room 408 and (ii) 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 2016 at a market rent of (i) HK\$120,000 per month plus a monthly service charge of HK\$15,663 (revised to HK\$17,570 with effect from 1 January 2018) and (ii) HK\$1,655,000 per month plus a monthly service charge of HK\$216,039 (revised to HK\$242,339 with effect from 1 January 2018) respectively. The rents and services charges incurred in 2018 amounted to HK\$24 million (2017: HK\$24 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 leases constituted continuing

connected transactions of the company and subject to the disclosure requirements under the Listing Rules. Details of the transactions were disclosed in the announcement dated 21 March 2016.

All the Independent Non-Executive Directors, who were not interested in the above continuing connected transactions, have reviewed the transactions and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the company as a whole.

The company's auditor was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The company's auditor has issued an unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions in accordance with rule 14A.56 of the Listing Rules. The company provided a copy of the said letter to the Stock Exchange.

## 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 128 to 131. All these Directors held office throughout 2018.

In accordance with the Articles of Association of the company, the Directors who will retire at the 2019 Annual General Meeting and, being eligible, have agreed to offer themselves for re-election are The Hon. Sir Michael Kadoorie, Mr Peter Borer, Mr Matthew Lawson, Mr Patrick Paul, Dr Rosanna Wong and Dr Kim Winsler.

<sup>29</sup> The donations amount of HK\$2.5 million (2017: HK\$3.2 million) referred to in the Sustainability Data Statements on page 254 include donations by managed properties owned by a joint venture and associates and employees.

## Directors' Report

None of the Directors proposed for re-election at the 2019 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 boards of the subsidiaries of the company during the year and up to the date of this report is shown on the company's website<sup>30</sup>.

### Senior Management

Biographical details of senior management are shown on pages 132 and 133. All members of senior management held office throughout the year.

### Interests of Directors

As at 31 December 2018, 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), as recorded in the register required to be kept under section 352 of the SFO, are 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)	875,942,523	54.297
Mr Clement K.M. Kwok	Beneficial Owner	736,428	0.046
Mr Peter C. Borer	Beneficial Owner	367,125	0.023
Mr Matthew J. Lawson	Beneficial Owner	200,000	0.012
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	83,018,747	5.146
Mr Philip L. Kadoorie	Note (c)	681,019,042	42.214
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,101,698	0.068
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

#### Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 875,942,523 shares in the company. These shares were held in the following capacity:

- (i) 194,923,481 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
- (ii) 345,548,381 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and
- (iii) 335,470,661 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary 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 875,942,523 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 John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 83,018,747 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 83,018,747 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 83,018,747 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 681,019,042 shares in the company. These shares were held in the following capacity:

- (i) 345,548,381 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and
- (ii) 335,470,661 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul; Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse 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 2018.

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 2018, none of the Directors of the company (including their spouses and children under 18 years of age) had 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, as recorded in the register required to be kept under section 352 of the SFO.

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 2018, 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 2018, 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, are 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	194,923,481	12.08 <sup>(i)</sup>
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	277,942,228	17.23 <sup>(i)</sup>
Guardian Limited	Beneficiary/Interest of controlled corporation	83,018,747	5.15 <sup>(iv)</sup>
Harneys Trustees Limited	Interests of controlled corporations	681,019,042	42.21 <sup>(ii)</sup>
Lawrencium Holdings Limited	Beneficiary	335,470,661	20.79 <sup>(ii)</sup>
Lawrencium Mikado Holdings Limited	Beneficiary	345,548,381	21.42 <sup>(ii)</sup>
The Magna Foundation	Beneficiary	345,548,381	21.42 <sup>(ii)</sup>
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	681,019,042	42.21 <sup>(ii)</sup>
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	83,018,747	5.15 <sup>(iv)</sup>
Oak (Unit Trust) Holdings Limited	Trustee	83,018,747	5.15 <sup>(i)</sup>
Oak HSH Limited	Beneficiary	83,018,747	5.15 <sup>(iv)</sup>
Mr Richard Parsons	Trustee	83,018,747	5.15 <sup>(iv)</sup>

## Directors' Report

### Notes:

- (i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, 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 is 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 and/or Mr Philip L. Kadoorie are among the discretionary beneficiaries and/or 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 was 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 company.
- (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 83,018,747 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
Satinu Resources Group Ltd.	Interest of controlled corporation	185,179,077	11.48
Mr Ng Chee Siong	Trustee	78,402,393	5.00 <sup>(i)</sup>
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00 <sup>(i)</sup>
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00 <sup>(i)</sup>

### Note:

- (i) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 78,402,393 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated. The nature, number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 8 May 2017.

Except as set out above, as at 31 December 2018, 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 2018, 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 2018 or at any time during the year except the continuing connected transactions 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 by Finance Committee. The company has also granted indemnities to each Director of the company and some of the Directors of its associated companies 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.

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the company was entered into or existed during the year.

## Corporate Governance Report

The Corporate Governance Report outlines the company's approach to governance is set out on pages 136 to 153.

## 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

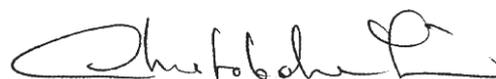
The Directors are responsible for preparing the financial statements for each financial period. These financial statements must present a true and fair view of the state of affairs of the group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that 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 2018, 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 ended 31 December 2018 have been audited by KPMG who will retire at the 2019 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 2019 Annual General Meeting.

By Order of the Board



Christobelle Liao  
Company Secretary  
14 March 2019

